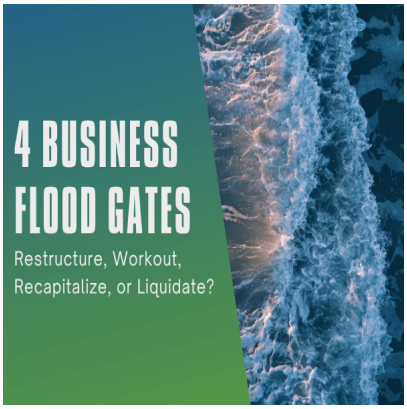

The Four Gates Every Distressed Business Owner Faces

Description

By Ken Yager, Newpoint Advisors

“I might have to shut down.” “We may have to file for bankruptcy.” Most owners in trouble say it like it’s one decision, made once, at the edge of a cliff. It isn’t.

Trouble in a business behaves more like a river: it starts calm, it picks up speed, and along the way it carries you toward one of four flood gates. The current is slow and easy to stand in at the first gate, and it moves faster and harder to control at each one after that, until the last gate, where there’s no current left to ride, only a drop. Which gate you go through, and how much say you have when you get there, comes down to one thing: how early you recognize you’re already moving.

Gate One: Restructure

This is the widest gate, and the water here is still slow enough to stand in. The business has enough left (cash flow, market position, a workable cost structure) that the fix is operational: renegotiate terms, cut what isn’t earning, tighten how the company runs. The opportunity is real. An owner who is fully focused on the business can usually turn a restructuring into a durable fix. The catch is that it asks something of the owner personally: a willingness to change the habits and decisions that got the business here in the first place. Many owners find that harder than the balance-sheet work.

Gate Two: Workout / Monitor

The current picks up. Here, the business still has good assets, but the debt has outgrown what normal operations can service. A workout, negotiated with lenders and monitored over time, buys room to stabilize without giving up the company. The opportunity is the asset base itself. The risk is that a workout usually comes with a higher cost of debt while it runs, so the plan has to work faster than the water is moving.

Gate Three: Recapitalize

Now the channel narrows and the drop steepens. By the time recapitalization is the live option, the business typically needs outside capital to fund volume or pay down what it owes, money it can no longer generate fast enough on its own. That capital brings real opportunity to grow again. It also brings a real cost: new capital almost always means new control. On a good day, the owner keeps a minority stake (49% is typically the ceiling, not the floor), alongside a board seat, covenants, and a partner with a vote. On a harder day, giving up all or nearly all of the shares isn't the exception, it's a frequent outcome. It can save the business. It rarely leaves the owner running it exactly as before.

Gate Four: Liquidate

This is the bottom of the falls, and there is no current to ride out of it, only through it. By the time liquidation is the remaining option, there is no growth opportunity left to weigh against the risk. What's left is winding the business down and settling what's owed, often including personal guarantees. It is the hardest gate, and it is also the one owners fear from the very beginning, long before they know which gate they'll actually reach.

That fear is the real reason so many owners wait. The questions we hear most from owners in trouble aren't about strategy. They're personal: Will I be fired? Will they take my house? Is it too late to do anything but liquidate? Those are fair questions, and they deserve honest answers early, not guesses made under pressure later.

The single biggest factor in which gate you go through is timing. Every gate before Liquidate stays open longer than most owners think, but only if the current hasn't already made the choice for you. At Newpoint, we use a diagnostic called TAME to score exactly where a business sits in that river today, before the water decides for you. If you're not sure which gate you're approaching, that's a conversation worth having now, not after the current picks up.

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