

WALKING TO DESTINY

11 Actions an Owner **MUST**
Take to Rapidly Grow Value
& Unlock Wealth

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CHAPTER ONE

The Times They Are A-Changin’

For Baby Boomer business owners, exit planning is the number one business and personal challenge of our time. Over the next 10 to 20 years, we will likely see an unprecedented set of business exits. How ready are we as owners? Statistically speaking, not very. Something keeps us from approaching this area of business strategy.

It is an inevitable, undeniable fact that your business will change hands. We all intend and hope that our transition will occur on our timeline and on our terms. But it’s just as likely—a 50/50 chance, in fact—that it won’t. The late Leon Danco, America’s expert on perpetuation and continuity of family-owned business and the author of *Beyond Survival: A Guide for Business Owners and Their Families*, wrote, “Failure to provide for the perpetuity of your business beyond your working lifetime means simply that you have overstated your profits, for when you go, the whole company goes with you.”

The Times They Are A-Changin’
Bob Dylan

*Come gather 'round people
Wherever you roam
And admit that the waters
Around you have grown
And accept it that soon
You'll be drenched to the bone
If your time to you
Is worth savin'
Then you better start swimmin'
Or you'll sink like a stone
For the times they are a-changin'*

Why aren't owners more proactive? The exit from your company represents the harvest of your wealth from the business itself, which is most likely your most significant financial asset. When you consider your net worth, your business is the most significant line item on paper; in fact, according to most financial planners, it's like 80 to 90% of your net worth. But that wealth is without any value if it is not transferable. So is that net worth number even real?

Business value is not liquid. For this reason, it is very much misunderstood. Its value is not cash in the bank, a tradable security, or a certificate. Its value is not something that you can readily get your hands on. At least with some of your other investments, like real estate, you have something tangible. Real estate can't readily be liquidated, either; however, it's much more saleable than a business.

Like many owners, I expect your business probably produces a pretty good income for you and your family today. You may have possibly accumulated some wealth outside the business, too. Perhaps you have retirement investments, commercial real estate, an additional home, and some cash to play with. But all of that is peanuts compared to the value of your business.

What if I told you the Value Acceleration Methodology can *increase your net worth by a factor of five*? Does that get your attention? Well, yeah, that's a no-brainer. And the good news is, that is what I'm telling you and that is exactly what Value Acceleration can do. Now what if I followed up with telling you it will take a commitment to change, a new focus and execution, your energy and time, and will require you to challenge yourself to evolve your management system style to achieve increased net worth results? Would you be willing to change to achieve it?

Frankly, if your answer is no, I can't help you and neither can this book. You have already flushed your money buying this book and reading it will honestly be a waste of your time. But if you do care, and are willing to consider change, to increase your business to a level of value that gives

you the opportunity to harvest your wealth, I want to help you make that happen. Read on.

What do you need your business to do in the future?

- Do you have a system that continuously focuses your team on maximizing the value of your business?
- Will cashing in (or failing to cash in) this asset affect your lifestyle at some point?
- Do you need the business to remain profitable after you leave it?
- Can the business run without you?

America alone sits on a stockpile of privately held business wealth, over \$10 trillion. It is the greatest transfer of wealth in the history of mankind, set to hit in the next 10 to 20 years. Are you doing what you need to do today to identify, protect, build, harvest, and manage that wealth so the business successfully moves to the next stage in its life cycle? I can't answer that for you, but I can tell you that based on owner readiness research performed throughout the United States, the answer is no. Which means we are failing.

You aren't alone. There are nearly 28 million privately held businesses in the United States today. While most of those are holding companies with no payroll, roughly six million are operating companies. Those six million represent approximately \$30 trillion in sales. Let's assume an average valuation of 50%, and these businesses represent approximately \$15 trillion in privately held (mostly family-owned) wealth.

Exhibit A: Privately Held Businesses in the United States

	Sales Range	# of COS (thousands)	%	Sales \$ (trillions)	%
Micro Market	<\$5M	5,678	93.9%	3.57	12%
Lower Middle Market	\$5M-\$100M	351	5.8%	5.84	20%
Upper Mid Mkt & Above	>\$100M	21	0.3%	20.33	68%
Total Employer Firms		6,050	100%	29.74	100%
Non-Employer Firms		21,708		0.99	
Total All Firms		27,758		30.73	

Source: Corporate Value Metrics, LLC 2013

Obviously, these businesses are not alike or equitably distributed. As you can see in Exhibit A, most of these businesses do \$5 million or less in sales. These are considered “Micro Market” businesses, and there are approximately 5.7 million of them. To sum up, the micro market represents about 94% of the total privately held businesses in the market, \$3.6 trillion in sales, and \$1.8 trillion in value.

The “Lower Middle Market,” which is defined as businesses with sales between \$5 million and \$100 million, represents 5.8% of the market. Collectively, they do about \$5.8 trillion in sales and have a value of around \$2.9 trillion. The “Upper Middle Market” has only 21,000 businesses and 0.3% of the market, but sales over \$100 million. Although they only represent a fraction of the count-for-count market, they collectively hold the majority of sales with over \$20 trillion and \$10 trillion in value.

Now let's add the generation layer to our sample. Baby Boomers born between 1946 and 1964, nearly 80 million strong, own two-thirds of these privately held businesses. Today, the youngest Boomer is 52 years old and the oldest is 70... with the average Boomer at 61. Jump ahead 10 years: that average age moves from 61 to 71, the lower end moving to 62 and the oldest celebrating their 80th birthday. And as you might imagine (or maybe even know), it's *much* different moving from 60 to 70 than from 50 to 60. And the projection is, and rightly so, that a significant portion of these Boomer-owned businesses will transition during that time period. The *State of Owner Readiness Survey*, released by the Exit Planning Institute (EPI) and its partners, surveyed American privately held business owners of all sizes to benchmark the overall readiness of regional and national markets. In the survey, EPI reported that 76% of the business owners indicated they would like to transition in the next 10 years, while 48% indicated they would like to transition in the next five years. Do you see the problem? Do the math.

The trouble with that reality is that only two out of 10 businesses that go on the market will actually sell. A full 80% will not. Of those that sell, many will receive a lower multiple or sale price due to factors that include poor or nontransferable intangible assets. Just like a buyer's market in real estate, the private capital market will swing in favor of those acquiring versus those selling, and only the most attractive and ready businesses will move into the next stage of their life cycle. Take a moment and think about how you answered those questions regarding what you need your business to do in the future. And then ask yourself this: Can I afford to be one of the 80% that will not sell?

If you think you are immune because you are going to do a family transition instead of selling outside, you are not. Historical data shows that family businesses only have a 30% success rate through the second generation, 12% to the third generation, and 3% to the fourth and beyond (Family Firm Institute). You aren't in a better position because you have

someone lined up to inherit your business. In many ways (that we will cover later), you are in a more complicated position. So again, ask yourself: Do I want my business to survive to my next generation? If I'm speaking from my heart as a parent, the answer isn't just yes. My answer is *of course*. My business is the legacy I'm building for my children, my grandchildren, and generations to come.

In fairness, the private capital market has been in the favor of the seller for some time now. And who knows? It very well could stay that way for a few years to come. But knowing what you now know about the realities in play and what you need from your business liquidation, is it wise to ignore the exit planning phenomenon?

In the professional services world, we have been hearing about this for 10 years. However, because Baby Boomers have turned 65 and have not retired, some feel that perhaps the tidal wave of exits is unlikely. Now, I don't want to sound harsh, but businesses are not the only thing that have a life cycle. People do too.

That said, many heavy-hitting advisors have been predicting the mass exodus for 10 years, and yes, in my opinion, the previous predictions were simply ahead of their time. They misunderstood the psychographics of Baby Boomers. The research shows that in contrast to the Traditionalists and Gen-Xers, Boomers value youth and success so strongly that they are the *least likely* to retire at the "standard" age of 65.

On top of that, the financial crash of 2007 and 2008 certainly put many owners' retirement plans on hold. No hardworking entrepreneur wants to go out in a recession and lose the majority of their net worth. Then, after the recession, outlooks improved, yet Boomers still did not want to exit. Why would they? Things were good again! And that aside, retirement and transition started to force owners to think critically about how unprepared they actually were for their third act, asking themselves,

"What would I even do?"

“Where would I invest the money if I did?”

And worse yet, “I can’t live without the income from my business.”

Studies have shown that business owners like you do actually struggle with the exit of their business for a variety of reasons, and that 75% of those who exit “profoundly regret” the decision within 12 months of exiting (Price Waterhouse). How can you change your paradigm and become part of the 25% who find fulfillment in their post-business future?

FACING THE REALITIES OF CHANGE

The times are changing, my friends. As I eluded to above, there are two significant strategic drivers at work today that, when viewed together, are going to influence the direction and decisions of Baby Boomer business owners over the next 10 years. And as we will see, the direction the Boomers take will massively influence the social and economic health of the market during that period.

First, you can’t win the fight against Mother Nature and Father Time. You might outrun them in the short term, but aging is a part of living. As LeBron James, one of the greatest basketball players of all time, has said, “Father Time is undefeated.” Ten years ago, the youngest Baby Boomer was 52... 52 is still young. Now you look in the mirror, as the average Boomer goes from 61 years old to 71, that is just a fact of life. In my experience (both professionally and personally), owners don’t really start thinking about transition and retirement until they reach around age 55 because their work has been one of the most significant parts of their life, if not the biggest. However, as 80 million people age over the next 10 years, it is inevitable that Baby Boomer business owners’ personal outlooks, health, and values will change out of necessity, if nothing else.

Second, we all know that what goes up must come down. The private capital market is no exception. From its inception, this has been an ongoing cycle. Positively, there has been an upside cycle since the last recession. We have seen unprecedented valuations and it has remained a seller's market. But there is unrest in the wind with specific eyes on the private capital market. A recent report commented "...fundamental industry shifts are impacting Middle Market companies today (Pitchbook, 2015)."

What impact do you think this will have on the market when all these business transitions begin to flow? Are market values likely to go up or down? Multiples are likely to fall. Only the best businesses will have the option to sell. Even if you choose an inside option (family, employees, partners, management), valuations may fall, leaving you at risk of receiving a lower payout. Financing will become more difficult—interest rates are likely going up. Does anyone disagree with that? Based on the market information available today, this is the most likely scenario over the next 10 years.

In 2015, there were indications of a decline, including lower Business-to-Consumer (B2C) capital investment and lower deal flow in resource industries. On top of that, there was an overall middle market decline in the areas of total capital invested, multiples, total capital raised, and total exits. It is tough to forecast the future with any certainty, and admittedly, the lower middle market was more stable. But if historical data shows anything, it illustrates that change is the only constant.

The market will change from a power position for sellers to a stacked deck for buyers. We will see the aging Baby Boomers flooding the markets to get out of their companies while experiencing a downturn in the public and private capital markets. What can't be predicted, and what I certainly don't know, is if this will start two years or five years from now. But *you know* when you plan to exit your business, so you'd be wise to consider that your timeframe benchmark.

If we stay on our current path, what is the probability that Baby Boomer business owners will be able to harvest the wealth they've spent their lives building? The answer: not good. Historical successful transition rates are between 20 and 30%. That means 70 to 80% of the possible wealth will not transfer, and at least \$7 to \$8 trillion will go unmonetized. The economic implications are enormous. But it is much more than just economic. The social impact could be devastating.

WHAT DOES “READINESS” MEAN?

In 2013, I was the local president of the EPI Northeast Ohio Chapter, and our group was approached to develop a value growth curriculum for business owners in the Greater Cleveland area. The first step was to understand our audience so we could tailor our messaging to be relevant to the needs of the owner. But I was shocked to find very little recent data available. How was I supposed to create a useful program when I didn't know anything about my students? And past that, how can we, as a community, align ourselves to support the needs of the business owners if we don't know what those needs are?

So powered by EPI and its partners, the inaugural *State of Owner Readiness Survey* was created to gauge the level of exit preparedness. The results were staggering.

Exhibit B: 2013 EPI State of Owner Readiness Survey Results Snapshot

- Two-thirds of owners are not familiar with all exit options
- 78% have no formal transition team; 83% have no written transition plan; 49% have done no planning at all
- 93% have no formal life-after-business plan
- 40% have no plans in place to cover illness, death, or forced exit

Exhibit B (Continued)

- Half of all owners need the company to remain profitable during and after the transition plan, yet 86% have not taken on a strategic review or a value enhancement project
- 56% felt they had a good idea of what their business is worth, yet only 18% have had a formal valuation in the last two years

It was honestly discouraging to see those numbers, especially in the community I have grown up in and love. With stats like that, is it any wonder owners are not able to transition successfully most of the time? Really?

I'm not trying to embellish or be an alarmist, but ding! Wake up! Owners are woefully unprepared. Based on this data, it doesn't take a rocket scientist to understand why. You are significantly underestimating what it takes to do "exit" well. Not to mention you don't recognize what exit means! Exit doesn't have to be an end-all, be-all. You could sell outright. You could stay in the business and just take chips off the table. Exit can be what you want if you plan for it. And if we, the business owners of today, don't change something, we're risking \$8 trillion of family wealth and the potential to suffer the worst social crisis of modern times. And this isn't just happening in the United States. Baby Boomers, the most entrepreneurial generation to date, reside all over the globe.

But hey, let's go positive and think of the glass as half full. What if you were to improve transition rates? What impact could an injection of \$8 trillion mean to our economy? How much good could you do with this unlocked wealth? What if you were able to harvest that wealth and put it to work in our economy and, in turn, empower the next generation of business owners?

Times are a-changin', my friends. And at this point, it's anyone's future. It's up to you to change them for the better. When it comes to harvesting business wealth, what's good for the goose is *definitely* good for the gander.

PUBLIC SPEAKING

Walking to Destiny provides a roadmap and concepts which, when adopted, can increase readiness and attractiveness as business owners approach their exit. Chris Snider delivers keynote speeches, trainings, and workshops surrounding the topics of Master Planning and the Three Legs of the Stool, the Four C's, the Five Stages of Value Maturity, and Relentless Execution. This education is for:

- Top-tier professional advisors and consultants dedicated to helping their clients successfully grow and exit their businesses
- Legal, asset management, and accounting firms committed to successful wealth transfers
- Business owners looking to educate their executives and staff on how to grow value in the business and think like owners
- Community leaders wanting to educate their local business owner market on how to successfully transition their businesses
- Industry associations dedicated to preparing their members for succession
- Financial/professional associations looking to educate their members on how to perform exit planning services
- Entrepreneurs wanting to use exit strategy as a business strategy and stage their company for rapid growth and high market value

For speaking fees and availability, please contact Brooke Norman at (216) 712-4244 or BNorman@Exit-Planning-Institute.org.

Chris Snider is a frequent speaker in Chicago, Cleveland, New York City, San Francisco, San Diego, Las Vegas, Phoenix, Dallas, South Florida, St. Louis, Milwaukee, Atlanta, Los Angeles, and New Orleans. Discounts on travel are available for back-to-back bookings.

VOICE OF THE INDUSTRY

Christopher M. Snider, CEPA, CEO and president of the Exit Planning Institute, creator of the Value Acceleration Methodology™, and managing partner of Snider Premier Growth, is recognized as a thought leader and trendsetter in the field of value acceleration and exit planning. With a message that resonates with entrepreneurs across the country, Chris is a



sought-after speaker for many major companies and trade industries, and the associated organizations that are dedicated to serving the transition and growth needs of business owners.

He built his career as a key value growth integrator for major companies, including The Sherwin Williams Company, FedEx Logistics, Nike, Dell, and Textron. Finding passion in

changing middle market business owners' lives through rapid growth projects, Chris emerged a game-changer, noting a milestone project with a family-owned private company that he helped grow from \$90 million to over \$240 million in three years and successfully selling to a multi-national strategic buyer. Now with a wealth of experience and a proven value acceleration system, Chris has established a family investment company with his son, with ownership stakes in eight lower middle market businesses.

FOR BUSINESS OWNERS. BY A BUSINESS OWNER.

Walking to Destiny is not only your essential resource to understand what makes your business attractive and ready for transition; it is a business owner's handbook to learn how to rapidly grow value and ultimately unlock the personal wealth trapped in your most significant financial asset: *your business*.

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your business attractive and ready for transition."

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