

# WHEN OWNER'S COMMITMENT AND DEDICATION WORK AGAINST THEM

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# INTRODUCTION

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Your client's business used to be a major success.

Now it isn't. But if you rely on your client to tell you that he or she is in trouble, you'll be the last to know - and worse, you might be unable to intervene.

Like all businesses, privately owned businesses have been hard hit by the recession. Owners and entrepreneurs are struggling with a drastically reduced base of business, operations that are out of sync with the times and the overhang from an infrastructure that was built for the boom years, not the lean years. If a business has grown to \$30 million, then shrinks to \$12 million - but keeps its \$30 million infrastructure - it's not sustainable and may not survive.

But unlike many leaders of large businesses, private business owners are often reluctant to declare an emergency - or are in denial that one even exists. Pride and passion - the same qualities that helped them launch and build the business - can become liabilities when conditions turn bad. It's under those circumstances that owners begin to throw good money after bad, or hang onto business lines, locations and people that they can no longer afford.

## WHERE DO YOU FIT IN?

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That's where you, as personal banker and financial advisor, can make a difference. Your client needs objectivity – an intervention from a professional who can help tamp down emotion, take a hard look at new business realities and recommend a course of action, one that may involve difficult decisions about shedding operations or letting go of longtime staff.

Such interventions are not easy. But for your client, they can mean the difference between business survival and failure. And failure can easily spill over into the client's personal finances. Helping a business owner work through a crisis is well within the scope of your responsibilities. And most clients will ultimately value the service you're able to provide.

# THERE ARE WARNING SIGNS THAT YOUR CLIENT'S BUSINESS IS IN CRISIS

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As the person responsible for your client's overall financial health and asset management, you may be the first outside professional to suspect that your client's business is in crisis. Among the warning signs to watch for are:

- **Difficulty in making loan payments.** Economic contraction quickly forces cash flow into negative territory. Clients desperate to keep the operation going will begin to look for ways to remedy their cash crisis. A change in behavior – a client who begins to slow down loan payments, or asks to skip a payment – is a sign that there may be something wrong in the underlying business situation.
- **Trying to borrow more.** It's reasonable to try to bridge an episodic downturn through increased borrowing but a client's sustained upturn in borrowing is cause for concern. Even more concerning is a client who tries to borrow while simultaneously slowing down payments on outstanding loans. It happens often and it's a clear sign that the business is in a bind.
- **Lending money to the business out of personal funds.** The client originally started the business to generate personal income. But when the business owner begins to move personal cash into the business – not as a one-time, exceptional loan for some specific purpose, but in an ongoing attempt to support a money-losing enterprise – that is cause for alarm. It indicates not only that the business is in negative territory, but that your client is emotionally caught up and is willing to do “whatever it takes” to save it. “Whatever it takes” is not the same as having a plan.

# PASSION AND EMOTION HELPED THE BUSINESS – BUT NOW PASSION IS THE ENEMY

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All of these are signs that the business is at risk – and that the client’s passion has overwhelmed reason. Simply put, many private businesses spiral out of control because the owners have lost their objectivity. Attachment can take many forms. Your client might be:

- **Attached to a vision:** “I started this business. I know it better than anyone else.” “The business wasn’t supposed to shrink.” “I didn’t put all that energy in to have it come out this way.” “Things will turn around.” “A little more energy and commitment and I’ll have it back on track.” Commitment to a vision is important – but not when it turns into rigidity that keeps the business owner from realizing the circumstances have changed and that a different approach is needed. Energy and a healthy dose of ego can help build a business or they can help destroy it when there is a change in fundamental business realities.
- **Attached to a plan:** Business owners put time and treasure into their plans. Like a vision, a plan takes commitment – but that same commitment can become a liability if the plan isn’t adaptable to a changed situation. The plan might have called for a further expansion but if the expansion isn’t justified by demonstrable sales growth, it’s better abandoned, or at minimum, heavily revised.
- **Attached to people:** This is often the most difficult barrier for private business owners to overcome. Privately owned businesses are often small – so small that owners have longstanding personal relationships with employees. Bill was there when the business was founded. The owner first found Sally in that class he taught in the community college and brought her on board. They’re loyal and dedicated but their skills may no longer be needed. Nevertheless, if business activity will only support 150 employees, and the business carries 200, something has to give.

## YOUR ROLE: RESTORE OBJECTIVITY

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What is the remedy? It's essential that the business owner return to objectivity about the state of the business and to make new plans accordingly. That's where you can play a key role, both as a trusted advisor and as the professional who can assemble a team of others - including attorneys and accountants with turnaround experience - who can determine rationally whether to exit or how to scale and revise the business so that it is suited to new economic realities.

# A CHECKLIST OF HARD QUESTIONS CAN HELP YOU AND YOUR CLIENT SET A NEW COURSE

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Interventions are difficult – especially in a situation where the client’s emotions are already running high. Asking the right questions can help establish an objective, professional atmosphere – and the answers, together with the numbers, will begin to determine your client’s best course of action. The questions you and your colleagues need to ask are these:

- **Has your business environment changed? And what have you already done to adjust to it?** Is the client’s overhead correct for reduced sales volume? Have unprofitable locations or divisions been closed? Is the scale of staffing right? Are the people right for the job?
- **What do the numbers say?** Vision and emotion are wonderful and have their place. But at the end of the day, it’s the numbers that will tell your client whether the business is working or not. A problem with the numbers indicates a problem in the business but might also point the way to a solution. Outside advisors – accountants in particular – can also review the numbers dispassionately and use them to arrive at a diagnosis.
- **Does it make sense to be in this business now or is it advisable to sell or liquidate?** In an objective discussion, all options should be on the table including selling or closing the shop. Here, again, the numbers won’t lie. But the business owner needs advisors to help interpret what the numbers are saying and what course of action they dictate.
- **If you made personal guarantees, what did you guarantee and to whom?** Many business owners make personal commitments at some point – often driven by the same emotion that got them into the business in the first place. Guarantees can limit exit options and have personal tax consequences as well. They need to be reviewed by the professional team. If the client hasn’t yet signed a guarantee – but is under pressure to do so – the counseling team may be able to suggest alternatives.
- **How do you need to change the business plan to meet changed conditions?** It’s not just the size of the business that can be a problem – the business might not be aligned to new realities. A retail product sold through department stores will suffer if department stores are weak. New channels are needed – selling to online retailers, for example. And that might require changes in the sales staff as well. A chain of restaurants is different from a stand-alone restaurant and needs to be managed differently.
- **If you choose to continue in the business, what should be its size and shape?** What operations, product lines or locations should be abandoned? What should be protected? Is the primary business hurting because of a secondary business that needs to be abandoned?
- **How can the business be “rightsized” to sustain itself at a new, lower level of activity?** Most likely, this will involve letting people go. As noted, this is extremely difficult because at the scale of your client’s business, the people aren’t just numbers – they’re individuals. Some of them may have been there at the founding and many of them have struggled and sacrificed alongside him or her. But the realities are the realities. In that business that employs 200 people, it doesn’t make sense to keep 50 of them if the result is going to be that all 200 lose their jobs. The point is to

# A CHECKLIST OF HARD QUESTIONS CAN HELP YOU AND YOUR CLIENT SET A NEW COURSE

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keep those who can realistically be kept and to help the others make the transition as effectively as possible. It could be better for the client's employees to move on than to stay in what are likely to be dead-end jobs.

# THE REWARD FOR INTERVENTION IS A FISCALLY SOUND CLIENT AND A HEALTHIER CLIENT RELATIONSHIP

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The process of intervention in a client's affairs is not easy. But the result will be that the client's finances are healthier. In other words, by intervening, you have acted according to your obligation as a professional. Your relationship with the client will benefit as well. The interventions will not always be neat - there will be resistance and emotionalism. But experience suggests that the majority of clients will value professional guidance and will be happier to be out from under their financial cloud.

Your client's business is his or her own creation. After cutbacks and rightsizing, it still can be. But the essential step is for the client to do what's needed - or, as noted entertainer and business entrepreneur Merv Griffin put it, to "turn the page." The right team of advisors - with you in charge - can make it happen.

## ABOUT THE AUTHOR

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**Lawrence Cohen** is an Executive Consultant at Marks Paneth & Shron (MP&S). Mr. Cohen has vast experience serving high-net-worth individuals as well as those in the media, entertainment, hotel, casino, retail and real estate industries. He provides counsel in the areas of mergers, acquisitions, financing and operational management.

Mr. Cohen rejoined MP&S after having served for many years as the President and Chief Executive Officer of The Griffin Group, the investment and management company of the late Merv Griffin. In addition, he has had business interests in the Los Angeles area for more than 25 years and shares responsibility for the firm's operations on the West Coast.

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