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## **PROTECT THE BUSINESS VALUE YOU'VE BUILT**

We'd guess that there are very few days in which the thought of growing the value of your business doesn't cross your mind. Much of our work as Owner-Based Planning Advisors consists of helping owners do exactly that.

One element of building value that is often overlooked but equally important is protecting it. Growing business value is futile if you don't know how to manage and reduce the risks that threaten that value.

We understand that devoting time, effort and perhaps some money to minimize or reduce business risk is not as interesting or energizing as focusing efforts on growing your business. Still, doing so is just as essential as building value.

# Common Business Risks

In this article, we summarize some of the common threats to business value, such as:

- Key employees leaving a company and taking customers, employees, and/or trade secrets with them.
- Key employees dying or otherwise leaving a company without replacements on board.
- Data security breaches.
- Uninsured casualty losses.
- Fraud and embezzlement.

This list does not include many other economic, industry-related, or internal risks that we help owners minimize, avoid, or insure against.

## Risk Grows as Value Grows

One of the realities of growth is that as your company grows so too does the level of risk. The most critical element of building the type of value that buyers pay for (transferable value) is making yourself incidental. In a moment, we'll describe the risk that's inherent in becoming incidental.

Let's look at two common risks that we help owners address.

### 1. THE DEPARTURE OF KEY EMPLOYEES

As key employees take on greater responsibility for growing a company, they begin to manage and develop their own relationships with key customers, other employees, and vendors. Increased contact can prompt ambitious key employees to leave your company and take with them those critical customers, vendor relationships, and employees.

Some of the measures we often recommend to reduce this risk include:

- Written employment agreements with non-solicitation provisions. These prevent employees from leaving and taking customers, employees, or vendor relationships. Failing to take this step has led to too many businesses failures.
- Incentive plans for key employees that reward them for achieving performance benchmarks such as growing cash flow or revenue. Part of the incentive is paid at year end and part is deferred and subject to vesting. If a participant in an incentive plan leaves and violates the employment agreement, he or she forfeits all deferred payments.

## 2. DATA SECURITY BREACHES

Data security breaches can destroy customer trust, especially when the breach involves sensitive information. Without customer trust, business value can plummet and with it, the odds that a prospective successor will be interested in buying the company.

When warranted, we recommend that a credentialed Risk Management Consultant assess the security of your company's policies and practices.

### The Cost of Protecting Your Business

Properly protecting the value you've worked to build against business risk costs money. Some owners are allergic to these upfront costs, ignore risks and hope that nothing bad happens. The cost of ignoring business risks, however, can be extraordinarily expensive compared to addressing them.

Retaining experienced advisors to help identify and address business risks preserves and protects hard-earned business value and enhances the probability of a successful exit.

If you'd like to know more about potential threats to the value of your company and ways to minimize them, we suggest that you check out our White Paper on Minimizing Risk. It's a short but essential read and an investment in the growth of your business's value.

We strive to help business owners identify and prioritize their objectives with respect to their businesses, their employees, and their families. If you have questions on this topic, we can help with more information or a referral to another experienced professional.

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