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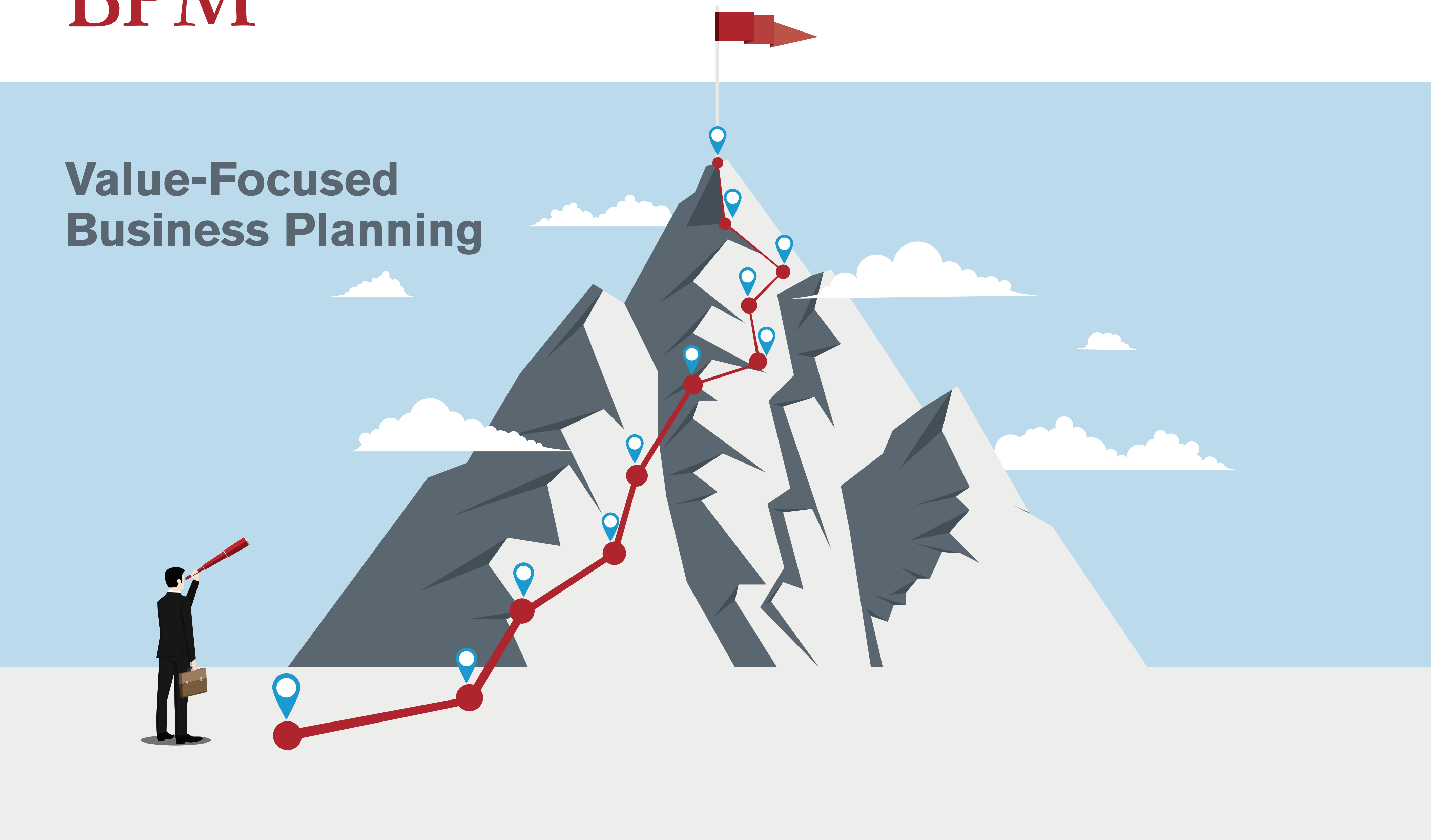
Rich Gunn, CEPA, CPA

Value-Focused Business Planning



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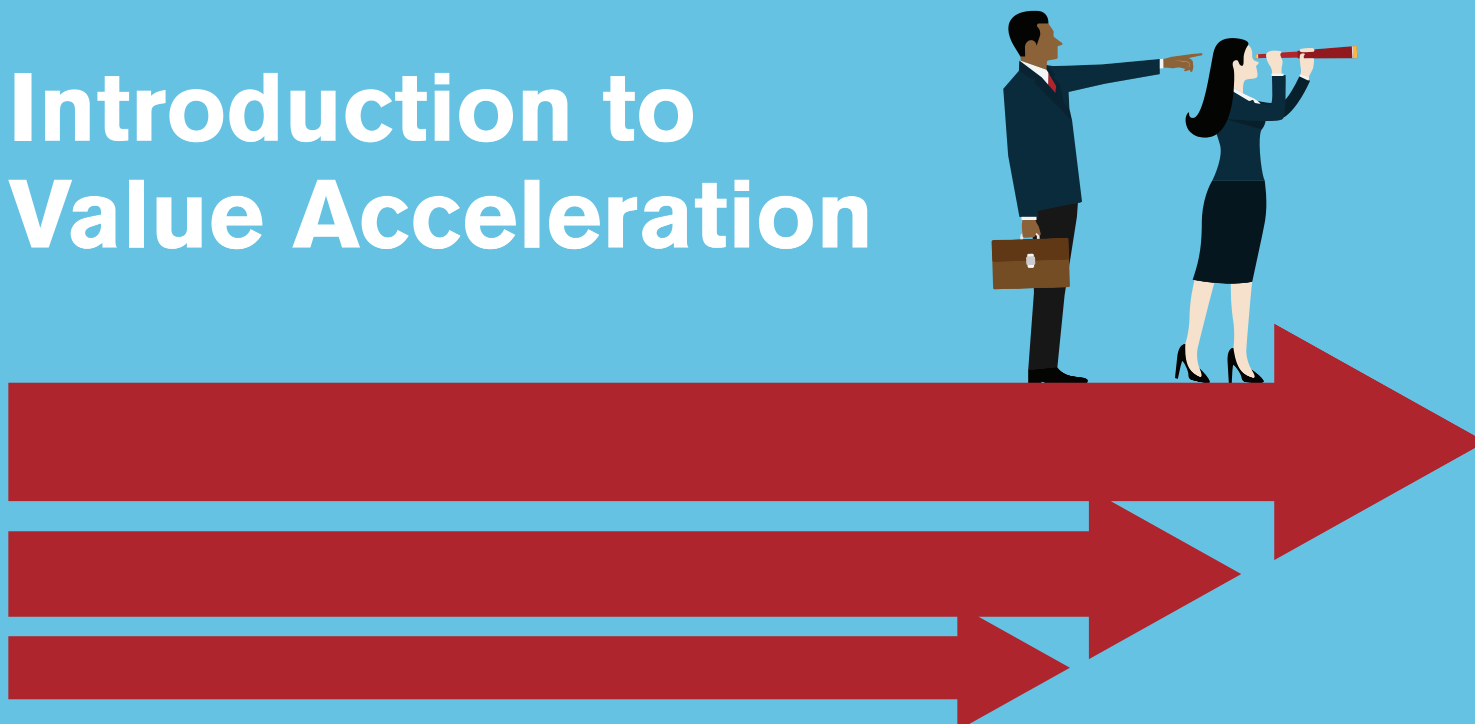
01

Introduction to Value Acceleration



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Introduction to Value Acceleration

As an NFL football team enters the stadium to play in the Super Bowl, when do you think the coaching staff actually *engage in planning* to win the Super Bowl? The answer is they are *always engaged in planning* to win the Super Bowl. They are engaged in planning for Super Bowl success during the NFL draft as they fill in talent gaps. They are engaged in developing a Super Bowl winning team in training camp. They are practicing and refining their Super Bowl winning strategy in every game, from preseason to post season. And when they arrive at the stadium on Super Bowl Sunday, they are no longer planning their Super Bowl winning strategy: they are executing it.

Business owners can take lessons from Super Bowl winning teams. As a business owner, you should always be working on your Super Bowl winning strategy of planning for the successful exit from your business. The act of developing your exit plan and executing on this strategy every day is what we call the *Value Acceleration* strategy. This means taking actions every day which will result in having your business achieve its highest potential *now*. It means developing the business so that it is sale ready at all times. It means that you, the owner, are financially and emotionally ready to exit at all times, because you are planning for that and working on that every day. This book will provide you with motivation, ideas and mindset to bring *Value Acceleration* strategies into your business every day.

The key difference between an NFL team and your business, is that an NFL team gets a new chance at winning a Super Bowl every year. Not so with your business. Exiting your business is your personal Super Bowl, but you get to play in the big game and exit your business only once. You have one season only to prepare, and **you should be working on your game wining exit strategy every day**.

Too many business owners wait until they are about to exit to begin planning their exit. That would be the equivalent of an NFL team beginning to think about their Super Bowl strategy for the first time on Super Bowl Sunday morning. That never happens with Super Bowl winning teams, and you should not let that happen with your business. Procrastination is the seed of regret. Develop a plan to maximize business value every day, and work on your exit strategy every day, as *if* you had to exit tomorrow, and be game ready at all times.

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02

Why Would Someone Want to Buy Your Business?

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Why Would Someone Want to Buy Your Business?

This sounds like a simple question, but don't kid yourself. If you are going to take a good, hard look at your business and answer this question, you have to learn how to see your business through the eyes of a potential buyer – that is not an easy task. You might be surprised by how critical a buyer can be when examining your business and preparing an offer. If you take the time to look at your business through the eyes of a buyer and properly prepare your business for sale, you will be more likely to agree on a price and terms to an interested buyer.

According to a nationwide survey performed by the **Exit Planning Institute**, over 70% of businesses that go to market do not sell. The alternative is accepting a lower price than you intended, or failing to sell when you cannot find a buyer. Consider looking at your business through the eyes of the buyer:

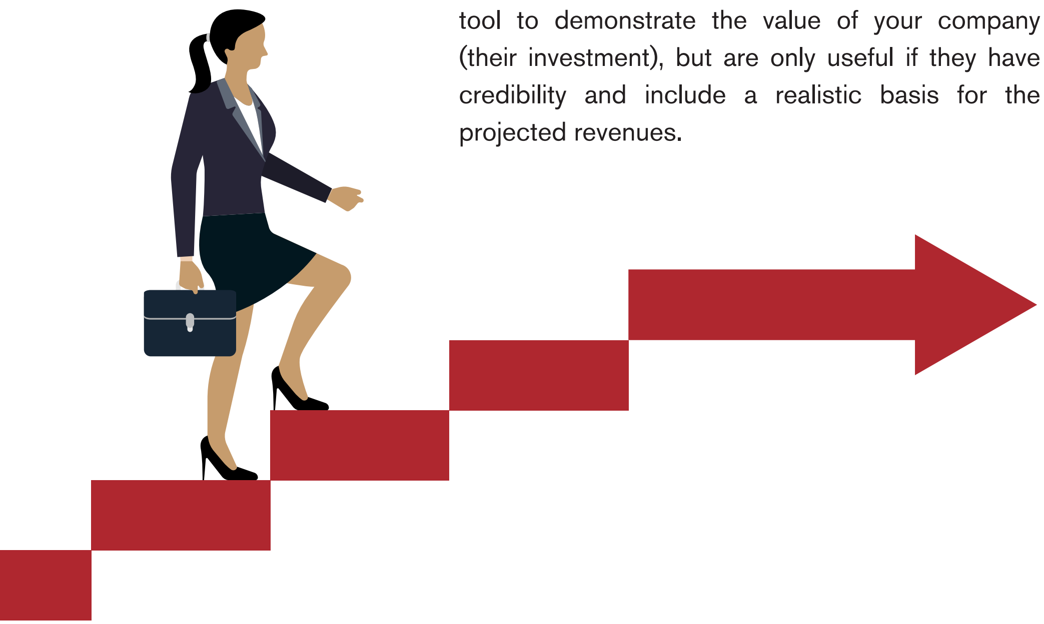
1. **Let's start with some basics.** You will need to have articles of organization and evidence of ownership. Can you prove your business license is up to date and your fictitious name registration? Demonstrating ownership information, corporate formation and evidence that your business is in good standing with the tax authorities is critical. No one wants to buy a business with sloppy records, as they represent hidden liabilities to a buyer.

2. **Your people and HR polices are also very important.** Do you have a recently-updated employee handbook? Do you have a hiring process, employee development plans, training systems and retention strategies in place? Having documentation of such systems that a buyer can review will give the buyer confidence in your HR systems and demonstrate the value of your company and your people.

3. **Next, let us look at sales.** Have you documented your sales processes, goals and results? Can you show historic financial information about each product line and customer? Do you have revenue forecast for at least three years? Are previous forecasts on track with historic sales records? You want to be able to demonstrate that your business has a predictable and/or growing revenue stream. A buyer is looking for an investment, and they won't invest their money if they cannot see how they will reap future rewards. Forecasting is a great tool to demonstrate the value of your company (their investment), but are only useful if they have credibility and include a realistic basis for the projected revenues.

4. **Other items a buyer will want to review are financial statements, tax returns, customer contracts and other financial records.** Any and all contracts will need to be available and should be reviewed ahead of time to determine if they are favorable for the buyer. If the business has any contracts a buyer may deem unfavorable, it may be seen as a risk to their investment. You will also need to be able to demonstrate that you are current on all Federal, State and Local tax filings and that your business is in good standing with the Secretary of State. Buyers will not take on the responsibility for the related risks, if you are not.

These are just a few examples of things you will need to demonstrate to a buyer that your business is worth the asking price. The key is to view your business as an outside investment. Start with simple questions like **"How does the business make money?"** and **"Can I prove it?"**



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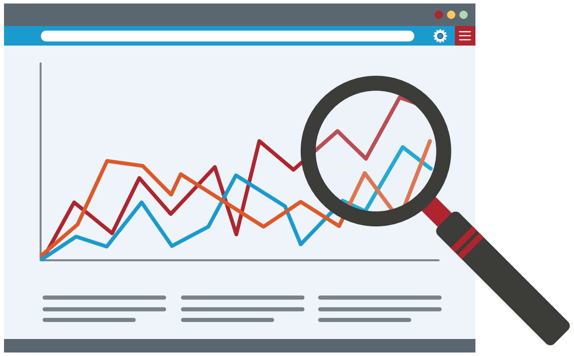

Getting your business ready is just one piece of the sale. You also need to get yourself ready. Prepare for a buyer to ask why you are selling and have a solid, fact-based answer ready for them. Is it because you want to get rid of the headache of running a business? Or is it time to move on? Also consider what you will do after the sale. How important is the sale price for you to complete a sale transaction? Do you know how much you need to sell your business for, so you can support yourself and your loved ones after a transaction? Is there a gap between how much you need and what your business is worth, today? Buyers often want to know the seller's motivation for selling. A seller who cannot afford to sell at current value will back out when it comes time to actually sign a sale contract and walk away. Buyers want to see some evidence early on that they are not wasting their time, effort and the expense of evaluating your business and preparing an offer and eventually a purchase contract.

If a **serious potential buyer** came into your business today to examine all of the business processes, systems, documentation and financial records, would you be prepared to put a complete package of documentation on the table? Remember someone may be interested in buying your business, but **you need to prepare** as early as possible to get an offer close to your asking price.

Preparing your business for sale at the highest potential price is rigorous process that takes time and energy. It takes a seller who is focused on developing the business to the highest potential price, who is willing to focus on executing a Value Acceleration Plan in their business and work on that plan every day. As Certified Exit Planning Advisors, we review over 200 factors and then focus on the areas that would be of concern to a potential buyer to prepare a Value Acceleration Plan. After identifying and addressing key areas such as the above and more, an action plan is developed and execution of the plan begins. Through this process you begin to learn how to see your business through the eyes of a buyer to grow the value of your company.

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Enhancing the Value of Your Customers & Clients

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Enhancing the Value of Customers & Clients

Business owners love to boast about their customer base. From the well-established customers with marquee names to the clients who are more like family than business connections. While these types of relationships are great to have, sometimes having too many customers of the same size or type may represent a risk to the business, which will cause it to suffer in the long run. To avoid common pitfalls related to their customer list, owners should review their list often and attempt to diversify the amount of clients they have, as well as the relationships those clients have with the company as a whole.

Let's first take a look at the large customers with marquee names. Business owners are correct in believing that large, well-established customers add value to their business. It is great to say giants such as Apple and Google are customers, because they represent large, stable and likely reliable businesses. However, if too much revenue comes from a few of these companies the business could be at risk. For example, a business owner recently explained 80% of their sales came from Fortune 500 companies. Upon further inquiry, however, we learned 80% of sales came from only three customers. This is a huge risk, because if any one or two of these customers would leave, sales would come crashing down like a skydiver with broken parachute. There are many reasons why such a customer would leave: innovation in their business could mean the product or service may no longer be required or personnel changes in their business could mean their new purchasing agent has stronger relationships with a competitor.

The world changes and so will customers. So like a **good investment strategy**, businesses should do their best to **diversify their customer base**.

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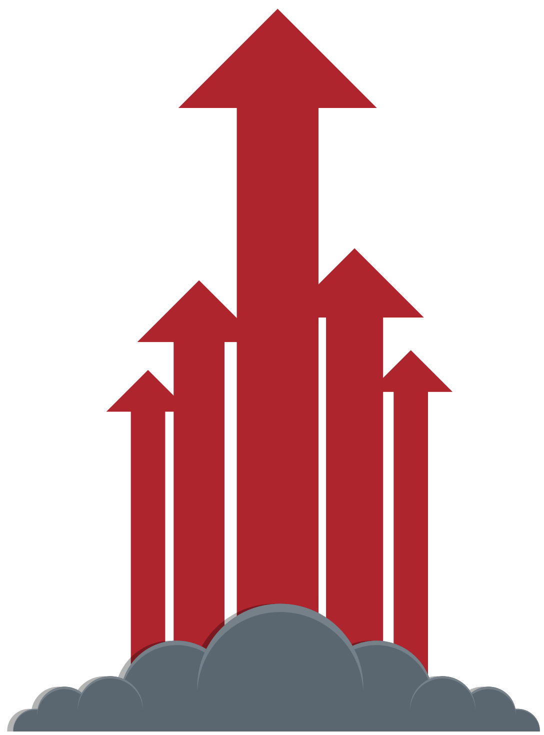
Similarly, customers who have **strong personal relationships** with an owner **could represent a risk to the business**, when the time comes for the owner to sell or transition.

If the customer relationship is concentrated with the business owner, a change in the relationship will likely prompt the customer to re-evaluate the relationship with the company as a whole. In the case where the owner is trying to sell the business, this relationship transition would seem risky to a buyer, especially if the majority of the revenue is derived from relationships where the business owner is the main, if not only, point of contact. To reduce the risk, business owners should introduce clients to multiple people at the company and develop a team approach when working with a customer. This way the business owner is not the first and only person a customer would call. There is also the added benefit of freeing up the owner's time that they previously spent on those relationships to grow and enhance the business. Additionally, when a customer knows more than one person they can contact when they need help, they will feel more connect to the company overall instead of just one person.

A strong customer base is one that is well diversified, where the relationship is transferable, and it is not contingent on a personal relationship.

This type of customer base will be **stronger in the long term**, **add value to the business and facilitate a successful transition** to a new owner when it is time for the current owner to retire or move on to their next endeavor.



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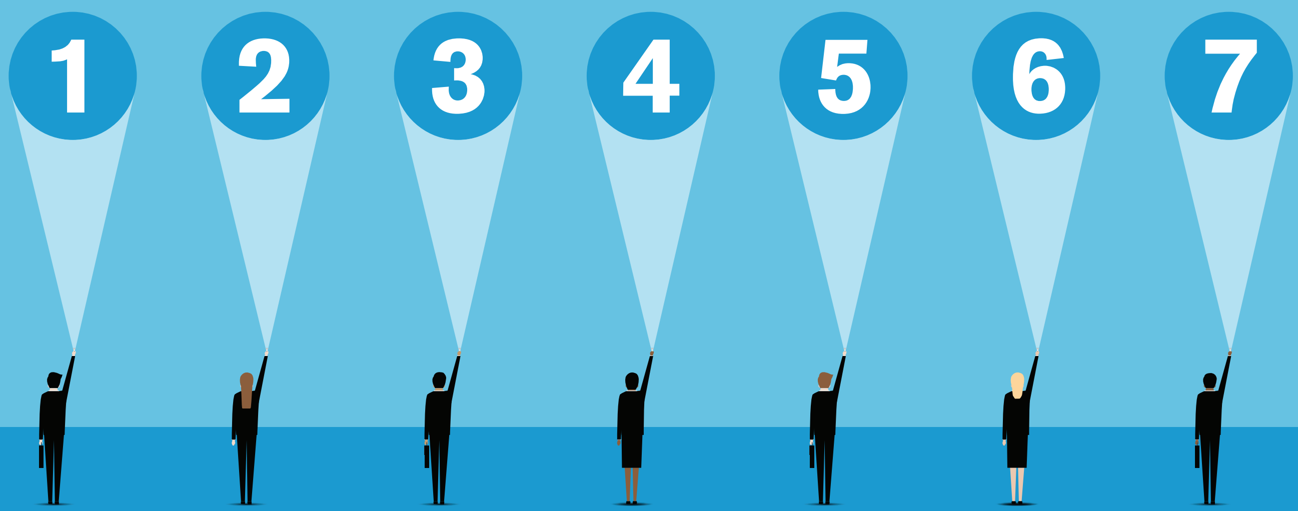
Avoid Seven Mistakes that Sabotage Business Value



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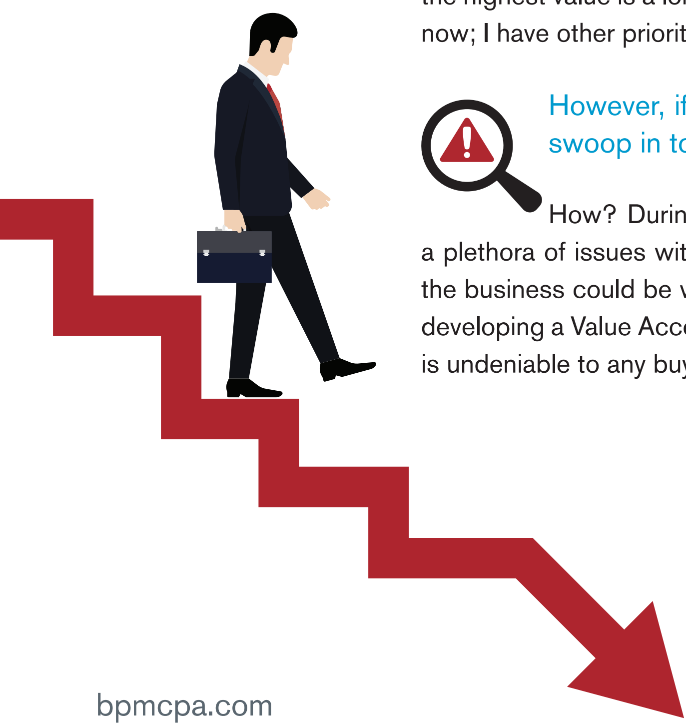
Avoid Seven Mistakes that Sabotage Business Value

You started your business with a few dollars and a prayer. You have invested all of your time, energy and resources into making your business what it is today. It would be a shame to lose the value you worked so hard to build because you did not properly prepare for your eventual exit. Avoid losing business value by familiarizing yourself with seven common business mistakes and preventing them now, before you even consider exiting.

1 Wait Until You Are Ready to Sell, Then Start Preparing for Sale

This is by far the most common mistake. For business owners who do not understand that preparing for sale at the highest value is a long-term strategy, procrastination is easily justified: a sale is too far away; I'm too busy right now; I have other priorities; etc.



However, if you fail to prepare before you are ready to sell, **"Bottom Feeder Buyers"** will swoop in to buy your business at a **significant discount**.

How? During the due diligence investigation process, these types of buyers seek out and identify a plethora of issues with the business, and continuously knock down the price, leaving you with less than what the business could be worth. You can avoid this pitfall by working with a Certified Exit Planning Advisor (CEPA), developing a Value Accelerating Plan to identify areas for improvement and creating a track record of success that is undeniable to any buyer – Bottom Feeder or otherwise.

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2 Professional Advisors Are Expensive and Unnecessary

The idea that every dollar spent on professional fees will reduce net proceeds from sale ignores the fact that good advisors pay for themselves by helping owners get the most value and avoid costly mistakes in a transaction. While you may be the expert in running your business, you may not have experience with the nuances of selling a business. There are legal and tax implications that you may not have properly thought through in advance of sale. The sooner you begin discussing a business sale with your advisory team, the stronger the financial results will be.

If you are relying on your current business to sustain your retirement, **you cannot afford costly mistakes** that arise from going through a sales process alone.

At a minimum, you will need the advice of a transaction attorney, a CPA and a CEPA. You may need other specialists and advisors, but a CEPA will advise you on what additional resources you will need and explain their role to you. Strong, experienced advisors are invaluable and they will help ensure you have far more dollars in your pocket after a sale.

3 Let Offers Come to You, Then Pick One

Too often business owners refuse to discuss exit planning with their advisors, because they do not see themselves selling their business in the near future. If an unsolicited offer arrives from a potential buyer, and the amount is higher than ever expected, a business owner might rush into the transaction to avoid losing the deal. But if you have not yet worked with your advisors and prepared for a sale, then your business won't sell for its highest potential price, no matter how good the offer sounds. This is because when you have not prepared for a sale, a buyer will likely identify many reasons to lower the price during the due diligence examination of your business, which can take weeks or months. The initial offer for a business is normally not the price a buyer will actually pay, if a business is not ready for sale. Additionally, reacting to a single unsolicited offer, no matter how high the price, is a poor strategy. Buyers will pay more when they see competition.

You are leaving opportunities on the table, when you do not **consider your options beforehand**.

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4 Any Buyer Is Fine, as Long as the Price Is Right

Before talking to a prospective buyer, business owners should think hard, and thoroughly, about any and all sale objectives. After it is sold, whatever happens to the business is completely outside of your control. What will happen to your employees, customers, reputation and personal legacy?

If you have **strong feelings** about what happens to your business **post-sale**, you need to have lengthy discussions with several potential buyers.

You will want to know their motives, objectives, goals and their vision for your business after they buy it, so you can determine the best buyer. There is likely no perfect buyer, no one who will meet all the post-sale objectives; and once the deal is closed, you have lost control. That is why it is important to understand what you want for the business after you exit, so you can make certain you are speaking with buyers who match your exit goals.

5 I Don’t Need a Professional Business Valuation

You may not need a valuation, but it is wise to have one. Over 75% of the businesses that go to market for sale, do not sell. The most common reason for this is sellers do not have realistic expectations of value. Avoid this pitfall by getting a realistic value of the business through a business valuation. Take it a step further by getting a Value Acceleration Plan. This plan focuses on a range of potential values for your business, and where your business currently sits in that range. It can be used as a road map to identify how and where you can implement changes to your business and increase its value.

A business valuation provides very helpful information for business owners, and one that is included in a **Value Acceleration Plan** is indispensable to business owners.

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6 I Will Simply Sell When the Market Peaks

Even if you know when the market is at its peak, you may not have prepared your business for sale at that time and you will inevitably leave value on the table. Instead of timing the market, which is wildly unpredictable and completely outside of your control, focus on what is within your control. Work with a personal financial advisor to determine what financial resources you will need to fund your retirement, and how much of that needs to come from the sale of your business.

A Certified Exit Planning Advisor (CEPA) can help determine what your business may be worth today. If that amount does not meet your retirement needs, implement a **Value Acceleration Plan** for your business and close that retirement gap. This way, whenever you decide to sell will be the right time.

7 I Will Work Until I Die

You may have no plans to ever retire, because you love what you do. However, consider this: Over 55% of business owners sell their business for reasons outside of their control – disability, distress, divorce, etc. This is why preparing your business for sale, even if you have no intention of selling it, is a good strategy. Preparation will result in the business being at its highest value at all times, making a difficult situation resulting from a premature exit less onerous.

Planning for a proper exit at maximum value right now could be **the most important things you do for your loved ones**, who depend on your business for their financial well-being.

Planning for the sale of your business should be an ongoing process throughout the lifetime of the business. Preparation does not mean you have to sell, it just means you are ready for anything – from a lucrative offer to a life-changing event. You can fully understand your exit and retirement goals and objectives by focusing on increasing business value every day and having a road map to do that. Start now. Expect the unexpected. Be prepared. Maximize value. Retire well.

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The Ultimate Guide to Value Acceleration

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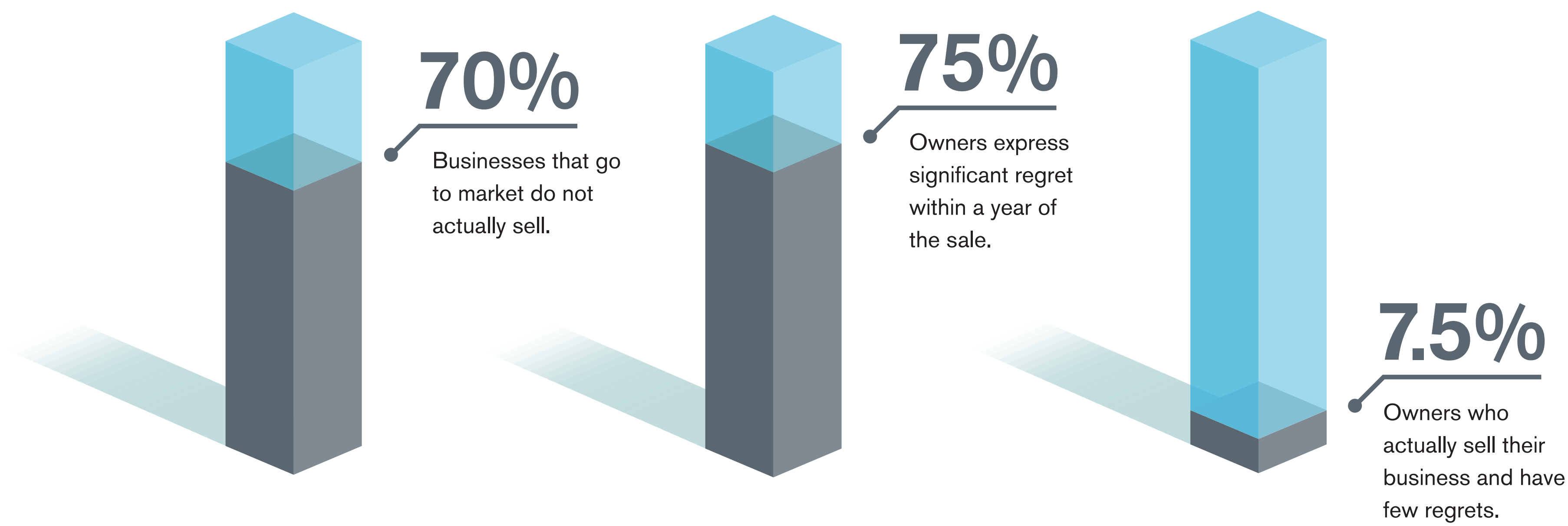
The Ultimate Guide to Value Acceleration

Business exit planning is one of the most important strategies an owner can make, yet the statistics are startling: 70% of businesses that go to market do not actually sell. Of those that do sell, 75% of owners express significant regret within a year of the sale. That leaves a mere 7.5% who actually sell their business and have few regrets. So why is there a 92.5% failure rate for business owners exiting their business? Failure to prepare is the common answer, but most will admit they know they need an exit strategy business plan. So what is standing in their way? They are missing proper motivation, a plan and a process.



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The Motivation to Begin Business Exit Planning:

Motivation to begin business exit planning is the first barrier. It's not that business owners lack motivation – they have plenty of motivation around working in the business – but we are talking about the motivation to work on the business.

Most owners need to understand that working on the business means **finding the time and will to grow the business value** and to prepare for an exit.

Start by looking at the business through the eyes of a buyer. A buyer's approach to valuing a business is typically different from how the business owner perceives value.

Understanding how a buyer perceives a business helps to identify areas that need to be addressed to facilitate a successful transition of ownership. It also helps to identify the value of the business in the market, which might expose a value gap between what the business is worth and what the owner needs to retire. With this understanding, business owners are more likely to have the proper motivation to focus their energy on making changes to their business that will grow its value and prepare it for a transition.

What business owners need next is an **effective exit plan** to tackle the obstacles ahead.

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The Exit Strategy Business Plan:

Once business owners have the proper motivation, they need a plan to make achieve their goals. A Value Acceleration Plan designed by a Certified Exit Planning Advisor (CEPA) can help outline what the business owner needs to do. It focuses on five key steps needed to increase business value and prepare for their exit:

Step 1: Identify Value

Identify the current value of the business. This includes determining what the current market value is, as well as reviewing the business processes and procedures to determine where value can be added. Owners need to practice reviewing their businesses through the eyes of a buyer.

Step 2: Protect Value

Reduce the risks identified during step one, while thinking about the business through eyes of a buyer. De-risking the business is a critical step in effective exit planning, because risks reduce business value. De-risk by understanding the hazards of the business and make sure the proper insurance is in place, as well as look for ways to diversify the customer base to avoid concentrations.

Step 3: Build Value

Create and build value by further developing the value drivers identified in step one. Spend time increasing the intellectual capital in the business by building up the customer, structure and social capital. The more owners fortify and document their processes, the more turn-key the business becomes, which increases value to the owner and a potential future buyer.

Step 4: Harvest Value

Harvest existing business value by understanding all exit options. Most owners know of one or two, but that limits their options and could result in them leaving value on the table when they exit. Increase the likelihood of a successful exit by taking the time to understand every option.

Step 5: Manage Value

“Manage value” means managing the value gained from an exit and managing expectations, including expectations of value of the business as well as what life post-exit will look like. Manage expectations and goals throughout every step of the exit planning preparation process for post-exit fulfillment, instead of regret.

The plan is the **‘what’** that needs to be done, but owners also need the **‘how,’** which is the process.

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The Business Exit Process:

The third barrier business owners confront in exit planning is the lack of understanding how to implement the steps above. The best option is for an owner to work with a CEPA to help guide them through each step.

First, prepare, or have a CEPA prepare, an assessment of **current and potential value of the business**, to inform the creation of realistic value goals and financial targets.

Then a deep dive diagnostic should be performed on the business, which should be done by a third-party professional, such as a CEPA. Owners tend to be too close to the business to perform this process well. It includes a review of all the policies, procedures and processes – written and implied – to work on the Identify Step in the plan above. This diagnostic identifies the business' strengths, weaknesses and risks in the eyes of a buyer. Using the results, owners should create an action plan that identifies where to protect and build value, as well as how to prepare the owner for life after exit. Here it is again helpful to have a CEPA involved. They can help organize the action plan and keep progress on track. Without the help of a CEPA, owners should try to make the changes manageable for them. They should break identified action items down into 90-day goals. Each 90-day goal should be assigned to the appropriate person, including the owner, key managers, family members or outside advisors. During that 90-day period, progress on each item should be monitored. If progress on an item is slow, identify and remove barriers to keep things moving forward. Each successfully completed action advances business value.

After completing all of the action items identified through business exit planning, the owner will be prepared to leave the company. However, having a business exit plan doesn't mean the owner has to sell or leave the business any time soon.

They can take comfort in knowing they can harvest the value of their business on their own timeline, knowing they are now ready for a **successful exit at any time**.

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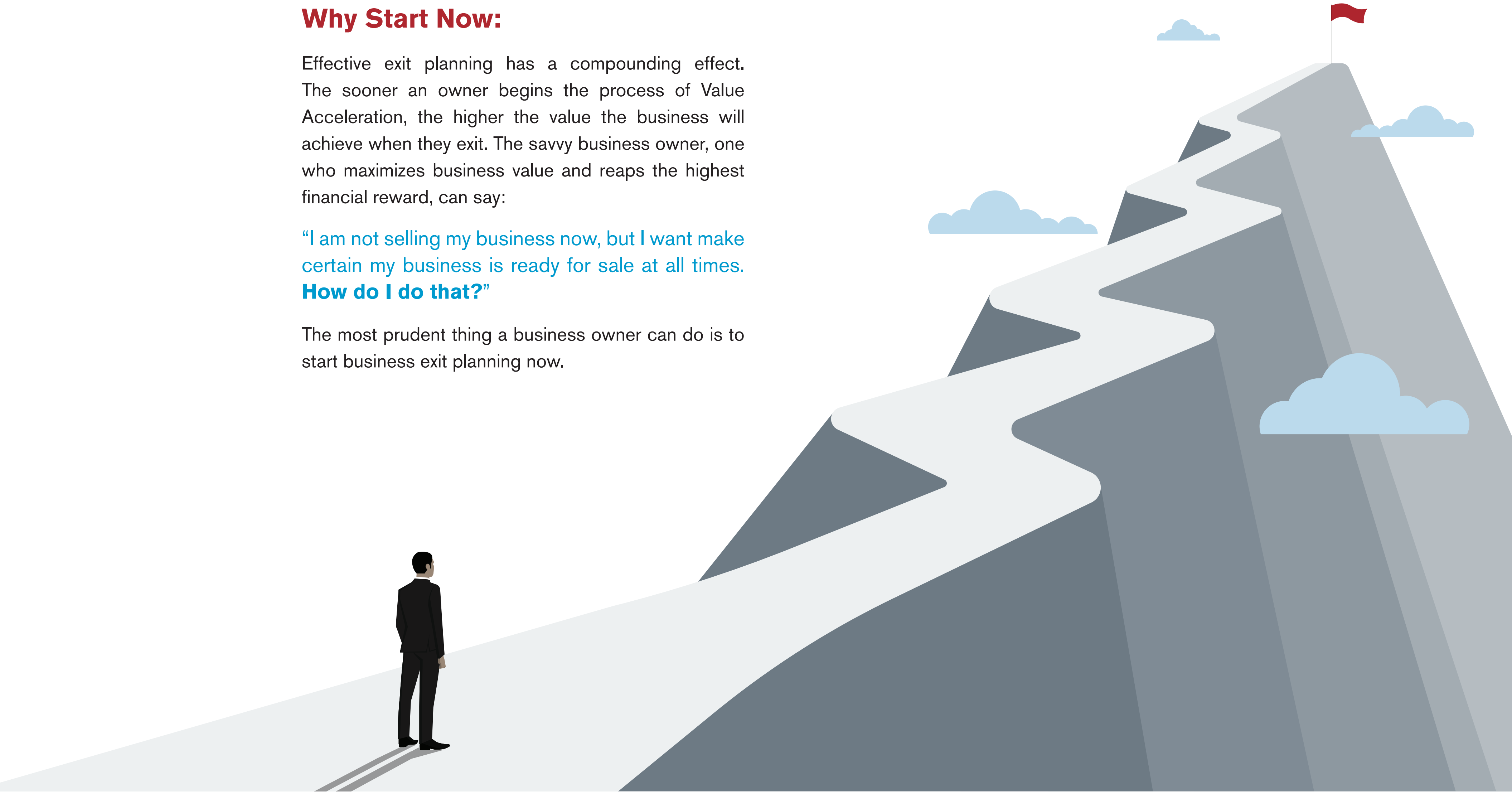
Why Start Now:

Effective exit planning has a compounding effect. The sooner an owner begins the process of Value Acceleration, the higher the value the business will achieve when they exit. The savvy business owner, one who maximizes business value and reaps the highest financial reward, can say:

"I am not selling my business now, but I want make certain my business is ready for sale at all times. **How do I do that?**"

The most prudent thing a business owner can do is to start business exit planning now.



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Next Generation Succession Planning

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Next Generation Succession Planning

The exit plan for transitioning your business to your children is not exactly the same as selling your business to a third party, but effective exit plans for these two situations have more in common than you may realize.

Let's assume your retirement plans are dependent on a cash sale of your business to a third-party buyer. For the business to command the highest price at exit, it must be considered a 'best in class' operation. The farther a business is from this status, the less a buyer will pay for it. There are several aspects involved in being a best-in-class business, among them are having high performing human capital, as well as well-developed, documented processes, procedures and systems.

Effective exit planning will help you **identify the value drivers** within your business, and **implement a plan** to develop those value drivers to **achieve maximum value**.

Now, if you are not selling to a third party, but instead you are transferring the business to your children, and want them to be successful in managing it without you, then exit planning to become a best-in-class business will be as important as preparing the company for sale to a third party. If your children are going to be successful in running the business without you, you have to create an organization that can function at full capacity without you, before you transition the business to your children.

For effective exits in all cases, we recommend you develop high performing human capital and well-developed and documented processes, procedures and systems. This means your management team, now consisting of your children, will be equally as effective in managing the business without you, if you want them to be successful. This is done through effective training, development, delegation and accountability. An effective exit plan will determine the knowledge and skill gaps in key managers and establish a plan to fill in those gaps, regardless of whether the management team is family or not, and regardless of who is acquiring your business, your children or a third party buyer.

Some of the more notable differences between exit planning for selling to a third party versus transitioning to children are: family dynamics, estate planning matters and other sensitive family issues that may be unique to transitioning the business to your children.

There will always be family dynamics around wealth creation, be it the business or the wealth resulting from the sale of the business. Estate tax planning is still necessary in exit planning, regardless of how the exit is accomplished. The owner's personal and financial goals will need be thoroughly addressed in every effective exit plan, no matter who acquires the business.

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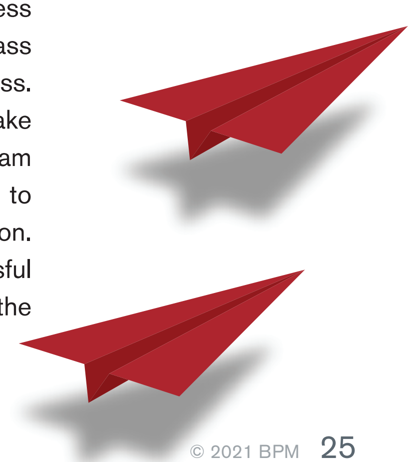
The other more common matters that arise in **exit planning with children-successors** that do not arise with a sale to a third party are **entitlement** and **competency issues**.

Entitlement issues arise when some only some of the owner's children work in the business as employees. The children outside the business often believe they are equally entitled to benefit from the income of the business, due to their potential inheritance of ownership. The children who work in the business and take over management from the parent may have a different view. They may believe the benefits of the business belong to those who are working in it every day, generating the profit and contributing to the success of the business, and not to the siblings who do not work in the business. An effective exit plan, which begins long before an ownership transition takes place, does not decide which side of this argument is correct. Instead, it is transparent to all stakeholders, includes the voice and concerns of all family members and amicable solutions that involve all children in the owner's exit planning process.

The second common issues with transitioning the business to children is the competency issue. In many cases, the person who is most competent to run the business when the owner retires is not necessarily a family member. Having a non-family member become the president or CEO may be astute from a pure business perspective, but may cause severe problems with family harmony. Children who work in the business often expect to manage it when the parent retires. The children may find the idea of having a non-family member as their new boss to be unacceptable. However, promoting children to positions they are not yet qualified for may cause disruption in the business, causing more talented non-family members to leave, and decrease business success.

Effective exit planning considers the skill gaps of all key managers, regardless of family association, **implements effective training** to eliminate skill gaps, and plans for successful business continuity as well as family harmony.

Keep in mind an effective exit plan will serve several purposes and should be started very early, at least three to five years before the owner plans to exit the business. One purpose is to determine the role of the business in the owner's personal and financial affairs, including funding the owner's retirement for the rest of their lives. Another role is to make certain the business can function without the owner, as a best in class business, regardless of who takes over the business. The exit plan will create a course of action to make certain the business owner, the management team and all professional advisors are working in unison to make the owner's goals and plans come to fruition. Exit planning establishes a process for a successful business transition, be it to a third-party buyer or to the owner's children.



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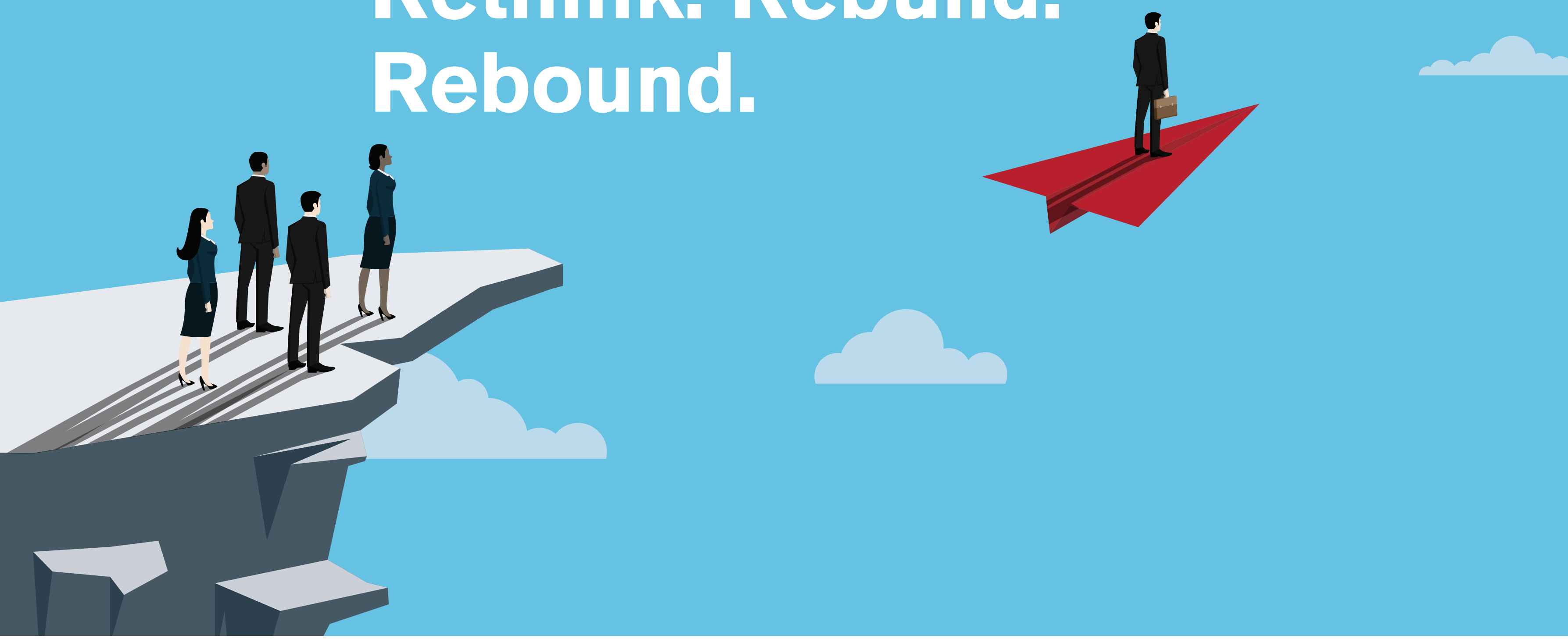
Rethink. Rebuild. Rebound.



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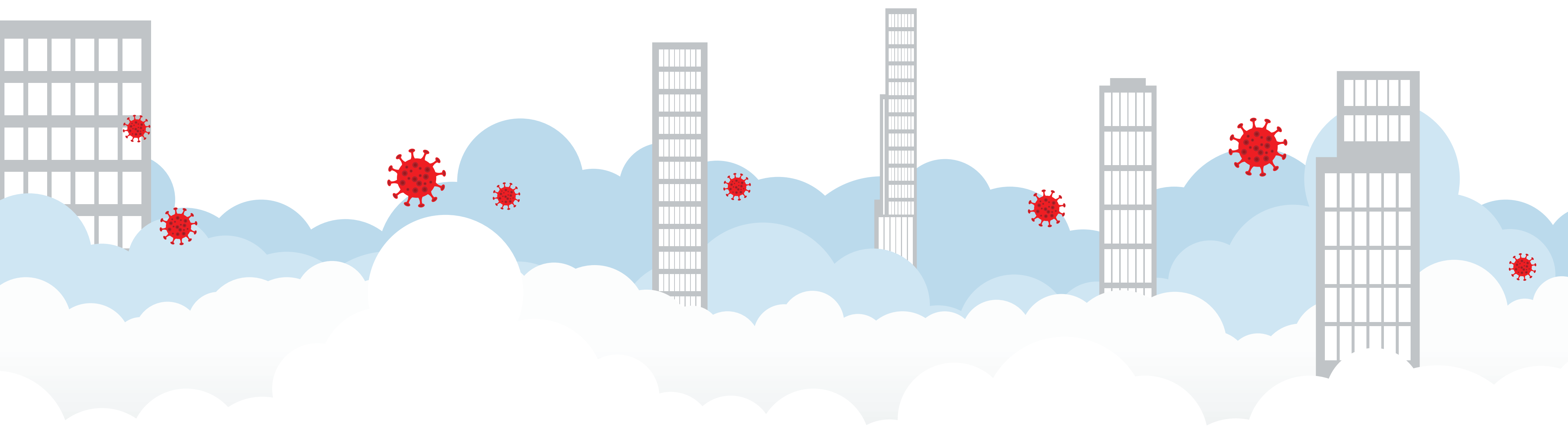
Rethink. Rebuild. Rebound.

Business leaders do not have to look hard to find a silver lining during challenging times, although sometimes it may feel that way. Adapting to the current economy has taught us what we previously thought was impossible, is suddenly possible. It forces us to rethink our plans and strategies, the services we deliver, how we deliver them and who receives them.

As a business owner, it is more important than ever to take a fresh look at your business model and envision how the changes you make today can continue to propel your business forward after unprecedented circumstances. It is an opportunity to achieve a competitive advantage, accelerate business value and emerge as leader in your industry when the economy rebounds. It is a time to be inspired!



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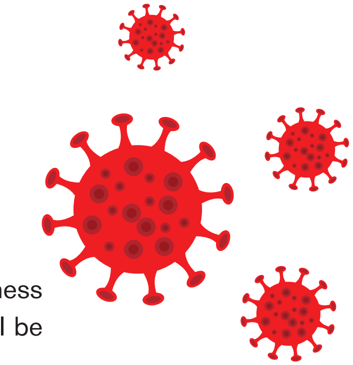
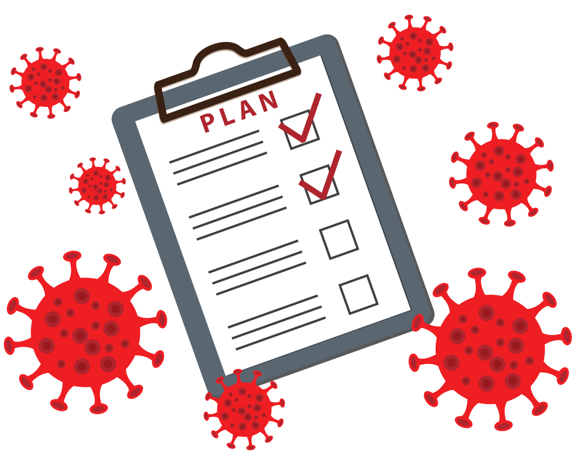


How Business Planning Leads to Exit Planning During a Crisis

Now is not the time to sit and wait for ‘business as usual’ to return before making plans for the future. ‘Business as usual’ will never look the same. The economy will eventually rebound, but how we conduct business will be quite different.

As business models are forced to change, here are a few ways we can utilize those changes to yield permanent improvements in efficiency, cash flow and business value.

- With costly office spaces remaining vacant, savvy business owners can permanently reduce the office space previously deemed necessary by embracing a remote workforce. Reducing or eliminating lease commitments will improve cash flow and value while lowering risk, since a lease commitment is a form of debt.



- Investments in additional people may be replaced with investments in technology, to facilitate greater collaboration and efficiency. This allows for existing employees to be more productive without working longer hours, and enables increased production without hiring more people. Keep an eye on new opportunities for greater integration of software, increased opportunities to use artificial intelligence and ways to automate labor-intensive processes. The tools we use today will soon have more advanced and effective competition in the future, so it is important to evaluate technology options early and often. Look for it. Embrace it. Build on it.
- Robotics and automation are not just for factories and warehouse operations. Even the hospitality industry, including restaurants, are finding ways of using automation to reduce labor costs. Every business should seek out opportunities to automate aspects of their business operations in innovative ways. This is not the time to say “That would never work in our business.” This is the time to say “Show me how that could work in my business, and show me how it will make my business more efficient.”

- Rethink your products, rethink your customers. As restaurants and office buildings remain closed, restaurant and office supply delivery services have lost many customers, and their trucks are sitting idle. Which industries have experienced a demand in supplies? Emergency medical services, for one. We have seen numerous companies pivot from making their usual products to now producing and supplying emergency medical equipment, like protective gear and ventilators. Instead of saying "This is our product, this is what we deliver," think about product and customer diversification. Ask yourself what else can we deliver? What other industries can we serve?
- It is time to take a look at potential customers from a fresh perspective. What other products and services do your customers buy from another source that you could supply? What new ways could you bundle old and new products and services?
- Can you introduce your product to new industries? A business that sold measuring devices to laboratories found their product was also a hit in the bar business. Rethink the potential uses for your products and customers for your products. Change packaging to make products more appealing to different types of customers and different industries.
- Pay greater attention to the risks of customer concentration. Businesses that lose during an economic downturn often over-rely on a small number of large clients. When one of those very large customers cancels orders and terminates the service, it immediately causes a gigantic reduction in the top line revenue and bottom line income. Many businesses shut down shortly after letting the big fish get away. Building toward a larger number of small customers reduces that risk. Aggressively pursue smaller accounts now, and do not dismiss them when the economy rebounds and the big fish wants to renew that large contract with your business. That contract is excellent to pursue, but it needs to be permanently supplemented by smaller accounts, so the percentage of revenue from the big fish does not exceed 25% of your sales - and the smaller that percentage is, the better. Every time you reduce a risk in your business, you have also enhanced business value.
- Has your revenue decreased, because one of your suppliers cannot deliver products or supplies? Over reliance on a single supplier is a huge risk. By diversifying your supply sources, you allow sales to continue and cash inflow to be maintained, even with the loss of one supplier. Reduced supplier risk enhances business value and should be a part of your business plan.

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When the economy is booming, business owners often say they have so many ideas to expand services, improve operations and revise their business model, but no time to implement them. If your business has slowed down during the a time of crisis, now is the time to revisit those business-building ideas that have been sitting on the back burner.

It is also time for the temporary, but effective, changes you made for survival to become permanent improvements to your business model. An uncertain economy is not the time to retreat and wait for 'business as usual' to return. It is time to reposition your business, so you will emerge as the organization your competitors aspire to be like, and the one larger businesses want to buy.

This is exit planning for challenging times, and beyond. This is value acceleration for weak economies and strong economies. This is creating the business model that rebounds when the economy rebounds. **Rethink. Rebuild. Rebound.**

08

Retooling in Times of Challenge

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Retooling in Times of Challenge

Business owners brave many tough challenges in an era of uncertainty, and the future may look and feel like a large question mark, at the moment.

Business owners like you have a lot to focus on to keep your organization running in times of challenge. Often times during periods of uncertainty, many new government programs arise that are designed to help you.

So why consider exit planning, if you are not preparing to sell your business right now? This is common thinking, but **exit planning** is not about being common: it is about being **exceptional, smart** and **forward thinking**.

Your company is likely working on adapting to the market's current conditions, and in doing so, you are taking a fresh look at your business operations. You are hopefully finding new or more-efficient ways to conduct business and streamline operations, so your organization keeps running at a lower cost.

This process allows you to take huge strides in exit planning. As you retool and reengineer how you run your business, document every change and every improvement you make, and record the result of these changes.

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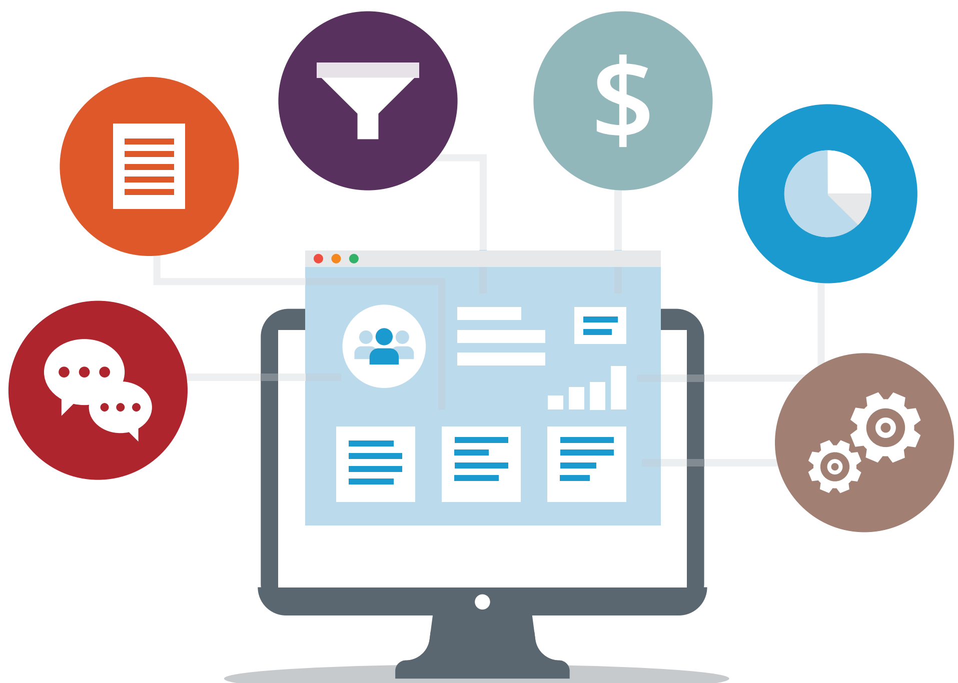
Why is this documentation important for exit planning?

- Documented changes demonstrate your new-and-improved and efficient operating procedures that continue to help the business save money.
- These records also show a future buyer the specific changes you implemented to emerge as a stronger business.
- As a result, you created value in your business that did not exist before you made hard, but necessary changes.
- Most importantly, these documented procedures are now your operating manual and the playbook for your business. This is something potential buyers want and need to have when considering a purchase.



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How does this create value in your business?

By documenting your new business processes, your organization becomes a turnkey operation based on successful procedures, instead of a business that is dependent on specific people. A buyer can identify the procedures in your playbook, and feel confident they can run the business in the same manner and be assured of sustained success after they acquire your business.

Because you transitioned your business into a **process-driven company**, and you **added value** to your business through **transferable, documented processes**, you can expect buyers to pay a premium for this type of turnkey operation.

If your exit plan does not involve a third-party sale, but instead includes a transition to employees or children, an economic shift is a unique opportunity to provide the next generation with a priceless experience. You learn the greatest lessons when challenges arise, and knowledge is acquired when tough decisions need to be made. By bringing the next generation to the table during a time of economic uncertainty, difficult decisions, risk assessments and operating procedures changes, they can learn, grow and emerge from the process as stronger future leaders. This experience can give them a greater chance of success after the ownership transition takes place, because they can know how to act quickly during uncontrollable circumstances.

Furthermore, similar to preparing for a sale to a third-party, these employees or family members can have the greatest chance of success with your new playbook of documented procedures that came during a time of change.

Exit planning is not about preparing for an immediate sale. **Exit planning is about making certain your business is ready for sale at all times**, so you can exit when the time is right for you.

If you have not started exit planning, now is a very smart time to begin the process, as you look at how you do business, make the necessary changes to meet economic shifts and thoroughly document the your business processes along the way. This is where smart exit planning begins.

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09

Ownership Transitions: Which Direction to Turn?

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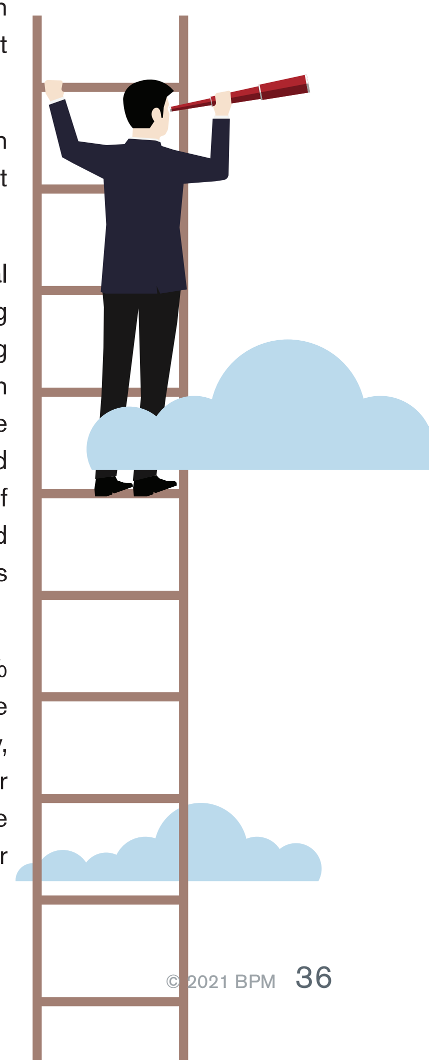
Ownership Transitions: Which Direction to Turn?

A common misperception is that exit planning and succession planning are different, independent activities: one would choose an exit plan when selling the business to a third party, but one would choose a succession plan when engaging in estate planning and transitioning the business to family members. A business owner does not choose between an exit plan and a succession plan, so let's clarify a few things.



A succession plan is the necessary training of family members who, or a management team that, will be succeeding you in your business on how to run the business, and how responsibilities and relationships will be transferred from you to them. It is the plan for how the business will go on without your leadership.

An exit plan is not a sales strategy. Exit planning can include a sale of the business to a third party, but that is not its primary purpose. An exit plan can alternatively include transition of the business to family members, but again that is not the primary purpose of an exit plan. **The sale or transition of a business are smaller parts of a broader exit plan**.

Effective exit planning begins with clarifying the business owner's goals. This includes understanding the owner's vision for the business and for life after an exit from the business. The first step includes an assessment of the business' financial condition, current value and potential value, and setting a course of action to bridge the gap between current value and highest potential value.

The next step includes understanding the personal financial goals of the owner, now, as well as long after an exit from the business. Then, an exit planning advisor will assess the ability of the business exit plan to fulfill the owner's personal financial plans. When the business is not able to meet the owner's personal and financial goals, there is a gap. A primary purpose of exit planning is to identify and quantify this gap, and establish a plan to eliminate that gap, so the owner's business and personal goals can be accomplished.

A common scenario is the business is worth up to 75% of a business owner's wealth, who may want to exit the business at age 60. Based on their life expectancy, he or she may live for at least another 35 years after they exit their business. Is he or she depending on the sale of the business to ensure they do not outlive their

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wealth? If yes, it is important for the owner to achieve the highest possible price when exiting the business. Will the business owner achieve the highest price from transitioning the business to their children or to a third party? If the owner decides a third party will be a better fit for their personal financial plan, how will they ensure the business will be sold for the highest potential price?

If a third party sale is required to achieve the owner's retirement goals, then an effective exit plan will identify the areas of the business where the owner can achieve growth in business value by implementing a value acceleration plan, an integral part of an effective exit strategy.

What Is Succession Planning?

Let's look at a business owner who has substantial assets outside of the business, and who is not dependent on achieving the highest sale price to achieve their retirement goals. In that scenario, even if transitioning the business to the children may be the owner's plan, they need to determine whether the children are capable of stepping up to the responsibilities of managing the business. This is part of your succession plan.

An effective exit plan will assess these transitional issues in the succession plan, initiate plans to compensate for skill and knowledge gaps, and identify and resolve conflict among family members in advance, so the business can have an effective transition. An effective exit plan will also assess the business, its systems, processes, infrastructure, human capital, customer capital and all areas of the business operations. The purpose of this assessment is to ensure the next generation is stepping into a business that is functioning at optimal levels, which will result in the best chance of future success.

Let's not lose sight of the fact that in the exit planning process, it may become apparent to this business owner that transitioning the business to the next generation is not the most effective plan. That is why **effective exit plans consider all possible exit strategies**, and measures them against owner's goals before implementing any exit strategy.

The primary purpose of exit planning is to fulfill a business owner's personal and financial goals, and to execute a plan that will ensure those goals will be achieved. Exit planning will include succession planning, if transitioning a business to children is the optimal choice for fulfilling the owner's goals. In addition, exit planning will examine alternative exit strategies, assess business strengths, weaknesses and opportunities for value acceleration, and maximize a business' ability to transition to the next generation successfully, or facilitate a sale to a third party at the highest possible price. This is effective exit planning.

10 Lies Advisors Tell You

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Lies Advisors Tell You

The process of business exit planning can be really overwhelming, which is made worse by the volume of misinformation in the market on the subject. Business owners are often even misinformed by their most trusted advisors. These advisors aren't intentionally misleading clients. They are often just focusing on executing a transaction, instead of the actual exit planning. To help clear the fog, here are some of the most common misleading statements we hear advisors tell their clients when talking about business exit planning:

1 "Call me when you are ready to sell your business."

This is one of the most common statements professional advisors tell their clients, when asked about exit planning. This approach neglects to advise a business owner on things they can do well before a sale to set them up for a successful exit. Selling a business is only one piece of a thorough exit planning strategy and it comes at the end of the process, not the beginning. Proper exit planning is a strategic plan to grow business value and align exit goals, so an owner is ready when an exit occurs. They are able to be proactive instead of reactive and exit the business on their terms. If an advisor wants to begin exit planning "when you are ready to sell," then they do not understand the purpose and the process of authentic and practical business exit planning.

2 "You don't need more than two or three years to plan your exit."

Three years to prepare a business for sale is certainly better than three months. However, advisors who say "three years is sufficient" are oblivious to the compound effect of comprehensive exit planning strategies. The best time to begin preparing a business for sale is when the owner is not even contemplating a sale. This way, they have plenty of time to take a step back to work 'on' the business, instead of 'in' the business. Early business exit planning allows an owner to identify all the areas of their business that can result in an average or lower-than-average price from a buyer, take action, and therefore prevent the business from being undervalued. Business owners who go through a Value Acceleration process with a Certified Exit Planning Advisor (CEPA) are well-educated on what it takes to maximize value and have a practical plan to do so. Furthermore, in pursuing the process of Value Acceleration, business owners often feel reenergized about their business and see the increase in value their actions create.

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3

“In your industry, buyers pay six times earnings.”

Buyers do not make business acquisition decisions based on “rules of thumb” purchase pricing. Implying they do is misleading. Buyers ultimately determine the price they will offer based many different factors. These factors include: how transferable the business is; the strength of its financial performance; the competency of its management team; its position in the market place; the effectiveness of its systems and processes; and the risks of the business. All of these things are uncovered by a buyer during the due diligence review. Determining the ‘right price’ is far more comprehensive than any rule of thumb.

However, let’s say for the moment that you look at recent acquisitions in your industry and you see a common trend in the price paid for similar businesses. Let’s assume you do find the average sale price does, in fact, seem to be six times earnings. In that case, you have to ask yourself “Do I want to sell my business for the average price?” or “Do I want to sell for the highest price?” If you want the highest price, you need to commit to a plan that will result in accelerating the value of your business above average. The advisor who wants to sell your business for the average price is not the advisor you want on your team.

4

“I can tell you exactly what your business will sell for, right now.”

Advisors use this misleading statement as an attempt to impress business owners and to create an illusion that their understanding of business value is omniscient and indispensable. No one can tell an owner what their business is really worth until they have reviewed and analyzed a significant amount of information about the business. Even then, an advisor cannot guarantee they can find someone to buy the business at that value. Even a motivated buyer does not know what they will pay for a business until after they have completed their due diligence review.

This statement about ‘knowing the value’ misses the whole point of exit planning. Exit planning is not about what a business is worth today. It is about achieving the highest potential value, while aligning the exit to the goals of the owner. Most advisors do not have the time, patience, process, motivation or skills to do this type of rigorous exit planning. That is why we use the term Value Acceleration to describe our highly effective exit planning process.

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5 "Yes, I am a business exit planning professional."

This is not always misleading information, but there are a few follow-up questions business owners should ask when they hear this statement. First, ask for their credentials. Are they a CPA, CVA, CFP, member of the bar, etc.? All of these alphabet soup credentials are impressive, and if the holders of these credentials are good at what they do, an owner may want some of them included in specific areas of the exit planning process. However, these credentials alone do not guarantee they know exit planning. For true exit planning an owner will want to find a CEPA, a Certified Exit Planning Advisor, as this type of advisor is solely focused in implementing strategies that will improve the value of the business and align the owners exit goals to the exit. A CEPA acts as the quarterback of the exit plan, and he or she includes and aligns with other advisors when necessary to get the optimal result for the business owner.

The second question an owner should ask is how the advisor is compensated. If their compensation is transaction based, then their focus is typically on the volume of deals completed, instead of implementing long-term strategies to move a business to its highest potential value before sale. If they are motivated by post-sale services and products, then they probably don't have the motivation, nor the process, to work on the business long before sale. A Certified Exit Planning Advisor has only this agenda: to help the business achieve its maximum value and align the exit to the goals of the business owner to the exit executed.

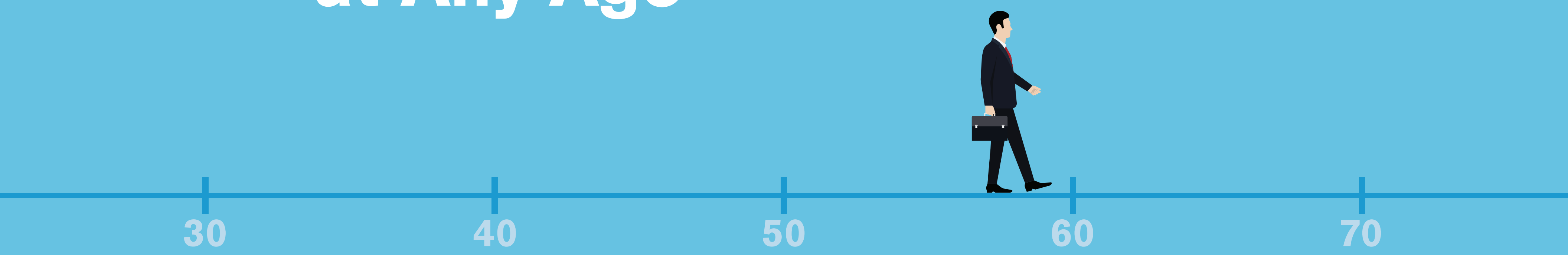
! Here is the straight talk:

Exit planning is not something business owners do when they think you are ready to engage in the sale of their business. Exit planning is a mindset of focusing daily on how to improve business value, so whenever owners decide to sell, they are confident that they are selling it for the highest potential value. When an owner focuses on effective exit planning, the business becomes the product. It's a product you will only sell once, and you want to have the confidence to know you did it right, and you will have no regrets.

Certified Exit Planning Advisors understand that way of thinking, and we implement Value Acceleration strategies to **help owners achieve their exit or transition goals**.

11

Inspire to Retire at Any Age



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Inspire to Retire at Any Age

It is never too early to plan for retirement. For a business owner, this is especially true since their retirement often results in the sale or transition of their company.

More times than not, the sale of the business – which is typically about 70% or more of the owner's net worth – will be their main source of retirement income and determine their future lifestyle.

Unfortunately, too often the value of the business at sale does not meet the value needed for the lifestyle goals of the owner.

Luckily, there are **things you can start doing** now as a business owner **to prepare for a sale** and **achieve your desired standard of living** during your retirement years.

Start by calculating how much money you will need to retire in the lifestyle you desire. Each generation lives longer than the next, so your retirement years can last a long time. Do not underestimate your life expectancy or your budget for those years. A personal financial planner can help you to determine the size of your required nest egg. Once you've determined that nest egg number, calculate how much of it will come from the sale of your business. Once you've done the math, you can work on growing the value of the business to match your retirement needs.

Keep in mind, it is important to create realistic goals when retirement planning. What if the maximum value of your business will not be enough to fund your desired retirement? You may need to scale back plans to match your retirement income. While you may want to maintain or improve upon your current lifestyle in retirement, it may not always be possible. Developing a plan with a financial planner, based on your position today and the years remaining until you retire can help you set realistic goals.

Several studies indicate that **happiness in retirement** is not affected by how much wealth you have, but instead by whether **your lifestyle fits within your income**. If you will need to scale back your lifestyle in retirement, you want to be prepared before you sell your business.

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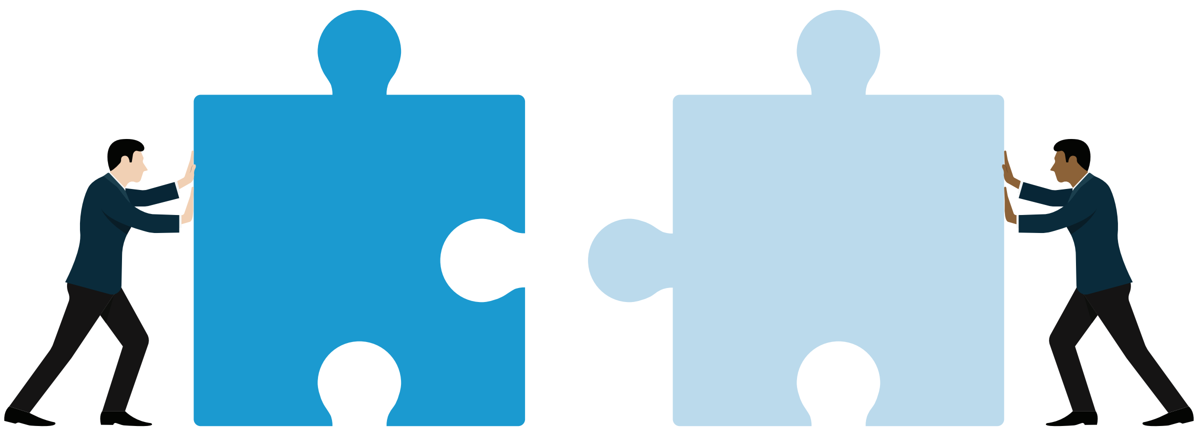
The good news is there is a better alternative, so you may not need to scale back your retirement goals. By focusing on growing the value of your business before the time comes to sell, you can meet and exceed your retirement goals.

The best way to approach **growing your business** is through a **Value Acceleration Plan**.

A Value Acceleration Plan is performed by a Certified Exit Planning Advisor (CEPA) and includes an assessment of the "Business Attractiveness" – or how good the business looks to a buyer – and an assessment of the "Business Readiness" – how ready the business is for sale. A Value Acceleration Plan does several things for you. It determines the current value of your business and a range of potential value at its current size. If your business is not at its highest value in that range (most businesses are not), a Value Acceleration Plan will include a detailed action plan of the steps required to make your business more attractive to buyers, and more ready for sale. It is a road map for how to get the business to its peak value, even without any growth, so you can make the most of your retirement.



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Rich Gunn, Partner, CEPA, CPA

600 California Street, Suite 600
San Francisco, CA 94108

Tel: 415-288-6218 | **Fax:** 415-288-6288
rgunn@bpmcpa.com

Rich Gunn leads BPM's Value Acceleration Service Team, which helps with succession, transition and exit planning for business owners. Rich is a Certified Exit Planning Advisor and a member of the Exit Planning Institute.

The Business Owners' Special Series (B.O.S.S.):

The Business Owners' Special Series (B.O.S.S.) is composed of several informational articles for business owners who are proactively seeking guidance from experts on how to implement value acceleration in their business. Be sure to keep reading, if you desire to develop your business to its maximum potential value and gain an understanding of how and why beginning the process sooner results in building greater value.

About BPM

BPM provides meaningful, comprehensive financial and business counsel. We specialize in accounting, tax, and finance, and our people are distinguished by their knowledge, discipline, and unremitting commitment to the success of clients.

Founded in 1986, BPM is one of the largest California-based accounting and consulting firms, ranking in the top 50 in the country. With multiple offices along the West Coast, BPM serves emerging and mid-cap businesses, as well as high-net-worth individuals, in a broad range of industries, including financial services, technology, life science, manufacturing, food, wine and craft brewing, automotive, nonprofits, real estate and construction.