

TAKING ON OUTSIDE MONEY

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intangibles that have make your business special and profitable.*

"Is private equity the answer?"

This question surfaced yet again during a conversation with an owner who had been at the helm of his family's business since his parents passed it down to him. Considering future growth – and the future, in general – he wondered if bringing in outside money was a solution. Surely, it would provide an infusion of cash, capital for expansion and perhaps some security.

So why did he feel so insecure about the "opportunity"? "I just want to understand the psychology of this," he insisted. "How should I really be thinking about it?" What he meant was: What does outside capital do beyond bring money into a business? And what would outside money really mean for his family business?

While business owners ruminate about both the risks of taking on outside money and the risks if they don't take on outside money, financial institutions and investment firms exude confidence. And the intensity of the pursuit by these firms is only increasing as they prepare to take advantage of the \$13 trillion leaving the hands of a generation of owners. In fact, a Bain & Co. private equity report cited 2018 as the strongest five-year stretch in history for private equity deals. By contrast 75% of owners report feeling regret a year after they

sell their companies according to a 2018 State of Readiness report conducted by the Exit Planning Institute. So how can we correct for this disparity where owners are unhappy while investors are going strong? It's time for owners to get up to speed about how outside money can affect their company beyond just providing additional capital or a cash infusion. By being prepared, they can expect to influence the nonfinancial impact that outside money brings.

Hands down, owners need better information and stronger advocacy from trusted advisers. Foresight is necessary for success. "By conceptualizing the process from beginning to end in advance, owners are able to navigate the unknown and influence outcomes real-time," said Joe Shamon, managing director of Shamon Family Office. "Ultimately, the quality of the transaction, on multiple levels, improves by replacing faulty assumptions with new and better thinking."

For example, it's important for owners to be aware that conflict often surfaces when the newly formed partnership team digs into operations and decisions need to be made – when subtle biases and preconceived notions, such as an owner's inclination to care and an investor's inclination to cut, can collide and cause mistrust.



To avoid pitfalls, start by getting your head in the game, determine where you want to influence, the draw up the deal:

1. Shape the quality of the partnership being formed, consider the expectations you have for each other, and how differences of opinion will reach a common ground, so the goals and aspirations can be achieved.
2. Know the direction you want to take the company in advance of picking investors. Conduct a full-blown strategic planning process and determine things such as whether to invest in infrastructure, expand into new regions, bring products to market or complete a succession plan.
3. "Develop a shared vision with your investors. Ownership teams that operate with a shared vision increase employee engagement and productivity, enabling the company to recover the costs of the acquisition premiums," says Kathy Overbeke of GPS.

A major mindset shift will prepare owners to engage in the deal process unapologetically and strategically. The four tips that follow will put business owners in a strong position to reap the rewards of taking on outside money and the investors that come with it.

- Think long-term. Use outside money as an instrument for accomplishing a long-term strategy, rather than a fix to a short-term problem.
- Think things through then shop. Understand the pros and cons of outside money from a disinterested trusted advisor, then interview the various sources of money.
- Think stakeholders before shareholders. Shift from structuring a deal to extract the highest returns for shareholders, and instead develop a plan for using outside capital to generate the highest returns for stakeholders.
- Think faces, not dollar signs. Look behind the money and think "who" rather than "how much?" Make sure the money comes with reasonable partners who bring expertise, emotional intelligence and the ability to value the intangibles that have made your business special and profitable.

Stewarding a legacy is not a nice-to-have, it's the new standard. Focus on growing a healthy and profitable company, and make sure the decision to bring in outside investors is about what really matters after the deal is done. Start with a clear strategy for partnering with outside investors who share your goals and vision for the future.