



## The Exit Strategies Newsletter

### *Who is a Part of Your Exit Planning Conversations?*

Business owners who are thinking about an exit plan struggle on many levels with advancing forward. At its core, exit planning is about making a significant change in one's business and life. Therefore, the very personal aspect of this planning cannot be ignored. However, there is also a 'company' perspective to exit planning. This involves how your business will run without you one day. Do you have the people in place for the business to run without you? Are you engaging those people in a conversation about the future of the company, with or without you? Or are you, like many owners, thinking that you'll construct your exit plan without the input of the people closest to you? This newsletter is written to help you have a better and stronger exit planning conversation with the people that you need supporting you with making this large financial and emotional change.

#### **The Personal Nature of this Planning**

Every exit planning conversation will have confidential topics that the owner wants to share, at least initially, with only a few people. You can have these conversations with your most trusted advisor(s) and a select group of others, perhaps including your spouse. Your wealth, how much there is, where it will end up, who you want it to impact, and your own feelings of importance surrounding your role in your business are all very personal and not likely topics of

conversation to have with managers and 'outside' advisors. Therefore, a select group of personal advisors can assist you in getting clarity on these issues.

However, it is recommended that you seek out an individual who can transcend the personal issues that you are discussing to also assist you with the business issues as well. This 'quarterback' is a trusted advisor who can take your personal objectives and translate them into actionable items for your business. After all, your company will transition to new ownership in the future. If you fare well in this process, your personal goals will be met with your business objectives. Having an advisor who can see both sides of the equation is important. So the next question becomes who at your company can you confide in to assist with your planning?

#### **Your Management Team and the Future Leadership / Succession of Your Business**

Have you brought up the topic of your exit at the last meeting that you had with key employees and managers? Probably not. The likely reason not to bring up this topic is that most owners fear that their managers will assume that the owner is simply selling the business and the managers may begin to question their future role and career at the company under new ownership. As an owner contemplates the potential for this type of reaction, it becomes clear that a

strategy is needed to have this conversation with the management team.

### **Your Exit Path Will Determine Your Talking Points**

Before you decide who at your company should be brought in on the conversation regarding your future exit, it is first very helpful to know what type of exit you are looking for. For example, if you plan to stay and grow the business with an investor who buys the majority of your company, then there will likely be less disruption because the management team will see their leader as staying with them, leading to less turbulence in the transition. In that case, it may make sense to inform your top managers of your desire to seek out an investment partner to ‘help us all grow the company to the next level’. This sounds a lot less like an ‘exit’ and more like an investment in the future.

However, if your desire is to sell to an outsider and retire, then many of your managers may [rightfully] be concerned about their future with the business. In this case it is helpful to let a few key people know about your plans to assist you in both the preparation and the communications with others at the company. These trusted managers should be carefully selected and relied upon for their discretion with this sensitive information. Later on in the process you can involve more folks who are material to the transaction.

One word of caution when you are building this initial team is that once a significant amount of activity begins to occur in the selling process you should consider communicating the plans to more of your managers. In small companies it is hard to keep secrets and some of the managers who were not a part of the process may feel left out and may, in fact, begin searching for a

new job. Watch your step carefully here to be sure not to alienate anyone in your organization prior to a transaction. After all, your sale may be dependent upon the very few key people who are now planning on leaving.

By contrast, if you are thinking about an internal transfer to the management team or family, either outright or through the use of an Employee Stock Ownership Plan (ESOP), then your primary issue is who to include on the new ‘ownership’ team. In many cases, unfortunately, lines need to be drawn as to who is in and who is out for the future ownership. The turning over of a business is a milestone event for a company. Getting the right people on board and having them function well together, over time, is a critical part of this transition.

### **You’ll Need Support and Leadership to Assess Your Exit and to Make the Transition Happen Effectively**

In general, exit transactions are more successful and more effective when there are conversations, solid communication and a consensus amongst the leadership, ownership and outside advisors in regards to how the future goals of the business will be met and under whose direction and control. As we can see, exit paths require different strategies for communications. In any event, remember that your leaders will be a part of the process, one way or another. In the case of an outside buyer or an investor, the management team will be relied upon to promote the business during the selling process. Without good communication, the managers may not know what to say and, more importantly, may not feel like a part of the process and may not want to positively promote the business. Good communication, to a small group, when

possible, is the general recommendation for you to think about for your communications.

### **Concluding Thoughts**

A business exit is a tricky thing for many owners and who you have to discuss this with on both the personal and the business side is critical to the success of the transaction. Choose your advisors and managers carefully. And, when possible, seek out the assistance of an advisor who has experience with these types of issues and can assist you in formulating the proper path to overall success with your plans.

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