"Am I Okay?" A Primer on Business Valuation, Succession, & Continuity

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ONE IMPACT FINANCIAL GROUP

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Exit Survey

"Am I Okay?"

We all know those moments: the team lead opens a meeting with "How're ya'll doing?" and the circular murmurs commence: "Good. Fine. Okay."

No one believes a word of it.

"I'm okay" is the most reflexive and dishonest answer we give on a regular basis. The mighty "Okay" is ingrained deep in our brains, an obligation rolling right off the tongue and out of the way so we can get on with our meetings and get to the donuts. Business leaders are themselves so familiar with this rhythm that they, too, often fail to give honest answers. But one of the worst things a leader can do is become too used to the answer, "I am okay."

Hopefully, this book provides you with a safe place to explore that nagging feeling that you might not actually be "Okay," "Fine," or "Good." We want to equip you with courage-giving tools that will let you look reality in the eye. That's why we're not going to ask you if you're okay. *You* are. The first step is for you to set this book aside for a good sixty seconds and ask yourself: *"Am I (really) okay?"*

What does it mean to be "Okay" as a business leader? Hopefully your self check-in has got you thinking about the ways you measure your answers to that question. Did the **value of your business** stick out as one of those metrics? Maybe you landed on something close: the size of your salary; the bonuses you gave out last year; your growth in profits over the last five years. But all these numbers tell you just a sliver of the story. If you stop and add up everything that the typical leader knows about their business's value, you get a pretty wild statistic:

"98% of small business owners don't know what their business is worth."[1]

With a number that big, it makes sense to consider what might be causing it. As we've already implied, many owners put too much weight on one aspect of their business's value and treat it as if it were the whole story. The temptation is entirely understandable, after all...

1. ***Business Valuation is Expensive.*** Depending on the size of the business and it's annual revenue, a typical business valuation will cost a business owner an average of $8,000 to complete—with some costs sailing north of $10,000.

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[1] Statistic courtesy of IBIS World

2. ***Business Valuation is Time Consuming.*** Traditional business valuations can take up to 4 weeks to complete.

3. ***Business Valuation is Complicated.*** In order to have a traditional business valuation performed, the business owner needs to gather tax forms, balance sheets, and other financial documents and review these items with a business valuation expert. The interview and fact-finding process is a lengthy one and takes the business owner away from the work of running their business.

4. ***Owners Often Say "Not Now" to Valuation.*** Considering the above objections, it's no wonder that business owners wait until some major event requires them to have a business valuation performed

Business Owners Need Help

The Opportunity Few Focus On:

12 TRILLION $12 Trillion of wealth transfer in next ten years in the business owner marketplace[3] (larger than the baby boom to millennial transition)

30 MILLION 30 million private businesses in the United States[4]

2 PERCENT Only 2% of private business owners know what their business is worth

78 PERCENT 78% of business owners plan to fund their retirement with the monetization of their business

90 PERCENT 9 out 10 business owners are either underinsured or have no insurance[5]

[3]Orion Advisor Services, 2018
[4]US Small Business Administration, 2018
[5]Marshall & Swift Boeckh, 2017

The fact is, most owners don't see business valuation or succession planning as a form of preparation; they see it as a "bridge to be crossed when they get there." But those "life bridges" are often rickety, unstable, and rotting away over a gaping chasm—things like lawsuits, divorce, retirement, downsizing, death, etc. Ultimately, these urgent and high-stress situations are the *most* inconvenient times to have a valuation completed. Better to have those values ballparked in advance of when you'll inevitably need them.

Let me frame this another way: How would you respond to the person who says, "I'm not going to start retirement planning until 2-3 yrs before I retire?" You just *don't* plan for retirement only a few months before you retire—so why wait to plan for the future of your business until your hand is forced by a looming major life event?

"Okay, you got me," you might be saying, "But if I should be off getting a valuation, why am I still reading this essay." Simply put, we wrote this little book to help prepare you to prepare. As a business coach consultant and advisor (Daniel) and a Certified Financial Planner™ (Brian), we look at business vulnerabilities from both a leadership and a strategic financial planning perspective.

We don't want to assume anything about your situation or tell you what to do about it. We're here to build bridges between resources you didn't know you had. We believe that, once you start to see the connections, you'll also agree that your investment was worth it.

We developed this program through our combined expertise—Daniel in the field of leadership coaching and business consultation, and Brian in the financial & retirement planning sector. We have 45 years combined experience in our areas, on top of a series of networked partnerships that further reinforce what we have to say here. We aim to equip you with a distillation of the best research from some of the foremost authorities in this area. By the time you've finished reading, we want you to walk away with a major return for your time and attention: an accurate snapshot of your business and how it stands relative to some major vulnerabilities related to business valuation, protection, growth, and succession.

Ultimately, your business is your biggest asset. Your business takes care of your family, it funds your lifestyle, and it has the potential to fund 60% to 80%—or more—of your retirement. You owe it to yourself to understand the processes of valuation and succession, and all the different flows and forces at work around them. We wrote this book to provide you with a planning process that brings **clarity, confidence, and peace of mind. In short: we're here to make sure that you're okay.**

The Basics of Business Valuation: "Where Am I At?"

Before you continue reading, refer back to the Assessment included with this book. If you answer 'No' to any of these questions, mark it on your assessment. You'll be adding these all up at the end.

- *Have I ever had my business appraised by an outside resource?*
- *Do I have a formal buy/sell agreement for death and disability?*
- *Is my buy/sell agreement funded?*
- *Does my buy/sell agreement adequately protect my heirs, my business and my partners?*
- *If I were to get sick, disabled or experience another COVID19, where would my paycheck come from?*

Benefits of a Valuation

"As the celebrated investor Warren Buffett once said, "Price is what you pay. Value is what you get." No doubt you have paid the price and sacrificed years of work to make your business survive and thrive now how can you harvest as much value as possible. Our process here aims to engage you where you're at and provide you with tangible answers, starting with one of your most pertinent planning questions as a business owner: "Where Am I At?"

As we said above, your business is your biggest asset—and knowing the value of your assets is essential to any successful business.The business itself—from the mission that drives it to the way it interfaces with a community—is more than the sum of its parts and needs to be considered as a single entity, with all its delicate machinery. A dedicated business valuation will help you...

1. **Be Better Prepared by Knowing the Value of Your Largest Asset.** By putting a value on your business, you learn to think in terms of the big picture, and not merely the discrete assets that comprise your operation.

2. **Be Properly Protected when Life Happens.** There are no shortage of surprises that can blindside you and your business—and we mentioned only a few of them in the opener. You can also experience the premature death of an owner, or the disability of a Key Person, as well as an extended health event for your partner. Valuation can save you a lot of pain when your mental and emotional energy is tied up in urgent realities.

3. **Be Better Informed.** A business often drives the decisions made around your personal retirement, retirement income, estate, and/or trust planning. Over- or under-valuing your business could set you up for unpleasant surprises in the future.

4. **Make Strategic Decisions.** Any business owner making plans for the future—whether it's their own retirement, building a proper succession plan, or selling off the business—needs to be working with accurate and expert-derived values.

This is why valuation is top of the heap for us, the starting point in our process when working with business owners. A solid valuation is your condition of possibility for taking full advantage of other opportunities, such as:

• Retirement and Estate Planning
• Protection Planning
• Business Coaching and Planning
• Preparation for a Business Sale or Purchase
• Continued Service and Added Value for Business Owners

Now, we know all of this can leave you dizzy and wondering where to start. Fortunately, many new technologies—such as those at Biz Equity—use the power of Big Data to deliver an extremely accurate business valuation through a simple process. These algorithms use methods from Market, Asset, and Income-based approaches to achieve excellent valuation results, and Biz Equity's methodology has been endorsed by the American Bankers Association (ABA).

Still, even with such powerful tools available, we can't neglect the human element here. Business valuations give you a forecast of your assets that is contextualized by dozens of other variables. Ultimately, only expert human analysis can give you the best numbers—and only a thoughtful, empowered leader can know what to do with those numbers.

Looking at Valuation Like a Leader.

Times of crisis—like we're enduring right now—are times to take stock. While a valuation gives you a snapshot of "where you're at," you need a lot of human leadership to prepare for your valuation and make the most of it once it's in your hands.

This is Daniel's wheelhouse, and he spends every day leveling-up business leadership. He created a proprietary strategic development tool—COMPASS—that enables organizations to evaluate their business based on seven key areas. As a leader, you can use this tool to take stock of your organization and better identify where your value comes from—and perhaps see it in places you never considered before.

At the end of the day, your valuation reflects your leadership. In the start-up world especially, valuations place significant weight on the vision and aptitudes of the leadership team. Leadership is *key*, and through your leadership you will act on the wisdom your valuation affords you.

Calling.

YOUR VALUE IS ROOTED IN YOUR CALLING: WHO ARE YOU AND WHAT DO YOU VALUE?

WHY DO YOU AND YOUR BUSINESS EXIST? WHAT DO YOU BRING TO THE TABLE?

WHAT VALUE OR SOLUTION DO YOU CONTRIBUTE?

WHAT NICHE DO YOU SERVE, AND HOW HAVE YOU SOLD IT TO YOUR CUSTOMERS?

At the end of the day, your value as a business is decided by the mark you make on a competitive market. Maintaining a strong vision and sense of value helps determine the sort of plans you need to make regarding your business contingencies, and helps you weather the flux and uncertainty that accompanies the valuation process.

HOW'RE YOU DOING? RATE YOURSELF IN CALLING:

1 2 3 4 5 6 7 8 9 10

Organization.

HOW ARE YOUR PEOPLE ORGANIZED?

WHO ARE YOUR TOP PERFORMERS?

HOW ARE YOU PRESENTLY RETAINING THEM—AND WHAT HAPPENS IF YOU *CAN'T*?

We don't often think of our people in terms of dollar amounts, nor should we ever reduce them to a number. But the fact is that most of our business assets take the form of individual people and team members who create the capital that turns the motors. The tighter your organization and the more trust between your people, the less money you can lose through the cracks. Not only that but, as we'll see below, part of valuation is identifying your key people and protecting the value they add to your company.

HOW'RE YOU DOING? RATE YOURSELF IN ORGANIZATION:

1 2 3 4 5 6 7 8 9 10

Metrics.

USING YOUR BUSINESS VALUATION, HOW DO YOU PLAN TO SCALE OR SUSTAIN YOUR BUSINESS?

WHAT KEY METRICS MUST YOU KNOW IN ORDER TO ENSURE YOUR ORGANIZATION STAYS ON THE RIGHT GROWTH TRACK?

HOW DOES KNOWING THE VALUE OF YOUR BUSINESS CHANGE THE WAYS YOU DO BUSINESS?

DO YOU HAVE HARD NUMBERS ASSOCIATED WITH THE COSTS AND BENEFITS OF LOSING OR GAINING KEY PEOPLE?

While you can't control that number on your valuation, you can control all the values from which it derives. Knowing what numbers are important and how you can keep on top of them will take much of the mystification out of your valuation process.

HOW'RE YOU DOING? RATE YOURSELF IN METRICS:

1 2 3 4 5 6 7 8 9 10

Processes.

WHAT ARE YOUR HIRING AND RETENTION PROCESSES?

WHAT IS YOUR SUCCESSION PLAN?

DO THE PEOPLE INVOLVED KNOW THEIR ROLES AND WHO THEY NEED TO REPORT TO?

Many business hemorrhage value due to gaps in their processes: people run back and forth trying to nail down their roles, and the cloud of unknowing becomes a productivity killer. As you tighten up your organization, examine the processes you use to get work done. Tune up your efficiencies. Your business will run more smoothly, and your value will soar as well.

HOW'RE YOU DOING? RATE YOURSELF IN PROCESSES:

1 2 3 4 5 6 7 8 9 10

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Attention.

GEARS NEED GREASE. JUST AS YOUR PROCESSES NEED TO RUN SMOOTHLY, YOUR PEOPLE NEED TO BE WELL-LUBRICATED IN PURPOSE, IMPROVEMENT, AND POSITIVITY. ARE YOU GIVING YOUR EMPLOYEES THE FEEDBACK AND THE INCENTIVES THEY NEED TO EXCEL IN THEIR WORK?

DOES EVERYONE—NOT JUST YOUR TOP PERFORMERS—FEEL CARED-FOR AND ENCOURAGED TO MEET THEIR POTENTIAL?

Remember that word—potential—because that's an ingredient for your value, too. The more your people rise to their potential, the more they bring to your business.

HOW'RE YOU DOING? RATE YOURSELF IN ATTENTION:

1 2 3 4 5 6 7 8 9 10

Sync.

IT SHOULD BE PLENTY CLEAR BY NOW THAT YOUR BUSINESS VALUATION REFLECTS YOUR MARKET POTENTIAL IN A WORLD OF FLUCTUATING CUSTOMER NEEDS. TO REMAIN IN TOUCH WITH THOSE NEEDS, YOU NEED TO OPERATE EFFICIENTLY. THE REAL SECRET TO EFFICIENCY IS SYNCHRONIZATION: YOUR ABILITY TO GET EVERYONE TALKING TOGETHER AND GET THEM ON THE SAME PAGE SO NO ONE'S IN THE DARK ABOUT WHERE YOU'RE ALL HEADED. THIS IS ESPECIALLY TRUE OF ANYONE INVOLVED IN YOUR SUCCESSION PLANNING: WHO KNOWS ABOUT ALL YOUR CONTINGENCIES?

WHO *NEEDS* TO KNOW, IN ORDER TO ASSURE THAT THEY ARE EXECUTED EFFECTIVELY?

How do you regularly update one another on the statuses of these plans and whether they need to be put into effect? Button-up your syncing processes to protect all your blind spots.

HOW'RE YOU DOING? RATE YOURSELF IN SYNCHRONIZATION:

1 2 3 4 5 6 7 8 9 10

Scale.

DO YOUR CONTINGENCY PLANS NEED TO BE ADJUSTED BASED ON THE SIZE OF YOUR OPERATION?

HOW DO THE ABOVE ELEMENTS NEED TO BE RECONSIDERED DURING TIMES OF EXPONENTIAL GROWTH OR SHRINKAGE?

HAS THE COVID PANDEMIC SCALED YOU DOWN?

DO YOU NEED TO REWORK YOUR CONTINGENCIES IN THIS TIME OF CRISIS?

Owners and leaders know that there is no such thing as "linear" in the world of business. You gain and lose by leaps and bounds—and this is reflected in your valuation. By the same token, you need to make your contingency plans with exponential change in mind.

HOW'RE YOU DOING? RATE YOURSELF IN SCALE:

1 2 3 4 5 6 7 8 9 10

Is it all starting to feel more real? Good. Remember, we're not just talking about a number on a sheet. We're talking about a wide-angle reflection on all the real-life elements of your business. To drive that home, and not neglect the human element, we'll spend the rest of this module walking you through some specially-chosen case studies to help put the finer points into relief. So buckle up; we've looked at where you're at. Now—where do you want to go?

Succession Planning: "Where Do I Want to Go?"

From here on out, we'll be taking a bit of an unorthodox approach to our content. Strategies surrounding valuation and succession are as varied as the people whose needs they address, and it's impossible to create a chart detailing all the possibilities. Instead, we're going to introduce you to Bob. "Bob" is a fictional composite, representing strengths and challenges we've experienced through a number of clients. In the following pages, you'll walk with Bob through a number of case studies as he plans his own succession, and see just a couple ways that this process can shake out.

Case Study #1 The Howe's Dilemma

Facing the Uncertainties of Retirement

"Heading out, Bob?" Linda asks.

"Yep," Bob answers, giving his spring coat another shake. "Off for a coffee with Rich."

"Is he in town? It's been a while!" Linda, Bob's chief financial officer, knows all the numbers in his life and therefore knows his friends about as well as he does. Bob has been a successful hardware store owner for more than 30 years. He's well- respected in his community, and has poured everything into his business—including

one failed marriage. His plan was always to retire at age 65. Now, at 55, Bob has shared his plans with Rich: a close friend and mentor who is himself nearing retirement after managing a similar store across the country.

Rich has insisted they meet up on one of his rare long weekends over in Bob's neck of the woods. As Bob steps into their agreed-upon shop and smells the burnt notes of fresh-ground dark roast beckoning to him, he crosses to his friend and offers a firm handshake. Bob, excited for the future, loses a little of his enthusiasm when he sees the dark circles under Rich's eyes. Still, he's sure his friend will perk right up once he has an espresso or two in his system.

But by the time they take their table, Bob knows he's not going to get quite the encouragement he hoped for.

"It's been a nightmare," Rich says shaking his head, "ever since that Howe's opened up—"

"Howe's is an international home improvement chain," Bob says, a little incredulous. "What do they need a store in your neighborhood for?"

"Not just a store, the biggest store in the region. And it's killing me." Rich has pretty much memorized a list of potential buyers he was previously in talks with and who have suddenly stopped calling. Just like Bob, Rich has put everything into his business—including two failed marriages—and now, right at the moment he planned on capitalizing on all those years of hard work, he could see it slipping away and out of his control.

Bob drives back to the story in a mental fog; even the radio is too distracting. He needs to think about what he's just heard, to process the implications of just how quickly the market turned on his friend. Bob has sat in on financial planning seminars before, but each time believed that catastrophes happened to "other people." Suddenly realizing that he is "other people" to someone else, he digs around his memory for things he learned a long time ago.

It's slow going. He knows that at least 25% of his assets should come from sources other than his business, but thus far he's neglected to diversify. Furthermore, though he planned to retire at 65, he's never really imagined his business without himself at the helm. Linda is a natural candidate for taking over, but is she too young? Can she handle it? Especially if Howe's decides to move into their territory as well …

The old saying—"If you don't have a plan, any road will take you there"—is ringing true for Bob. He needs plans, and a lot of them: a cash flow plan for his retirement, a plan to start di-

versifying now, and some help coordinating his personal planning with his business succession planning. Only one thing is sure: this is going to be a hell of a decade, and he should probably finally call that business coach that Linda keeps bringing up.

Leading to the End of Your Leadership

All business leaders want to leave a legacy. There is no small irony in the fact that one of the most important parts of your legacy is the path you lay to passing the torch, and bringing your own time as a leader to an end. In this scenario, both Bob and Rich have been too caught up in their own worlds to fully prepare for the chaos encroaching on their retirement. Rich did not expect to face such stiff competition at the end of his tenure, and in the lead-up to retirement Bob has neglected to properly vet Linda, his obvious successor, to see whether she would in fact be the ideal choice. Bob's pathway to the future will depend on his answers to some crucial questions.

Before you continue reading, refer back to the Assessment included with this book. If you answer 'No' to any of these questions, mark it on your assessment. You'll be adding these all up at the end."

- *Do I know how much income I will need in retirement?*
- *Have I explored financing opportunities for key employees to buy the company in the future?*
- *Do I have a plan to recruit and retain key employees?*
- *Do I have investments other than my business? More than 25% of my total assets?*
- *Have I had my retirement cash flow projected and analyzed to identify shortfalls?*
- *Do I have a retirement target date and is my business partner and family aware of it?*
- *Have I reviewed my 401k plan? Do I understand my fees and investments, and do I clearly understand my fiduciary liability under ERISA?*

How would you advise Bob in his situation? Based on the questions we've just posed and answered, we can offer a few points of suggestion:

- Bob's needed retirement income will largely depend upon the lifestyle he wants for himself and his family. These are ultimately value questions, and Bob will need to let his leadership coach dig down into his story and values so that he can adequately answer this question while anticipating the next 10 years.

• If Bob has not given much thought to recruitment and retention, then he has nothing to count on by the loyalty of people like Linda. Such loyalty is a mark in her favor, but Bob can't count on loyalty alone. If Linda is, in fact, a part of his succession plan, then he needs to do the leadership work of training up her potential and incentivizing her to stick around.

• Given that Bob is most concerned about diversifying his assets in case he faces the kind of stiff competition that Rich has, he'll need all the help he can get. Plans for recruiting and retaining talent will be that much more important, and he'll need to involve everyone involved in his succession plan. After all, he needs to diversify his verticals in a way that helps him achieve a 25% buffer, but also sets the new owners up for success. He begins to maximize his 401k plan and build up assets outside his business.

So, Bob has a lot on his plate. His chief priorities, of course, are contacting a business coach and developing that relationship, getting a valuation on his business, and also setting up his succession plan. In order to select from the top talent he has available, he'll need to establish retention strategies to make sure that he doesn't lose a major candidate in the meantime.

"Hang on," he thinks to himself as he reviews portfolios. "Didn't Dan go through something similar with Ryan…?"

Case Study #2: Executive Benefit Planning

Insuring Your Key People

In a tightening job market, competition for talent can be fierce. Businesses may need to create incentive plans on top of compensation to recruit and retain key executives, and it's hard to build a plan that's attractive to business and talent alike...

… And yet, despite the difficulties, Bob's friend Dan got his own CFO—Ryan—to stay on with his company until retirement.

Dan owns a commercial contracting company, and Bob has provided materials for them *on several occasions. At age 45, Ryan has been with Dan for nearly 10 years, and is a big part of why they've succeeded like they have. After getting his company valued, Dan was able to see just what an outsize effect Ryan has on their bottom line.*

"I wanted to recognize his talent," Dan tells Bob over the phone later that day. "But I also wanted him to stay. Forever. Or at least until he was 65." After seeking some coaching of his own, Dan settled on an Executive Benefit plan that provided key person protection for the company, excellent supplemental tax-favored retirement income to Ryan, a potential death benefit to Ryan's family, and the means for Dan to retain Ryan for a long time.

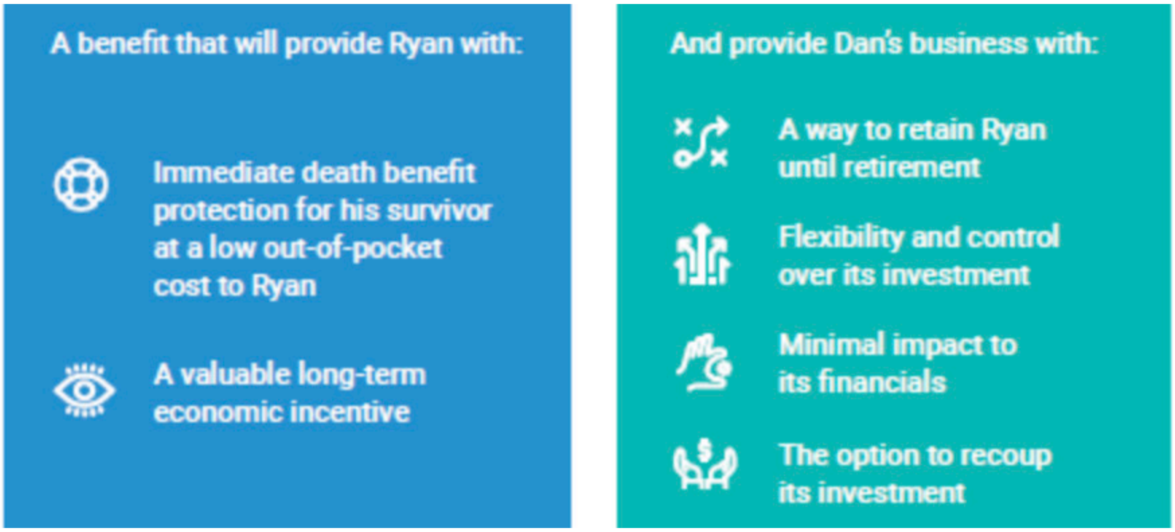
But even after making that decision, Dan faced a daunting challenge: offering a plan that would provide Ryan with immediate death benefit protection for his wife at a low out-of-pocket cost to Ryan, and a valuable long-term incentive for staying with the company. At the same time, Dan needed to secure a benefit that would provide his business with a way to retain Ryan until retirement, maintaining flexibility and control over its investment with minimal financial impact and the option to recoup its investment.

[Pause: How would you have advised Dan in this situation? If you were Bob, what questions would you want to ask?]

"This is why I'm glad to hear you're going the coaching route," Dan tells Bob. "I never would have figured this out by myself." Dan's financial advisor recommended a split-dollar plan to incentivize Ryan for the long-haul. According to the plan, the business would purchase and pay the premiums for a life insurance policy through a shared, joint ownership structure between Ryan and the company. On his end, Ryan got cost-effective death benefit protection for his wife and two kids, and the promise of fully owning the policy at the end of the agreement, when he retired.

"It was a good deal for me, too," Dan says. "No IRS or DOL approval, no postretirement obligations, pretty small hit to our bottom line, and we got the option of recouping the premium."

Dan sends Bob some literature to look through, and Bob starts to see the strategy behind the deal. Dan's company will invest $40,000 per year into this Executive Benefit program for Ryan. The investment remains on their corporate books as its ownership interest in the jointly owned policy, making the expense easy to track and balance. His financial advisor also showed him the flexibility with annual administration services that can adjust the funding amount year by year depending on Dan's goals.



The whole thing puts Ryan in a good spot. While the split-dollar agreement is in effect, he pays loan interest to the company on the split-dollar balance. Ryan receives a compensation bonus from Dan to pay the loan interest each year. This leaves him with lower out-of-pocket costs that equal out to the income taxes payable on the bonus. When Ryan turns 65, the company will end the split-dollar agreement and Ryan will retain ownership of all the remaining benefits, including any cash values. If Ryan passes away during the split-dollar agreement, the death benefit proceeds can extinguish the split-dollar loan and the remainder distributed to Ryan's family.

"We're one year end, and things are looking pretty good for all of us," Dan says. By the time Ryan retires at 65, the company will recoup the investment by taking a withdrawal from policy cash values at nearly 500% ($800,000). Ryan's cumulative outlay for bonuses received will exceed $60,000, his death benefit will exceed $1.2 million, his cash surrender value will reach $640,000 and he will enjoy a retirement income of $57,000.

Conclusion

Business Protection is key to your peace of mind as a leader. You need to know your family will be taken care of in the face of whatever life throws at you. Despite this, over 40% of business owners have no protection plan in place and are exposed to life events that can cause life or disability risks. The COVID-19 crisis has proved this out in ways that many of us hoped we'd never have to deal with. It's impacted many paychecks, and maybe it's impacted yours. For example, we are seeing an increased interest in disability insurance, a direct result of people seeing the impact of lost income and a desire to protect their paycheck. Asking yourself "Where Do I Want to Go?" will help you ask other crucial questions about planning and retention, so that disasters do not force your hand.

My Team and Key People: "Who's Going to Help Me Get There?"

Case Study #3: Keeping Your Mark

Retaining for the Long Haul

As Bob reviews his candidates for succession, he realizes that a few of his employees bring or preserve a significant percentage of the company's revenue between them. Without any one of these employees, Bob's company wouldn't be enjoying anything like the prosperity of the last 10 years. He's had retention on his mind until now, but Bob is slowly facing the reality that you can't keep everyone and you can't defend against everything. After all, it's true that disaster always strikes "someone else," but you're always "someone else" to someone else.

The answer hits Bob so hard he can't believe it took him this long to notice it: You've insured your property and equipment because you know you can always lose those things, but what about your most valuable asset — your key employees? Bob goes through his contacts, trying to remember if anyone he knows has addressed similar questions about co-owners or partners, top executives or team members with unique talents, experiences, or skills. How did they protect their business from the financial impact of losing an essential employee?

Finally, he emails another of his B2B contacts: Vince. Vince owns a large construction company, and Mark is a civil engineer and general sales manager who has been with Vince's company for over 10 years. Vince has always said that Mark's ability to generate sales leads led the company to its success. After thoroughly studying his own business valuation, Vince realized that Mark's value might be directly transferable to another company if he found a better position elsewhere.

"At some point," Vince writes in his reply, "I realized Mark is so valuable that if he got poached, or if something else happened to him, God forbid, I'd be treading water within a year."

[Pause: How would you have advised Dan in this situation? If you were Bob, what questions would you want to ask?]

Vince needed a plan that would protect his business from the financial fallout of losing Mark. Assuming the worst, Vince would need a way to replace lost revenue, provide liquidity for recruiting and training Mark's successor, and maintaining business continuity for Vince's clients, creditors, and employees

Vince's financial advisor recommended key person insurance be taken out on Mark's life, with the business is the owner, premium payer, and beneficiary of the policy. If Mark were to pass away, the business could use the death benefit to cover lost profitability, fund costs to recruit and train a replacement, and help maintain the availability of credit.

"I feel pretty confident about having protected my business," Vince tells Bob. "The policy has potential to grow in cash value as well. I went looking to solve a problem; I didn't expect I'd also get some flexibility about the future that I didn't know I needed."

Case Study #4: Even Consultants Need Consultants

Making All the Right Moves

Bob ends his day by receiving a call from Angela, the business coach he contacted on Linda's recommendation. They get to talking, and Angela applauds Bob for asking the right leadership questions to address his future. Bob even gets a bit of his morning enthusiasm back when he realizes that he is most definitely talking to the right person:

"I was just where you are, and I think we can be a great help to each other." Angela speaks with candor and confidence, making Bob feel at ease and less daunted by the road ahead. "I started my firm a little over a decade ago and, while the growth was encouraging, I realized I needed a stronger connection between my personal finances and the success of the business. Not to mention I wanted to make life a little too good for a few key people. I never wanted to even have to think about losing them."

[Pause: How would you have advised Dan in this situation? If you were Bob, what questions would you want to ask?]

Angela explains that she received a complimentary Buy-Sell Review and Informal Business Valuation and Business Planning Report through a deal with one of her technology providers. During this process, she wanted to focus on supplementing her personal financial retirement plan and creating career incentives for three to four employees.

Completion and review of these reports led to a further discussion about the annual agreed upon value-per-share addressed in the buy-sell agreement. The reviewer suggested updating the face amount of life insurance to correspond with the agreed upon value. They also proposed Disability Buy-Out (DBO) insurance on Angela and discussed the benefits of a supplemental income protection program for her high income earners. Addressing her interest in "golden handcuffs" for some of her key employees, the reviewer suggested a deferred compensation plan utilizing aggregate financing.

Finally, they put together a plan that coordinated Angela's business and her personal financial planning while taking care of her key employees. "Their plan addressed everything I needed," Angela says.

Conclusion

Bob sees it all coming together, and knows he made the right choice by following up on Linda's recommendation and getting in touch with Angela. Not only does she have the leadership expertise to guide him forward, she's already asked all the same questions he's asking now. When she asked, "Where Do I Want to Go?" her answer was, "a stronger connection between personal finances and business success." To achieve this, she utilized all the same strategies we've discussed through this book, and is perfectly poised to help Bob do the same.

As Bob hangs up the phone, he takes another look through Linda's portfolio. Maybe she really does deserve to at the top of his list of potential successors.

Before you stop reading, refer back to the Assessment included with this book. If you answer 'No' to any of these questions, mark it on your assessment. You'll be adding these all up at the end."

- *Have I sat down within the past year with my* ***spouse and family members*** *to discuss money and life? How am I doing with these goals and Am I on Track?*
- *Have I spent more than 3 hours recently planning for retirement?*
- *Am I proactively working with my* ***CPA*** *to adjust and coordinate my planning with current tax laws?*
- *Do I have a plan with my* ***Independent Insurance Agent*** *in case my spouse or I need long term care or have an extended health event, we become disabled or die prematurely to protect our family?*
- *Am I working with my* ***Attorney*** *to review my will or trust to make sure they are updated with my goals and current laws?*

Business Valuation (Where am I At?)	**7**
Do I have an up-to-date written vision for myself and my business?	
Have I ever had my business appraised by an outside resource?	
Do I have a formal buy/sell agreement for death and disability?	
Is my buy/sell agreement funded?	
Does my buy/sell agreement adequately protect my heirs, my business and my partners?	
Have I reviewed my 401k plan fees and do I clearly understand my fiduciary liability under ERISA?	
If I were to get sick, disabled or experience another COVID19, do I know where my paycheck would come from?	

Succession Planning (Where Do I Want to Go?)	**7**
Do I know how much income I will need in retirement?	
Have I explored financing opportunities for key employees to buy the company in the future?	
Do I have a plan to recruit and retain key employees?	
Do I have investments other than my business? More than 25% of my total assets?	
Have I had my retirement cash flow projected and analyzed to identify short-falls?	
Do I have a retirement target date and is my business partner and family aware of it?	
Have I established channels of accountability with willing, able people?	

Key People (Who's Going to Help Me Get There?)	**7**
Are you deliberately training and encouraging the Key Employees who will inherit your leadership of the organization?	
Do I have a process of keeping Key People informed about the succession plan and prepared to keep the organization running throughout?	
Have I sat down within the past year with my spouse and family members to discuss money and life? How am I doing with these goals? Am I on Track?	
Have I spent more than 3 hours recently with my Certified Financial Planner in planning for retirement?	
Am I proactively working with my CPA to adjust and coordinate my planning with current tax laws?	
Do I have a plan with my Independent Insurance Agent in case my spouse or I need long term care or have an extended health event, we become disabled or die prematurely to protect our family?	
Am I working with my Attorney to review my will or trust to make sure it is updated with my goals and current laws?	

Total up your **“NO”** answers to determine your risk factor:

0 — 5	**LOW RISK**
6 — 10	**MODERATE RISK**
11 — 15	**DANGEROUS RISK**
16+	**SEVERE RISK**

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