

Dodging Landmines: Business Transition Planning

Foundry Story

I was referred to this lady, by another advisor, after the fact. Her husband owned a successful foundry in the northwest corner of the state. She lived the life of the wife of a prominent business owner in a small community. She drove a luxury car, she was active in social and civic affairs, and every Tuesday she played bridge at the Country Club. She had a perfect life until her husband died suddenly at work. She had never been in his office until the day after he died. She always felt the foundry was a “dirty” business.

Her husband had done no planning – no Will, no life insurance, no succession plan, and all of his assets were tied up in the business! The business that had supported her in luxury was, in reality, held together by duct tape and bailing wire. Her CPA told her she didn’t have enough money to declare bankruptcy and all of the company’s key employees were leaving like rats from a sinking ship.

That is a perfect example of the consequences of not having a predetermined succession plan.

No Plan

Number one on nearly everybody’s list of transition landmines is “no plan.”

It's amazing with all the information available that there are still successful and wealthy business owners who have no transition plan. They have built profitable businesses and accumulated great wealth, but they have not taken the time to consider their ultimate business exit strategy. They have not taken the time to consider the future of the business.

It's surprising to me how many businesses are either liquidated or the owner just walks away. If you doubt this all you have to do is to read your local newspaper to find examples. The result is a tremendous loss of economic value to the community as well as the jobs it provides.

How prevalent is the "no plan" landmine? According to a **2007 survey by the Wall Street Journal, 44% of business owners do not have an exit plan.** I have found this true regardless of the size of the business, whether it be sole proprietor or a large family owned or closely held business. As a matter of fact, a **Forbes's magazine article found 43% of US public companies had no formal CEO succession plan, and 61% had no emergency CEO replacement plan.** (Forbes.com, 2009, "How the SEC Just Changed Succession Planning: Part 1")

The timing of a business transition should be determined by the business owner rather than by circumstances, even if those circumstances are death or disability. They can still be a controlled transition.

From our standpoint, "No Plan" is the easiest and the hardest landmine for us to address with business owners. It's the easiest because all we have to do is to ask the right question to motivate them to consider the consequence of their lack of attention to business transition. It is important to understand, it is the power of the question that motivates, rather than a lecture

on why they should plan or how great your services might be. I have found revelation ceases when the lecture begins.

It's the hardest landmine to address because, according to author and researcher, Mitch Anthony, in his book, "Selling with Emotional Intelligence," advisors don't resonate with the client 50-70% of the time. The reason most people don't plan is the advisor is so focused on their personal agenda they don't identify the client's agenda.

Here is one power question. If you remember nothing else, **remember this question.**

"One day, because of death, disability or retirement, you will exit your business. Do you have a business exit strategy?"

This one is better,

"How, specifically, do you plan to get the money out of your business in the event of your death, disability, or retirement?"

That is the key question. If they answer it, "No, I don't have an exit plan," you have ideas to discuss with them. If they answer the question, "yes, I do have an exit plan," their answer leads to an entire set of new questions. If you ask this question, they have to consider why they haven't planned. It can be a tremendous "aha" exposing other landmines.

The lack of action in the face of compelling logic to plan has always been a source of frustration to me until I learned an important concept. The way to meld the client's agenda with yours is to enroll them in the planning process by asking questions designed to elicit client responses so

they can see the wisdom of planning from their perspective. “Enrolling” is getting people to do what you want for their reasons.

Landmine #2: Waiting Too Late to Plan

There is a management/leadership adage that’s been around so long I can’t remember when or where I first heard it. “The day the business opens is the day you start succession planning.” We know from personal experience this rarely happens because we see too many owners with no plan and others who waited too long to start their exit planning. When they wait too long to plan, their options become limited. What’s worse is the longer you wait to plan, more landmines attach themselves to the business transition process. It’s like a ship attracting barnacles except these are much more destructive. They become explosive “Bobby Traps” which are often fatal to the transition process.

Here’s a great quote from Inc. Magazine. Although it is over 20 years old, it still illustrates the point:

“I saw the previous owner of this company get to the point where, at age 65, he was desperate. He had done nothing to prepare for his retirement, he had no succession plan, he was vulnerable because of his age, and all his assets were in one place. I thought to myself, I hope I learn something from this.”

Billye B. Ericksen, President-Owner, Capsco Sales, Inc., INC. Magazine, April 1986

When the business owner waits too long to begin the plan, they can find themselves with a limited number of planning options due to the restraints of a short time frame. In many cases it

takes up to five years or longer to develop and implement a succession plan. At the very least, it takes a year to execute a business transition plan.

An article entitled, "Business Succession Planning That Meets the Owner's Needs," from the Advanced Underwriting Service (9/09) states:

"...the best approach is to begin the process of business succession planning when the owner/owners are in their 50s and are at the peak of their powers."

Here are just a few of the questions the owner must consider in formulating their business transition plan:

There are only three choices for the business, sell, retain for the family, or liquidate.

- **Sell**

Who is the buyer: partners, key employees, competitors, outsiders, an ESOP, go public?

Is it going to be as asset sale or a stock sale?

Am I willing to finance the purchase?

How can I minimize taxes on the transaction?

- **Retain for the Family (all the above plus)**

Who is best qualified to manage the company?

Does anyone want the business?

Can the business support me and them?

What do I do for my children who aren't active in the business?

- **Liquidate**

What are the economic and tax consequences of liquidation?

These are just a handful of the considerations which need to be answered as you build the business succession plan.

To get them to act you have to phrase the question so they have to consider their answer.

The One Thing

What is the one thing we can do that will help to mitigate the potentially disastrous results of waiting too late to start the planning process?

We can encourage business owners to build their wealth outside of the business. But how can we do that when many business owners throw all their financial resources back into the business to make it grow? We start where we can.

We assist them in establishing a simple retirement plan-an IRA, 401(k), annuity.

We can start a cash accumulation life insurance plan to fund first, their catastrophe plan of dying too soon, and secondly, to provide a source of tax free retirement income in the future.

Don't forget, individually owned life insurance is exempt from the claims of creditors in many states.

We can create a financial plan to diversify their portfolio. Most business owners have all their assets invested in one stock, themselves.

Once you have built this base you can expand it and help them to continue to build wealth outside of the business. If done right, these assets will provide flexibility and will enhance the ultimate transition of their business.

Landmine #3: Not Completing (Executing) the Plan

How many times have you talked to a client or prospect to find they never executed the plan? They could have a well written estate plan or buy sell agreement, but they never signed it. Now what happens? In some cases, it's worse than not having a plan because they may have implemented other strategies which are governed by the transition plan.

The "Nose"

Two business partners owned a fragrance business. The younger partner was the "Nose". He was the one who could distinguish various fragrances and mix them to formulate the perfumes. The partners had created a buy sell agreement funded by a key person life insurance policy on the "Nose" for one million dollars. There was a business reversal and the business tanked. Unfortunately, they couldn't just wind down the business because the fragrance compounding substances were considered toxic chemicals. They had to sell the chemicals or have someone burn them, a very expensive process. In the midst of all this turmoil, the "Nose" suddenly died. The Nose never signed the buy sell agreement so the surviving business partner got the one million dollar life insurance proceeds. The "Nose's" family wanted their share of the money. The surviving partner said, "No."

Other Landmines Which Attach Themselves to the Transition Process

These first three landmines are fairly obvious. Identifying other landmines is where you become the “trusted advisor”. They are seldom identified in advance. When they surface, they are devastating. If you develop the ability to ask the questions that identify them in advance, you will have a client for life and a steady stream of referrals.

Landmine #4: Failure to Consider Risk

Risk, the potential for loss, is a standalone landmine but it attaches itself to all the other landmines. I think it is often overlooked in the “heat of the deal”. It’s always there waiting to sabotage the transition. Careful planning and consideration can mute its affects, but it is never totally eliminated.

Both buyer and seller are mortgaging their financial future on the continued profitability of the company. Will the company be able to support the financial expectations of both parties? What happens if there is a business reversal? What happens if the previous owner has to take the business back after the buyer mismanaged it into near bankruptcy?

If the seller has not built wealth outside the company, their financial future is totally dependent on the management skills of the new owner as well as any number of unforeseen circumstances. Sometimes, the seller is so eager to leave they do not consider the terms of the agreement and the potential for loss. In like manner, the buyer is so eager to get the business they don’t forecast contingences and they fail to consider what could go wrong.

Family Buy-out

The father sold to his son. He negotiated a very liberal severance package and sale.

Unfortunately, shortly after the sale, the company lost three of its major contacts. Business income dropped \$100,000 per month. Not only was the seller in jeopardy of losing his retirement, the buyer was in danger of losing everything. The father was fortunate enough to have investments outside of the business to supplement the shortfall the business reversal.

Landmine #5: Not Understanding Business Value

Don't Know the Value

Unfortunately, most business owners buy or sell a business like they do a car. They have no concept of how to determine the value or the methodology used to arrive at the value. They may use a formula or a multiple of some factor such as earnings or EBIDA, but they are not aware of other elements that may affect the ultimate valuation. An M&A advisor told me most business owners leave 30-40% of the value of the business on the table when they sell, primarily, because they don't consider all their options.

A client called me who was the acting CEO of a Sushi Company. They had a process that could keep sushi fresh for months. They had distribution contracts with some national grocery store chains but they were drowning in debt. He was looking for someone to buy the company for the debt. I referred him to a business valuation expert who looked at the company and determined the values was approximately \$100 million. How could a company with a negative

Balance Sheet be so valuable? The value was not in the numbers but in the application of the Intellectual Property to another company. In addition, the company had national distribution contracts which allowed a new company into food chains that were currently not available to them. Had they not got expert advice, they would have given the company away for a pittance.

Business owners need to use valuation experts who understand the difference between future potential versus historical performance. Valuation experts realize the value of factors such as Intellectual Property or distribution channels which we may take for granted or discount their value. Add a business valuation expert to your team of advisors. You will be better able to assist your clients. Clients may balk at the fees but the value of the service rendered by an expert could be substantial.

Ego

One of the biggest problems in misunderstanding business value is “Ego.” Business owners often have unrealistic expectations as to the value of their business. They place too high a value on the “emotional.” They have an inflated concept of the business value and they refuse to sell, eventually consuming the business because their opportunities for selling dissolve.

Antique Store

There was an upscale antique gallery in Seattle. It dealt in treasures from around the world. It was very profitable and it had an established clientele among the cash rich dot com community as well as the interior designers for luxury homes. The owner started looking to retirement and decided to sell his business. The offers he received were valid but they insulted his inflated

value driven entirely by ego. He turned down offer after offer until the dot com went broke and so did he. He lost the business and all his invested time and resources.

Real Estate Investor

I had a friend who made a fortune buying residential real estate. When he made his offer to the seller he would always preface his offer by saying, "You have a lovely home and I know it means a lot to you. You have many good memories of this house. I am a real estate investor. My offer is not meant to insult you but it is what the house is worth to me as an investor." The person buying the business is looking at it as an investment. They are looking to how they make a profit on their investment.

Business owners need to understand how to arrive at a realistic value of their business. You can't just like the price when it agrees with you.

No Value

Sometimes, there is no value in the business because the current owner has already spent it or they have sold it to the bank through their line of credit. The current owner may have used the business as his personal bank account. He has spent all the cash and maxed the business line of credit leaving nothing for the new owner but debt for which he would be personally liable. So the buyer walks away. The current owner is stuck because he has no options. He is forced to dissolve the business. How did this happen? The owner stopped working and kept spending. It's like a reverse mortgage on the business. The end result is the owner sabotaged the business.

If you want to sell your business for its maximum value, you have to manage the financial operation to add value to the bottom line. It may take years to accomplish this. If we have a clear understanding of what the owner's exit plan is, we can assemble a team to help them accomplish their objectives. If they spent the value, they have few, if any options.

The power question is, "Do you own a business or a job?"

Engineer

I had a client referred to me by a bank. The owner was an acoustics engineer with a national reputation. His expertise allowed him to develop a niche business which was very profitable. He had a key employee who he had promised 25% of the business when the business was in its toddler stage. The owner was looking to retire in the next five years. We created a solution to accomplish his objectives only to have it come to a crashing halt.

The problem was the business owner was using the company checking account as his personal checking account. He was living well beyond his means with no desire to alter his lifestyle.

There was no money in the corporation to fund the plan and to execute the plan would have cut the owner's standard of living by 25%. There was no way he could fund the solution. He was forced to close the company and go to work for someone else.

Fair Market Value vs. Fair Value

Most agreements call for the business value to be "Fair Market Value" as determined by a formula or "competent appraisal". What's the difference between fair market value and fair value?

You and I own a business valued at one million dollars. Our buy sell agreement calls for fair market value. You die. Your spouse comes to me and asks for her fifty percent share of the business, in our example, \$500,000. I tell her we have an agreement and I plan to honor it. It calls for the buyout to be determined by fair market value. Fair market value allows for a minority discount, a lack of marketability discount, and a lack of control discount. We'll assume that amounts to thirty percent. So, I pay her \$500,000 less thirty percent for a total of \$350,000. Fair Value would have been \$500,000. You want to use an advisor who not only understands the difference between the two valuations, but understands the application of the principles.

Landmine # 6: Establish a Buyout Methodology which is Unsustainable

Business Overvalued with Limited or no Growth Potential

A common mistake is to overlook whether or not the business can support the purchase price and pay the buyer a reasonable living wage. Buyers can have unrealistic projections as to what is reasonably feasible.

Greed

Usually, parents want to give their children a good deal as long as the parent's retirement income remains adequate. The business came from the mother's side of the family. She was a shrewd business woman who had built the business into a multi-million enterprise. There were four sons. The one son, who worked in the business, wanted it in the worst way. He did not want to be in business with his three brothers. He bought the business for top dollar. There was

no room for any down turns in the profitability of the business. Yet, the growth potential necessary to support the note payments and the buyer's income were very aggressive. The sale was financed out of current cash flow.

There is no room for any downturns in revenue. The son's desire to get the business at any price may prove his undoing. The question is, "Will it be able to support the cash flow to make the payments plus maintain his lavish lifestyle?" That is a recurring theme in business transition methodology.

On the lighter side, the parents are getting \$1 million tax free for 20 years. I asked the mother how she felt about the end result. She said it was okay if you didn't mind living on a fixed income.

Don't Consider Taxation

Many business owners don't consider the impact of taxation. If you're buying a business, you have to pay tax on the earnings before you can make a payment. If the owner is going to bring in a new owner using a stock bonus, there is income tax to be paid on the bonus, usually by the person giving the stock bonus. A fifteen to thirty percent tax could be just enough to sink the transition. This was the problem with the engineer in my earlier example. He was going to satisfy his obligation to his key employee with a stock bonus. When he discovered he would have to pay \$200,000 in income tax to facilitate the bonus, it exposed the "no value" landmine. He had no money to pay the tax. Without paying the tax the key employee said, "No thanks", and the deal died.

Sellers often think of the payout in gross numbers and plan their finances accordingly only to discover a large short fall between their expectations and the actual money received. In the same token, the buyer may not realized the after tax impact on their ability to pay the note and to pay themselves a living wage.

Terms

Many business owners, sellers and buyers, don't understand what's in their written agreements. It might be an excellent document, but the provisions don't match their objectives or provide the protection they need. Let's consider some standard provisions in buy sell agreements. My purpose is not to debate the law, because I'm not an attorney. I just want to give you some food for thought.

Can't Make Payments

The agreement establishes the purchase price funded by a series of notes over a period of years. In the case of the family sale, the notes were for twenty years. What if the economy tanks and the buyer can't make the payments? Most agreements have no provision for this risk landmine other than a Default Clause. Neither Party wants a default. The buyer doesn't want to lose their investment and the seller doesn't want the business back.

What if the agreement had a provision that said the note payment couldn't be more than fifty percent of cash flow? If the note becomes more than fifty percent of the note payment, the provision calls for a reduction in payment and an extension of the note. The provision may also allow for a skip in note payments. These provisions would have limitations as to how and when

they could be used. The advantage is both parties are protected. The buyer is protected from losing the business and the seller has some protection so they won't have to take the business back.

Value Increase/ Decrease

What if the gross revenues of the business drop by 20%? The agreement could call for a purchase price reduction. What if the deal I have been working on for years comes in after I sell the business? The provision would allow an upward adjustment to the price. Both of these provisions would have a limited term, maybe five years.

Landmine #7: Don't Plan for the Unexpected

Three Clients

I've had three clients who rushed into buying companies without adequate due diligence before the sale. Two of the three were motivated by panic in that they had lost their prior employment. The other wasn't paying attention to the basics.

The first bought the business only to discover when there were heavy rains the manufacturing floor flooded, damaging equipment and inventory. Unfortunately for him, it happened when he was most vulnerable financially, the first six months of his new ownership.

The second bought a property casualty agency. Once the ownership changed hands, the lead insurance companies disapproved the agency transfer. There were no employment agreements so the employees left taking the clients with them. His ability to earn a living and to recapture

his investment quickly evaporated. He found himself with no carriers, no employees, and no customers. He did retain his debt obligation.

The third individual paid top dollar for a company whose only market was commercial contractors. The economy and the building industry tanked taking him with it. This is also an example of not understanding the valuation process and using advisors who were not skilled in valuing this industry.

All these could have been avoided with good due diligence. Regardless if you are the seller or buyer, you need to do your homework and to surround yourself with competent advisors.

How do we fit into this process? There are several things you can do today to prepare yourself to be a valuable resource to your client or prospect when this time comes.

Collaborative Teams

Build your collaborative team of advisors: Attorneys, CPAs, M&As, Business Valuation experts, Commercial bankers, life insurance agents, financial planners, etc. It is a collaborative team because the members of the team have to be focused on solving the needs of the client. Ego has no place in a collaborative team.

I worked on one case that took eighteen months. We had five attorneys, three CPAs, and two business valuation firms, and numerous bankers. We were all focused on solving the client's objectives.

Landmine # 8: Fail to Consider both the Transfer of Ownership and Leadership

A major landmine that almost always goes undetected is the failure to realize there are two transitions when a business changes hands. The first is a change of ownership. The second is a change in leadership. This is usually manifest by a failure to understand the business culture.

Businesses have a unique culture and if you don't understand what it is and how it works, both the buyer and seller can be in trouble. This is true regardless of the size of the business. The book, "Good to Great," has several examples where the new leadership didn't understand the nature of the market or the culture of the business.

Heroic Leader

Many business owners I have met and worked with were dynamic individuals. They were the driving force that made the business succeed, almost by sheer will power. Their hand was on every decision. They understand every aspect of the business. You might say they were heroic leaders. The business was built on personal relationships which are difficult to transfer to the new owner such as key employees. Relationship managers are irreplaceable. The most valuable asset is the previous owner.

In his book, "Good to Great", Jim Collins discusses several heroic leaders. One of the most famous is Lee Iacocca.

“During the first half of his tenure, Iacocca produced remarkable results, taking the company from near bankruptcy to nearly three times the general market. During the second half of Iacocca’s tenure, the company slid 31% behind the market and faced another potential bankruptcy.

The above case illustrates a pattern...in every unsustainable comparison: a spectacular rise under a tyrannical disciplinarian, followed by an equally spectacular decline when the disciplinarian stepped away, leaving behind no enduring culture of discipline...”

Good to Great, p.133

Hard Core Previous Owner

An attorney told me about one of his clients. The business had been founded by an ex-military officer. He was “tough as nails,” hard edged. He ran the business with an iron fist and used it occasionally when challenged by equally hard employees. More than one dispute had been settled on the assembly room floor.

He sold the business to an individual with a laid back personality. He was more like a teacher-educator than the two fisted previous owner. The business began to fail. The new owner called the previous owner in for advice. The previous owner found the workers were slacking off in their work, taking too long at breaks and lunch. Absenteeism was rising. The business was failing because the new owner didn’t understand the culture of the business and he lacked the ability to manage to that culture or to change it. He had to hire the previous owner, at an inflated salary in addition to his note payments, to save his investment.

Landmine # 9: Family/Partner Feuds

We could spend the rest of the day and all of tomorrow on this land mine. They dominate the news, the talk shows, and even the gossip rags. I have collected articles from many sources including local newspapers. I have one from Ketchikan, Alaska about a father/daughter fight which reverberated throughout the state. The result of disagreement is almost always disastrous.

If you Google, "family business feuds," you will get 618,000 hits. There are 2,190,000 on BING.

Here's just a partial list of some of the notorious:

1. Puma and Adidas, dueling brothers split the company
2. Summer Redstone and son, Brent.
3. Ruppert Murdoch and his father, Lachlua
4. Legal Seafood, Mark and Ruger Berkowitz
5. The Jackson Family
6. Hooters, Coby Brooks, founder's son and heirs.

Landmine #10: Crippling Disagreements/ Partners

We had two business partners, my clients for over ten years. Over time they had built a business that paid them each \$2 million in annual income. Unfortunately as the business prospered, their relationship didn't. One partner wanted to sell the business, take the money and retire. The first partner was tired and he believed the business had run its course and that a bigger player would soon step into the market. The business value would be lost or severely diminished. He wanted out today. The other partner wanted to keep the business because he felt there was still growth potential, plus he felt he wasn't ready to retire and he was too old to start a new venture. He believed the company would maintain its hold on the market. Both positions could be argued.

The problem was they could not agree on the value. The partner who wanted to leave believed the business value should be based on the price a motivated buyer would pay to gain access to their market, a strategic buyer. As you might guess, the other partner believed the price should be set based on EBITDA. They were and are at a stalemate. The already tenuous relationship continues to deteriorate.

Landmine #11: Incompetent Nepotism

So many times you see the business sold to or gifted to a child who is not a capable leader and is not qualified to operate the company. The choice of the successor from your children is always a difficult choice. It has to be handled wisely and it can't be made without careful planning. The key is for the parent to make a planned withdrawal rather than an immediate departure, if possible.

Boat Builder

We worked with a family owned, boat building business. The father had started the company in his garage. He had a unique concept and the business prospered. He had a key person who was instrumental in the success of the business. The son had a title, but the business was operated by the father and the key employee. The father wanted to ease out of the business and to enjoy his passion for fishing. His goal was to have the key employee manage the business but give the company to the son.

The parents had continued to overlook the fact the son had a substance abuse problem.

Although it continued, they shelved it in the back of their mind. It came to a head in a meeting to discuss the transition plan. The father was a young sixty year old. The son openly declared it was time for dad to step aside and let him run the company. He wanted to be making the “big bucks.” He would consider no alternative other than dad retire and leave him complete control of the company. Dad wasn’t ready to leave and the son wasn’t ready to lead. So the transition plan died.

Landmine # 12: Not Prepared for the Wealth

I learned this question from a Mergers and Acquisition consultant. “What are you going to do when you win the lottery?”

I have a client who is negotiating to sell his business for \$100 million. That’s equivalent to multiplying his current, unrealized net worth by a factor of 15. He has three children and 5 grandchildren. Two of the children are well established and one isn’t. Aside from the obvious estate and tax issues, do you think there may be some other issues on the horizon?

What if you had a client who was completely knocked off balance after inheriting \$60 million from his estranged father? How about a client who knew he would get some money when the family business was sold but he didn't expect it to be \$10 million. Although the experience of sudden wealth isn't as drab as those of lottery winners, it still can be devastating if the family has not considered the sudden influx of wealth from the sale proceeds. Another interesting read is to Google "Lottery Winners." Most of the stories don't end well.

Here's a mental picture. Think of a dry, arid landscape with only a small creek running through a narrow gorge. These are all over the West and the Southwest. They stay barren and dry for long periods of time just like the financial condition of many closely held business owners. Then the spring rains come, maybe thunder storms. What happens? There's too much water and it has no place to go. It floods the eco system and destroys the landscape. A sudden influx of money can destroy the whole family if they are not prepared for it.

The individuals have to deal with the **emotional aspect of sudden wealth**.

1. Disbelief, elation, bewilderment.
2. The outcome is not always positive

They have questions and concerns:

1. Will the money change who I am?
2. Will it change how I believe?

3. Do I trust myself to remain true to my values or will I be tempted to pursue a lifestyle I previously distained?
4. How will my relationships change?

They also have to deal with the psychological impact of sudden wealth. The intensity of the emotional response is not entirely determined by the amount of wealth received. It depends on how well the client responds positively to the change-new possibilities, etc.

Another problem with sudden wealth is simply, how to manage it. Two business partners sold their business. One invested his money with little research or fore thought. When the market reversed he lost a sizeable portion of his money threatening his ability to enjoy the fruits of his labor.

The other partner interviewed many advisors. He evaluated their recommendations and philosophy behind the proposals. He eventually chose a new advisor who he believe best understood his personal objectives and risk tolerance. He still has his money because his investment strategy allowed him to ride out the investment storm.

If your client is faced with a sudden wealth situation, you will need to assist him by asking the right questions. You may have to bring in other advisors. Make sure you put the client's interest ahead of your own.

On a side note, what do you think your chances are of retaining your client in a sudden wealth situation? Russ Alan Prince conducted a survey of high net worth client's attitudes regarding their financial advisor. 81% said they were planning to take money away from their current

financial advisors. 86% were planning to tell others to avoid their current financial advisors. 2% were planning to recommend their financial advisors to others.

If you know eight of the eight core values of your client, you will retain 100% of their business and receive an average of 4.1 referrals from their peer group. If you know five of the eight you will retain 72% of their business and get an average of 1.7 referrals. If you know two of their core values, you will retain 50% of their assets and receive no referrals.

Other Landmines

There's a lot more landmines to discuss and we could take any one of these mentioned and spend an entire day on them.

Studying landmines in business transition is an interesting topic. It provides a good perspective on how to assist our clients in their business transition planning. The biggest advantage to us is we begin to focus on asking the right questions, to ask the questions no one else is asking.

When we ask the right questions, we separate ourselves from the competition.

The problem with landmines in business transition planning is by the time most of these landmines become apparent to the business owner and their advisors, one or more of them have severely hampered the owner's and the advisor's ability to extricate them from the impending disaster that could have been prevented with proper planning. Once you know where they are, you will be able to have an entirely different conversation with business owners. That conversation will lead to untold client opportunities for you. You might be surprised how many of these landmines are present in your own operation.

There are many more landmines to be aware of than I can discuss in our brief time together. My list comes from my own experiences along with numerous conversations with attorneys, CPAs, Merger and Acquisition firms, business valuation experts, to name a few.

Questions to Ask

Start defusing the landmines today by asking the right questions to your clients and prospects.

1. Are you building wealth outside the business?

- a. Life insurance funded Deferred Compensation.
- b. Section 162 Bonus
- c. Retirement Plans
- d. Other non-qualified investments

2. Are you managing your business to prepare for the transition?

3. Are you the indispensable person in your company?

- a. The value of key person life insurance
- b. The value of key person disability insurance

4. What does retirement mean to you?

- a. Increased life spans call for creative planning (sell too soon, another landmine).

b. Life insurance can allow you to supplement your income or to maximize your retirement income.

5. **Have I covered all my bases?** (Planning documents)

The Key Advisor Question

When was the first time all of your advisors got together to understand what your role is for yourself and what you want now and in the future?

To learn who you care about and the outcome you want for them?

To understand the role you want to have with the community and what difference you want to make so your advisors understand what will be important about accomplishing “it” and when you want to accomplish “it.”

When was the first time your advisors worked in a collaborative team to create a structure and a plan to get “it” done? The answer, unfortunately, is never in too many cases.