John Brown:

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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:

Welcome to the podcast. Today, John Brown and I are back to talk about more issues that face business owners, the advisors who work with them, and the issues that confront us for planning for the future. So, John, thanks for being back today.

John Brown:

It's always nice to be here.

Elizabeth Mower:

Today, I brought a conversation with me that I thought you and I should have, and we really have not talked about this very much. But I've come across some situations recently that made it I thought useful for us to talk about planning in terms of the reality of what it means for business owners, and the part of it that I want to talk about is the idea that there are people who are expecting. And I have to say with a lot of things, I'm sort of like this as well, they want to put a plan in place, know what they're going to do, and then march according to that plan in the direction that they've set and complete the steps that they've lined out and everything will be fine. And what I know about planning and businesses and what I know about everything else in life is that I really need to not do that and I need for business owners to maybe not have the expectation that planning for the future is a one and done.

Elizabeth Mower:

Because we have lots of examples of business clients who've put solutions that are custom tailored for them in place only to find that several years later, the plan needs to be changed, the plan needs to be unwound, the plan needs to be scrapped, improved, modified, or adjusted in some way. And I think that that's sometimes a surprise to the person who owns the business or the person who put a lot of intellectual and emotional energy into developing their plan for what they were going to do. And so if you're confronted with a business owner, who's saying, "What do you mean you're recommending that I change course? What do you mean this plan that I implemented doesn't seem to be working?" I assume you've seen that a lot also as well, John, and that you've had to have those conversations with clients saying, "Change is okay."

John Brown:

Well, yeah, it depends on what the change is. I mean, there can be a change in goals.

Elizabeth Mower:

Right.

John Brown:

"I want to leave in three years, but now you're telling me based upon what I have, it has to be six or seven years." How do you deal with that? Or it could be, "Yes, I have a plan to motivate and keep my key employee. I pay her a bonus of $50,000 a year. You mean I have to change that because it really isn't the type of incentive planning that's going to really retain that person longterm?" So it can be a lot of different things, and it can be, "I have this plan in place because my lawyer or my CPA or my financial advisor told me that's the way it should be. And sure it was 10 years ago that they told me that, but why should I change now?" So it can be a resistance to change. It can be changing goals, which can be very difficult. It can be changing the way they've done things for a long time. All those can inhibit an owner from wanting to do additional planning.

John Brown:

And I would say, in our exit planning, once we start exit planning and create an actual exit plan for a business owner with the help of their other advisors or other advisors we bring in, that plan is never finished. It's never over. The exit planning advisor is going to maintain a relationship with that owner forever.

Elizabeth Mower:

That's exactly where I was hoping that you would go with it.

John Brown:

Well, I was lucky then.

Elizabeth Mower:

I know, thank goodness, or else we would have had nothing to talk about today. I think it's important to be open with ourselves as advisors and with our clients who are business owners that a plan is never set in stone. It's never locked down and that's even maybe detrimental to the future of the client in certain cases, if we lock them in too tightly too soon to a course of action. And so I've been very pleased over the years. I had a client who was just very, very sure that this particular employee was the right person to take over the business. So very simple example, we transition through a sale a certain percentage, pretty small percentage of the ownership of the business, to the employee as a way to start the ownership transition process. So didn't sell the whole company, didn't sell a controlling interest by any means. It was very small and it was intended to start a building of ownership on the part of this employee over a multi-year period.

Elizabeth Mower:

Well, a year or two down the line, this client calls and says, "Elizabeth, I realized that we put all of these things in place and we put a lot of effort into getting employee X into ownership. And the thing is, is that it's not working out. It's really not going very well."

John Brown:

Mm-hmm (affirmative).

Elizabeth Mower:

And my initial reaction was, "Oh, no." And then as I thought it through, I realized, oh, okay, this is actually, it's a disappointment and it is a setback," because it created a timing difficulty for this owner, but it wasn't an actual problem because we did have the mechanisms in place to unwind that agreement. We actually had thought all of that through and made all of those decisions at the very beginning of planning so that if circumstances changed, we could change course.

John Brown:

Sure.

Elizabeth Mower:

And that, of course, in that particular case, was just through the process of a well thought out, buy-sell agreement. And it does teach you that it doesn't matter really how certain we are of what we're doing at the time that we do planning, the plan always needs to be available to be revisited, to be updated, to be reviewed, to be revised in some way. And not everything can be. I think you were talking about that before we came in here to record and saying, "Not everything can be adjusted, but where we can I do think it's important to do." And I know you've got examples of clients that put planning in place only to make a decision later or be in a situation later that caused them to need to change that plan.

John Brown:

So there are some common scenarios where that happens a lot. Number one on that hit list is transfers to other family members, because it's not just a financial fact-based decision. It's the owner's desire to have children typically become the successor owners, even when those kids may not be sufficiently capable or interested in becoming the successor owners. But even if it's to management, which in your case, it was to keep a key employee, same thing happened, is that the key employee perhaps changed her mind or his mind that they didn't want to go through the pain of becoming an owner, taking on financial responsibility, things like that. So in exit planning, we always try to encourage our members and provide them support. We should always have a backup plan.

Elizabeth Mower:

Mm-hmm (affirmative).

John Brown:

So if we want to transfer the business to these two key employees, we have to think, because the owner's not necessarily going to be thinking about this, what happens if one or both of them leave? We always have to be thinking in a family transfer, what happens if the kids don't turn out the way we expect them to turn out, even when we're putting performance standards in place to make them accountable if they fail those tests? We have to have another plan available, which might be, okay, now we're going to transfer more stock to one child. Now, we're going to transfer ownership to the management team. Now, I always have the backup capability of selling to an outside third party. We need to be thinking about those things and have people be aware of all of that. And, of course, the other big unforeseen issue is, what happens if the owner dies or becomes disabled?

Elizabeth Mower:

Sure.

John Brown:

We have to have continuity arrangements in place really almost after the beginning of the exit planning process. As soon as we understand goals and resources, often what we're going to do is put a continuity in place in case the owner does the unexpected, which is to die.

Elizabeth Mower:

Right. You'd hate to spend 10, 12, 14 months working on a really interesting and multi-faceted plan only to realize or to find out that now your business owner client has taken ill and may pass away at month nine or month 11, and you've spent all this time on planning and haven't put anything in place. So I agree with doing continuity planning first. And I might also add that another factor or reason for change that I'm seeing, and I'm working with a business owner right now where they've gotten very interested, I think because of experiences they had with the most recent recession, got very interested in doing what they're calling stress testing on their plan for a multi-layered multi-gen, not generational in the family, but generations of employees as owners situation. And so they're looking at bringing in new management level people as owners and retiring out and buying back from the most senior managers/owners.

Elizabeth Mower:

And before they initiate another round of ownership transfers to new people and put things in place, they're doing a lot of what they're calling stress testing. And just saying, "What if things go very badly?" Because they are probably today three times the size of a business that they were at their lowest point during the recession.

John Brown:

So who who's helping them with that stress testing? Are they doing it all internally? Are they using outside?

Elizabeth Mower:

It's a combination of the person who's taking the lead on the exit planning, which is an external advisor, the leadership of the business who's really job it is to see all these different potential issues. They've got internal, not highly technical, really accounting related people that can understand, okay, in a good year, our business will do this. In a bad year, our business will do that.

John Brown:

So they've got benchmarks, basically?

Elizabeth Mower:

Yes. They have a sense of, they're a project-based company, what are the consequences of not getting projects for a future year? How does that trickle down all the way through their P&L? And then they're also getting input from their CPA. So it's really a team effort to say, "Okay, well, if things go really, really well, does that create any problems? Does it over-exaggerate the value of the company? Does it over benefit someone whose turn it is to sell at the very moment when before that and after that it might be a down year? So what should we do about that?" And so all these different people are trying to contribute to the analysis of what a very good year looks like, and is that a problem, which a lot of people don't think that it is, and what does a bad year look like? And we already know that that's a problem, and what are we going to do about it?

Elizabeth Mower:

And then I'm playing a consulting role off to the side and just, as you like to say, what I'm doing is I'm just throwing out questions that other people have to answer. But I think they're interesting questions about, okay, well, how will that affect your ability to continue to get new projects and just function as a company? Is there anything that we're doing here going to impact your ability to do business? Because we really don't want to create any artificial constraints on the company's ability to do business and either shrink itself down or expand itself out, depending on what the economy is doing. And then I'm asking a lot of other questions about, how will we know that a person is a good candidate? And how comfortable will the remaining owners feel if a departing owner ends up with a particular arrangement that's very good or that's very bad? Are there any bumpers that people would like to put on that?

Elizabeth Mower:

So my job in that particular client situation is to ask a lot of questions and then to try and give them ideas for ways to build flexibility into their plans. And so I think if advisors will talk more to their clients at the front end about the need to include flexibility where possible and where it's helpful, and business owners should maybe have expectations that plans are a living, breathing, changing thing and no matter how much effort we put into it today there's still a reasonable chance that it will change in the future. And keeping that in mind I think helps us develop better plans, more robust plans that are more resilient and more likely to succeed overall for us having built in all of these safeguards.

John Brown:

With all of that, it says a lot. So we've moved past exit planning here, and we're talking about implementing a plan that's already been created, and that's where we need flexibility, because if it's one thing we know it's that, that plan's not going to work perfectly.

Elizabeth Mower:

Right.

John Brown:

There are going to be glitches, they are going to be unseen opportunities.

Elizabeth Mower:

I don't think people talk about that. It sounds negative. And I think you're absolutely right though, the plan as we conceive of it in our minds is almost never going to be exactly the plan that ends up working out.

John Brown:

And those plans often, they're stuck in the drawer or on the computer and we don't re-examine it. And that is a role that advisors in general are not going to voluntarily undertake. As an old lawyer or by CPA friends or my other professional friends, we don't think about, "Okay, we did this in 2016. Let's revisit that in 2019 to see if it's still appropriate."

Elizabeth Mower:

Right.

John Brown:

It's one and done, we go away, we'll still represent the client maybe for other opportunities, but we're not reexamining whether what we originally decided to do needs to be revised. And that just takes an ongoing implementation process where other advisors will be brought in as well to re-examine what they've done. And it's not that it was wrong, it's just that things have changed.

Elizabeth Mower:

Right. And there are a small number of professions who I think are naturally trained to implement and then evaluate, and then revisit and adjust. So financial planners, if they are any good, are going to do that naturally, don't you think?

John Brown:

That's their job.

Elizabeth Mower:

That is their job.

John Brown:

It's their job. Yeah, you would think they would do it.

Elizabeth Mower:

So I think they're going to do that if they have expanded to helping their business owner clients develop a business plan for the future. I think a person who's trained in financial planning is pretty likely.

John Brown:

Yeah, because they're always evaluating the plan in light of current financial circumstances.

Elizabeth Mower:

Right.

John Brown:

But as an old lawyer, I didn't think of, well, a year's gone by, do I need to re-examine the buy-sell agreement, or do I need re-examine other things that I've done?

Elizabeth Mower:

Right. And not to throw them under the bus, but lawyers and CPAs I think do tend to complete a project ...

John Brown:

And then move on.

Elizabeth Mower:

... and then move on to another project, and feel pretty good about doing that. Maybe business consultants might be a little bit more, because they're objective measures of success and failure oriented, business consultants might be a good candidate for someone to really keep an eye on changes.

John Brown:

They might be.

Elizabeth Mower:

It's possible [crosstalk 00:18:45].

John Brown:

I think we all could be, it's just that maybe, especially the financial planners, tend to do that as part of their profession.

Elizabeth Mower:

Right.

John Brown:

I mean, we've used consultants in BEI, right.

Elizabeth Mower:

Yeah, and they're gone.

John Brown:

They're gone. They're Gone. Should we call them back?

Elizabeth Mower:

They don't care what happened with our implementation.

John Brown:

Yeah.

Elizabeth Mower:

And I didn't mean to imply that financial planning firms should do all of the business planning, but we should really take a lesson from them. They set expectations with their clients that their plans almost certainly will not work out exactly as expected and that adjustments will need to be made. And I think we could all, those of us who come from PR professions in which observe, evaluate, adjust is not a typical pattern, should really look to some of those professions where it is and assume and take on some of those patterns for ourselves, even if all it means is that we put all of that work onto our junior advisors and our staff and our administrative staff to say, "It's February of 2020, or 2025 or 2030 now, it's time for you to schedule a meeting and revisit these things with this client." So even if maybe I'm not personally good at doing that kind of thing, I think I can put systems in place.

Elizabeth Mower:

And I think business owners should do it as well. Business owners should assume that planning and revisiting their planning is part of their normal year. Every year, we're going to do these things. We're going to check them. We're going to see if we could make improvements or adjustments. And even if we think everything is good, we should probably get back together with our lead planning advisor at the very least and talk about it. Maybe that planning advisor is aware of a change in the tax laws, a change in our state laws, a change that's coming to affect our industry and might affect our planning. And so getting other people into the conversation I think is important.

John Brown:

But there's a practical problem with other advisors doing this. With financial planners it's not a problem because they're usually being paid an ongoing fee for the very purpose of readjusting the financial portfolio in light of change in financial or personal circumstances. So that's why they're receiving their fee, which they earn. But if I as a business attorney did a buy-sell agreement for a company in 2018 and in other legal documents perhaps, and now I come back and say, "Well, we need to re-examine this." Well, it's going to take me a lot of time typically to see what in the heck I did. I'm going to have to pull out the old document. I'm going to have to review it. And then I will make recommendations based upon maybe that follow-up meeting you're talking about it. And if the client's not prepared to pay for that review, that's going to be difficult for me.

John Brown:

And secondly, if all I've done is create a document and I put it in the client's file, I will forget about it instantly, and the only way to understand what's in the document is to go back and read the document. And that is a time consuming effort. So in exit planning, and what we learned in our old law firm is we have to have a process where we capture the important items in all of these documents we're preparing in an exit planning process, the terms of a buy-sell agreement, the terms of an incentive plan for the key employees, the important terms maybe in employment agreements for the management staff. We have to capture those vital pieces of information so that we can instantly review them. That's part of the planning process.

Elizabeth Mower:

Agreed.

John Brown:

And I think a lot of lawyers, for one, don't do that.

Elizabeth Mower:

Right. I think there's a lot of professional advisors period who just don't do that. And as I think through all of the business clients that we've worked with, that I've worked with over the years, and and that I've talked about with other advisors, the need to expect flexibility and to expect to change is really an important part of the planning process. So I think if we set our expectations among advisors and clients alike, that that's what's going to happen, then I think it'll seem a little easier and it'll seem like a great benefit. Not a burden that we have to go back and try to revisit it, but a great opportunity to really make a plan even more successful and even better than it was before.

John Brown:

So if I can put in the slight pitch for our software program, is that permitted in this podcast?

Elizabeth Mower:

You can do it just for five seconds.

John Brown:

Okay, only five seconds I have?

Elizabeth Mower:

Yes. 10.

John Brown:

I can't do it. 10 seconds. One minute?

Elizabeth Mower:

Try.

John Brown:

Okay. So part of what we learned in developing our software system to create an exit plan is we get input from all of the advisors and we put that into the plan, just the salient provisions of a buy-sell agreement, of a financial plan, of tax planning so that's always there for everybody to look at. And that makes it a lot easier to keep everything current, because we don't have to go back and try to find out what we did three years ago. It's right there. I'm through with that.

Elizabeth Mower:

Good job.

John Brown:

I'm done.

Elizabeth Mower:

Well, and for those who don't use BEI's Epic software, that's something that they can do on their own as well. Summarize what we're trying to achieve, how we're achieving it, summarize the key points that we're putting in place, so that instead of reading hundreds of pages of documents and digging around in files, next year or the year after or seven years from now, 10 years from now, we can just look back at the plan that has all of the critical features in it. So if that's something that an advisor wants to just write up themselves, I think they should do that. Certainly, I think that's a better way to go than files with stacked all different estate planning documents, business documents, personal documents, financial planning documents. Certainly, I'm not interested in reading all of those things so creating some kind of a summary that has been contributed to by lots of different advisors who have the expertise necessary is really important to do.

Elizabeth Mower:

And that was your point, so it's a pitch and a recommendation on how to conduct a successful and efficient practice in working with business clients, right?

John Brown:

Mm-hmm (affirmative).

Elizabeth Mower:

Well, that's why we plan, so that we can help clients achieve a successful future no matter how that changes over time, right?

John Brown:

Exactly. Thank you very much.

Elizabeth Mower:

Thanks for being here. We'll see you next time. Thanks for listening. Join us for our next episode. For more content like this, please visit exitplanning.com.