

Elizabeth Mower:

And I try to explain to people, when we're on the road or teaching programs, that exit planning to us is not quite so much about the exit as it is about the planning. So we put a heavy emphasis on planning and kind of a light emphasis on exit. Hello, this is Elizabeth Mower, president of BEI.

John Brown:

And I'm John Brown, the founder BEI.

Elizabeth Mower:

Each episode, we take you into the world of exit planning, sharing the stories, struggles, and opportunities of business owners and their advisors. We'll get into this episode's conversation right after this game.

Jared Johnson:

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Elizabeth Mower:

Every podcast episode, we try to talk about the scenarios and situations that business owners and their advisors find themselves in that are interesting and complicated and challenging in terms of planning for the future. So I am told by our team that John Brown has brought a surprise topic for today, so I do not know what it is. Let's find out. John, what do you want to talk about?

John Brown:

Thank you, Elizabeth. Despite the fact that we spend hundreds of hours preparing for each podcast, occasionally it might be nice to have sort of a surprise topic. So here's my topic for Elizabeth and I to discuss today. I think maybe we should change the name of exit planning and not call what we do exit planning. What do you think of that?

Elizabeth Mower:

Well, you'd have to give me an alternative. I can think of a few, but tell me what you're thinking.

John Brown:

So here's why I think maybe exit planning is a little misleading to some, especially advisors. And it's this. They have a tendency, and our surveys, bear this out to some extent, about 25% of the owners in the business owner surveys we take, tell us that when they're ready to leave the business, they'll start to exit plan. "When I'm ready to exit, I'll do planning."

John Brown:

And so the term exit planning could mean the plan for the actual transition process. "I'm going to sell to a third party. I hire an investment banker, now I'm going to exit plan." That's the exit planning process. It

begins there. Or, "I've to start transferring the business to my family, so I better go hire a lawyer and a CPA to help me exit plan that transfer." But that's very misleading, or that's how it can be misleading. We might want to change the name to pre-exit planning.

Elizabeth Mower:

Prexit.

John Brown:

Prexit. That's right. And there's Brexit and now there's Prexit.

Elizabeth Mower:

Right.

John Brown:

I hadn't thought of that. That's actually pretty clever.

Elizabeth Mower:

Yeah. Thank you.

John Brown:

You're welcome.

Elizabeth Mower:

Uh-huh (affirmative). What do you think a business owner would believe if they heard-

John Brown:

Prexit?

Elizabeth Mower:

No, they would not be impressed by it, I don't think. But if someone said to them, "I specialize in helping business owners with pre-exit planning," what would that-

John Brown:

Well, then you'd have to explain it. But it would lead, perhaps, to that conversation. Or the alternative is to explain very clearly what exit planning is through a conversation an advisor might have with an owner, a conversation owners might have this conversation if they're listening in. Some of the materials that business advisors use to explain exit planning to their clients should be very clear that most of exit planning is done and completed before they actually go to market or before they actually start to transfer assets. So that was my thinking. Maybe we should call it something different

Elizabeth Mower:

I try to explain to people when we're on the road, or teaching programs, that exit planning to us is not quite so much about the exit as it is about the planning. So we put a heavy emphasis on planning and kind of a light emphasis on exit, the concepts that we've talked about that include, we don't care how

the business owner wants to exit, we just want to help that be successful. We don't care where they want their ownership interest to go, we just want to help make that work and have a good outcome.

Elizabeth Mower:

So we talk quite a lot about the idea that exit planning is really the planning and the preparedness. We've talked about that before, that preparedness for an exit is really kind of a different thing than the exit itself. I could nominate that we change it to exit preparedness because that might have a different sense about it. We could also call it future planning because owners who want to plan for a successful future may understand that better. But if I think about it we call it, we call it retirement planning, although you shouldn't do it when you're ready to retire.

John Brown:

Right.

Elizabeth Mower:

And there are probably a number of other things that are similarly sort of named where we might not put the emphasis on the first word. But why is retirement planning something that everyone thinks that if they have their act together, they're doing it by the time they're 30 ... Of course, not everybody is then either, are they? But an exit planning is something that I don't need to do. I'm not sure where the ... Maybe it's not the name. Maybe it's just that people don't want to have to think about separating from their business and what that might be like. I do see that quite a lot.

John Brown:

Yeah, that could be the case. And the other situation is if it's a third party sale, we're going to do the preparation to exit, building value, changing the role of the owner, bringing in strong management, looking at all the Valerie drivers. And then once that's pretty much completed, then we go to market. So it's planning up to here, stop, full stop, exit. I suppose business continuity would be the same way. We plan to get everything ready to go so that if we die, suddenly that's the exit.

John Brown:

But the other thing to look at is that most of the transfers our members do are really transfers to their children or to the management team. And we often start the actual transition of ownership earlier on. And so it's planning. It's starting to transfer ownership. It's continuing to plan, adjust and then ultimately there's a liquidity events. But there might be a period of three to seven or eight years where we're transitioning ownership as we're planning. So I don't even know what to call that.

Elizabeth Mower:

Yeah, probably transition planning. But again, I think it wouldn't be that likely ... It wouldn't be that likely that an owner would necessarily sign up to do transition planning before they're ready to transition. But I do think it gives a kind of a sense of a more gradual ownership shift over time. And I think, ultimately, what we have seen ... And some of our surveys, I think, show this to be true, that the awareness of exit planning as even an activity or an endeavor that can be done, the awareness of it is really growing among business owners. I sense that maybe 20 years ago, 25 years ago, awareness was very low and that business owners really didn't know. They probably thought they could sell their business or they could shut it down.

Elizabeth Mower:

And professional advisors pretty much thought the same. A little bit of gifting from one generation to the next, and not really thinking of that as an exit because they're intrafamily generational transfers. So not thinking of that as an exit. And now, we are able to say, "Okay, exit planning is really a pretty broad spectrum activity." And it is a series of things, analysis, evaluation, solution development, and then implementation that all lead to the ultimate exit of a current owner. And that can be so many different things.

Elizabeth Mower:

So I think the wording is always going to be a little bit of a challenge because there really isn't a term that includes all of the different things that our advisors are doing in their planning. So a BEI advisor is likely to plan for a sale to the management team, and also the next client gifting or some other kind of method of transfer to family members, and the next client, a third party sale, and the next client sale to private equity. And the last client has said, "I'm going to keep my ownership in the business forever. I'm staying here until I die. I want an office until I die. I don't plan to go anywhere." And that requires planning too. So we're seeing all of these clients across the board. I don't know if there is a word for it that would explain all of that.

John Brown:

Maybe there doesn't need to be a word, but there needs to be ... Whatever you choose to call it, if you're an advisor listening in, if you want to call it transition planning, succession planning, exit planning, it's important to explain to whoever's listening what that means. Because it's also going to mean different things to who's ever hearing it. So succession planning to me, for example, is usually used by business continuity planning, when someone dies or becomes disabled. That's usually what's called succession planning.

Elizabeth Mower:

There's a successor. Right.

John Brown:

But it wouldn't have to be.

Elizabeth Mower:

No, it doesn't have to.

John Brown:

And it could be, "My children are going to start to take over the business. They're succeeding me in the business." And the same with transition planning. The same with exit planning. So the real key is to explain what your planning process is. When should it start? What does it consist of? Who's going to be involved? And so on. We just need to elaborate more on it. And some people just say, "Oh, I'm an exit planner." Well, what in the heck does that mean?

Elizabeth Mower:

Right. I think to some extent there are people using the exit planning term as a way to start a conversation when they're asked to explain what it is. So, "Oh really? You do exit planning, what is

that?" And then the person who's sort of active in that field can say, "Well, I really help my business clients plan for every aspect of the future of their ownership, all the way up to, including, and usually beyond their exit from the business." Because most of the advisors you and I know are involved in every phase including the post ownership phase. Right?

John Brown:

The people, the advisors we've trained, that's true. But there are a lot of advisors out there that say, "Oh, I do exit planning. Well, I'm a CPA and I do some tax planning when someone wants to exit. I'm a life insurance advisor and I fund buy-sell agreements and help design buy-sell agreements." My guess is most advisors who have a core practice, exit planning, they do, but it's only within the confining boundaries of their profession. Whereas exit planning the way our members do it and the people we train do it, it encompasses everything, all of the advisors, as needed. So it's a very different process. It can be a much more comprehensive process than an advisor in a profession professing to do exit planning.

Elizabeth Mower:

Sure, and it's up to the clients. I think if you're a business owner and you're listening today, it is sort of incumbent upon you to ask the followup questions if someone says that they do exit planning. We certainly encourage you to work with your most trusted advisors. Find out whether they support an exit planning process. Are they able to lead an exit planning process? And if they say that they are, ask them what that looks like.

Elizabeth Mower:

I was just thinking as you were talking about how if someone came around to my house and offered me their lawn care services, I wouldn't necessarily just say, "Okay." I might want to ask, "What does that include? What do you do? What do you not do?" Because there's things that I think are important and there's things that I'm hoping to get done from the lawn service that I hire. So probably every service professional really does need to be able to articulate and pretty quickly and efficiently, what do I do and what do I not do? So they might need to say, "I lead a team of advisors that comes up with solutions and strategies and tactics that are actionable, that help you move towards a successful future and move through time to get a successful outcome for yourself, your ownership in the company, your family, your employees."

Elizabeth Mower:

So everybody's going to have something a little bit different. But I would really encourage business owners to ask the difficult question, what does exit planning mean to you, advisor, to you advisor, who I'm speaking with, who I've worked with for 30 years. Tell me what you would do if you were to help me plan for the future. And then to new advisors that they're speaking to. And if you're an advisor, I'd encourage you to describe, be able to describe very quickly and easily what it is that you do and how it's different from maybe what somebody might assume.

John Brown:

Yeah. So does this mean we don't have to change all of our literature from exit planning to pre-exit planning?

Elizabeth Mower:

Well, I'm certainly hoping that we don't have to change our website because it's a good domain, [exitplanning.com](http://exitplanning.com), and I really like it. And these days if you need a new domain, it has to be a thousand letters long in order to get something that's not taken. So why don't we go ahead and keep our website and our terminology and continue to do podcasts and articles and speaking events in which we really talk more about exit planning and what it means to us.

Elizabeth Mower:

I do tell a lot of advisors with whom we work that BEI-style planning is a very particular kind of planning, that it's extremely comprehensive and very thorough, that it's collaborative, and the advisors that use our process sort of have embraced that. So BEI-style planning is a type of exit planning that we suggest advisors use and that business owners go through. But ultimately, it's really up to the business owner client. What do they want to plan for and how broad do they want that work to be? And let's let them make the choice. Right?

John Brown:

Right. Because if they don't want something as comprehensive as it could be, our process allows itself to be segmented once we know what the goals and the resources are of the owner. They may only want to address one part of that planning process, which might be to build value or to protect against death or to protect against a key employee leaving and competing. We can start slowly or we can be comprehensive from the get-go.

Elizabeth Mower:

Agreed. Because each of those things you named are sort of building blocks that move us towards a more stable and more successful exit. So even if we do one thing a year for the next six years to get ourselves ready, that's okay.

John Brown:

That works.

Elizabeth Mower:

If that's what the business owner wants to do, I think that's what we should do. Well, thanks. This is an interesting discussion. I'm hoping that people will reach out to our podcast and let us know what kind of exit planning they're doing, and if you're a business owner, what exit planning means to you. This is why we plan. Why we plan is that we need to address the specific needs of the clients and address their interests and what they think planning for the future means. So I appreciate you being here today. Thanks everybody for listening. We'll see you next time.

John Brown:

Thank you very much.

Elizabeth Mower:

Thanks for listening. Join us for our next episode. For more content like this, please visit [exitplanning.com](http://exitplanning.com).