

Elizabeth Mower:

Every advisor, every professional who has business clients really is an exit planning advisor at one point or another with one client or another. 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:

The topic that we decided would be most interesting for today is sort of expanding out to our interactions with all of the different kinds of professionals and advisors that we've interacted with over the years, and the different approaches that they have to working with business clients. And, and what you and I, I think agree on John, is that sometimes advisors are doing it well and sometimes they're not doing it as well. And in our conversations recently, you had a pretty good example of a situation that you came across, this is I think years ago. But that you've gone back to, to kind of share with people as a way of explaining how advisors might go at sort of the idea of working with business clients in a way that's really less productive than it needed to be. So why don't you tell us about it.

John Brown:

Yeah, it really gets back to our earlier podcasts when we were talking about how do we approach business owners? How do we initiate that conversation? Most advisors, me included, we had no training on how to interview, how to talk, how to engage business owners in a deeper conversation than just I'm a CPA, I'm here to talk about your tax return. I'm an estate planning attorney, I'm here to talk about your estate planning.

John Brown:

In exit planning we have to be much broader and at the same time eventually much deeper than those kinds of conversations. So that reminded me of, actually I was doing educational seminar for a group of CPAs and about exit planning. And so I thought I'd start off, I'd say, okay guys, it was all guys back then, imagine yourself, you're sitting down in front of one of your clients and you know that the topic is going to involve them helping them work to exit out of their business. Maybe it's a third party sale, maybe giving it to the kids.

John Brown:

So how would you open that discussion? What would your first questions be? And one CPA raised his hand in the back of the room, I said, okay, what's your question? What's your first question you're going to ask your client sitting in front of you? And he said, and by the way, this was a group of construction company oriented CPAs. So this was about contractors. How would they approach that with a contractor?

John Brown:

And the example I gave them was a sand and gravel company. How would you approach this owner? And the CPA raised his hand and said, well, my first question would be how many gravel pits does he own? And I was, I sort of sat back for a second. How is that at all important? So I asked the CPA, how's it important? He said, well, because that will impact the value of the company. Having a gravel pit adds a lot of value to a sand and gravel company. And I thought, yeah, that's obviously true. But is that the first question? So my question to you, would you ask about the number of gravel pits that a sand and gravel company owner has when you want to talk to him about exit planning?

Elizabeth Mower:

No, I don't think I would. And that sort of goes back to I think a bigger issue that professionals maybe don't realize, which is that every advisor, every professional who has business clients really is an exit planning advisor at one point or another with one client or another. And so it doesn't, you don't really have to say, okay well now we're going to have an exit planning conversation. Good advisory services, or good professionals do want to understand what is going on with each client, and with business clients there tend to be things you need to know about them before you can really help them. And the number of gravel pits will probably come up at some point in the future. But I do also, I really discourage advisors who we train from starting with the details, and certainly in the conversations that we train people to have, they're really beginning with things like how did you get into your business?

Elizabeth Mower:

Because that might mean tell me something about how I can help you get out of it, or something that I need to keep in mind while I'm helping you get out of your business. If you got into business because you wanted to be different, you wanted to be a leader, you wanted to crush your competition. If you had some other purpose when you got in, I might need to keep that in mind in the way that I help you get out. And also I don't have any kind of relationship with you where you're going to trust the advice that I give if I start with your gravel pits and how they affect the value of your business, because now I'm sort of judging you. And that's not really what a good forward thinking advisor will do.

Elizabeth Mower:

And so I do tell people that the thing that BEI advisers have, there's lots of advisors who use BEI tools to support their practice, and there's all different kinds of people with all different levels of experience and all different professional kinds of backgrounds. And they only have one thing in common among all of them. And that is that they enjoy helping business owners plan for a successful future. So, that is what people do who really embrace planning for the future, and their questions are not going to be about gravel pits. They're going to be about what is it that you want to accomplish and where do you see your business and when you're not involved in your business anymore, what's it going to look like?

Elizabeth Mower:

So those are the kinds of questions that more sort of future oriented, thoughtful advisors are asking, and we constantly are seeing, I don't know if you're still seeing this John in the advisors that you talk to, people presenting themselves as a solution to a particular narrow scope of problem or a set of services that need to be pitched to a business owner, client. Are advisors still doing that in the conversations that you're having?

John Brown:

Absolutely, because that's what we've been trained to do. We went to law school, so we learned how to be a lawyer, or we became a CPA and we learned how to be a CPA. Whatever the profession is it tends to keep you within a discussion bounded by your professional boundaries. And in exit planning, it's not that we ignore those professional boundaries, it's just that owners aren't interested in a legal answer. They're interested in you helping them solve their problems.

John Brown:

And so the kind of questions we've learned to ask over the years are eventually to get to what is most concerning to the client? How do we help them resolve that? What other resources do we bring to the table? Maybe it's other advisors, other tools. That is really a much more comprehensive approach and a longterm approach to representing a business owner basically forever, even through the exit and afterwards. It's getting to the core of what that owner wants, which is not a discussion about his gravel pit. It's a discussion of how can you help me move to the next step to accomplish my goals and objectives?

Elizabeth Mower:

Right, so let's say maybe you and I can come up with three areas that we think every advisor needs to know more about their business client before they can get to the details. So one of those might be asking a lot of questions to understand how the business interacts with or supports a business owner's family. That might be pretty important and we need to, it's either the business is either very connected and very important to the family. Either their, sort of their quality of life or their standard of living or it employs a lot of family members or something like that, or it is the single largest asset that the business owner has, something like that.

Elizabeth Mower:

So there might be a lot of issues connected to the business and its relationship to the family. And so what else do you see that are things that advisors really should be asking about that are maybe in the top three categories of topics that should be discussed before an advisor can really start getting into details, like how many gravel pits do you own?

John Brown:

So as you were talking, it was making me think that, remember in the world of M&A, merger and acquisitions, where the goal is to sell your business to an outside third party. So if it's an investment banker or a deal attorney or maybe a CPA talking to a client, the client is going to be focusing on how much money am I going to get if I sell my business, and that's what the other advisors are going to be thinking about too. They're going to focus everything on maximizing the sale proceeds for that client.

John Brown:

In exit planning, we would back up, and I want to illustrate why it's important for an even an M&A advisor to understand where the owner's coming from. Because usually, not always, but usually it's not just about the money. But we would start by asking about the goals and aspirations of the owner.

John Brown:

And we talk about three universal goals in exit planning. When does the owner want to leave his or her business and what does that mean? It may mean I want to sell on Friday. It may mean, oh, I'm not interested in maybe ever leaving, but I certainly want these other goals and objectives to be accomplished, and if something does happen to me, this is what I'd like to see happen to the business. So it may not even be a set exit path they're going to go down. It may be they want to continue in the business indefinitely. We can still do an exit plan for that. So it's when do I want to leave and what does that mean? How much money am I going to want to have available to me after I leave the business? And who do I want to transfer the business to?

John Brown:

And then beyond that are a lot of the other aspirational or values based goals we talk about. What am I going to do for my community? Am I prepared to sell my business to a third and have the business potentially removed from my community and relocated out of state? So, and again, as we talked about earlier, what exactly what those goals are. It doesn't concern the advisor so much. Is the advisor wanting to be certain the owner understands his or her goals, and then upon that we can develop a plan to achieve them.

John Brown:

That's kind of a long winded answer. I could have said there's three goals that every owner has. When do you want to leave? How much money do you want? And who do you want to transfer the business to? That's the foundation of every exit plan and there may be many other goals that actually drive the decision to leave.

Elizabeth Mower:

And so if you're going to meet with a business owner, are you going to start with these universal objectives, which I agree are important for the planning process. When you're describing, you're talking to these CPAs and you say to them, what's the first question that you were asking? And maybe it depends on what the purpose of the conversation or the meeting is. If it's a meeting about helping someone get out of their business, still I think we're all going to agree the gravel pit question has to go.

John Brown:

Yeah, I think so.

Elizabeth Mower:

It's a terrible question.

John Brown:

I think that's going to go.

Elizabeth Mower:

So do you think advisors should start with these three universal objective questions with how much longer do you want to be in your business, and what do you need to get out of it, and who should own it in the future; or, do advisors need to even back up beyond that? Maybe something earlier and say explain to me, I don't know, what you see as the future or can they just launch into it? I don't know. What do you think your experience is with talking with advisors all over the country, what works better?

John Brown:

I think you have to try to read the client. Some clients have absolutely made up their mind that they want to leave, they want to leave in the near future. They have a good idea who they want to transfer the business to. And so they may not be interested in some of the other questions that deal more with their motivation of why they may want to leave. They already know they want to leave and, but again, you want to have broad open questions in any scenario. But I think in that, for me in the background and I'm more cut and dried than you are, and our approach to exit planning, I always want to know what the goals are, and it may not be directly like that.

John Brown:

I would ask the questions that we've been talking about, what's their view of the future without the business, their future without the business, what's the future of the business without them and go down that path. But at some point I would like to know at an initial meeting what the owners ideas are about their future ownership in the company, who they want to transfer it to, what has to happen in this transfer process for them to be happy at it's conclusion?

Elizabeth Mower:

I think we can do a whole future discussion all about what to do when a business owner has no idea what their goals are. I think that's an interesting topic that will probably fill an entire conversation later. And maybe to go to the flip side of that, I can bring it back to something that we talked about in another conversation, which was that sometimes business owners have a very clear idea. They think they know or they're very certain that they know exactly what it is that they're going to do. And you and I still, maybe in slightly different ways, are going to try to deal with that client by still trying to come back to what we call those universal objectives. So if a client comes in and wants to have a meeting about putting the company on the market and getting it sold by the end of this year, that's fine.

Elizabeth Mower:

But I talked before about how you have to kind of let them have that very specific outcome in mind. And then you have to somehow subtly understand what's driving that. And so one of the things that I talk to people about sometimes is that go with your client. If a business owner wants to put their company on the market and sell it, don't resist that initially because it's just going to irritate them. But maybe say, okay, explain to me what that would get you. What would that accomplish? How would that affect your family? How do you see that supporting the things that you want for yourself? How do you see that changing relationship with your business going in the direction that you want? Is it because you want to walk away and never look back? Is that how you see your future, or are you thinking maybe you would like to have some kind of connection to the company?

Elizabeth Mower:

That way we can kind of test really their assumptions about what a sale of the business would be like. And did they come to that through an understanding of what it will look like or did they just sort of go to

the first thing that they know about which is putting it on the market and assume that that would be the best outcome for them?

John Brown:

And I think what a lot of owners, especially if an owner comes and says, yeah, I'd like to sell my business to a third party. You're exactly right. We go down, we go along with that flow with that conversation. But always in the back of my mind is the thought that we have to ask this owner why he wants to sell to a third party. It may be why do you want to sell to a third party? Have you thought about selling the business to a key employee or maybe transferring it to your children? You have to ask those questions because they may come back and said, yeah, but you know, the key employees don't have any money, so how can I sell to them?

Elizabeth Mower:

Right, or I wanted it to go into the hands of my two kids who work there, but I won't get any money. So I've decided not to do that. We'll on a second. Maybe we should talk about whether, if it were possible to have your kids take over the company and you get the money that you need, would you want to have that conversation?

John Brown:

Those are all-

Elizabeth Mower:

They often say yes.

John Brown:

Exactly the questions that have to be asked. So getting back to my, you're talking to an M&A attorney or an investment banker or a business broker, they're not going to ask those questions. Their goal, their sole goal is to sell the business for as much money as possible. That's what they're hired to do. So we have to understand that for the rest of the advisors in the room, we have to ask those questions. If the owner just decides to sell and hires an investment banker, those questions are never going to be asked and after the sale is concluded, there might be owners remorse. Buyer's remorse.

Elizabeth Mower:

Right, and I might disagree with you a tiny bit that there are a lot of business transaction advisors who are connected to BEI, who are part of our advisor community who actually do ask the good questions. Some of them have been maybe more honest with themselves about saying, I don't actually want to do any planning work or help people with this stuff with their family. But at least I know to ask the question and my BEI training has taught me that and I'm going to redirect people when it turns out that they have a need for planning that I didn't really anticipate.

Elizabeth Mower:

So I would say maybe we shouldn't throw all of the M&A advisors under the bus and say they're never going to ask those questions. There are some who I think will and, but every advisor who works with business clients needs to be prepared that their clients might be going off in a particular direction, that

they might need more information or a deeper conversation before they can pull the trigger so that they feel more confident that they're making the right decisions.

John Brown:

So that reminds me of another story. So I was talking, it was one of our bootcamps, one of our training sessions that we provide for advisors all over the country, and there was an investment banker there. And so we were just talking, chatting during the bootcamp and I said, Don, the M&A advisor, investment banker, why are you here? Because he was just interested in selling businesses to third parties.

John Brown:

He says well, what happened is I had a client, great business, we had a definitive offer on the table, had gone through the sale process and it was for \$16 million in cash. And he said, well at that point he was done, was starting to count his commission that he was going to receive on this. I think he said the owner decided to talk to his financial advisor and realized that after paying taxes and expenses, he would not have enough money to live the lifestyle he was living today. And so he called the deal off, killed the deal. He said, that's why I'm here because I, he didn't know what questions to ask. He's an M&A advisor, but he knew now that through understanding what the exit planning questions are and the goals and the resources types of questions that we'll pursue in later podcasts, he needed to know that because he could have nipped that whole process in the bud, saved himself a lot of time and effort, saved the client money, had somebody asked those questions.

Elizabeth Mower:

Right, so I think what we can agree on is that there are some questions that are going to completely torpedo the conversation with a business owner, and there are others that are going to save it. So if we've learned nothing else today, then maybe that's what we've come up with.

John Brown:

We're not going to talk about gravel pits-

Elizabeth Mower:

Ever.

John Brown:

Ever. We're not going to do that. We are going to talk about what the owner's wishes and concerns are.

Elizabeth Mower:

Agreed.

John Brown:

And that's what I think the message of that is. And so as we go through I think future podcasts, and we will probably get into some level of technical discussion on maybe the best way to transfer ownership to a child. Is it a sale? Is it a gift? Is it a stock bonus? We'll talk about all of that, but we're trying to really lay the groundwork for suggesting that as advisors get into more and more exit planning over time, that they view that exit through the eyes of the owner and not through the eyes of their profession because it will lead to a very different conversation and a much deeper relationship.

Elizabeth Mower:

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