Smoothing Out Friction Between Business Owners

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All business partnerships eventually come to an end when one or more partners leave the business, whether by choice or otherwise. Being prepared for the end of the partnership decreases the possibility of unwanted challenges between co-owners down the road.

Common Reasons Why Partnerships End

Co-owners share a unique relationship. They have built a company together, sometimes out of nothing. They have been through the good times and the bad, working diligently to keep their company thriving.

Partnerships between co-owners, like any relationship, change over time. Partners can grow apart; goals and visions can change. Co-owners may have different financial situations or targets. The ways in which they intend to take care of their families in the future may differ. Partners may be on different timelines due to age, health concerns, or personal interests. And of course, one owner may become disabled or die unexpectedly. The reasons for a partnership to end vary widely. Being prepared for any of these scenarios is crucial.

Ways to Limit Co-Owner Friction

Being prepared for the worst can significantly ease tensions between all parties involved, both today and at the end of the partnership. There are several things to keep in mind when attempting to limit friction between co-owners.

Retirement Needs Analysis

Consider how much each co-owner will want (or need) on the day he/she leaves the business. Each owner should understand what the value of the company is today, where the company will need to be when each owner decides to leave, and how much an owner will need or want to sustain their life after their departure. This is a combination of each owner separately reviewing their personal financial situation, as well as a cooperative effort to understand the current and expected future value of the business. Once these are known, owners can work together to plan now for the various possible ways each may leave the business in the future.

Risk/Liability Assessment

Each co-owner cares about the potential risk or liability associated with the business after a co-owner departs. The departure could impact the company. There may be a risk that employees loyal to that owner may also leave. Customers may feel anxious when an important partner departs. Sales may lag. The risks following the departure of an owner are different for every business. Identifying them now and putting measures in place to minimize these risks can make all the difference.

Ownership Agreements

Owners are sometimes caught off guard by an unexpected need to buy out a co-owner. Whether that co-owner has decided to retire or has recently passed away, conflict may arise about who will buy the ownership interest, how it will be valued, and what rights it includes. If the business is likely to experience a disruption at or after the departure, concerns may be magnified. Insurance to buy out a co-owner may not be available, or if it's available it may not be enough. Disagreements and financial challenges can distract owners and cause the business to suffer. A carefully constructed and regularly reviewed ownership agreement (also called a buy-sell agreement) can address most of these issues in advance in a way that all owners (those who later leave and those who stay behind) believe is fair.

We strive to help business owners identify and prioritize their objectives with respect to their business, their employees, and their family. If you are ready to talk about your goals for the future and get insights into how you might achieve those goals, we'd be happy to sit down and talk with you. Please feel free to contact us at your convenience.