

Closed Case Files Perpetuation Chronicles™

EXCLUSIVE. THIS BUSINESS DOCUMENT HAS BEEN PREPARED FOR ENTREPRENEURS, BUSINESS OWNERS AND MANAGERS.

The Chronicles come from the exclusive files of Private Capital Corporation (PCC).

The case stories are true. Only the names and places have been changed to protect the privacy and confidentiality of PCC clients.

CLOSED CASE 38 CASE BACKGROUND

The man they called “Sunny Ray” and his good friend Wayne partnered to build one of the largest solid food wholesalers around. After four decades, Wayne passed away and Joe persevered. The company topped \$40MM, with over 100 employees. In his mid-60’s, everything looked rosy; but under the surface trouble brewed. His new banker would not approve a line of credit extension when he saw that sales dropped 25% over the previous year. Cash flow was down because they were paying lease payments for a new warehouse not being used. Ray’s son-in-law, his apparent successor, had committed to a warehouse deal that had inadequate refrigeration for storing meat, their primary product. Then the second shoe fell. Their international hotel customer, representing 20% of the business, walked away, refusing to pay the mark-up between Ray’s cost and what they charged their customers. And the final blow – the son-in-law divorced Ray’s daughter and resigned, leaving the owner without a succession strategy and a full-fledged quagmire.

CASE CHALLENGE With no succession plan and business facing serious issues, bank officials grew increasingly restless. To continue renewing loans, the bank demanded that Ray pledge all his personal assets and that Ray’s wife (who had an independent estate) do likewise. At this stage in his life, Ray could not see the wisdom in jeopardizing personal assets. Making matters worse, the State was in serious recession and many of his other customers were squeezing him to reduce margins. He faced liquidation.

PCC RECOMMENDED ACTION

- 1** Attempt to find a worthy successor CEO and create a solid succession plan that would give the bank the confidence to stay the course. After six months, this strategy was abandoned.
- 2** Study the viability of installing an Employee Stock Ownership Plan (ESOP) that could save tax dollars and create cash. Similarly, this option could not succeed without an approved successor and long-range plan.
- 3** Find a strategic buyer that would agree to protect employees and provide a reasonable transition for the owner. This strategy succeeded.

EPILOGUE The buyer hired all employees and guaranteed seniority, and employment for one year (except for cause). Ray received a fair price and a consulting agreement. Ray’s company endures to this day, and he continues to be a high visibility leader in his community.