



5 Missing Links Causing Unnecessary Stress in Ownership Transfers

By Betsi Bixby

Many owners tell me they want to pass their company ownership to either their children, their employees, or in some cases, a buyer. Any of these are a great aspiration. But, as the transfer date approaches, or when they want to retire, the road can get bumpy. I find those bumps are usually due to one or more of these five missing links. The great news is that each is curable and the earlier you know about them, the better.

Missing Link #1 – Too few leaders. I've discovered over the years that many family companies have only one or a handful of key people that can make effective sound decisions and set company vision. Often, the owner has his hands in just about everything because developing leaders has not been a priority. Even when there are back-up leaders, I often find they are similar in age to the owner and wanting to retire themselves. So just as a successor, family or otherwise is taking the reins, a lot of institutional knowledge and wisdom is leaving or about to leave.

Solution: Develop leaders and don't be the lone ranger! This calls for a leadership development plan. You may want our professional assistance with that but for the do it yourself version, start by listing the key drivers of your business. Supply procurement, pricing, customer development, operations, etc. You will specifically work towards a three-layer depth of knowledge and leader development in those critical areas first.

For example, perhaps as owner you negotiate supply contracts. As you prepare for transition, start training a number two and a number three in exactly how you do that, what factors into your decisions and approaches and why, plus share your contacts and start developing relationships as needed. Yes, this takes deliberate planning and it takes time, plus breaking old habits is easier and faster to do yourself.

Missing Link #2 – Growth via Market Share. Any new owner, including your children, need to understand the current market share and the potential for growth to run the company effectively in the future. To help them be most successful means knowing how much of the available market you have captured within your current geography. That is not to say you can't expand your borders to grow, but the opportunity for growth when you own 5% of your market and the opportunity when you already serve 65% share, is a completely different picture.

Solution: Assess and know your market share which is available through several reputable sources. Volume reports are often publicly available from state government sources. Here in Texas, that report is published and made available by the state associations. If that is not available, your refiners and suppliers

often have data from work they've done on various businesses. And if both those sources are inadequate, demographics firms can be engaged to research and produce that market info. With that knowledge in hand, you can then make a realistic future growth plan that will create successful, sustainable growth in the coming decades.

Missing Link #3 – Financial resources. Successful transition is also about money. No matter who the next owner is, there is always a buy-sell-gift cash component. The cash at transition can either be lump sum or paid over time. Knowing what is needed for your retirement and being very practical about what cash the business needs to sustain day to day operations plus continue to cash flow positively to service long term debt is critical to a transition that is financially successful months and years after the actual change of hands.

Solution: Start with your retirement needs first. If you still have personal debt, I am a big believer in freeing yourself from that debt prior to sale. There is nothing more heartbreaking to me than an owner saddled with debt at age 65. And it's joyful when owners share with me that moment when they are debt free.

Once you know your personal needs, move on to the business. You'll want to fully understand working capital trends (cash, receivables, and inventory minus payables and bank line) over the last 24 months. And you'll be looking for cash after the transition more than breakeven profitability enough to service debt after the transition. Leaving a future owner cash strapped to run the business so you can cash out your retirement is a bad plan.

Missing Link #4 – Documented procedures. Every process in your business should be documented from the everyday to the year-end or occasional. Ironically, it's often the owner's areas of responsibility and most vital functions that often are skipped and most needed post transition. The other day we were on site interviewing key employees and there was a 70 plus year old awesome, amazing operations manager who had nothing written down about his job. He prided himself on his deep knowledge, but his company would be up a creek without a paddle if he dropped dead because absolutely nothing was documented.

Solution: Because those people competent in their jobs who have not documented what they do have usually avoided doing so because they are horrible at documentation and may even hate the thought of it, asking them to document does not work. Instead, have a junior observer, ideally your leader in training, do the documenting. Yes, they will have to pester your Old Salt repeatedly to get it complete and accurate, but there will be tremendous learning plus a good system when you are done. And I often find the new generation can find technology-based ways to streamline and even enhance customer experience at that same time. Now you have a big double win.

Missing Link #5 – Key Contacts List. One of the most overlooked success factors in transitions are all the vital relationships taken for granted by the outgoing owner. Over the years, you've likely developed a strong list of who to go to for what, even if that list is only in your head. When situations arise, you know

who to call. Unfortunately, your successors will not know who to call unless you prepare lists and share those contacts.

I remember getting a call from a surviving son. The owner had passed unexpectedly but had left a list in his drawer of who to go to for what, in the event something happened. “Call Betsi and Meridian for a business valuation” on that list was literally why I got a call from this son I had never met. Without that list, he would likely have spent hours searching out a resource and maybe just gone to someone local for the estate valuation, who had no clue about their industry. His Dad left him a precious gift, a lengthy list of his most trusted resources, all his go-to people.

Solution: As you develop leadership depth, be sure to document and pass on contacts and resources for as many “what-ifs” as you can recall. And like my friend who passed, keep those good contact lists, who to go to for what, up to date. Every key leader in your business should have their own list and not be afraid to share contacts as well as information.

I can promise you the sooner you start diligently working on these five missing links, your eventual transition will have less bumps and frankly, your business will run smoother immediately. If you feel you could use a hand in conquering the missing links, we’ve developed a team that comes to you, interviews your key leaders, and develops a customized plan to help fill in the gaps of leadership development and transition. Imagine what your day would be like if everyone in your company was completely competent and responsible, making great decisions consistently, and all you did was cast vision, or perhaps cast your fishing rod! Yes, that can happen!

Meridian Associates has been partnering with family-owned businesses for over 30 years to remove barriers, accelerate business growth, build their legacy, and reduce stress levels. With three, high-impact business events each year, The CEO Exchange, Women in Family Business, and The Family Business Intensive, we continually provide best practices & proven strategies that keep multigenerational businesses thriving. Discover how Meridian can help your business thrive through our combination of high impact business coaching, advisory, M&A, and precision company valuations by visiting www.askmeridian.com or calling us at 817-594-0546.