Daniel O'Brien
dobrien@orrpc.com

O'Brien, Riley & Ryan, P.C.
30 Braintree Hill Office Park, Suite 102
Braintree, MA 02184
www.orrpc.com
(781) 410-2300

Why Make Your Business More Valuable Without You?

Businesses that rely on their owners as the primary source of success are common. They're also the most dangerous kind of business to own when you want to plan for the future of your ownership interest. Unless your goal for the future of your ownership is to liquidate the business and shut it down, you'll likely need to build your business' *transferable value.*

One way to define transferable value is that it is what a business is worth to a qualified buyer *without the owner present*. Essentially, a business that relies on its owner for success is worth less to a buyer than a business that can run smoothly without its owner. For some businesses, overreliance on the owner can make the business not only worth less but also worthless to buyers, despite all other indicators of success.

This might seem at odds with the tenets of entrepreneurship, ownership, and job security in general. Many of us are taught to take on as many responsibilities as we can to make it harder for a company to do without us. Entrepreneurs often take pride in how many different hats they wear as they build their companies. This attitude is admirable but also dangerous for owners who want to plan for the future of their businesses. Consider the story of Henry Rutherford and how his constant drive to do more affected his planning.

Henry Rutherford had built quite an empire. Over 35 years, he turned his three-person propane distribution business, Rutherford Propane, into a six-location regional staple. He employed 45 people and owned a well-maintained fleet of 30 delivery trucks. At 70 years old, Henry still coordinated the routes, worked with the largest customers, and led the company's marketing efforts. His employees looked up to his work ethic and often wondered how Henry could do so much. Simply, he was a model of hard work.

Privately, Henry was exhausted but hopeful. He wanted to get out of his business within the next year, before he completely burned out. Two of his primary but friendly competitors, Wyatt Durndel and Theresa Seels, had recently sold their businesses. Wyatt said he ended up with "north of $5 million" for his business, and Theresa had managed to make "about $9 million out the door."

Henry knew that his company did more business than Wyatt's. He also knew that his company had more large contracts than Theresa's. When he thought about all the hard work he had put into marketing and building a strong, reliable, and diverse book of business, he figured he could get at least $10 million for the company. He reached out to his most trustworthy advisor, Butch, to seek out a buyer for him.

Over several months, Butch found three buyers interested in Rutherford Propane. Each offered Henry between $8–9 million on the condition that Henry stay with the company for at least five years to help train replacement leadership.

"That doesn't make sense," Henry said. "I've built this company and created a strong book of business. Why do they need me to stay?"

"They don't feel that the company is worth much without you," Butch said. "They think that you do all the heavy lifting, and without you, the company

won’t function how they want.”

Frustrated, Henry asked, “What if I refuse to stay? What will they give me then?”

“I can ask,” Butch said.

A week later, Butch reported back to Henry.

“Two buyers said they aren’t interested unless you stay,” Butch began. “The last one offered $1.5 million for your delivery truck fleet, book of business, and company name.”

“But that’s barely 10% of what I’m looking for!” Henry said. “And, what, my employees lose their jobs?”

“That’s what they implied,” Butch said. “They worry that your bigger clients like to do business with you personally and that if you leave, most of them won’t renew their contracts. Without you, the only value they have is finishing out your existing delivery contracts and adding your trucks to their fleet.”

“Aren’t they responsible for replacing me with people they’ve trained?” Henry pleaded.

“That $1.5 million offer took that into consideration,” Butch said. “They figure it’ll cost them at least $5 million to train others to do everything you did as you did it, build the market back up, and get new contracts in the door. Even then, they aren’t confident that they can retain all of your business without you there.”

Working hard is admirable and necessary for success. But when it comes to planning for the future of your ownership, it’s wise to make yourself inessential. If the business cannot succeed without you, you’re likely to find yourself with limited options. If you’d like to discuss why and how you should position your business to be more valuable without you, please contact us today.

Please contact Dan O'Brien for a free one hour consultation on your exit planning needs

Our new address is:
30 Braintree Hill Office Park
Suite 102
Braintree, MA 02184
Phone 781-410-2300
Fax 781-320-8608

O'Brien, Riley & Ryan, P.C.
30 Braintree Hill Office Park, Suite 102
Braintree, MA 02184
www.orrpc.com
(781) 410-2300