



The Exit Strategies Newsletter

HOW TO COMMUNICATE 'YOUR EXIT PLAN' TO YOUR MANAGEMENT TEAM

It is sometimes difficult to know how much information to share with your management team. From “playing it close to the vest” to “open book” management, different companies have different cultures to address these issues. On top of deciding how much to share, you also need to decide when to share information. The feeling is that employees and managers cannot always put certain information into the proper context – this is particularly true for an owner’s exit from the business. Moreover, the concerns that many owners have about their employees and managers is that they will see the owner’s exit as the end of their career and will begin looking for employment elsewhere. This newsletter is written to give owners who are considering a future exit some thoughts as to how to handle these delicate conversations with your management team. We begin with the idea that nothing good lasts forever.

You Are Not Immortal and Your Managers Know That

You won’t live forever, this isn’t a secret. Therefore, your managers who are looking for job security will eventually ask about your long-term plans. Think about it – these managers are smart enough for you to trust to help you run your company but you may not give them enough credit to contemplate what happens to your company, and their careers, once you are no longer running the

business. It is better to understand that your employees

most likely appreciate knowing what the future holds for the company - with or without you.

The ‘Future Investor’ Conversation

One favorable way to introduce the idea of an exit to your managers is through the language of a ‘future investor’. In other words, countless owners have asked how to handle the ‘exit planning conversation’ with their managers and employees and one well established strategy is to simply let the managers know that as the owner you are constantly seeking ways to grow and improve the company. And, at this juncture, it may make sense to bring in a ‘future’ (outside) investor to assist with the growth. By keeping the idea broad, and not focusing solely on your departure from the business, managers can start to think about the future of the company on its own and not so closely tied to you as the owner. Plus, the idea of a ‘future investor’ also speaks to the growth of the business.

By handling the conversation this way, the managers can see into the future that there will be growth for the business and that another party will be interested in helping them compete in the marketplace and, ultimately, make more money and have a more satisfying career. This keeps the

managers focused on the future and paints an indirect picture of the business without you, the owner. In reality, this is all that is really happening with an exit transaction, particularly to an outside / industry / private equity buyer. In the end, a buyer / investor in your business is purchasing the future value and potential of the company - and that is good for everyone.

As a result, this conversation may help your managers focus on the importance of current profitability and successful operation of the business in order to better position the company for such investment. By positioning the conversation with your managers in this regard, you remove the personal aspects of the exit planning and communicate the future growth and potential of the company to your managers.

The Range of Emotions that Managers May Experience

Some owners are concerned that managers will see the owner as greedy, selfish and only looking to ‘line their own pockets’ off the sweat of the collective hard-work of the team over the years. These owners get caught up in the idea that their cashing out of the business is a selfish act and that they are making a break from the team, leaving them on their own while the owner rides off into the sunset with a large payday.

It is important to note that an owner fears that this may happen is often not grounded in reality. Remember, you’ve worked hard to build your business and, hopefully, you’ve made good choices when it comes to your management team. Managers who have good business sense, which we’ll assume yours do, should understand that exiting a successful business is typically the common goal and something that should be expected of a business owner such as yourself. As

long as you can find a balance between personally reaping the rewards of the sale while still protecting the future of your employees and the company itself- then typically your managers and employees will be supportive because they will benefit from the new ownership – certainly more than if you made no plans and allowed the business to fail. Or, you may have made the alternative choice of not communicating any of your exit plans to your managers.

The Consequences of not Communicating

You also have the option to not communicate with your management team. Let’s look at some of the possible results of a lack of communication on this important issue. By making all the major decisions on the transfer of the business without input from your management team, you are potentially sending them the message that they aren’t part of the future of the business. This perception may be embraced by the management team because they will think that if they were a vital part of the future of the company they would have been consulted on this transformative decision. That’s never a good message and, in fact, it can be a very large hole to dig yourself out of. In addition, while you try to keep the sale of your business a secret from your employees, as well as your entire management team, you’ll be taking on a huge responsibility - running the day to day operations and managing the sale of a business on your own can be overwhelming. And, eventually, your future owner will want to meet the managers and interview them prior to a sale transaction completing.

Many business owners find out the hard way that not communicating is not a good option, so you are likely better off preparing how and when you will communicate rather than defaulting to keeping everything a secret.

Concluding Thoughts

The communication about your exit to your employees and your management team will have to take place at some point - it's unavoidable. By strategically planning how you will position your future exit plans and who you will involve and at what point in the transaction, the process most likely will go much smoother for you, your management team and your employees. Remember that people and businesses go through cycles and, once educated on these issues, it is typically not beyond a manager's ability to understand this and to be supportive of your decisions, making for a more successful exit for you and your business.

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