

Personal Contingency Planning

By: Christopher M. Snider, CEPA

Most business owners are very good at contingency planning. They plan for every possibility imaginable, but surprisingly few business owners plan for the one thing that is certain: their eventual death or disability. Generally speaking, owners have more pleasant endings in mind when they think of exiting their businesses; nonetheless, we all know someone who died too soon. It is easy to put off or overlook this possibility during the exit planning process.

Without continuity of leadership, your business will probably fail. If ownership transition for the business is uncertain, business continuity is seriously threatened. Your death can have a significant effect upon the company's ability to maintain its financing, its relationships with key customers and vendors, and its relationships with other parties who are important to the ongoing success of the business.

Failing to understand the consequences that your death can have upon your business can result in the unintended death of the business. A good exit plan requires that you develop a contingency plan for your business and then update it every year. The plan should be updated to include a current value for the business and any changes in your exit plans.

What is often forgotten is that a large part of the value of your company is based on the buyer's assumption that the previous owner will be around for 6 to 12 months to facilitate the transition of ownership with the company's employees, vendors, and customers. If the previous business owner dies or becomes disabled and cannot play this vital role, the buyer will discount the value of the company dramatically.

The balance of power, particularly in a closely held business, can be very fragile. The loss of the company leader can leave a void that results in power struggles, employee turnover, managerial mistakes, lost customers, and lost profits. Even a vital and profitable company can unravel quickly when its leader is unexpectedly removed from the mix.

The loss of a mentor and business leader may be especially damaging to the crucial management succession grooming process. Not only are the company's profits

threatened, but the plan for the long-term development of the successor may become derailed. Successors who are not ready to lead may be prematurely thrust into leadership positions, drastically reducing their chance of success. Other employees may sense trouble and begin to seek employment elsewhere. Important customers and suppliers may react in the same way.

To minimize the chance of this type of panic or power struggle, emergency plans should be developed to account for the sudden absence of leadership. Responsible individuals (such as corporate officers and board members) should be made aware of and empowered to implement the plans should such an occasion arise. Further, the plans should be reviewed periodically and updated as appropriate.

Christopher M. Snider

Christopher M. Snider, CEPA

CERTIFIED EXIT PLANNING ADVISOR



Sample Contingency Plan

Contingency Plan of Robert Garson

Dear Sallie, Jamie, and Bobby:

Our family business has been a joy for me to build and run. I'm proud that it has provided so well for our family for the last thirty years. That said, the business was my passion. I don't expect it to be yours. You have your own dreams to pursue and your own lives to live. As a result, I have created the following plan in the event that I die or become disabled. I hope that this will make the process of dealing with our family business easier.

Management:

Day-to-day executive management should be turned over to John W. Smith, the company's CFO. He should assemble a management team made up of Roger Wiley in operations and Bill Cohen in sales. Management oversight should be provided by a board made up of Merriam, Ken Fecund, and Marybeth Kilgore.

Compensation:

John, Roger and Bill are covered under the stay bonus plan that I put in place last year. Under this plan they will continue to receive their regular salaries but will also receive a bonus equal to 100% of their base salaries if they stay with our company during the transition period and maintain the company's financial performance. Jane has the file on the

stay bonus plan. Ken Fecund drafted the plan and can answer any questions.

Disposition of the Business

I believe the company should be sold upon my death or disability. Although John, Roger, and Bill are great managers, I'm not sure they have the drive or the vision needed to continue to make the company a success. I have had preliminary conversations with Chris Snider of Aspire Management, a mergers and acquisitions firm in Brunswick, Ohio, about selling the company. In 2009 they thought the business might be worth approximately \$10 million. I have a great deal of confidence in Chris and his team. Please engage them to sell the company for you. They will handle everything, make the process easy for you, and do a great job. Their contact information is on the contact sheet attached.

Advisors

Please ask Ken Fecund and Marybeth Kilgore to work closely with Aspire Management to handle the details. Their contact information is on the contact sheet attached.

Possible Buyers

I have also listed the names and addresses of people who have contacted me recently and expressed an interest in buying the company when I was ready to sell. I haven't shared any of these names with Aspire. Please give them these names when you meet with them. There are also a few

people whom I would ask that you not sell the business to. These are people I've run across during my career and whom for a variety of reasons I would hate to see take over. I've listed them on the contact sheet as well. Please don't sell to them unless there are no other alternatives.

My Goals

My primary goal in having you sell the company is to provide you with a financial legacy that will enable you all of you to live comfortably, pursue your dreams, and have rich and rewarding lives. I wish I could be a part of those lives, but if I can't be there physically, at least I will have some comfort knowing that I played a big part in making it possible.

In addition to my primary goal:

(1) I would love the company to stay in town where it has provided good jobs to our friends and neighbors for the last 30 years.

(2) I would love the company's name to stay the same, as a memorial to me.

(3) I would love it if John, Roger, and Bill could continue to be employed by the company to help continue its success. They have been good and loyal employees.

If you can accomplish my primary goal and any of my secondary goals at the same time, that would be great, but please do not compromise my legacy to each of you in order to accomplish any of these secondary goals.

Thank You:

Each of you has been a treasure to me and together you have been the light of my life. I am very proud and honored to be your husband and father. Thank you. Please enjoy your lives and you will be successful. Remember what I always said, enjoy what you do and success will find you. I love you all so very much.

/s/ Robert Garson