ROBBINEX®

EXECU-BRIEF®

## Generation Gaps

BY: DOUG ROBBINS

LinkedIn Twitter Facebook Email

Generation gaps between the seller and purchaser of a business can often result in challenges for both parties after the sale of a business. The general trend of people seeking to buy businesses are in the age range of 35-45, while individuals planning to sell their businesses tend to be between the ages of 55-65. The mean age difference of 20-25 years results in differences in opinion over methods of operating the business generates anxiety, frustrations and significant personal stress. To avoid this outcome, it is strongly recommended that sellers opt for a short-term employment contract with the purchaser. If things go well, the employment contract can always be extended.

Remaining in the business as an employee may be necessary when 'institutional memory' is at risk of being lost. Transferring the knowledge and experience that the owner has accumulated over his or her career will assist the buyer. The failure to successfully transfer institutional memory can result in the new business owner struggling or possibly failing. For example, several years ago a young lady purchased a florist shop. During her seventh year owning the business she was confronted with an unusual challenge and did not possess the knowledge to resolve it. The concern was that Christmas Eve, the busiest day second to Valentine's Day, was on a Sunday, yet Sunday retail closings were enforced at that time. The question remained whether the large shipments of flowers had to be delivered on the Saturday. She contacted the former owners who had operated the family business for 40 years. They were delighted to share their expertise and advised her to operate the shipping area of the store (but keep the retail portion closed) and complete her deliveries the day before Christmas. It was a difficult situation with an easy answer—all she needed to do was ask.

Initiating a long-term employment contract between the seller and the buyer produces two disadvantages. A long-term contract generally requires the seller to be more involved in the operations of the recently transferred business for a lengthier period of time. Because a generation gap does exist between the seller and buyer each party has a different perspective of the world often causing them to function quite opposite to each other. This generation gap is the natural ingredient for a pot full of conflict. The seller will naturally continue performing the functions of the business in exactly the same method he is accustomed to regardless of the world changing rapidly around him or her. In contrast, the buyer from the younger generation is more conscious of how the current world is operating and has less difficulty adapting to change. This concern not only places a great deal of stress on the seller in determining whether to remain an employee, but also on the buyer. One example of this conflict occurred a number of years ago when two brothers who owned a printing business wanted to sell, yet still remain gainfully employed in the business.

The buyers, two lifetime friends, were very enthusiastic about retaining the expertise of the sellers because they believed that the combination of their own expertise (one was a printer, the other a Chartered Accountant) with the sellers' lifetime experience would create a very positive outcome for the business. They signed a five-year employment contract. The age difference between the sellers and buyers was 24 years on average. Consequently, the sellers were unable to adapt to the new procedures the buyers wanted to initiate and remained stringent with how they conducted their tasks, which was obviously unacceptable to the purchasers. The significant amount of frustration, anxiety and personal stress that was created between all four parties resulted in an overall lack of enthusiasm about going into work. After six months an end to the employment contract with the brothers was negotiated.

Generally, the object for both the seller and buyer should be to negotiate a short-term contract and avoid being restrained by a long-term contract. When an individual is exiting a business, it entails a change in life. It's an opportunity to experience the freedom of doing things you did not have the time to do or it may even involve starting a new career.

It is our recommendation for sellers to consider a short-term employment contract with a consulting provision. Compensation for each employment contract varies. Sometimes compensation is included in the purchase price of the business; other times it can be established at an hourly, weekly, monthly or annual rate. One compensation program often recommended is where the owner is paid a fixed amount that is divided equally over a period of five years and requires the seller to work full-time for 3 months, part-time for 3 months and be available occasionally for the balance of five years.

This arrangement allows buyers sufficient opportunity to learn the important details of the business such as meeting with the major customers and suppliers and familiarizing oneself with the employees. Finally, a short-term employment contract provides the buyer with an ongoing, knowledge-based resource that will assist only when needed and provide the buyer with the opportunity to effectively manage his or her own business at a relatively early stage with little frustration or stress.

 *Doug Robbins is President of Robbinex Inc. a company specializing in the sale of mid-sized privately held businesses.*



ROBBINEX®
Est. 1974

**Phone/Email**
905.523.7510 or 1.888.ROBBINEX
robbinex@robbinex.com

**Website**
www.robbinex.com