John Brown:

Once you know, financially, where you stand and what you need to have, and how much the business can contribute to that on a realistic basis today and where it needs to get to, that's really the essence of the first phase of exit planning.

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.

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Elizabeth Mower:

We're here today to talk more about why we plan and the issues that face business owners and their advisors, in the process of planning for a successful future. So we've talked in many episodes about all different kinds of issues that are related to planning. And John, I was thinking as we came in today, that we've told kind of a lot of horror stories. So, client comes in and tells their advisor something and it turns out nobody is prepared. It turns out nobody knew that this is what we're going to do. It turns out that the scenario has gone very, very wrong. Turns out the advisor doesn't know anything about how to help their clients. In other episodes we talked about planning that wasn't done and the dire consequences, or owners who, I think we talked once about an owner who basically, ran away from their planning because they were completely overwhelmed. And so we've told a lot of negative stories. But I was sort of thinking today about how I actually get a few positive stories.

John Brown:

Wow.

Elizabeth Mower:

In the work that we do. So I spent a lot of time in person and on the phone and on video meetings, talking with professional advisors who work with business owners from all around North America, and they have a lot of different things to say. And one of the trends that I have seen in the last maybe, I mean it's probably been two years now even though it feels like two months, but I've been seeing a trend of professional advisors, I think, reading between the lines, finding business owners in their communities to be a tiny bit better informed, a little bit more sort of aware of the fact that they need to think about their future.

Elizabeth Mower:

Not necessarily finding a lot of business owners having better, more thought out, more detailed written plans or something. It's not really that, but it's more that, I think there's more conversation going on, and there's more thinking going on among people who own closely held and privately held businesses, than maybe we would have seen 20 years ago. So let's assume that that is the case, or it's at least the case for these professionals who tend to put out a lot of educational information, and do a lot of workshops and things like that. So maybe it's just a result of that. And there are owners who aren't really ready to exit their business. They're not really ready to sort of launch into a comprehensive process with six different advisors and a 50 page written document and 10 different kinds of research and analysis going on and all kinds of, and fees, lots of fees.

Elizabeth Mower:

So owners are starting to be inclined to want to start a process where they can start to do something themselves. They can take a step that moves them towards a successful future. So it's not a DIY, I have a plan now for the future, I didn't need anybody else to help me, because we've all seen those and they're pretty fragile I think. But more and more advisors are telling me, "Okay, how can I help my business owning clients, sort of think about, if you've done nothing or if you have nothing, what's one thing?" And it may not be the thing that everybody must do first, but "What is one thing that a business owner can do in order to move themselves even an inch towards the future?" Because what we do know about people, is that if you make a little bit of progress, you get a really good feeling about it and it might encourage you to make another inch or foot of progress.

Elizabeth Mower:

So is that a fair thing for them to be doing, John, these advisers, who, even though it's their business, to advise owners on planning for the future? Is it reasonable for them to say, "Sometimes my business owner clients just want to do something that they can handle themselves?" Is that okay with you?

John Brown:

Well, interesting question. That probably would not be okay with me.

Elizabeth Mower:

Okay. Tell me why.

John Brown:

Because they don't know what to do. They're going to need some level of suggestion.

Elizabeth Mower:

Yeah.

John Brown:

On the part of the advisor, on how to take that first step. And I agree, taking that first step is really important, but-

Elizabeth Mower:

And do you think there are things that owners can do without a lot of meetings, a lot of documentation, a lot of fees? Are there things that they can do that move their planning forward? Or that maybe, not that it's zero meetings, zero fees, but a piece, instead of a complete, comprehensive, broad spectrum approach. Is there a thing that a business owner could focus on that would measurably sort of move things?

John Brown:

I would do a couple of things, but this would be maybe a little bit more than just a little incremental step.

Elizabeth Mower:

Okay.

John Brown:

The first thing I would suggest owners do, and they don't need to work with an exit planning advisor at this stage to do this, but I think they need to get an accurate understanding of what it is they have, because I think, I don't think, I pretty well know, I'm pretty well convinced having seen hundreds, maybe thousands of exit plans, that most owners have an expanded view of the value of their company, the type of income they can draw from their investments and so on. So that inclines them to not do anything.

Elizabeth Mower:

Right.

John Brown:

They're overly optimistic in a lot of ways. And so the very first thing, and this doesn't take a lot of work, but I would sit down with my financial planner if so, if you don't have a financial planner or somebody who advises you on that type of planning, that would be the first step. What is it that you actually spend? What is it that you would actually like to continue to spend when you no longer own the business, if your goal is to exit the business at some point? How much capital are you going to need to maintain that lifestyle? That's going to come from your investment capital and the net proceeds from the transfer of ownership of your company. And that's going too far, I understand, but just the very basics of just doing some basic financial planning. That's where I would start.

Elizabeth Mower:

I think you're totally right because we're all so potentially, if that step, let's say if that step is already done or business owner goes off and takes that step, then the companion or next step might be getting a preliminary business valuation.

John Brown:

Right. Right.

Elizabeth Mower:

And I can think of one owner in particular who was actually somebody that my husband was doing business with, and somehow this came up. This is a gentleman, he's here in town and he already participated in a pretty big third party sale of his business, and it was actually one that your old law firm did the deal.

John Brown:

Okay.

Elizabeth Mower:

And so this guy then sat out his non-compete, started a new business and it's already been, I mean it's been 20 or 25 years, probably 20 years.

John Brown:

I'm not that old Elizabeth.

Elizabeth Mower:

Some older people in your firm did the transaction.

John Brown:

The founders.

Elizabeth Mower:

It was probably 25 years because I was aware of that transaction when I was at that firm, but I didn't work on it. Okay, that's neither here nor there. So this guy waited out his non-compete, started another business, felt like he was young enough to go ahead and do that, and has built it up into another really, really nice business. This business, he just happens to be telling my husband, he would like to transition to his daughter, who's been working in it and running it with him for, I don't know however many years, and she seems very capable. And he says, "Is that something that maybe your wife, Elizabeth, I know that she has this background in planning for privately held businesses, is that something that she could maybe help me with?"

Elizabeth Mower:

And my husband of course volunteers me to give some free advice because he loves to do that for business clients of his. And he says, "Oh definitely, I'll have Elizabeth call you." So I call up the guy and I think we sat down and met, this is a few years ago, and we sort of talked through everything and it turned out that he was pretty early on still in his business cycle. He was only maybe 10 years in, 10, 15 years in to owning this new business. His daughter was still developing her skills and growing the business value. He was estimating, maybe he was overestimating, but he still did not think it would be sufficient, like he didn't think that it would allow him to do anything in particular. He's still working on growing the company.

Elizabeth Mower:

And I ended up leaving him with a few things. One was a copy of Exit Planning: The Definitive Guide, by John Brown.

John Brown:

Wow. What a great idea that is.

Elizabeth Mower:

I did give it to him for free. And then I suggested that he get a financial planner, which he did not have, and that he tried to figure out his personal financial situation for the immediate near future and long term. What is that going to look like? What do we have if you're just working for the business and getting money out of it as you are now? If that grows, what about the business value? Can you live without the business value, since you're trying to transition to your child, or do you need something else from the company? So longterm financial plan, what does that even look like? And it'll allow you to figure out what the business needs to do in order to help you get to where you're going.

Elizabeth Mower:

And then I told him if you get all of that done and you feel like you have a really clear vision, then I would suggest that the next thing you do is get a preliminary business valuation and understand what it's based on so that you can start to, not manipulate, sort of leverage the things in your business that can have the greatest possible impact on business value. And when you're done with those two things, call me back, because he didn't need me to write a plan for him. He needed to understand his own situation and focus on training his daughter, focus on his personal financial situation. So I do think that, to your point, that sending a business owner off or having a business owner who's listening here go and get a financial planner to help them think through their financial future is really, really important and a totally valid first step that a business owner can take without hiring a team.

John Brown:

Right.

Elizabeth Mower:

Right?

John Brown:

And that financial planner, I shouldn't speak for financial planners because I'm not one, but that is not an expensive proposition to do. They may just meet with you initially and not charge anything, but just to give you a general lay of the land. But it really is, in exit planning, so important to begin the planning, whether it's formal or whether it's going to be informed, with the right information and not to make a lot of assumptions of value, of rates of return and things like that. Leave that to the experts and that will give you a solid base on which to move forward. You'll start to figure out how far you have to grow the business. Maybe you don't have to grow it at all, but it'll give you an idea of where you're at today and where you need to get to.

John Brown:

That's really a financial determination of what you need to have ultimately, in terms of net worth to live the life that you want to lead. So I think a financial planner is really important. It's not an expensive initial proposition to do that. And then to Elizabeth's point, the other, I guess area, where owners can go a little wild, is valuing their companies. And so they tend to think it's worth far more than it is. They tend to not to take into account when they transfer it, the tax consequences, the transaction costs of lawyers and investment bankers and CPAs, they tend to underestimate the taxes. They tend to-

Elizabeth Mower:

They assume they'll get paid and not have to pay off their debt.

John Brown:

Yeah, there's debt in the company that has to be, so that's the other aspect. Once you know, financially, where you stand and what you need to have, and how much the business can contribute to that on a realistic basis today and where it needs to get to in order to close any gap, that's really the essence of the first phase of exit planning.

Elizabeth Mower:

Right, and I think it's a valid point to let business owners know that they don't need to pay someone a planning fee in order to take those steps. They can go ahead and do those things. If you're the kind of owner who enjoys sort of making a list and getting things done on your own and feeling like you're driving the bus, then I think it's fine.

John Brown:

I do too. Can I ask you one question though?

Elizabeth Mower:

Yes.

John Brown:

In the thousands of exit plans you're familiar with, either that you've done or our members do throughout North America, how many times has a member said, "Boy, this owner came to me and she was really pretty well prepared to move ahead with her exit planning", or "I gave them a checklist of things to do and they came back the next year and by golly they had all of them done."

Elizabeth Mower:

I'm going to say I have heard of it.

John Brown:

Okay.

Elizabeth Mower:

And it does exist. And if more owners knew that that was a good, rational, valuable place to start, I think more would do it. Because you get all this personal benefit from doing your financial plan or from getting a preliminary valuation, you know things, you get insight that you didn't have before. So I think there's a lot of reasons why an owner would feel good about getting one or both of those things done. And I mean I've seen it, I've seen owners come in maybe with a preliminary evaluation because they were curious. So two years ago, I got this valuation, it came back like this, this is what it was based on. I didn't end up doing anything with it, but I'm here now because I need more advice and I want to do more planning. Or, I do have a financial planner because I know that it's important and I want to make good financial decisions, so I've actually been working closely with that person and I have a really have a tight, accurate sense of my financial situation. I would say those things are not unheard of.

John Brown:

No, I don't think they are unheard of, but I think the majority of business owners have not done that.

Elizabeth Mower:

I know, they've been busy running their businesses.

John Brown:

Yeah. And they probably, realistically speaking, are not going to do it. They do need the council of an advisor familiar with the planning process. And I think that's one of the values that our advisors bring to the table, as they know what the roadmap needs to look like for an owner to get from where she's at to where she needs to be. And I think that is a great value for most owners.

Elizabeth Mower:

And I'll say that's maybe a bridge into probably the one other thing I could think of that is a good place for owners to start, if they don't have a comprehensive plan in place for the future. So I don't know what I'm going to do, or I know what I want to do, but I haven't done anything about it yet. Maybe it's far away, maybe I'm just not ready. So whatever the reason may be that there's no comprehensive plan in place. The other thing that a lot of BEI advisors are doing is having business owning clients start with a business continuity plan that acts as kind of like a standalone. Now, this would not fall into the category of a thing that maybe I would suggest that a business owner do independently, without any help at all. But, I think it can be done as a standalone for now, to kind of see where we're at, to reduce some risk and give us some relief or sort of some peace of mind.

Elizabeth Mower:

And so a lot of advisors and owners are doing sort of a narrow scope kind of project, in which they work through a series of questions and decisions that an owner can make about, well, if this happens, who will do this, and where will my family go for that information, or this other advice. Who should take responsibility for activity X versus activity Y? So there's all these different kinds of things that a business owner could start to kind of lay out, write down. It's a fairly, kind of concise project, but it does sort of set us on the path of planning for the future, especially if we say, as part of my get business continuity, for example, one of the decisions I need to make is, okay, which person inside the company can have a conversation with our top five customers or clients in the event that I, the owner, am unexpectedly not available, I die or I become disabled, I've had a stroke, whatever that is. So who's the person?

Elizabeth Mower:

The advisor will say, "Okay, tell me the person that can talk to your top five clients, or your top 10 clients, or the top 10% of your clients. Those are important relationships. We want the business to continue. We don't want anybody to be nervous. We need someone to go out and have that conversation." And if I, as the owner, say, "There isn't anybody", that gives me something to work on for the next year. A year from now, I really do need to have somebody who can have that conversation, who can make those calls and then my planning moves forward. Because while I'm working on adding or building or developing a person who can talk to my top clients, I'm also delegating responsibility or building relationships between my management team and my customers that I've traditionally held. So I think working through business continuity, seeing where I'm weak, and then chipping away at those weaknesses, is a way to move planning forward. Agree or disagree? Is that too risky or is it a dumb place to start? What do you think?

John Brown:

The starting place for that, in my mind, would be way up at the beginning of the planning process in assessing, what are my goals and aspirations for me and my business today, and in the future?

Elizabeth Mower:

True.

John Brown:

And then to make sure that those goals are achieved, whether the owner dies, becomes disabled, whatever, or not, or they live. And so this is going to be the topic of several of our future podcasts. And in my mind it's really the integration of what I call exit planning, planning for the day when you're going to leave your business alive, and business continuity planning, which is planning for the day when you become incapacitated or you die.

Elizabeth Mower:

Right.

John Brown:

The goals of owners really don't change, in terms of what they want for the business and their family, whether they live or whether they die in terms of exiting the business. So, to Elizabeth's point, this is the starting point, I would say, for an awful lot of our advisors, maybe the majority of our advisors.

Elizabeth Mower:

It's certainly getting there.

John Brown:

It's a lot of, hundreds of advisors are doing the first part, the first phase of planning really, which is understanding and having the owner understand what they have and what they want. And then going all the way, you might say, to the back end of the planning process, what happens if I don't make it to the finish line, and making sure because we can do that because we know what the owner wants and needs and has, We can do that planning right now.

Elizabeth Mower:

Right. So I think owners should start, think of it as a contingency plan.

John Brown:

Yeah.

Elizabeth Mower:

We call it continuity planning. I think an owner would understand it as a contingency plan. If this unfortunate thing happens, then here are the steps or the processes that need to be put in place and now I can maybe sleep a little better at night.

John Brown:

Exactly. In a lot of the tools we have for continuity, or contingency planning, are really the same types of tools you have for lifetime planning, like, "Who are my key employees?"

Elizabeth Mower:

Right. Do they know what they need to know?

John Brown:

Yeah.

Elizabeth Mower:

Do they have the information that they need? Do they have the skills that they need?

John Brown:

Who is on my team of advisors, that needs to be consulted if something happens to me? Well it's probably the team of advisors involved in you're planning today. And so it all really meshes together really well. And I think our advisors find it's easier to approach continuity planning, or contingency planning or succession planning, whatever you want to call it, estate planning, it's a lot easier and more effective to approach it by beginning with the living goals and wants and needs and aspirations of the owner, because that's something the owner pays attention to.

Elizabeth Mower:

Right. So what we've come up with now, let's see if I can remember all the way back to the beginning of our conversation.

John Brown:

We both have that challenge, occasionally.

Elizabeth Mower:

I know. Things that owners can do, today or this month or this quarter, could be probably started and finished-

John Brown:

Right after this podcast.

Elizabeth Mower:

Immediately after this podcast, and within 90 days, a person who owns a business could have either a personal financial plan done or a preliminary business valuation done, or a starter version, a first attempt at a business continuity, or contingency or succession plan. These are three things that a business owner can do. They need to know some things and have some information. But in 90 days, at least one of those things could get done. And then move onto the next 90 days. So for owners who are overwhelmed by a complex and comprehensive process, don't do that, let's just do one thing at a time. And a qualified advisor can help say, "Okay, the next thing will be just this", and break it down into its pieces.

Elizabeth Mower:

So those are the kinds of ways that owners can get started. If there's an owner listening those, are the places we suggest that you go. If you're an advisor, those are the steps that we might propose that you recommend to your clients, and then we can move forward with planning from there. Right?

John Brown:

Right. And I think that's a good summary. I have nothing to add.

Elizabeth Mower:

Well that's why we plan, John Brown. So we encourage you to join us for more podcasts, where we will try to talk about both the sort of perils of planning gone wrong, the great benefits and outcomes of planning that has gone well, and the steps that owners and advisers can take in between to try and create those better outcomes. So I know we don't say it all the time, but I just said this to somebody yesterday on the phone who asked me, they said, "Well, why does your company not do something or other?" And I said, "Because our mission is to help business owners benefit from their lives' work." And if I spend all of my energy and all of my projects trying to adhere to that philosophy, then I think I will be doing a good thing.

John Brown:

Yep. Absolutely.

Elizabeth Mower:

So that's what we're here to do, right?

John Brown:

That's why we plan.

Elizabeth Mower:

That's why we plan. Thanks everybody for joining us. We'll see you next time.

John Brown:

Thank you.

Elizabeth Mower:

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