



THE DEFINITIVE GUIDE TO ESTABLISHING EXIT PLANNING GOALS

HELP YOUR CLIENTS SELL THEIR
BUSINESSES WHEN THEY WANT,
FOR THE MONEY THEY NEED,
TO THE PERSON THEY CHOOSE



BUSINESS ENTERPRISE INSTITUTE
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BUSINESS EXITS RAISE THREE CRITICAL QUESTIONS

As owners approach their business exits, they're confronted with several questions: When do I want to exit? How much money do I need from transferring my business to do what I want after I exit? Whom should I transfer my business to? Many owners ask themselves these questions too late in the exiting process and find themselves settling for less than what they wanted. Owners often need help addressing business-exit issues to achieve the post-exit lifestyles they want and need, and you, the Exit Planning Advisor, can help.

Exiting a business (and the related transfer of ownership) is the most significant financial event of business owners' lives. Nothing they do—inside or outside of their businesses—has greater financial and emotional consequences. Since 1996, BEI has helped advisors prepare their business-owning clients for their business exits by creating Exit Plans. Over the decades, we've found that even the most entrepreneurial owners are woefully unprepared to exit their businesses. The future quality of their lives depends on how well they manage the exit process, and as an advisor, you hold the keys to whether they will leave their businesses when they want, for the money they need, and to the person they choose.

There are many reasons owners fail to prepare for their exits. This guide and those that follow are intended to eliminate two of them: the lack of (1) a proven process and (2) an advisor skilled in using it. As you complete each guide in this series, you will have the information you need to help your clients begin preparing for their business exits. In total, these guides describe precisely what you can do to help your clients leave their businesses on their terms.

In this introductory guide, you will learn how to help your clients set the goals that they want to achieve by the time they've exited their businesses. We will show you how to help your clients overcome the issues inherent to setting goals, including waiting too long to act on their goals and settling conflicts among goals. In subsequent guides, you will learn about taking the steps you, your Advisor Team, and—most importantly—your clients need to take to implement an Exit Plan that allows your clients to leave their businesses when they want, for the money they need, and to the person they choose.

EXIT PLANNING CHALLENGES

“Just about every BEI Advisor has run into a business owner with a seemingly insurmountable challenge in exiting. Anticipating the Exit Planning challenges lets owners accurately establish their goals before they get too invested in dead-end solutions.”

–Elizabeth Mower, President of BEI

Business owners will face many formidable challenges in their quest to leave their businesses on their terms, some apparent, but many subtle and unseen. Several challenges that many business owners fail to anticipate include:

THEIR OWN MISPERCEPTIONS. Typically, owners (and their businesses) are far less prepared for a successful exit than they think. Their misperceptions lead to complacency and inaction. However, by probing the assumptions underlying these misperceptions and addressing the consequences of inaccurate assumptions, owners can focus on accelerating growth in business value and cash flow. They can begin to implement their exit strategies now, before either burnout or boredom prevents them from taking necessary actions. Exit Planning Advisors are equipped to guide owners past these misperceptions.

A LACK OF RESOURCES. To whom or where can owners turn for help? Too few advisors have pursued the necessary training to help owners develop and execute plans to successfully exit their businesses. In fact, due to the transactional nature of many advisor firms, most advisors (like most owners) have, at best, limited experience in planning, much less orchestrating successful business exits. Thus, neither owners nor their advisors know where to start, what to do, who can help, which design principles to apply, or which planning options exist to help business owners achieve their goals. You can fix this problem.

INADEQUATE TIME. Most likely, your clients will discover that it will take far longer to prepare and implement a successful exit strategy than they expect. We calculate that about 200,000 out of 7 million businesses—a paltry 2.8%—are capable of being transferred today while allowing their owners to achieve their goals and objectives.

Fortunately, there is a solution to all of these challenges: a trained Exit Planning Advisor (i.e., you) deploying The BEI Seven Step Exit Planning Process™.

EXIT PLANNING BENEFITS

Like the challenges owners face in exiting their businesses on their terms, some of the benefits of Exit Planning are obvious, while others are hidden. The most obvious benefit is achieving the owner's exit goals, including, as we've mentioned, allowing owners to leave their businesses when they want, for the money they need to attain financial security, and to the person they choose.

Some less obvious benefits of Exit Planning include:

CLEARs THE MISPERCEPTIONS. In dispelling misperceptions about what it takes to exit successfully, Exit Planning clears the path to an exit that achieves all of your clients' goals and aspirations, including the additional values-based goals they have for themselves and their businesses. These values-based goals may include maintaining their legacies or the culture they've created within their businesses, assuring family harmony, and/or continuing to benefit the community. Advisors play a critical role in helping owners uncover and articulate these goals. Unfortunately, too many owners are unaware of their values-based goals until too late in the Exit Planning process.

KEEPS OWNERS IN CONTROL. The designs that we use in BEI's Exit Planning Process keep owners in control of both their businesses and the courses of their exits until they achieve all of the goals they've established for themselves, their families, and their businesses.

ALLOWS OWNERS TO ENJOY THE RIDE. While it will likely take several years for your clients to create businesses that they can transfer in a manner that achieves all of their goals, you can help them do so in a way that reduces the time they'll spend working in their businesses. Good Exit Plans free up the demands on owners' time and transform the time they do spend in their businesses to time spent doing only things they want to do, rather than things they have to do.

"While the obvious benefits of Exit Planning include allowing business owners to exit on a set date, make enough money to enjoy their lives, and leave their businesses to someone they trust, more-subtle benefits—such as helping owners discover that there's more than money driving their decisions—can be applied both during BEI's Exit Planning Process and after they complete the process. Helping owners plan their exits fosters strong relationships among owners, advisors, and family"
—Elizabeth Mower, President of BEI

YOU ARE NOT ALONE

BEI always encourages owners to engage advisors skilled in Exit Planning to organize and streamline their Exit Planning processes. In fact, we've included input from several Members of The BEI Network of Exit Planning Professionals™ in this series. These professionals are from a variety of disciplines (e.g., investment banking, financial planning, insurance advising, law, accounting, business brokerage, and ESOP creation and maintenance). They have incorporated Exit Planning for business owners into their core services and have found that working with owners is the most satisfying part of their careers.

For years, owners had no one to turn to for advice about how to exit or prepare their companies for their exits because advisors simply did not know how to help. One of BEI's founding and continuing goals is to equip advisors to prepare both owners and businesses for an owner's exit.

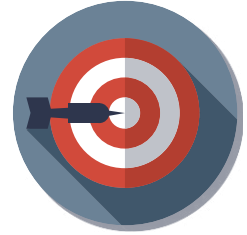
THE ROAD AHEAD

Planning a business exit is a journey, and the destination determines the quality of the rest of your clients' lives. Each exit has a beginning and an end, and with your help, owners choose which path to take to reach their destinations. To best describe how you can help owners map the most successful exits possible, this series focuses on you and the key concepts you will use to plan the exit best suited to each client.

THEY'LL BRING THE GOALS AND YOU'LL BRING THE PROCESS

All business owners have goals they want their business exits to achieve, and it's the Exit Planning Advisor's job to extract and distill those goals to assure that they are lofty, realistic, and achievable. Fortunately, BEI provides numerous tools, including The BEI Seven Step Exit Planning Process, to help Exit Planning Advisors guide their clients toward successful exits. In conjunction with the other guides in this series, this guide describes the most important actions you and your clients can take to fulfill the necessary objectives of Step One.





OWNER GOALS

What do owners want? What do owners have? What are the roadblocks?

“The beginning is the most important part of the work.” –Plato

Successful Exit Planning requires owners to carefully describe their goals and aspirations. As an advisor, understanding your clients' exit goals is essential to your ability to provide the exit results your clients expect. Having a precise understanding of your clients' goals allows you to determine precisely what you need to do to help them achieve them. This is the topic of this guide, and it will help you do two things: (a) understand what the Exit Planning Process is for owners and (b) combine your current expertise with Exit Planning to assure that your clients can exit their businesses on their terms.

GOALS

“Setting a goal is not the main thing. It is deciding how you will go about achieving it and staying with that plan.” –Tom Landry

There are hundreds of quotes about the importance of setting goals, all of which aim to motivate and inspire. BEI encourages motivation and inspiration, but like Tom Landry, we believe that inspiration is not the main point: Having the grit and determination to achieve set goals is.

Before we discuss the specific types of exit goals your clients need to consider, we want to emphasize the importance of setting concrete, actionable exit goals.

- Until owners define their hopes and wishes for their futures and the futures of their companies (i.e., establish their exit goals), they will be stuck on the ownership treadmill going nowhere.
- No amount of prodding, threatening, or inspirational-quote reading will prompt owners to jump off that treadmill. They will jump off only after they’ve set specific and personally meaningful goals related to (a) what they need and want as they exit their businesses and (b) what they seek to achieve after they exit.
- The first step in creating a future is to envision it. Your clients’ futures are defined by the goals they set related to their financial needs and wants, departure date, and successor owner. Additionally, their futures are defined by their values-based goals, such as family harmony, business legacy, and the well-being of their communities and favorite charities.

To achieve these goals, you must help your clients carefully consider, prioritize, and commit to them. They must be specific, actionable, and realistic. Each goal must be broken down into manageable “baby steps,” and each baby step must have a deadline backed up by personal accountability. An Exit Plan is a written road map that describes specific, actionable steps and assigns deadlines and responsibilities for completing each step to you, your Advisor Team, and your clients.

Commitment, accountability, and written goals all contribute to an increase in simple, short-term goal achievement by 50% or more.¹ Since it may take 5–10 years to fully execute an owner’s Exit Plan, having written goals is essential. BEI offers assessments, processes, and tools to help you manage and streamline your clients’ written goals, giving you and your Advisor Team a touchstone for the things you need to accomplish to achieve your clients’ goals.

¹ Gail Matthews, “The Impact of Commitment, Accountability, and Written Goals on Goal Achievement” (paper presented at the 87th Convention of the Western Psychological Association, Vancouver, B.C., Canada, 2007).

ESTABLISHING GOALS: STEP ONE OF THE BEI SEVEN STEP EXIT PLANNING PROCESS

As an advisor, your first Exit Planning step is to help your clients establish their exit goals.

Exit goals include one foundational goal (financial independence), the three universal goals (financial security [in terms of what your clients *want* rather than *need*], departure date, and successor choice), and several “softer” or values-based goals that, for many owners, drive the Exit Planning bus.

We’ve found that owner-based exit goals fall into three categories:

FOUNDATIONAL: The need for financial security or financial independence is a fundamental condition of a successful exit.

UNIVERSAL: Most owners likely want to enjoy a certain level of income post-exit, depart when they wish, and transfer the business to their chosen successor. We call these three goals “universal” because almost all owners seek to achieve them.

VALUES-BASED: These are the goals that reflect your clients’ personal values. At first, your clients may think they have no such goals. However, as you move through the Exit Planning Process with your clients, you may discover that there are important values they wish to maintain or achieve as they exit.

Let’s examine each type of goal and begin the process of considering, quantifying, and prioritizing what it is your clients want to accomplish. This is the foundation of Exit Planning. The goals your clients establish based on these categories set the course of their unique Exit Plans.



FOUNDATIONAL GOAL

Financial independence is more of a need than a goal. Independence means that your clients no longer need to look to their businesses for financial security.

If your clients leave their businesses without financial independence, they will not have completed a successful exit. They will have created a train wreck. The litmus test for any Exit Plan is achieving financial independence no later than the date the owner gives up control of the company. An exit cannot be considered successful unless the owner is financially independent after leaving the business.

To define your clients' financial independence need, they must answer two questions:

How much cash must I have in order to exit?

It helps to express this number as a pre-tax, annual amount of income—adjusted for inflation—needed on the day your client leaves his or her business. This is a need, not a want.

How do I determine, with precision, what I need?

A BEI OBSERVATION

While most owners don't exit their businesses solely for the money, they expect to be compensated fully for their lives' work. The real challenge is determining how to maintain the income streams they enjoy today after they exit and relinquish control of their companies. Without planning and execution, few owners can exit today while maintaining their current lifestyles.



THE THREE UNIVERSAL GOALS

If your clients have given any thought to someday leaving their businesses, they likely have considered three goals:

FINANCIAL: After they leave their businesses, how much money do your clients want each year for the rest of their lives (and their spouses' lives)?

DEPARTURE DATE: When do your clients want to leave their businesses (and what does “leave” mean to them)?

SUCCESSOR: Who should be the new owners of your clients' companies?

Let's take a closer look at each of these goals and what it takes to achieve them.

UNIVERSAL GOAL 1: LIVING THE DREAM

How much money do your clients want when they leave their businesses?

Financial independence is a requirement for a successful exit in The BEI Seven Step Exit Planning Process. A subsequent financial goal is deciding the annual income your clients want in order to enjoy the post-exit lifestyle they envision. This goal may be discretionary, but for many owners, it is important enough to cause them to postpone their exits until they can achieve it.

You may have a lucky client who can exit today and satisfy his or her financial-need goal, which allows that client to choose to keep the business until he or she can meet his or her financial-want goal. Let's look at one such situation.

One owner a BEI Member worked with, "Jim," found himself in the enviable situation of achieving financial independence. Jim wanted \$650,000 per year after his exit, but with the assistance of his financial planner, he determined that he needed \$300,000 per year.

One might ask, "Does Jim really need \$300,000?" Most people who ask this question often ask it from the view that many people and their families live comfortably on much less. However, like many owners, Jim had worked diligently to achieve a \$300,000-per-year standard of living and had no desire to exit his business and live on less. Besides, why would he exit his business to live frugally?

Jim enjoyed his involvement with the business (a single-location manufacturing company) because his management team was capable and responsible. His workweeks rarely extended beyond 20 hours, for which he received salary, perks, and distributions of \$500,000–650,000 annually. He managed to save approximately \$200,000 per year, while his company averaged \$2 million in EBITDA (earnings before interest, taxes, depreciation, and amortization). The growth prospects for Jim's business were promising.

Jim enjoyed his lifestyle and was not willing to compromise it just to exit. He also had a target income level that, if attainable via a third-party sale, would likely motivate him to sell sooner rather than later.

We make a distinction between the annual income owners need and the income they want because like Jim and other entrepreneurs, your clients probably have a baseline number for financial security, and they are unwilling to sell their companies without receiving that number. However, living their dreams after they exit (e.g., buying vacation homes and boats, starting a family foundation) likely requires an amount of money much greater than their baselines.

As businesses grow in value and owners accumulate investments outside of their businesses, owners reach a point at which they can transfer ownership of their businesses in return for proceeds that satisfy their financial security needs. However, it takes time to create additional value and redirect money into personal investments. As you guide your clients through the processes of building business value and making personal investments (with the help of your Advisor Team), their exits will be subject to the risk that their businesses may suffer a downturn. Recall the Great Recession: Exceedingly few businesses, even strong businesses, were salable. Many more previously profitable businesses closed their doors. In short, any decision your clients make to either sell or keep their businesses after they've made it possible to exit with financial security is one to make carefully and re-examine periodically.

There are many benefits to building a best-in-class Exit Planning Advisor Team to address your clients' exit wants and needs. Know that there are countless advisors whom you can include on your Advisor Team to help your clients quantify their financial security wants and needs. Further, they can illustrate any gap between the two.

However, it's critical for you to understand that while you and your Advisor Team can help your business-owning clients exit their businesses successfully, only they can decide when to exit. No advisor, regardless of his or her expertise, can or should force a business owner to exit his or her business if he or she is not ready. The decision to exit is the business owner's alone, so help that owner make it an informed one.

WANTED: INCOME—DEAD OR ALIVE. There's one final question to think about as you help your clients set their financial goals: Do they want the same income and financial security for their spouses and families whether they exit their businesses alive or die at their desks?

The income goal that controls your clients' Exit Plans will serve you well as you help them determine what they want to happen should they die or become permanently incapacitated before the date they hope to exit their businesses.

A BEI OBSERVATION

We encourage you to support owners who want more money from the sale of their businesses than the amount necessary to meet their post-exit income needs. However, we discourage you from allowing an owner to entertain the idea of selling the business for any amount of money less than the amount necessary to live the life he or she wants, much less needs, post-exit. We'd rather see owners ask for gravy on their turkey than settle for scraps.

UNIVERSAL GOAL 2: DEPARTURE DATE

When do your clients want to exit?

Whether owners are pushed into creating an Exit Plan (because of burnout or other dissatisfaction) or pulled toward their post-exit lives (because of an attraction to a non-business activity), they usually know when they ideally want to transfer or leave their businesses. Owners who are pushed into Exit Planning seek to exit their businesses immediately after their set event occurs and thus choose dates based on some internal calculations about any of the following:

READINESS TO EXIT. Owners often resist planning for an exit until they are ready to exit. The obvious problem is that waiting until they are emotionally prepared to exit before preparing their businesses for a successful transfer of ownership creates a time bomb: When owners are ready to exit, their businesses may be many years away from being prepared for new ownership.

BUSINESS VALUE. How long owners think it will take to develop enough value in their businesses (and outside investments) to achieve post-exit financial security.

MANAGEMENT'S READINESS. How long it will take owners' management teams or children to transition into the roles they once filled.

TIME. A specific date on which the owner will exit, such as the date his or her youngest child will graduate from college, or when the home mortgage or company debt is paid off.

Owners who are pulled—those who create Exit Plans because they want to move toward the next stage of their lives—are more flexible in setting specific exit dates. They enjoy what they are doing now but find other activities even more attractive. For these owners, the transition from working to not working often takes little time: They have post-exit activities in mind and may already be involved in them.

Post-exit activities are as varied as the owners who plan them. Some begin charitable foundations, while others lower a golf handicap from 27 to 4.

It doesn't matter whether your clients are pushed or pulled toward an exit as long as they realize that the deadline (or target departure date) they set for you, your Advisor Team, and themselves is the deadline they set for their businesses: On that date, their businesses must be able to generate enough money and value to support their financial security, at a minimum, without them at the helm.

However, you and your clients must realize that owners revise their departure dates more often than their other two universal goals for several reasons.

For many, departure date is secondary to achieving financial independence. For example, owners will adjust their departure dates if their chosen successor is not ready to take over when they are ready to leave or if their businesses fail to grow as planned. Departure date is often the least important universal goal to owners.

Even if the business and successor are prepared for the owner's departure, the owner may decide that he or she is not ready to exit. A major component of increasing transferable value² and transforming the owner's role in the business is to transition the owner from being the hub of the business to one of its spokes. In doing so, owners gain time to investigate new pursuits outside or inside the business. Most owners find being a spoke enjoyable and decide not to exit as soon as they had originally planned. Owners are free to change their departure dates if they engage in the planning we describe.

Headwinds and other external events (e.g., tax increases, economic recession, new competitors entering the marketplace) can affect planned departure dates. Without proper planning, an owner's health, the resignation of a key employee, or a change in consumer tastes or technology can condemn the business to the same fate as the corner video store.

² Transferable value is what an owner's business is worth to someone else without the owner.

UNIVERSAL GOAL 3: DESIRED SUCCESSOR

To whom do your clients want to transfer their businesses?

The final universal exit goal that we ask owners to establish at the outset of the Exit Planning Process relates to their successors. Whom do they want to succeed them? Which type of successor will best help them reach their other exit goals? It's common for business owners to think they don't have a choice in successor but then change their minds on who their successor should be during the planning process.

Most importantly, your clients need to know that they do not need to have their goals set in stone before they begin planning (or acting on their plans). The act of planning, especially with the assistance of your Advisor Team, causes owners to think more deeply and clearly about what they ultimately want to accomplish for themselves and their businesses. As your clients gain clarity about their exits, they may wish to modify their goals. Change based on clarity is good, and making changes early in the process is even better, as doing so is much more time- and cost-efficient than changing their goals after they finalize their plans and begin implementing them.

FRANCIS: A CASE STUDY

We have described how to help your clients set three types of goals. As an example, we will introduce you to Francis, a compilation of hundreds of owners whom BEI and its Members have worked with over the years. Francis will show you how the principles of Exit Planning work for real owners in the real world.

FRANCIS LOOKS FOR HELP

Francis met with his Exit Planner, Malcolm, after hearing a speaker talk about succession planning at his industry's annual convention. It took him a while to find someone who he thought could help him. Like most owners, none of Francis's advisors had ever mentioned that, at age 62, he might want to begin thinking about his business exit.

In their first few minutes together, Malcolm learned that, 25 years ago, Francis had started a garage-door repair business out of the back of his pickup truck. Always a tinkerer, Francis had developed several improvements to the opener systems and, with the encouragement of his brother—a luxury-home builder—Francis began fabricating high-end, custom garage and barn doors. Francis's company now employed 30 people, had distributors in 35 states and, according to Francis, was worth about \$2 million.

After their introductions, Francis and Malcolm went to work. The starting point of any Exit Planning discussion is always to discover and understand the owner's exit goals, so Malcolm began by asking Francis for his thoughts on the three universal goals almost all owners seek:

FINANCIAL SECURITY OR FINANCIAL INDEPENDENCE A SET DEPARTURE DATE A STRONG SUCCESSOR



A BEI OBSERVATION

Every Exit Plan is owner-centric (or should be). Every action described in an Exit Plan and acted on by your business-owning clients, their employees, you, and your Advisor Team has one purpose: achieving the owner's goals.

FRANCIS DEFINES FINANCIAL SECURITY

Malcolm asked Francis the same two questions he asked all business owners: “How much money do you and your wife need, each year, to live for the rest of your lives, beginning on the date you leave your business? Is that annual amount any less than the amount you want to live on?”

Francis thought for a moment and said, “My wife, Rita, and I haven’t really put numbers on it, but I think we both assume that we’ll want to live as we do today. She’s anxious to do more traveling—especially now that our oldest daughter is pregnant—but I figure we’ll use the money we’re spending on tuition for our son to do that once he finishes college next spring. I plan to spend more time with my hobbies: photography and biking. Rita tells me I’ll be spending more time volunteering at church events with her. The house will be paid off in three years. I had thought we’d downsize, but with grandchildren on the way, Rita is more interested in renovating our current home.”

Malcolm interpreted Francis’s response to be, “I want to maintain our current lifestyle.”

FRANCIS DESCRIBES HIS DEPARTURE DATE

Tabling the financial security discussion for a moment, Malcolm asked, “Have you thought about when you might want to leave your business?” Fortunately, Francis did not say he wanted to leave tomorrow. Instead, he gave the perfect answer, the one that dances through every Exit Planning Advisor’s dreams: “Well, I don’t have any particular date in mind. The sooner the better I guess. But anytime between now and 10 years from now would be fine—as long as Rita and I can live the lives we want.”

What Malcolm heard was, “My departure date is not as important as my other goals.”

FRANCIS NAMES A SUCCESSOR

Having discussed Francis’s thoughts on his departure date and post-exit income wishes, Malcolm turned to the third universal goal: “Francis, to whom would you like to transfer the business?” Without hesitation, Francis answered, “An outside third-party buyer.”

Whenever an owner provided an immediate response, Malcolm always asked him or her to tell him more. Francis responded, “My kids have no interest in the business. As for my management team, neither Craig (who runs operations) nor Lois (in sales) could step into my shoes today. Besides, they have no money.

“That leaves a third party. I can think of several competitors who would love to get their hands on my brand and customer list. One of the big national homebuilders could easily use my company to launch a builder-grade line of doors.”

From this, Malcolm understood that Francis assumed that his only exit option was a sale to an outsider.

Francis is a perfect example of owners who take their first wobbly steps toward planning for their business exits: They have an idea about what they want to do, but they lack certainty because they've never engaged in this type of planning or thinking before. Thus, it's unsurprising that most owners feel uncertain, but taking those first steps is where everyone starts, and those first steps are always a move in a positive direction.

FRANCIS CHOOSES A DEPARTURE DATE

When owners are less flexible about departure dates, simple math often tells us that they cannot hope to replace their income within their desired time frames. For example, if Francis wanted to leave in six months, his company were worth \$2 million, and he needed \$3 million from the transfer of the business to assure post-exit financial security, he would have to sacrifice his financial security to exit on his chosen date. This is precisely what happens when owners are ready to exit but their businesses are not ready for their exits. Another reason to have your clients set goals at the outset of Exit Planning is that the sooner a conflict among goals is recognized and addressed, the better your chances of resolving that conflict, thus allowing your clients to exit on their terms.



VALUES-BASED GOALS

The three universal exit goals may be the only goals your clients seek in exiting. However, it's much more likely that your clients have other goals for their business exits, goals that are far less objective (i.e., based on sentiment, attitudes, or feelings) but are no less important to them. We call these *values-based goals* because they tend to be non-monetary and less tangible than the three universal goals.

This list of values-based goals is by no means exhaustive. Your clients may have their own, but common values-based goals include the following:

- Family Harmony
- Owner Legacy
- Acknowledging Employees
- Taking the Business to the Next Level
- Minimizing Taxes
- Maintaining Culture
- Community Involvement
- Quality Retirement
- Charitable Impulses

A BEI OBSERVATION

Values-based goals typically determine an owner's Exit Path. They often determine when an owner chooses to leave as well.

To uncover your clients' values-based goals, encourage them to ask themselves the following: (a) What is my vision for my company without me? (b) What is my vision for myself without my company? (c) Is this particular values-based goal important to either vision?

What you may discover as your clients think about their answers to these questions is that they do have values-based goals that dictate or influence their choice of Exit Path. Let's briefly look at a similar situation.

A BEI Member worked with an owner, Don, who was well on his way to selling his business to a third party. The buyer revealed that, in consolidating its operations, it would merge Don's location with its main facility in another state. Don realized that his employees would lose their jobs, the community would lose a vibrant business, and his legacy would evaporate unless he called off the deal. Don's previously unacknowledged values-based goals took control, and he decided not to sell.

While the buyer's offer had exceeded Don's financial security requirement and his financial want, it had failed to meet his values-based goals. These goals only came to the forefront when Don was confronted with the harsh reality of the effects the sale would have on others whom he cared about.

A question you may want to pose to your clients is, "How will transferring your ownership as you intend affect others you care about?" You may want to suggest that your clients discuss this topic with their spouses, an owner who has already exited, or you, as doing so can provide your clients with insights on what will happen to both their businesses and them after they exit.

Let's look at several common values-based goals in more detail.

FAMILY HARMONY

Family harmony is often first among values-based goals, and it is often the most elusive.

Usually, owners consider family harmony when contemplating a transfer to children. Some decide to sell to an outside party or management rather than risk the potential problems of transferring the business to one or more children. While choosing an Exit Path is ultimately up to your clients, without support from their spouses or family, the road to a successful exit can be rocky, and their golden years may be severely tarnished. Even if your clients haven't thought about making family harmony a goal worth working for and achieving, their spouses probably have.

Thus, you may want to broach the topic of family harmony with your clients and encourage them to make it a goal.

OWNER LEGACY

Legacy is a strange goal—it's more about what owners don't want to happen when they exit their businesses than what they do want to happen.

Many owners don't want their companies to disappear, nor do they want their companies to stop being beneficial influences in their communities.

Owners justifiably fear that in selling their businesses to a much larger company, the corporate identity that they'd worked so hard for and risked so much to create will disappear.

Thus, make sure that you discuss company legacy with your clients in detail. It may well influence the Exit Path they choose.

If legacy is important, consider the following:

If your clients imagine selling to a third party but want their legacies to live on, all is not lost. It's important that you bring this topic to your clients' attention so that you and your Advisor Team can address it appropriately. Advisors need to clearly understand and agree to any restrictions and requirements owners set regarding the character and culture of a new owner. You and your Advisor Team can negotiate the right to refuse to sell to someone your clients believe will disrupt the values they've created in their businesses without any financial penalty.

If your clients suspect that no third party will maintain their legacies, you may want to encourage them to look again at a transfer to their management teams or children. Though an insider transfer might ultimately mean less money for your clients, it may be a tradeoff they are willing to make—provided their financial security is assured. If your clients have time to plan and implement it (e.g., if their exits are 5–10 years away), a transfer to insiders may well generate just as much money as a sale to a third party, with no greater transactional risk.

Like all goals, the earlier your clients establish this goal in the planning process, the more options you and your Advisor Team will have to make it a reality. In this case, by making legacy a goal at the outset, it is likelier that owners can design exits that continue their legacies without detrimentally impacting their financial security.

ACKNOWLEDGING EMPLOYEES

It sometimes surprises the public (and media) to learn that many owners define a successful exit as one that also benefits their employees.

If this is something your clients would like to do, you and your Advisor Team can craft strategies to achieve this goal. For instance, there are specific, tax-advantaged tools and concepts that promote broad-based employee ownership, the most common of which is an ESOP.

Another means of rewarding certain key employees when your clients sell their businesses is to pay them a bonus (a) at the time of the sale and (b) in the year or two following the sale. This bonus program, or *Stay-Bonus Plan*, can do triple duty as a reward for their work and loyalty, an incentive to grow the company, and a tool to motivate employees to cooperate with the sale process.

Two owners who transferred their companies to employees via ESOPs explained their motives.

BADGER CORRUGATING COMPANY: “Mike Sexauer, owner and president, transferred partial ownership to the company’s 170 employees to share in the success of the business while also positioning the company for more sustained growth.”

THE APOTHECARY SHOPPE: “Owner Deril Lees said that selling to a third party might eventually see the business close and longtime clients move on to other pharmacies, while selling to the company’s employees grants them with an opportunity for growth.”³

³NCEO. *NCEO Employee Ownership Report, March–April 2014* (Oakland: NCEO, 2014), 11.

TAKING THE BUSINESS TO THE NEXT LEVEL

Some owners are motivated to exit when they realize that for the business to continue its success, they need to transfer it to someone else.

Though this is a hard realization for many owners, it usually comes when owners conclude any of the following:

- They've taken the business as far as they are able, given their skill set and financial strength.
- The business needs to grow or it will wither away.
- There are ways to retain some ownership, remain CEO, and grow the company—all on someone else's dime. These owners take a second bite of the apple when they cash in their retained ownership after their buyer sells to a third-party.

This values-based goal tends to work hand-in-hand with owner legacy.

MINIMIZING TAXES

There isn't a single owner who revels in the opportunity to pay taxes on hard-earned income.

Most want to pay only as much as is legally required. A considerable part of planning your clients' exits should revolve around implementing effective tax-minimizing strategies early in the planning process.

There are some owners who have one overriding exit goal: pay \$0 in taxes upon their exits. Their aversion to paying taxes is so strong that it trumps all other goals. If your clients share this goal, there are many tools available to accomplish it, but the IRS does not generally bestow tax breaks. If your clients want to transfer their businesses without paying taxes (legally), the IRS will demand a societal or governmental benefit in exchange. For example, sale proceeds must benefit a charity, or the sale must benefit your clients' employees by transferring the benefits of ownership to them.

As you can see, deciding to reduce taxes upon the transfer of their businesses directly impacts the design of your clients' exits.

MAINTAINING CULTURE

In business, *culture* is the company's personality.

It's the way your clients and their coworkers think, feel, and act within the business. It influences compensation policy, promotions, customer relationships and service, and every business interaction. Like legacy, culture can disappear when an owner transfers ownership.

COMMUNITY

Many owners feel a closeness or responsibility to their communities.

Frequently, these owners grew up and started their businesses in smaller communities. As their thoughts turn to leaving those businesses, they begin to appreciate the significance of the community to them and of their businesses to their communities. This appreciation often gives rise to a desire or commitment that their companies remain in the same community, both as and after they transfer hands.

Consider the example of Chris, an owner who sold his successful business largely because he “wanted to return to the bench”: He wanted to be a chemist again, but he had another goal, just as important as his personal one. As one of his sale conditions, he demanded that any buyer keep the business operations in his hometown for a set number of years after the sale. He wanted to ensure that his small community would not lose the jobs his company provided.

QUALITY RETIREMENT

Many owners exit so they can retire, stop working, and give up the constant burdens of ownership responsibility.

Commonly, the first activities in which these owners partake after exiting are the same activities that they characterized as “doing nothing” when they were working 60 hours a week. These activities include travel, hobbies, spending time with family (especially grandchildren), visiting friends, reading, and a host of other recreational activities.

CHARITABLE INTENT

After long histories of giving to their favorite charities, many owners look forward to devoting more time, money, and energy to those causes once they exit.

While we never discourage that impulse, we do encourage you to talk with owners about how significant monetary gifts to charity reduce the amount of capital available for retirement-income needs and wants.

If your clients have a charitable bent, encourage them to act on that desire long before they sell their businesses to an outside party. It is important that your clients identify this goal for you and your Advisor Team. There are numerous tax-saving strategies that involve charitable entities (and charitable tax deductions) that can be used in transferring business ownership. Like every other tax-saving technique, it takes some time to design, create, and establish the proper structures.

TERRY: A CASE STUDY

THE AHA! MOMENT

Terry Blue met with his advisor, Bill, after he had decided to sell his business to a third party that had approached him. Terry was gung-ho about the sale: It promised a great payday and gave his key employees the opportunity to realize the benefits of working for a larger company.

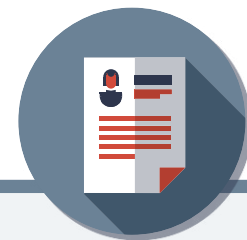
At least that's what the buyer told him.

Everything progressed swimmingly until Terry discovered, indirectly, that the buyer intended to reduce the 15-year-old incentive bonus structure for his top 10 employees by roughly \$50,000 each.

Terry took joy in working with his management team to develop new initiatives, move the company forward, and include everyone on the team. He acted on his belief that everyone should benefit from success and learn from failure. Terry believed that the team spirit they all had worked so hard to cultivate was integral to the company's ability to outperform both its local and national competitors, and his attitude toward outsized bonuses reflected his core belief.

Only during the sale process did Terry realize that, once he sold the business, his voice would count for nothing. Terry's cultural values were so important to him that when he learned about the buyer's plans, he stopped the sale process in its tracks and took his business off the market. In his giddiness over being able to sell his business for top dollar, Terry had lost sight, thankfully only temporarily, of one of his more important values-based goals.

Terry's lesson was expensive in terms of time and money, and it could easily have been avoided had he taken time, with the help of an experienced Exit Planning Advisor, to carefully articulate all of his Exit Objectives before jumping into the sale process.



A BEI OBSERVATION

Terry's situation is just one example of how owners benefit from working with an advisor focused solely on helping owners achieve their goals. As the deal attorney pours over contracts, the investment banker orchestrates negotiating strategies, and the CPA crunches numbers, can any owner expect them to stay focused on (or even ask about) their values-based goals? That's why your job in the Exit Planning Process is so important.



CONFLICTING EXIT GOALS

When Goals Collide, Planning Can Come to a Halt

While Chris the Chemist came up with a compound of his three exit goals (financial security, a return to the bench, and benefitting his community), Terry's case provides a good illustration of how goals can clash. Goals often clash when owners begin to clarify what they want and need. Once owners do so, they must modify competing goals or gridlock can occur. For example, it's easy for an owner to say, "I want to leave the business in five years, have financial security, and transfer the business to my really smart son." But as owners clarify and bring precision to their goals, discrepancies may appear.

One way to resolve exit-goal collisions is to urge your clients to prioritize and modify their goals. As you advise your clients, look at each goal from three perspectives: risk, control, and value. In doing so, assume that your clients are not willing to compromise their goal of financial independence.

RISK: Will a particular goal choice increase or decrease risk to your clients' financial independence goals, their other goals, and their businesses? For example, what is the risk in transferring the business to children before they are fully capable of running it without the owner?

CONTROL: Will a particular goal choice (e.g., transferring ownership to key employees) affect your clients' ability to continue to control their businesses and futures? What is more important to your clients?

VALUE: Will your clients' goal choices reduce their ability to achieve their values-based goals? For example, if an owner decides to keep the business in his or her community, it may reduce the pool of buyers willing to pay top dollar for the company. What is more important to your clients?

You'll see these factors come into play in a similar way when we discuss Exit Paths. Before you, your clients, and your Advisor Team set off on any Exit Path (or, for that matter, take any steps along that Path), you will consider risk, control, and value.



CONCLUSION

Having your clients decide on their exit goals is one part of the necessary foundation for designing and executing their Exit Plans.

Setting exit goals is the most important step an owner can take in the entire Exit Planning Process. In fact, setting exit goals could be the most important action all owners will take in the rest of their business-owning careers.

Quantifying your clients' existing resources (as we'll do in another guide) completes the foundation. After quantifying your clients' existing resources, you will know how close your clients are to achieving their Exit Objectives, how far they have to go, and how long it might be before they cross their respective finish lines.

The lessons we hope you'll take from this guide are as follows:

YOUR CLIENTS MUST SET CONCRETE GOALS. Without them, your clients will float aimlessly downstream instead of pulling with all their strength and cunning toward their home port. Goals drive action. Specific action requires specific goals.

FINANCIAL INDEPENDENCE IS THE LITMUS TEST OF ALL EXIT PLANS. Unless a plan takes your clients to financial independence, it's not a successful plan. It's just an exit.

MAKE SURE THAT YOUR CLIENTS BASE THEIR THREE UNIVERSAL GOALS ON FACTS, NOT ASSUMPTIONS. Assumption-based plans can be attractive to owners because they tend to cut costs early in the Exit Planning Process. As an Exit Planning Advisor, it's your duty to make sure that your clients resist the temptation to use assumptions in their plans, such as assuming they know the value of their businesses without a proper valuation, because those assumptions can have a negative effect on their Exit Plans in later states.

BUSINESS EXITS TAKE TIME. In determining how long it will take your clients to exit, start with a clear understanding of where they want to end up. The sooner your clients start to plan their exits, the more time and options you and your Advisor Team have to help them bring their goals into harmony, avoid obstacles, minimize risk, maintain control, and increase business value.

DON'T REINVENT THE WHEEL. BEI offers advisors a proven and highly successful process to guide their clients toward successful exits. In addition to the fact that BEI trains and supports Exit Planning Advisors, dozens of advisors have contributed to the content of this guide, which shows that our strategies and methods aren't just theoretical; they work in the real world.

Please don't assume that working toward a successful exit demands more time and energy than your clients can devote now or in the near future. While Exit Planning does require their direction, it does not require them to put in more time in the office. We advise you to reassure your clients of this fact early in your discussions with them.

As your clients redirect their efforts from running their businesses to building business value on the road to their successful exits, they will spend less time in the office, not more.

That is the promise of Exit Planning and, done properly, it delivers.

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EXIT PLANNING SOLUTIONS