

John Brown:

Our three employees all quit and they opened up a shop about a mile away from our shop and would you know, a bunch of our customers went with them. Some of our employees went with them and we don't even know if can keep the doors open.

Elizabeth Mower:

Hello, this is Elizabeth Mower, president of BEI.

John Brown:

And I'm John Brown, the founder of 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.

Jared Johnson:

Gain the insight and knowledge that thousands of business owners and their advisors have used to plan for the future. The BEI membership equips you with the proven process that enables owners to exit their business on their terms, receive access to case studies, podcasts like the one you're listening to now, a resource toolkit, and so much more. Submit your position as the trusted advisor to your most successful clients. Get started today by visiting exitplanning.com/membership. That's exitplanning.com/membership.

Elizabeth Mower:

We're here today to talk about some of the issues that are common to working with business owners. If you are a business owner, you'll probably recognize yourself in some of the stories that we tell and they all have kind of a common theme. I'm just going to go ahead and get started. John, you were out of town, but I was on a video call with a group of professional advisors from the BEI advisor community yesterday and in that call, one of the advisors was talking about a business client who they've done a little bit of work for over the years, have known for a very long time. He called it, I get along well with them, the sort of, I'm friendly. I maybe see them around town at other events and I know them and we get along very well. It's kind of the way this advisor described it and he said, "I've got a concern".

Elizabeth Mower:

He was asking for advice from the other people on the call and he said, "Here's my concern". It's actually a family business. The father is working in the company. There are two different business active children. So two kids working in the company who are adults. The company does very well. It's pretty successful, but it's kind of a mess on the inside. Nobody knows who's doing what. Nobody knows what's going to happen in the future. And there are other children who don't work in the business and this advisor's big concern. He's really kind of nervous and anxious about this client's situation because if something happens to the father, this advisor has determined by working with the family and looking at their documents that they have in place that things are going to go very, very badly if something happens to the father. And he's really nervous about it for them. He's sort of projecting his anxiety onto

them and saying, "Listen, if something happens to your dad, there are a lot of issues that are currently unresolved. Many things that have never even been discussed."

Elizabeth Mower:

And what he's getting back from the father and from one of the business active children that he talks with is, "Yeah, we do need to do something about that". And yet nothing ever happens. "Well, should we schedule a meeting?" "Well, we're pretty busy right now, maybe next month, maybe next quarter, probably next year we'll be able to do something about that". And this has been going on for a while. So this advisor, because he's got this expertise, he knows that if they don't plan for the future of this business, things are going to be very ugly and very messy. And yet when he approaches them, he feels like maybe he's not doing it right, he doesn't know how to get them to take the first step and he can see things down the road.

Elizabeth Mower:

So he was asking for advice and he got a bunch of advice, which we don't have time for me to share from other advisors about approaches he could take, tax he can sort of go on, questions that he could ask that might sort of jar some movement one way or the other. Ultimately, it's really no problem for him if this business falls apart. It's not his business but he feels sort of an obligation. And I respect that and I think it's a common problem that we see. If you're a business owner listening, you know that you've put things off that you shouldn't have. If you're an advisor and you're listening, you know that you have clients who just don't get to something. So I was reminded of that when I came in to see what story you were going to tell today because I think your story is sort of picks up where that one leaves off and then goes on a little bit into the future and we know what can happen. So why don't you tell the story about the owners that you were working with.

John Brown:

Yeah, because my story has a conclusion to it. Your story is to be continued.

Elizabeth Mower:

Still a question mark. That's right.

John Brown:

We'll see what happens. So my story, I would call, I know I need to plan but just not now, which exactly the same as your scenario.

Elizabeth Mower:

It's a theme.

John Brown:

Actually I had clients, husband, wife, they owned a machine shop, a pretty successful machine shop and I've been doing some estate planning work for them, a little bit of business planning. And one time I was talking to them and really said, because I was doing estate exit planning at that time as well. I said, have you guys given any thought to what the future looks like without your business or what you'd like to have happened to the business? And they said, "Yeah, we have been thinking about this. We've got these three key employees that really run this business. They have expressed an interest in owning the

company if we would ever decide to sell it. And so I think that's what we're going to do". I said, "Okay, well, should we take some actions? Should we sit down and talk about what that means to you? What you need from the business, all the initial questions you're going to ask clients to help establish their goals at the outset of any planning NDAs."

Elizabeth Mower:

Sure.

John Brown:

And they said, "Yeah, we're going to do that, but not right now. Not just now, we're going to wait". So nothing happened. I didn't follow up, which I probably should have done. I'm not sure it would've made a difference, but I should've done that. Six months later, maybe a year later, I see on my appointment calendar that they're coming in to meet with me. I thought, God, they're finally going to do something about this. That's great. So they sit down and I said, "Okay guys, what are we meeting about?" "Well, our three employees all quit and they opened up a shop about a mile away from our shop and would you know, a bunch of our customers went with them. Some of our employees went with them and we don't even know if we can keep the doors open".

John Brown:

And that is just a common theme you and I are going to continue to talk about is the inaction of owners. So for years, I think when I saw this happening, I blamed the owners. Why didn't the owners take action? Why didn't they do something? We've talked to them about this. Why don't they do something about? Well, they don't know what to do in part. They are busy but they're not too busy to not do some planning. It's really incumbent upon the advisor community in my humble opinion, to be more proactive, to encourage the owners, to give them examples, to provide them with information on the necessity of taking action by telling stories like this. Hopefully some owners are listening in, they'll say, "Yeah, we do need to do something." And whether you do it now, let's say you want to do something for your key people, it's much more important to start right now than to wait another year or another two years.

Elizabeth Mower:

What if you wait until they're disgruntled? What if you waited until they're irritated or what if you wait until they're gone?

John Brown:

Or we could do something now that would help motivate them more, and so we'd start helping the business right now, rather than putting it off, shoving it off because we think we're too busy. It's really, I think a desire on the owners perhaps not to make some decisions.

Elizabeth Mower:

And if you know that many business owners don't do anything about planning for the future and someone brings this issue to your attention, you're a business owner. What you might also be able to tell yourself is, well, if I do something about this, if I start planning, if I put something in place, just anything, is there not a great chance that I'm much further ahead than my competitors because my competitors aren't doing it either. Now, if I put planning in place, dealing with my key people, dealing with what's going to happen to the business if something happens to me, just any aspect of planning for

the future of the business, then you're just leaps and bounds ahead of your next competitor. You have a stronger business, a healthier business, a more likely to continue on business, and that's a competitive advantage.

Elizabeth Mower:

So certainly if there's a business owner who is aware of these kinds of issues, I think those who plan are going to end up in a better position than those who don't. And what we know is that lots of business owners don't. I think in our business owner surveys, it's something like, what is it? It's 17% of business owners that we survey have done something about planning for the future.

John Brown:

It's just incredibly small.

Elizabeth Mower:

Which was a huge number compared to older survey. When I first saw that I thought, well, it's growing, it's increasing, this is good. And I thought, wait a minute. I think that means 83% of them aren't doing anything. So a huge number of privately held businesses are just not able to take the first step. But before we go, I think that what we can talk about is that sort of the pendulum has swung back and forth a couple of times in my observation in the last 20 years or so. And there was sort of just ... Advisors kind of staying in their lane doing the thing that they were the best at.

Elizabeth Mower:

That was pretty prevalent when I first started working with business clients and then there was kind of a big push towards what you and I might've called comprehensive planning. If you're going to plan for one thing, you need to do all of it. I was just saying yesterday, it's sort of like me looking at my backyard when I start thinking I need to do one thing with my backyard and then I think, well if I want to do one thing there, I'm probably going to have to move the sprinkler head and if I do that I'm probably going to have to put this other thing in and do this. Next thing I know it's this giant project and I'll give you one guess. What do I end up doing?

John Brown:

Going back in your house and reading a book.

Elizabeth Mower:

Exactly. That's actually true. So I do nothing because it seems too overwhelming. And I think there was a phase in the last 20 years as you and I have been working with other advisors where there was a big push for comprehensive planning and it may or may not have overwhelmed some clients to where they just go back in the house and read a book, go do something else. So now I see the evolution really shifting again and now what we're seeing is, okay, well let's start with something. We'll deal with the fact that there's all of these moving parts that growing business value's important in dealing with your family and your estate plan is important. Dealing with the mechanisms that you use to transfer ownership is important and minimizing taxes is important. Great. That's fine. Why don't we pick one, let's start somewhere. What's the thing that bothers you the most and then why don't we just try to focus on that and try to make progress and doing something about that issue and putting it to the side is going to be more than what we had yesterday.

Elizabeth Mower:

So let's do that now. Do you see that as you travel around the country and talk to advisors and hear business owners stories that we've got a culture now at least in advisors who tend to be sort of planning oriented in doing something is better than nothing. Are you still seeing a lot of kind of insistence on comprehensive planning or advisors staying in their lane? What are you seeing now?

John Brown:

Well, I can give you the yin and the yang.

Elizabeth Mower:

Okay.

John Brown:

So when I first started to do exit planning, for me an exit plan was a comprehensive plan. If I met with the business owner who didn't want to talk about goals and aspirations and resources and how to grow the value and what exit path to take and also involve business continuity. What happens if they die too soon in the estate planning, I would, you know what, if you don't want to do that, that's fine. Work with one of the other attorneys at a law firm on some other issue, but I'm going to wash my hands of you because there were plenty of owners who wanted to do comprehensive planning. That was clearly not an intelligent decision. And so I've learned to your point exactly, that's way too much for most owners to even imagine because they don't know what that means. They don't even know what all of this is.

John Brown:

So I'm going to come back to that in a second. Now I'm going to jump forward to last night, I was talking to a group of advisors out of state, had a presentation to a bunch of them. And their fundamental concern when it came to doing exit planning for business owners is how do we get owners to take the first step? How do we get them to act?

Elizabeth Mower:

So they're exactly talking about the client stories that we just told.

John Brown:

Yeah.

Elizabeth Mower:

So they have lots of those.

John Brown:

Yeah, they don't have any happy stories because they never really start engagements. So to your point, what we've learned, and I think in BEI is to just do part of the planning and to work with some of tools we've got to help the owner determine what is their most pressing concern in their business, not in their exit. What happens if they die, but that could be the most pressing concern, that's a business concern. Maybe it's how do I keep my key employees? How do I start growing the business, it's been stagnant for the last several years? Whatever, that is, we identify that and we address that both from a planning perspective and an execution perspective. We implement an action and take an action that improves

the business today. That is I think a real key to this whole planning process is understand at least some of what the owner wants and some of what the owner has that first part of the planning process and then do something that improves the life of the business and the owner.

Elizabeth Mower:

I was reading an article this morning that was talking about managing your technology stack, which is a fairly recent concept, at least it is to me.

John Brown:

I haven't even heard of it before so it could be within the last five years.

Elizabeth Mower:

Okay. Well, we're doing it here in the company and we have a technology-

John Brown:

Good to know.

Elizabeth Mower:

I know it's good. We have a technology stack and people can Google it. And I was just thinking as you were talking about how the technology stack concept is also very similar to our planning that we're doing. It's sort of a planning stack where you have different kinds of things that work best when they work together, but they have their own purpose and function. And so if there are owners out there or advisors who work in this space and they understand the concept of a technology stack, that's really the kind of planning that business owners seem to be gravitating toward I think today, which is to understand there are different things that have different functions and they all need to work together to the extent that they can. And it's the role of a good advisor, certainly the ones that BEI trains, have the breadth of exposure and training. It's role of a good advisor to understand all those different pieces. And it's the job of the business owner to identify which thing is most urgent for me to work on next and then to get the help that they need.

John Brown:

I would just add to that. We have tools to help the owner determine what are urgent concerns in his or her business and because otherwise, I think even that's difficult sometimes for them to identify. They're busy putting fires out and they don't have the time to reflect, but we have assessment tools that can help them understand what needs to be addressed next and that's then what we can do to help them. The end. That's all I have.

Elizabeth Mower:

That's all I have. Thank you very much.

John Brown:

Thanks.

Elizabeth Mower:

Thanks for listening. Join us for our next episode. For more content like this, please visit exitplanning.com.