

# A TALE OF TWO OWNERS

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Achieving Exit Success  
Between Business  
Co-Owners



Patrick A. Ungashick

# Introduction

The image of the business owner alone at the top is a myth. About 70 percent of the six million privately held businesses in the United States have more than one owner, and the average number of owners per business is nearly three.<sup>1</sup> This means there are approximately twelve million US business co-owners. Practically all of them want to successfully exit from their businesses one day, and practically all of them will find that their path to exiting successfully requires aligning their exit plans with those of their co-owners. This is where the challenge begins.

Put two or more business co-owners together, and it is virtually inevitable that they will have different exit goals. For example, one co-owner wants to exit sooner; another wants to exit later. One wants to sell the business; another wants to pass it down to his or her children. One needs more money at exit to be happy; another needs less. One wants a quick exit; another wants to stay with the company for longer. Sometimes the different exit goals are only partially or marginally conflicting. In many situations, however, the co-owners' different exit goals are incompatible, meaning the pursuit and fulfillment of one co-owner's goals will undermine or block another co-owner from achieving his goals.

Exit-goal incompatibility is the natural byproduct of the inescapable human differences among co-owners. Some co-owners are younger, some older. Some have smaller families; some have bigger families. Some spend less money; some spend more. These differences often present no issues during the years the co-owners are working side by side with the common goal of growing their business. At exit, however, the co-owners may find themselves pulling in opposite directions, unsure of how this predicament came to be and clueless as to what to do about it.

The purpose of this book is to help co-owners achieve successful exits to benefit not only themselves, but also each other, their families, their business, and their employees and customers. Helping co-owners achieve successful exits may be the most important and least addressed issue affecting baby-boomer business owners. In my more than twenty-five years working with owners of small to medium, privately held companies, I have witnessed countless co-owners struggle to understand why their goals at exit are in conflict. If left unaddressed, goal incompatibility at a minimum causes stress, strained relationships, stunted business growth, increased risk, and more expensive and difficult exits. At its worst, exit-goal incompatibility can lead to broken relationships, millions in lost business value, legal confrontations, and outright failed exits.

Business co-owners commonly face some degree of goal incompatibility at exit, yet the issue is not widely recognized. Many co-owners do not discuss exit as a topic until late in their career, and thus are unaware that they have incompatible goals. Once co-owners finally realize that they face goal incompatibility, co-owners often put off dealing with these issues for fear of damaging their relationship with one another. Also, this is not a topic co-owners readily admit

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<sup>1</sup> CMI. *Business Owners Exit Readiness Market Research Survey*. 2009. White Horse Advisors, Atlanta.

to outsiders. Few co-owners would want their customers, employees, competitors, or peers to know these internal challenges are occurring. Finally, exit often seems far enough in the future, and the company has enough immediate needs, that co-owners often (wrongly) conclude that dealing with their exit incompatibilities can wait for another day without causing harm.

Business owners and co-owners often wait too long to develop their exit plans. Stephen Covey, author of *The 7 Habits of Highly Effective People*, shared that those who “begin with the end in mind” are typically more successful than those who do not. Likewise, co-owners should also keep their exit strategies in mind, even from the beginning. There are two primary reasons to start working now on your exit plans. First, there is no way to know if the decisions you make today will lead to exit success or shortfall if you do have clearly defined exit goals. As this book attempts to show, many business decisions made in the present time seem to be sound and proper, but when exit draws near, those decisions hinder or undermine successful exits. Second, many of the legal, tax, financial, and other tactics and tools to help co-owners exit successfully take years to implement and reach full effectiveness. The less lead time co-owners allot themselves to prepare for exit, the harder things become because they have fewer options and less flexibility. If you or your co-owners have five years or less remaining until a desired exit, you have reached crunch time.

This book tells the story of Al Beaman and Robert Gilmore, co-owners of Ark Technology Solutions Inc. After seventeen years side by side building a business together, they come to realize that their exit goals are incompatible and lack an easy solution. It’s a fable that deals with a critical issue—how can one owner happily exit when achieving his goals means denying a successful exit to the other? While Al and Robert are characters of fiction, their story is all too common. It is my hope that through their story, you will gain an understanding of what you and your co-owners may face and how to address it. As author and speaker Brené Brown said in her popular TED Talk entitled “The Power of Vulnerability,” “Stories are just data with a soul.”

Following “The Fable,” you will find “The Guide to Creating Co-Owner Exit Alignment.” The Guide explores the challenges business co-owners face at exit, explains why exit-goal incompatibility occurs, and lays out a step-by-step course of action for co-owners to achieve alignment. Note that alignment does not mean matching or identical goals. Co-owners can and usually will have different exit goals and plans. Alignment means the co-owners’ individual goals are calibrated to be in sync, such that one co-owner’s goals will not interfere with or undermine another co-owner’s exit success. The book is structured so that should the reader need quick answers and help, you may skip directly to the Guide. For most readers, however, let the Guide be your reference material to consult after you have taken the journey with Al and Robert.

Exit is inevitable. Even if you prefer to work until your health or life is exhausted, every business owner must address how his or her exit impacts family, co-owners, employees, customers, and the business itself. Your future deserves your present attention; if you are like most business owners, you have worked too hard and accomplished too much to surrender control over the eventual outcome. **Every business owner needs an exit plan.**

Yet business co-owners have to go one step further. They must consider and create exit plans that provide for not only their success, but also enable others to enjoy exit success too. Planning

ahead not only gives you the opportunity to one day dance in the end zone, it also creates the chance for your co-owners to share the dance with you.

—Patrick Ungashick  
*Atlanta, Georgia*

# The Fable

# Week 1

*Monday, about 5:00 p.m., at the offices of Ark Technology Solutions Inc.*

Al sat at his desk, absently turning over in his hands a small wooden ark, wondering what had gone wrong. His daughters had given him the model ship on the first Father's Day after starting up this company. That had been seventeen years ago. Al usually felt that the last seventeen years of co-owning and leading this business with his partner Robert were the best years of his career. On days like today, however, he wondered if their relationship's good years were mostly behind them.

It was not uncommon for Robert to disagree with Al on a business issue. Al knew that one of the reasons the two of them had worked well together for as long as they had was because they were different people with different points of view. Their differences more often than not complemented one another and made their company stronger. Recently, however, the different points of view seemed to be growing—so much so that Al sensed he and Robert were no longer on the same page. Worse, for reasons Al could not pin down, it seemed that they were not trying as hard as they once did to make business decisions together.

A smile crossed Al's face as he remembered how they used to make important business decisions when they first started Ark Technology Solutions. Their company was founded in the den of Al's 1950s brick ranch in Marietta, Georgia, an architectural style that Robert teasingly referred to as "brick double-wide." Back then, the business co-owners developed a routine for making important business decisions. They would meet in the den and lock the door, not leaving until the matter at hand was resolved. Their self-imposed confinement was more symbolic than substance. They could unlock the door and let themselves out at any time, and the old door's handle was so loose that it popped open whenever the house's air-conditioning system kicked on (which during Georgia summers meant all the time). Not to mention the fact that in the beginning they had no employees other than themselves, so it was unclear exactly who they were locking out of the room. That was a long time ago, so long that there were three owners of Ark Technology Solutions at the time. With a heavy frown, Al grew angry with himself for remembering that part of the story. He immediately refocused on the day's events, the fond memory pushed from his mind.

Reflecting on how they used to work together made Al feel even wearier than he already felt after the discussion earlier that day. Al could not understand why he and Robert seemed to be at odds more frequently as of late. Today was a perfect example. Al, Robert, and Dan Alvarez had been talking about a new salesperson Dan was potentially hiring to the sales team. During their conversation, Dan mentioned Al's idea about cutting the commission rates for their salespeople on project-related work. Robert immediately objected to this idea. Al could understand why Robert might have some concerns. After all, with Dan in the room, Al had not been able to explain to Robert all the reasons for making this change. What had surprised him was how strongly Robert protested against the idea, going so far as to become visibly agitated. That, to Al, made little sense. Sales was not part of Robert's responsibilities; he headed up operations.

Al needed to get with Robert, in private, and explain why he was going to make this change. Their company needed less project work and more new customers for its core business, ongoing IT support services. They had created Ark to provide small businesses with high quality, continuous technology service solutions. The project-related work that they increasingly found themselves doing brought in cash, but it consumed precious resources. Worse, most projects were done within a few weeks or months. Their company needed revenue streams that lasted years.

Al was used to his younger partner wearing his emotions on his sleeve. That's one reason why employees liked Robert—he was passionate, as well as honest and friendly. In turn, when Robert was bothered or upset, it was not difficult to know how he felt. Even so, Al could not fathom why Robert became so unusually worked up today.

Al's intention to think about this issue further, to figure out why he and his partner were not on the same page, was interrupted by the chirping of his phone. Al put the wooden ark down, slid on his reading glasses, and picked up his phone. The small LCD screen flashed, "You're on—5:30!" The message lifted his mood. His retired neighbor Tom Higgins was accepting an offer to play a quick round of nine holes at their club before Al would be due home for dinner. Quickly grabbing his phone and briefcase, Al made for the door. There was time enough to figure out this issue with Robert, he told himself. Besides, business was booming. Customers were spending money. Profits were up. Employees were happy. It was a beautiful Southern spring day. At ten minutes past five p.m., Al made for his car in his reserved space in the employee parking lot, thinking that if he hurried he might be able to get in a few practice putts before teeing off.

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Robert sat at his desk, worried that an hour would not be enough time to return all of the e-mails and calls he needed to get to and still get out the door by six p.m. to make his youngest son's soccer game. He had missed the last several games. His son never said anything, but missing games bothered Robert and he knew it bothered his son. It was one thing if Robert missed a game because he was traveling, but today he was not on the road, so he didn't have any excuses.

As Robert opened up his e-mail inbox, his eyes caught a picture hanging on the wall over his computer screen. In the picture, Al and Robert stood with two other people, the foursome posing for the ubiquitous golf pre-tee-off lineup photo. Robert clearly remembered that day. It was about five years ago at East Lake, one of Atlanta's finest golf courses. The two people in the photo accompanying them were John Goodson and Betsy Cunningham, executives from Asperon Inc., one of Ark's largest customers then and now. Seeing the picture triggered something in Robert, and he paused before proceeding with his e-mails.

He had spoken to Betsy just last week about a potential new expansion project for Asperon Inc., which could be a six-figure engagement for Ark this year. Why would Al want to reduce the commissions they paid to their salespeople now, when projects like this were out there? It made no sense to him. After being partners with Al for seventeen years, Robert felt like he knew the man pretty well. Al was never one to shy away from chasing down work for their company.

If Robert remembered correctly, about five years ago Al helped sell to Asperon one of the first big projects Ark had ever done. Asperon's newest project would likely generate higher profit margins than the traditional service side of their business. To Robert, cutting commissions to salespeople was the same as saying, "We don't want this type of business." Although it made no sense to Robert, Al's actions were not completely out of character as of late. Robert found himself getting surprised more and more frequently by his older partner. Still fixated on the picture, Robert realized that he could not remember the last time Al participated in a meeting with Asperon, or even spoke to them. The realization stood out for him. It was not that long ago that Al would never have missed an opportunity to be in the room with a large customer.

Now completely forgetting about pending e-mails and phone messages, Robert leaned back into his desk chair, bothered by this line of thinking. He felt, for the first time, that he and Al were not on the same page. Worse, Robert could see that he and his partner never "locked the door" anymore, as they used to do in Al's den to talk through tough issues and make decisions. Al's den—how long had it been since he had thought of that shabby old room? Picturing its chocolate-brown laminated walls, slightly less-brown carpeting, and creaking, maroon, vinyl furniture made him cringe. Those were the old days, but not necessarily the good days. They had K. to thank for that. All these years later and Al still preferred to not even think the other man's full name, much less say it.

Robert surprised himself. He had not thought about K. in a long time. Robert felt his face flush with anger. Fighting off a negative mood, he pushed the memory away. Their company had come a long way since then, mostly for the better. Robert wanted to focus on today, not the past. So how had he and Al gotten off course?

As Robert contemplated this, a repeating buzz in his pocket brought him back into the present. He pulled out his cell phone. Its screen indicated 5:10 p.m. Frustrated with himself, he let the incoming call go to voice mail. He had other calls to address first. He would figure out later what was wrong with Al. Besides, business was booming. Customers were spending money. Profits were up. Employees were happy. Robert needed to return at least some of these e-mails and calls before rushing out the door. He would not miss tonight's soccer game.