When Key Employees Stall Your Exit

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An important part of a successful ownership transfer, regardless of Exit Path, is the presence of key employees. Key employees are those who have a direct and significant impact on business value, meaningfully participate in the business' strategic future, and whose combination of skills and experience would be exceedingly difficult to replace.

Because of their role in the business, key employees can just as easily stall your business exit as facilitate it. Consider the story of Maria Villalobos, who had her Exit Plan stalled by one of her key employees.

Maria Villalobos was nearing her retirement. Over 30 years, she built her one-woman plumbing company into a 55-employee regional powerhouse. Her ambition had led her to plan for her business exit on her own, based on information she had gleaned and absorbed over the years. She hired a business valuation specialist, who valued her company at $11 million, enough for her and her family to live comfortably. She recruited a business broker to assemble a deal team and find the right buyer. And over 15 years, she had invested in training three key employees—Armand, Petra, and Donald—to run specific portions of the business after she retired.

As her business broker fielded offers, Maria gathered her key employees to tell them her intentions.

"I know I've been talking about retiring for a couple years now, but I'm finally ready to pull the trigger," she told them. "My broker's gathered some offers, and we're going to be considering them this month."

"It's about time," Donald said cheerily. "You've earned this."

"Congratulations, Maria!" Petra added.

"That's great," Armand said.

"I couldn't have gotten here without you all," Maria said, smiling.

"So, what are the offers?" Armand asked.

Maria had built trust with her key employees over their 15 years together, and felt comfortable giving them an idea.

“A good amount. North of $10 million. And once we finalize the deal, you three will basically be in charge.”

Maria told them that she would update them as she finalized the deal and adjourned the meeting. She ended up signing a letter of intent that would get her the $11 million purchase price, contingent on her key employees’ continued work with the company after the transfer. Maria shared this information with her key employees.

One week before she was set to sign off on the deal, Armand requested a meeting.

“I want part of the deal,” he told Maria.

Maria was stunned. “You’re going to have more responsibilities, more pay,” she said.

“That’s not enough,” Armand responded. “You said you couldn’t have gotten here without me. I know what you’re selling for, and I want $3 million, or I’ll walk. I’ve got a couple of job offers on the table right now that pay better anyway.”

“I can’t do that.” Maria said. “I won’t.”

“Well, good luck then,” Armand said.

Armand tendered his immediate resignation and began working for a direct competitor. Maria was forced to inform her buyer, who pulled the deal. She tried putting her business back on the market, but every offer she received was less than $5 million, based on the hole left by Armand’s absence and her first failed attempt to sell. One buyer offered her $7 million, but only if she stayed to fulfill Armand’s duties for at least five years. It took Maria an additional five years to sell her business for the money she needed.

For as diligent as Maria was, there were several pieces of her plan that she neglected. She failed to handcuff Armand to the business. She failed to have her key employees sign a covenant not to compete. She failed to incentivize all of her key employees properly. In the end, by trying to plan her exit by herself and without a full range of expertise, she overlooked several key aspects to a successful exit. It ended up costing her millions of dollars and half a decade of her time.

If you’re unsure about which aspects of your business exit you might be missing, or you want to maximize and protect your company’s value as you approach your business exit, contact us today. You don’t have to expose yourself to unforeseen risks and unfamiliar territories by planning your exit alone.

you need.

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