

## Roadblocks to Perpetuation

Several obstacles exist relative to internal perpetuation. The graph below outlines the primary reasons cited by agency owners:

**No Candidates:** Many agency owners do not contemplate their own exit strategy and end up surrounded by either 1) a lack of capable individuals, or 2) capable employees who were never identified, engaged and groomed by the owner.

**Financial Issues:** Not only is it important to build a strong balance sheet to sustain the on-going needs of the business, but also to fund perpetuation. If the agency is not profitable and the balance sheet is weak, perpetuation is very difficult, even if you have capable candidates.

**Risk Averse Candidates:** The reality of going hundreds of thousands, or even millions of dollars in debt is not for everyone.

**Risk Averse Owners:** perpetuations are often funded partially, or in full, by the retiring owner holding a personal note. While many owners have willing and able perpetuation candidates, the retiring shareholders themselves become risk averse when faced with the prospects of continued risk assumption.

**Lack of communication:** The opportunity, expectations and responsibilities were never outlined in the interview process. A capable candidate may have the desire and wherewithal, but not know if the opportunity is available, what they have to do if they are interested, and if they are interested, what the funding options are.

**Believe the best deal is external:** An external sale would eliminate minority and marketability discounts commonly applied in internal perpetuation valuations. In addition, sellers may be able to benefit from synergies. If you can perpetuate internally, but chose to sell, owner(s) can realize even more value.

There are many obstacles to perpetuation, but they can all be overcome with proper planning. In next month's issue, we will look at how the current economic conditions have impacted organizational perpetuation plans.

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