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Reducing Risks in Risky Businesses



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Founding a business is inherently risky. Fortunately, even the riskiest businesses have opportunities to reduce their risks and protect their interests with proper and early planning. Let's look at a fictional but representative story of how an extremely risky business survived an unexpected accident.

A Precipitous Fall

Harold "The Hummingbird" Wasserman founded his stunt-pilot training company at the tender age of 18. Over 20 years, it had grown to a regional powerhouse that attracted several well-known trainers. It was also where he met his wife, whom he married two months earlier. Everything was looking up for Harold.

Then, on an unusually cold day, a solo routine Harold was testing went awry. A buildup of ice on the plane's wing caused Harold to lose control of the plane. The crash killed him instantly.

Harold's wife, Jessica, quickly learned two things: She was slated to inherit the business, and she was pregnant.

Clear of the Runway

Though Harold loved the thrill of being a stunt pilot, he hated taking financial risks. Throughout his career, he worked with an Advisor Team to hedge against the risks his career presented.

With help from his advisors, Harold had invested his company profits and was about 75% to his financial goals before he got married.

He also carried several life and disability insurance policies to protect himself, his company, and Jessica. He often urged his less death-defying business owner friends to do the same, telling them that not doing so was worse than flying blind.

And the trainers Harold had hired made his business a well-oiled machine on the operations side. They loved Harold's leadership and work ethic, and they were well compensated for the risky work they did every day.

The biggest weakness Harold's business had was that he made all final decisions. Jessica had no experience running the business, nor did she want to run it, which made the idea of inheriting it terrifying to her.

Fortunately, aware of the risks he was taking every day, Harold had installed a set of business continuity instructions for Jessica and his Advisor Team to follow if anything should ever happen to him.

Flying High Again

The most important step Harold's business needed to take without him was installing a management team that could keep the business running as a cohesive unit.

The first step from his business continuity instructions was to lock down his trainers. His instructions encouraged his Advisor Team to install Jessica as an interim CEO and give her the authority to offer her trainers salary increases and vesting benefits to stay with the company.

Most of the trainers accepted the offer. This made the business more attractive to potential buyers because almost everything that allowed the company to run well was still in place.

Next, the Advisor Team began to search for a qualified buyer. As a condition of the sale, the buyer needed to commit to honoring the contracts that the trainers had signed with Jessica. Within six months, the Advisor Team had found a buyer who fulfilled all of the needs that Harold's business continuity instructions required.

Finally, upon the sale of the business, Harold instructed his Advisor Team to help Jessica invest, manage, and track the money she'd be receiving to allow her—and the child he never knew they had together—to live the lives they wanted.

With the funds from the sale, along with Harold's investments and life insurance, Harold had positioned Jessica and his child to achieve financial independence while protecting the business he had built over two decades.

We strive to help business owners identify and prioritize their objectives with respect to their businesses, their employees, and their families. If you have questions on this topic, we can help with more information or a referral to another experienced professional.

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