John Brown:

If you CPA, if you estate planning attorney, don't want to help them move towards a successful ownership transition, suggest that they meet with somebody else who can help them.

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:

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Elizabeth Mower:

And here we are at the BEI world headquarters again for another episode. Today we're going to talk about maybe something that's a little bit distressing, especially if you are a professional advisor who works with business owner clients can be a little bit of a difficult story to hear. You may wonder whether you have been this advisor before, but don't worry, we'll try to save it at the end I think and see if we can come up with something positive to take out of this. So we're going to throw advisers under the bus a little bit by telling a story that we have heard both from the same guy and it is true, but it's happened many, many times. So John, why don't you help us with this story?

John Brown:

Thanks Elizabeth. So I call this the case of the Home Depot owner, and I heard about this first, actually it was not a BEI member it was somebody who was attending one of our training sessions from the Northeast part of the country, he was from Maine and I asked him as it went around, why did you decide to come all the way from Maine to attend this training session in Denver, Colorado? He said, well... And he was an M&A advisor, sold businesses. And he said, "Well, a couple of years ago, an owner came into me, I'd known him for a long time in my little town, and decided he wanted to sell his business." He owned a lumberyard, which would be natural up in Maine, right? And he said, "Do you know Mike, I would like to sell my business. And I've got an offer.

John Brown:

Somebody approached me, he's offered to buy my business for a couple million dollars." And Mike said, "Well, I know, I think we could probably get you more money if we had a more organized procedure. We went to market." And so on, and I do my magic. I think I can get you more money. So that's what happened. And sure enough, the business sold for $3 million and maybe the owner netted, let's say two and a half million dollars after that. And so a good job. Mike did a great job. The former owner was happy and went way and Mike lost sight of them for the next two or three years. And then about probably three years after the sale, Mike is in his local Home Depot store and shopping and he hears this voice. "Hey Mike." And Mike turns around and here was the owner that had sold his business three years ago and Mike noticed that he was wearing one of those orange Home Depot aprons.

John Brown:

And he said, he says, "What are you doing working in Home Depot?" And the owner said, well after we sold the business, my wife had always wanted to have a nice home down in Florida, which again, if you're from Maine, that's a natural place to want to stay and want to live. So they bought a second home down in Florida. He, former owner, had always wanted to have a nice RV. They could travel around the Southeast part of the country. And so he bought himself a nice RV and then they realize after about two years that they were running out of money.

John Brown:

And so with that, the owner came back to his other home in Maine and started working for Home Depot. So what's the moral of that story? Mike as the M&A advisor did a great job for his client as an M&A advisor. Nothing wrong. Everything worked well. The owner was happy with the amount of money that he received. So that seemed to work well, but it ended up being a total failure for the owner because now the former owner making a nice salary is now working at Home Depot for something probably less than his former salary, probably maybe 10% of his former salary. So what went wrong? Elizabeth tell us what went wrong.

Elizabeth Mower:

A whole bunch of stuff went wrong in that story. And that's where I agree, has always stuck with me and I've told it and retold it a bunch of times in different training programs that I've taught because it reminds us, that staying in your lane and doing your thing very well if you're a professional adviser. So if you're Mike and you're selling the business and you get a better sale price or if you're a CPA and you find a way to save taxes that you hadn't seen before. If you're some other advisor and you really do your job extremely well, I think my argument is going to be that a high quality business advisor needs to do more than that.

Elizabeth Mower:

That just doing your thing and doing it well is just not going to be enough and it's getting more difficult. So our environment is more complex, transactions are more complex, people's needs are more complex. People are living a long time having blended families, needing to take care of people, parents and children of their own parents and their children at the same time. There's lots of things going on. So what went wrong was that Mike was too narrowly focused on what he was especially good at and he didn't pick his head up and look around and that can really cause some damage.

John Brown:

And it might be, and I've heard this from a lot of advisors, "Well, all I want to be is and M&A advisor."

Elizabeth Mower:

Right.

John Brown:

"All I want to be is a CPA doing tax return work." Whatever that might be, and I think that's fine.

Elizabeth Mower:

Oh, yeah.

John Brown:

If that's what you want to do, but simply be aware of the fact that all of your clients are going to be leaving their business at some point voluntarily or otherwise. About 80% of all owners, according to our surveys, would like to leave the business within 10 years. So they're giving some thought to leaving their businesses.

Elizabeth Mower:

Right.

John Brown:

If you CPA, if you estate planning attorney don't want to help them move towards a successful ownership transition, suggest that they meet with somebody else who can help them and still stay involved, have a seat at the planning table and do your professional services in the best possible manner. But give your client, your owner the opportunity to have a successful exit.

Elizabeth Mower:

Right.

John Brown:

That's one take away for me. But now let's assume that the advisors listening in would like to help their clients. They wouldn't like to help the Home Depot order. What could Mike have done differently to prevent that result?

Elizabeth Mower:

Right. It seems like it's easy, but I know that in reality it's actually a little bit more difficult to be a specialist in an area that is extremely difficult. Like taking a business to market and getting it sold. So there are many skills that are extremely important that go into that and it might seem a little bit sort of flip for us to just come in and say, "Well, you need to be more than that."

John Brown:

And the other thing is if my Mike had done that, if he had taken the broader view and done the planning work, the owner would have realized that $3 million pre tax wasn't enough money.

Elizabeth Mower:

Yeah.

John Brown:

Mike would have been out of a sale.

Elizabeth Mower:

So Mike's got a couple of options. I think one of them is, not to continue to beat on the same drum, although I think we're going to do that in all of these episodes, is to ask more questions. Well, business owner, have you ever had somebody help you think through what your lifestyle needs are going to be after we sell this business? While I get myself organized, why don't you go and do that so that we know what target we're shooting for. When a business owner says, I'd be happy with $2 million or I'd be happy with $10 million or $20 million for my business. Mike still doesn't know whether that's enough or not.

John Brown:

Yep.

Elizabeth Mower:

It might be that I've got an offer to sell my business for $25 million and Mike might personally think it seems like a lot of money probably going to be fine, but we don't know whether there are extensive debts that this person's going to retain that I have to be paid off to the tune of $20 million. So it's not really a $25 million sale. We don't know what else is going on in the business. So person in Mike's situation does need to ask some preliminary questions. If he doesn't want to do that, then maybe his best option is to just very heavily rely on other advisors who can fill that need and ask those questions.

Elizabeth Mower:

So to say to a client, "Okay, well my process is I have a due diligence checklist. Wouldn't this be a great idea for the due diligence checklist that business brokers and investment bankers use?" Is to have an item on the checklist be you've identified what you need from this business in order to have financial independence. Just wait and if it's not checked off, you're not ready to go to market. So that would be another way that Mike could facilitate the process if he doesn't want to deal with it on his own. He might need to partner with other advisors, he might need to bring somebody into his firm who has a more broad kind of solutions oriented skillset.

Elizabeth Mower:

He might need to add it to a checklist. Those are some things. Can you think of something else that maybe could be done consistently by a specialist advisor so that they really don't end up, participating in maybe a better way to say it. Some difficult situations for their clients?

John Brown:

So I think it's all a hundred percent accurate. What did Mike actually do? What did the real Mike actually do in this scenario? Well, that's why he was at our training session. He decided that he was not professionally, I guess satisfied selling businesses that he could sell and not having his clients and friends be happy with longterm, wasn't helping the owner longterm, simply by selling the business when the owner wanted to sell it. So he wanted to learn about exit planning, how to become an exit planning advisor. And so his company today, which is still an M&A firm, but on the front end, Mike is doing exit planning, he's making sure that the owners are prepared for a third party sale.

John Brown:

The businesses prepared for a third party sale. The results will be as they need to be to achieve the owner's goals and aspirations. And if not, they engage in exit planning. They work with an advisory team of lawyers and CPAs, financial advisors, insurance advisors, et cetera, that we'll talk a lot more about. But he was not happy just being a performing a good professional service if it didn't at the end of the day, meet all of the owner's goals and aspirations. So one thing that advisors can do is to do [inaudible 00:13:09] on the front end or as part of their other professional services.

John Brown:

And for most advisors, it's not an all or nothing thing. The CPA at the lawyer, the financial advisor, we're still going to be doing our core professional work as we work through the planning process with the owner. And Mike, sort of an extreme example, but really I think a great example of somebody doing the truly professional thing going forward, which is to not allow his owner to go down a path that will result in financial ruin, which is what happened here. So I think that's a great takeaway from this little story.

Elizabeth Mower:

Right. And let's say for example, I'm a business owner and I'm listening to this conversation today and I might be thinking to myself, I think these guys are just trying to get me to hire more people and spend more money to get out of my business. It sounds like a way to make, Oh now I'm in a needle these different people to address all these things instead of just hiring Mike to get my business sold. Aren't you really just stacking up a lot of extra stuff for me to do and a lot of extra money for me to pay in professional services fees and so what's your reaction to that? If I'm a business owner and I say, "I think you're just trying to get money for all of your pals who do all these other areas of specialization."

John Brown:

Well, first of all, nobody's pals with lawyers, you know that.

Elizabeth Mower:

True.

John Brown:

So we don't really have pals. The second thing I would say is to do this initial part of planning. This is really even before get involved in exit planning, we're just trying to find out what the owner wants to do and what they have. It's what I would call the discovery phase of exit planning. It's not very expensive. I mean a lot of these things... To find out, Mike's owner could have found out if he was going to get enough money simply by working with a financial planner to get an idea of what he and his wife are spending today and what they're going to want to spend after they leave the business. Get an idea from, in this case, Mike, what the value of the business is likely to be and what the net after tax cost would result in. In terms of net proceeds from probably talking to his CPA. None of that would be very expensive.

Elizabeth Mower:

Okay.

John Brown:

And we would then know, well, business owner, you've got two and a half million dollars net after taxes to maintain your lifestyle of $200,000 a year. Does that seem like that would work? In the financial planner they would give them an idea of what a reasonable withdrawal rate would be. There's not a lot of involved financial planning and doing this at this point, but just get an idea if the exit route the owner wants to take is practical.

Elizabeth Mower:

Right. Somebody who was one of the more senior planners training me when I was in the early part of my career. I remember them talking about, well they can pay me now or they can pay me later. And me thinking that was kind of crass, but then I watched it play out a bunch of times and it turned out to be true where people who skipped a step early on had to pay for it twice or at least once they ended up paying for it at some point. And there's a person I know in my family will say sort of a relative who for whatever reason didn't go to the dentist for many years. And I remember they mentioned that at some family gathering and I remember thinking this doesn't seem like a very good idea.

Elizabeth Mower:

Better to just go to the dentist and take the time or pay the copay or whatever it is and just go get it done. And that person, when they did eventually go back, it was very uncomfortable, very painful, and pretty expensive to get the stuff fixed that had gone wrong during the time. And if they had just sort of one piece at a time, every six months taking care of what they were supposed to do, they would never would have ended up in that situation. And that's what's going to happen with everything, so doing your planning, doing your prevention, thinking things through and taking care of things today instead of putting them off or ignoring them altogether does end up hopefully with a better outcome and a little less pain.

John Brown:

I agree with that. But it's getting owners to act. I mean when we look at our business owner surveys that we have every other year, we ask owners if they've done any planning for their eventual exits and if not why? And the responses are amazing. It would be, I'm too busy to do any planning. When I'm ready to exit the business, I'll do some planning.

Elizabeth Mower:

Yep.

John Brown:

So either they don't think they've got the time or they don't think they have the need to plan them right now, to start right now. So how can we as advisors, I guess put a sense of urgency into the owner's mind to start taking some thoughtful action now?

Elizabeth Mower:

I think there's a lot of benefit to storytelling and as you and I share some of these stories in these episodes of things that have happened to, these are not really even to the extent that it's a story about Mike who's an advisor to a business owner, client, the one who bears the brunt of the decision that got made or the action that didn't get taken is always going to be the business owner.

John Brown:

Yeah.

Elizabeth Mower:

And the advisor does what they do and they move on about their business. So stories in which business owners can see themselves, I think are really the key. And what we noticed in the last business owner survey that our firm did was that there was a little bit more awareness among the business owning community, at least in the sample that we were working from who were not particularly, they weren't exit planning clients or people who had been to a course or anything like that. So they were just hopefully a good cross section of the business owning community.

Elizabeth Mower:

And there's a little bit more awareness and I think that comes from hearing a story, knowing somebody, talking to somebody, getting out there and sort of spreading the word through associations that help business owners and things like that. It's the stories and the connecting other people's circumstances and seeing those patterns in our own lives that I think makes the difference. Of course, I can talk about advisers need to get more training and ask more questions and incorporate these concepts into their process and all of that. I think you and I agree is true, but the thing that's going to really impact business owners and get inside their heads are stories like this one-

John Brown:

So yeah, how do we get them to start kicking down our front door. Right? And saying I need to do some exit planning.

Elizabeth Mower:

Yeah. I think we have to talk to them about the consequences, right?

John Brown:

Yeah. They made me think about this next sentence I'm about to speak is owners are not to take action on their own and as Elizabeth pointed out, they respond well to stories. So here's one other quick story I have. When I was doing a lot of exit planning as a lawyer, hadn't started BEI yet, my form of marketing to business owners was to give a monthly seminar that we now call executive briefings. At the end of last Wednesday of every month I would do a seminar and I'd have half a dozen to a dozen people attending, owners attending and out of that, I would hope to get one or two exit plans. And most of the owners were referred in by other advisors. So they were a little attuned to the whole exit planning process, meaning the owners were, well at the end of that, let's say I did get an exit plan out of the eight owners who were attending the seminar, what happened to the other seven?

John Brown:

They went away. They never got to hear all of these other fascinating stories that Elizabeth and I are talking about. So they were lost. They probably forgot about everything within a week and hopefully maybe in a year or two or three or five years, they might realize they need to do some exit planning and exceeding all expectations. Maybe they would actually remember the name of my law firm or my name and they would call us up, but that would be rare. So what I did when we started BEI, one of the first things I wanted to do was start a process, it was actually a marketing process, that would put the idea of the need to do exit planning in front of all of the owners I had contact with on a repeating consistent basis. And so this sounds like a big pitch for newsletters and things like that.

John Brown:

And in a sense it is, but you can do your own newsletters, you can do your own creation of what it is you want to tell business owners. But the point is, whatever you're doing needs to be done well, and it needs to be done consistently. And the message has to be the same in that I, meaning you, can help you business owner successfully transition from the ownership of your company. And if we just do it Helter Skelter, you're going to have Helter Skelter success.

Elizabeth Mower:

So I think what we're saying is advisors need to consistently sort of speak a broad message and share information, education, ideas, facts, stories with the business owners who they know. And then conversely, I think if you're a business owner, you need to be plugged into one of those streams.

John Brown:

Right.

Elizabeth Mower:

And you and I personally don't care which one it is, but every business owner should be plugged in to one of those sort of messaging streams so that they can hear things that might resonate with them. So that they can get ideas from the stories of other business owners. Running a business is very lonely. People often feel that they're not understood and so every business owner should be connected to a source that has that kind of information. And every advisor who works with business owners should be sharing. Don't sit at your desk and do your work and wait for someone to knock on the door and ask you to fix something that's broken, talk and share and have some kind of mechanism where you put your experience and your knowledge out into the world. I think that sort of captures what everybody should be doing. Right?

John Brown:

Well and that's where we've been talking about is that owners don't know what to do, advisors don't really know what to do. And so nobody asks the questions. And that's the point of this podcast is to nicely suggest to those listening to this podcast that they need to be asking those questions. They need to be doing it in a consistent way. And we're a couple of ex attorneys, we know what business is like you go out and market, you get busy, you stop marketing. You stop talking to owners, except people whose attention is requiring us to take action right away. And then we get through that work and now we go out and it's a repeating heroin of inconsistent marketing, which doesn't lead to long lived success.

Elizabeth Mower:

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