DEALER EXIT PLANNING ASSOCIATES
PROTECTING FAMILY, BUSINESS & OWNERSHIP

# Incentivizing Your Best Employees to Stay


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When thinking about business planning, one aspect you may be tempted to overlook is the contributions of your key employees. Key employees are the lifeblood of well-run businesses, and they play an important role when owners begin to plan for their businesses' futures, especially when owners begin to plan for their inevitable business exits. Many owners find that unless they have ways to incentivize key employees to stay with the business—rather than taking their talents elsewhere for more money or recognition—they cannot properly plan for their business' futures. Consider the story of Jacqui Dickson, a key employee with Balthazar's Ink Emporium.

*Jacqui Dickson was a top performer at Balthazar's Ink Emporium, a specialty ink supplier for large publishing companies. She always exceeded her sales goals and happily took on other responsibilities outside of her comfort zone. She helped manage marketing designs, public relations inquiries, and occasionally trained new hires. Among all of her responsibilities, Jacqui typically worked 55 hours a week and was responsible for about 35% of the company's new sales year after year.*

*But Jacqui was getting restless. She felt as though she had hit a wall in her career development and was frustrated that she hadn't received a substantial raise in over five years, despite constantly taking on more responsibilities. Ever the diligent worker, she kept her head down and continued to produce, confident that her work wouldn't go unnoticed.*

*One day, the owner of the company, Balthazar Ek, requested a meeting with Jacqui. They had spoken a few times casually over the last 10 years, but Balthazar had asked for an hour of her time. For a man so rarely seen sitting still, an hourlong meeting was practically an eternity.*

*In the meeting, Balthazar revealed that he would be transferring his company to his two sons. He told her that because the company had well-tested and documented processes, they wouldn't need to do very much to keep the company running. He intended to give each son 45% of the business, and because of all her hard work, he wanted to offer Jacqui the remaining 10% to make sure the business continued to run smoothly.*

*“This business is worth at least $10 million,” he told her. “That means $1 million for you.”*

*Jacqui was stunned and terrified. She had no idea how to run a business. More importantly, she had no desire for ownership.*

*“Sir, that is a generous offer, but I can’t. Owning a business isn’t for me.”*

*Balthazar was unaccustomed to hearing “No” from anyone. “How can you say no to $1 million?” he asked.*

*“Believe me, it’s not easy,” she replied. “I’ll gladly take a fraction of that as a pay increase, but I can’t accept ownership. It’s not what I want.”*

*“You’re a fool!” Balthazar exclaimed. “Sleep on it. I will offer you this opportunity one more time at the end of the month.”*

*Jacqui left the meeting startled and insulted. As nice as $1 million sounded, she knew that that value wasn’t liquid. She couldn’t buy a new car with it or get a better apartment. She knew she couldn’t sell her share without Balthazar’s sons’ approval. And even if they gave her that approval, she had no desire to work through that process. She’d be at the mercy of decisions made by the two sons, whom she hardly knew. And there must be other landmines that she didn’t even know about.*

*She immediately began a job search and quickly found a job that offered to double her salary. She accepted the position and, ever the diligent employee, decided to share her decision with Balthazar face to face.*

*“I assume you accept my offer?” Balthazar asked when they met.*

*“No, sir,” Jacqui said. “I’ve decided to resign. I do not want ownership, and I will not tolerate being called a fool for that.”*

*“I was only teasing!” Balthazar pleaded. “Who says no to $1 million?”*

*“I’m not saying no to $1 million. I’m saying no to your offer.”*

*Jacqui left Balthazar’s Ink Emporium and had immediate success at her new position. After she left, Balthazar learned a harsh lesson in how much Jacqui did for his company. Quarterly cash flow plummeted 30%. His sons—each of whom now owned 45% of the business—proved that Balthazar’s processes weren’t as foolproof as he had assumed. They made expensive mistakes.*

*As cash flow fell, so too did Balthazar’s income. He begged his sons to let him run the business for them, but they had decided to sell it to a third party for $2 million ($1 million for each of them, while they had paid nothing for their ownership when Balthazar gifted ownership to them) instead, after growing weary of hearing their father’s complaints about how they ran the business.*

Balthazar incorrectly assumed that Jacqui would immediately agree to the incentive plan he had conceived because to him, it was $1 million. He failed to realize that “incentive” to him was nothing more than a reason to leave for Jacqui. He didn’t properly incentivize Jacqui and thus lost her. Losing her meant losing business value and cash flow, which eventually turned into net losses of $5 million.

If properly incentivizing your key employees is important to you, or if you'd like to discuss how you can blend key-employee planning into your overall planning for your business' future, please contact us today.

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