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Are You Running an Owner-Dependent Business?

By: Vincent Mastrovito

Owner dependence has a considerable impact on a business and the potential sale process. This impact comes into play when it's time to assess valuations and taking the business to market. Buyers, as well as communities and customers, will want to know about the roles of existing owners. If you're a business owner and expecting an easy, lucrative transition but are deeply involved in the day-to-day operations, you may not get the transaction and departure you're expecting. In some cases, the departure of an owner can dramatically decrease the company's value if they are too heavily relied upon in every day operations.

Owner dependence can negatively affect a transaction in the following ways:

- **Price.** Savvy buyers will examine what the absence of the owner or key management personnel means to the company's value. Buyers will analyze the impact of future sales and critical relationships and what it will mean if the owner is no longer involved. Buyers will apply any risks to the valuation model used to determine the price they're willing to pay.
- **Marketability.** Heavy owner involvement will make it more difficult for buyers to evaluate a potential sale or create a viable transition plan. Risk perception can vary significantly from one potential buyer to another. However, any uncertainty about owner involvement is going to slow down the process. In a competitive bidding process, heavy owner involvement can drive down return.
- **Deal Structure.** Risk translates directly to deal structure. If there are concerns about transferability and reliance on existing leadership, the deal is likely to change. There may be less cash offered, more contingencies, or different terms proposed.

Signs That You Are Overly Involved In Your Business

Not sure of some of the indications that you're too deeply involved in your business? Here are several indicators:

- **Reliance on Contractors.** Contracting portions of your business to external workers is a great way to reduce payroll and overhead costs. It can provide flexibility to businesses in a myriad of ways. However, if decisions to involve or hire contractors and how they will work all run through you, you're too involved. Instead, consider hiring a manager to manage the contractors, and you manage the manager.
- **Stalled Growth.** Are you deeply involved in the complex, technical or personal aspects of your company? An over reliance on leadership to get orders fulfilled or work completed can slow down growth. A focus on business that does not rely on your direct involvement is one way to mitigate the dependency issue.
- **First Names.** Do you know all your customers' first names? If so, then your personal relationships, no matter how compelling or persuasive they may be, are going to hold back a potential sale. Start by delegating some of those relationships,

so that your involvement in the relationship is not a binding factor to continuing business with clients.

- **Signatory Control.** Are you the only one in the company who can sign contracts, approve large purchases or act as the sole legal authority for your business? If so, you are too deeply involved. Consider authorizing other management leaders to make more of those decisions. You can still create a review process, so you have peace of mind of all transactions and proceedings, but let others control the levers.
- **FYI Emails.** How many times a day are you cc'd or bcc'd on corporate emails? If it's more than five, then you probably are holding too much control. While it's good to be informed, you may be creating a work environment that requires your approval, directly or tacitly, before others can make critical decisions, ultimately creating more owner dependence amongst your staff.

Bottom Line

Fortunately, there are steps that business owners can take before putting a business up for sale to mitigate these risks. As you prepare to sell or pass your business down to the next generation, it's crucial to prepare your management team, employees and clients to continue business as normal without you. The first step is to assess the dependence your employees have on you with daily operations and setting forth a plan to delegate processes that take your hand off these day-to-day tasks. Preparing the next generation of leaders within your business is crucial to the value of your business to potential buyers when your business hits the market.

About the Author

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A certified exit planning advisor, Vincent is the founder and president of Prometis Partners. He began his career in 1989 providing wealth management services to businesses and individuals. After two decades with Lincoln Financial Group, confident in his own experience, Vincent built his own firm, Prometis Partners. During his years as an independent succession planning advisor, Vincent has discovered his true passion for working closely with business owners on exit planning strategies. He brings his experience and enthusiasm for finding solutions to each new challenge.

Vincent shares his experience and positive outlook with others as a national speaker on exit planning. He also leads round-table discussion groups with business owners to explore the issues that they face selling or transferring their companies and to determine how to best approach their individual situations. He is adept at motivating a team or organization to work together to meet group goals and works well under pressure and with time constraints.

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To assist clients who are considering transition to make

...the right decision at
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