



Transitioning Your Business on Your Terms

How you transition from your business can mean the difference between proudly leaving a powerful legacy while fulfilling your personal and financial goals — or leaving behind a business that falls far short of your expectations. How well you, your family, your team, and your business all navigate this transition is largely dependent on how well you prepare.

This complimentary, dynamic, and highly informative session will help you learn three types of readiness for building a successful transition and what advisors you will need to support you through the process. CLA professionals can teach you how to gauge your personal readiness, your financial readiness, and your business readiness — including how to reduce overdependency on you, the business owner, so you leave with a sense of accomplishment, knowing your business is strong and sustainable.

Find additional resources on our event page:

<https://www.claconnect.com/en/events/2022/transitioning-your-business-on-your-terms>

Here is a transcription of this session:

Lisa Horn: Good morning or afternoon. My name is Lisa Horn, and we are really excited today to have you join us to learn about transitioning your business on your terms. I'm going to introduce myself and then I'm going to hand it over to Heather to introduce herself. So, like I mentioned, my name is Lisa Horn. I lead the Owner Transition Advisory Team for CLA. I absolutely love working with all business owners to help them define their goals and dreams, specifically when it comes to planning their transition. I do this work full time. The reality is, when I began my consulting career after doing multiple different roles, when I started working with privately held business owners or business owners, they could get a lot of consulting help from different consultants in different areas. But the biggest pain point that I saw business owners were having was really figuring out how they were going to transition their business in the future.

I have been doing this daily now for approximately five years, and I have met so many great business owners across the nations and their families. I am so blessed to be part of this organization, CLA, that has all the capabilities necessary to help business owners navigate their journey to transition, whether it's selling externally or transition it internally. I absolutely love what I do, and I love when I can witness business owners getting to that spot where they get to transition from their business, do what they desire to do, and have a huge celebration.

Heather Parbst: So, I am Heather Parbst, Director of Owner Transition Services at CLA. I also love what I do. My career path was a little different than Lisa's. I started out in counseling and the social services world, and from there, I made the jump over into business and I became a business owner. I am a CEO of an IT services firm, and my partner and I scaled that for about eight years and then we sold it. So, that was my firsthand experience of going through a business transition and selling a company, and it was eye opening to say the least. I had no idea what I didn't know. After I sold that company, I wanted to figure out a way to really bring together the people side that I love, from the counseling and social work services that I had done and the business side that I loved.



And so, consulting and coaching seemed to be a natural marriage for me. So, I started to do that work. And then shortly thereafter, I found owner transition work and just really fell in love with that. And it seemed to be a great fit for me because I know what it's like to go through that experience of putting all this blood, sweat, and tears into a company and then leaving that. So, I get that and I love being able to help people with that. So, ultimately, what I do is I do it because I just really like helping people create and move towards that future vision that they've worked so hard for.

Lisa Horn: Excellent. Thank you, Heather. The next slide that we're showing is a slide that you'll have in the presentation, if you choose to download it relating to our materials and the rules around it, but more importantly, I want to talk to you about what we're hoping to accomplish in this session. In this session, you will learn how to reduce your risk to your business and your future, identify what impacts your business value, ideas on how to develop a path to meet your personal and financial goals, how to build the right team of advisors, and most importantly, how to begin your journey to transition your business strong and leave on your own terms. So Heather, let's dig a little deeper into what we mean here.

Heather Parbst: So, when we're talking about leaving on your own terms, what we're really talking about is how do we get you, the business owner, the business, ready for that transition? And it comes down to really focusing on three areas, three areas of readiness. So, there's personal readiness, which is, have you defined and crafted the life that you want after you leave your business? Do you have something that you're moving towards... do you have purpose? Then you have personal financial readiness. Once you know what you want to do, where you want to go with your life after you leave your business, do you have a way to fund that? Do you have a plan in place to really provide for yourself and your family financially? And then there's the business readiness. And this is really about, are you going to be able to get the return on investment from your business that you need to fund that lifestyle and life that you've created?

So, is the business going to be sustainable when you step out? Or is it still overly dependent on you? Have you put the business in a place where you'll be able to sustain the legacy that you want if it's important to you? So, those three areas, personal, personal financial, and then business ready, are really what we're talking about here. Lisa, do you want to dive a little bit more into the personal side? We'll take these one at a time.

Lisa Horn: Sure. So, to kick us off with the personal readiness piece, as we're talking about it, a lot of times people will say, "Oh, personal readiness, it's that softer side that Lisa and Heather like to do when they meet with their clients." But we really, really, really shouldn't underestimate how much that softer side can come into play. Because the reality is, that many surveys have shown that not being personally ready to transition your business is actually what stops or delays many transitions. I'm thinking about a client that I was working with about three years ago. And when I met him, he was very concerned about his family and transitioning his business, and not hurting either one of his son's feelings. He had two sons that worked in the business, and when I met him, he goes, "Lisa, I don't think I'm going to transition for seven years or so. I just want to stick around." And he was in his 70s, and when I met with his wife, his wife was like, "I'm really concerned about his health. He's went through some pretty bad health scares and I really want us to spend time together."

And then when I met with his sons, they're like, "We don't know what's holding him up. Are we not doing something right? We work really hard. We're committed to this for the rest of our lives." So, after spending time with that business owner, we dug deeper on some of these personal readiness



issues. And what we found out is that, what he was really concerned about was that he didn't want to cause a problem between his sons by choosing one of them to be the leader of the organization. And how on earth could he pick one over the other? He also was concerned about what he was going to do with his time when he was no longer at work. His identity was very tied to being the owner and the leader of that business.

He was also nervous if the boys really understood the culture. He had spent a lot of time building an intentional culture with his team, and he wasn't sure if they totally understood or grasped what he meant. So, by getting those things surfaced and on the table, we were able to have some really good discussions between that father, his sons, and the other key leaders of the organization. So, when we started working together, he said seven years. After we started having some of those discussions, it went down to three years. And then we did more work around, aligned visions, things he could do, working with the leadership bench strength. And I got a call one day and he said, "Lisa, we need you to come. We want to get this transition done in the next six months." Can you believe it? So, by approaching these issues that were just hard to talk about, and really using best practices to help him and his sons, the transition turned out to be this great thing, a really big celebration.

Heather Parbst: It sounds like he was really resistant going into it, how is he now that he's actually exited since he's transitioned out so many years earlier, how is he responding to that?

Lisa Horn: Last time I saw him, he was great. I ran into him in Florida and he was having a great time. They sold a home in Arizona. They were looking at another home. He goes into work when he feels like it. And his sons are doing great. The business is doing great.

Heather Parbst: Nice.

Lisa Horn: I know. So, we talk about this personal readiness and thanks, Heather, for kicking off the three types of readiness. We want to go talk to you a little more about these three areas when it comes to personal readiness. What's really important when we meet with business owners and we have time to do that discovery process, is we want to make sure that we're reducing risk to the business and their future first. Then we want to talk to them about what is next, and do they truly understand all of their different options to transition their business, not just how they got the business, or who's a business owner did, but do they really, really understand all of their options? So, when we talk about de-risking the business, we often talk about the five Ds, death, divorce, disability, distress, and disagreement. Heather, can you share some of the experiences you've had when it comes to this?

Heather Parbst: Unfortunately, yes. I think one of the sadder stories that comes to mind a lot when I talk about this is a construction firm that I worked with. And it was owned by two brothers. One of the brothers was very concerned for the other brother. We'll call the other brother brother number two. Brother number two was mired in the business. That was his life. He really didn't have anything beyond that, and he was just in it day in day out. The whole family was just really becoming concerned because he was so stressed out, they were very worried for his health. So, they approached us for transition services work, and we met with the families... or the family, and the two brothers, and we were ready to go. We saw the need and we saw how we could help them. Brother two was just not ready for that. He was resistant to it. And so, he put a hold on the whole process. Two months later, they lost him due to a heart attack.

He had not done any readiness work, so there was inadequate insurance to take care of the family and the business after the fact. And because the business was so dependent on him, it was just in



disarray afterwards. So, it was just really an awful experience, not just for the family who had had this horrible loss, but also for the employees in the business. So, that's one of the sadder stories.

Lisa Horn: Oh man, that's a tough one. And it makes me think about how many of our clients we meet with when we ask them, "Do you have an estate plan in place? Are you sure that your family and your loved ones will be taken care of and your assets will go where you want them to if something were to happen to you?" I was meeting with a client who was quite a high wealth individual, and he had shared that, "Yep, we have our estate plan completed, we have trusts in place, we have insurance policies." And because he was such a high wealth client and he had so much opportunity to not have his wealth protected, and the tax implications, so I'm like, "Is there any way you would mind if we have one of our estate specialists and tax specialists review what you have in place?"

And after they were able to review all of the information, we learned that, as the estate plan was currently set up, if both of them passed, their kids would have to come up with 10 million just to cover the taxes for the estate. So, it was really great because our specialists were able to say, "Based on what you have in place right now, this is what it looks like. If you do these things, this is what it could look like. And let us help you get the right life insurances in place." Because reality is, where on earth would that money come from for the kids to pay that? And certainly, the business would have to have really good cash flow to be able to help with that. So, it was just a tough situation. But I'm so thankful that we were able to help them get the right estate plan in place, with the right tax advantages available to protect as much of their wealth as possible.

Heather Parbst: Gosh, I can't imagine that scenario if I had been one of those children and had that dropped on me. So, that's amazing that you're able to help them that way. And thinking about this too, I think that one of the ones that we tend to gloss over a lot is the disability, one of the five Ds. And that reminds me of a scenario I've seen. I know we've talked about this, Lisa, so I know you've seen situations like this too, but we hear a lot in the work that we do, business owners saying, "I don't need transition planning because I am going to work until the day I die and I'm going to fall over at my desk." Sometimes, that's the transition plan, just to die at your desk. And I think what they are missing in those moments is, I think business owners can assume that they're going to be able to work at the same level of performance and function throughout that process.

So, when they're in their 70s, 80s, they're going to be able to function just as well as they are when they're in their 40s, 50s. A scenario I saw was a family business. The son was trying to succeed the mother in running the company. The mother had that "I'm going to work until the day I die" mentality. There had been some loose transition work and discussion, but she really just wasn't letting go. And the unfortunate part of that was that as time went on, she still had this company that was very dependent on her and she was not allowing other people to take over responsibilities. And her ability started to decline, her cognitive ability started to decline, and there was nothing in place to protect the company in that type of scenario. So, this very intelligent, capable woman was now in a position where she was making bad decisions, she was acting impulsively, and she really just emotionally wasn't able to allow anybody in to support her.

And it was just so hard to watch the son who's watching his mom decline, but also watching the company that she had worked so hard to build. He's trying to figure out how to protect the company in that scenario. So, that's just one I think a lot of people gloss over. And just taking the time to do the preemptive work to plan and protect can just make things so much easier for everybody. I just think it's something so important. And I wish more business owners would really invest time into that.



So, what do we do now to protect ourselves around those five Ds? How do we start really building a transition plan, reducing risk? Well, the first thing we need to do is really start thinking about what comes next. What do we want for our lives after we exit our business, after we leave our business? And I'll share that from my personal experience. That was something that it took me a while to really get a clear idea of what I wanted to do because I was really in the day to day of that. So, really thinking towards the future was not something that necessarily came very easily. Lisa, maybe you can share some things that you do in working with business owners to really get them to a spot where they can start thinking about what the future is going to hold for them after they leave their business.

Lisa Horn: Yeah, Heather, you're right. It happens a lot. When we talk to business owners, what is next? What are your passions? What are you thinking you're going to do when you transition out of the business? Through our discovery process, two questions we commonly ask are, do you feel successful? Are you successful? Do you feel fulfilled? And watching the business owner's reaction to those two questions is amazing because they have worked so hard to stop and actually think through that, "Yeah, I am successful," or, "No, I wish this would've happened," or, "I wish I would've spent more time over here." Are you fulfilled? And it starts to give us insight into some of the things that they can consider doing in that what is next? Sometimes, when we talk to business owners, it's like, "So, why do you want to transition your business? What's going on?"

And they might be feeling pushed out of the business, "It's just been a hard time getting through COVID and everything," "This recession, it's hurting me." "It's hard to find team members." "My kids, they're sick of me being here." They have all these reasons that they feel like they're being pushed out. Those aren't reasons to leave your business. What we find is that people who are feeling pushed out or just tired, they tend to deeply regret transitioning their business. Instead, it's like, "How do we develop a pull for leaving the business?" So, what can our purpose be outside of the business? Sometimes, when I'm working with business owners and their spouses, we talk about, "Hey, let's develop a vision board. Let's start creating a vision of what we want to do when we're not tied to the business." The mind cannot go where it's never been. So, what they do is they put up a board, they start putting ideas on there.

"Maybe we're going to get a condo in Florida." Put a picture of Florida up there. "Maybe we're going to go find every eagle's nest in our local area." Put up some eagle's nest. "Maybe we're going to get electric bikes." Put up electric bikes. They start having fun with it, thinking about the things that are pulling them that they want to do together. And that way, when they're walking by and they're heading off to work, or they're working through putting together all the different pieces of their transition plan, they can look at that and know, we're doing it to do these types of things, the next act, our next purpose. I have one client, they started a dog park. They love animals, they love rescues, they love everything to do with dogs. So, what did they do? They used some of their wealth to develop a dog park. Super great idea.

Heather Parbst: I love it. And I think that purpose piece is really a very important part. I've talked to some business owners that really just can't visualize what comes next at all. And then there's others that can really list activities that they enjoy. And that's a huge step in the right direction. So, they can say, "I'm going to go golfing, I'm going to travel, I'm going to grow mushrooms," whatever it is. But it's when they really tie it to a purpose, that's where you see a lot of value. So, I've worked with a lot of business owners that will drag their feet, and when I probe a little bit, I find that it's because maybe they haven't really had those significant conversations with their partners to really get aligned around that, and



maybe the partner wants to be more of a home body and they really want to travel and do these other things. And so, having those conversations.

But the dog park idea, that's phenomenal because it's really a sense of driving purpose. And for business owners, it's usually the business, that is a huge source of fulfillment and purpose. So, thinking about what you're going to be doing in your next act that's going to be driving purpose, not just activities, but purpose, I think is really crucial.

Lisa Horn: So, hopefully, we've helped all of you to understand why knowing your personal readiness is important and how it can hold you back. But before we move on to personal financial readiness, let's consider the last piece. And that last piece is, do you understand all your transition options? And those can be internal transitions or it can be external options. As I stated earlier, some people have a skewed perception of what is available when it comes to transitioning their business. There are internal ways, such as transitioning to the next generation, maybe a management buyout, maybe a combination of a management buyout and the next generation, maybe you're going to sell to an existing partner, externally, maybe you want to sell to a competitor or some strategic sale, maybe sale to private equity, hopefully not a liquidation, but one of those other ways to do it. Heather, can you share an example that you've seen of a client's struggling on what transition option was the best for them?

Heather Parbst: Yeah. So, an interesting one was a firm that I was working with. Father owned the business, had two sons he wanted to fold into the business into an ownership and leadership role. But they were very early in their career, so they were not ready. But he was ready, he wanted out. And so, he didn't really want to do an external sale because he really wanted to keep the family a family owned business, and he had a really strong leadership team that had been with through him through a lot, they had really grown the company substantially and he wanted to reward them too. So, he was really struggling with what to do. And what we ended up suggesting was, why don't you... well, he actually came to this conclusion himself, but we definitely supported him in the process, why don't you go ahead and sell it to your leadership team, folding your sons in?

So, that's what he then do. He sold the company to the leadership team, brought his sons in as owners, owners, not leaders in the firm, because they weren't quite there yet, and then he was able to transition out. He left the company in capable hands. The sons had a place at the table, they retained it as a family-owned business, and he really ended up getting the best of both worlds. It worked out fabulously for him.

Lisa Horn: Oh, well, that's great. It reminds me of a similar situation, but the difference being that, I was working with a family and the parents wanted the kids to be part of the transition. And what happened was, every time they started this transition process to their kids, it kept stalling. And when I met them, they had a couple of goals at it and they're like, "There's just something going on. Can you help us work on our transition planning?" So, through our process, we always sit down and do a discovery interview. So, I met with both parents and then I met with each of their kids, they're not kids, they're in their 30s, they're late 30s. However, when I met with them, they weren't interested in becoming owners in the business. In fact, they didn't see themselves working in that business for the rest of their lives, but they did not want to disappoint their parents because their parents had worked hard for so many years, built this great business that was their legacy to their kids and their grandkids. And they're like, "We just don't want to disappoint them, Lisa."



So, I met with them a couple of times and we practiced the script on what were they going to say to their parents. I'm like, "This isn't for me to share with your parents you guys, you have to tell your parents how you feel." It's just this big secret that's holding everybody back. So, we finally had the day that we were going to be on a Zoom call, and we were going to talk through some things, the four of them, with me, and when I got on the call, they were all laughing and smiling. And it was just like the room was lighter than any time I had ever seen them. And they're like, "Don't worry, Lisa. We told them before you got on the call." And I was so happy. And the parents were so relieved that they had finally said, "This is what we want." Because they want their kids to be happy.

And then we were able to get the wheels in motion. We were able to bring in our investment banking team to help them stage and position their business to sell it. Since that time, we had our wealth advisory team get involved to help them develop a holistic plan. They have sold the business. Our wealth advisory team is helping them to manage their money and invest their wealth and protect it. And some of that wealth will be going to their kids so that they can live their dreams versus living their parent's dreams. So, it just worked out super.

Heather Parbst: Yeah. And sometimes, just having somebody there to bring to light the conversations that need to be had, it's one of the biggest values I think that this whole process provides. I had one other story I wanted to share about knowing... just taking the time to really understand all of the different options that you have available to you. It was a trades company that I worked with. As part of the process, they did a calculation of value. And their plan had always been to transition the company over to the son. But they wanted to get an idea of what the company was worth before they made that transition. In doing so, they found out that the company was worth much more than they anticipated, which is great news, but more than the son could afford to purchase. Yeah, I know.

So, in the end, actually, they said, "You know what, this is we're going to do. We're not going to go a transfer to our son, we're going to sell this thing outright to a strategic buyer, we're going to write our son a check so he can go and open the business that he's always dreamed of opening, rather than," to your point, "having him live this dream that we've dictated to him." So, it ended up working out phenomenally. But they would have never gotten there if they hadn't taken the time to really understand all of the different options that they had available. So, there's so many different ways of structuring this and sometimes, particularly in situations where it's an internal transfer, you want to transition it over to an employee, or that sort of thing, it can be tricky, and I think people often assume that they just don't have that option. In reality, there's a lot of creative ways that we can do that.

Lisa Horn: And that's what I really love about CLA. We have such a strong team with so many different capabilities. Once we know what the owner's dreams and goals are, we have so many specialists that can come in and help them with all different creative ideas.

Heather Parbst: Yeah. Yep. So, let's talk a little bit about personal financial readiness. So, what this really comes down to is knowing will you have enough? Do you really know how much you're going to need after you leave the business? Do you know if the business is going to be able to get you there? Do you know what that gap is and how you're going to bridge that? Where is your money? Is it tied up in real estate? Is it in stocks or is it in the business? If you're like the vast majority of business owners, the bulk of your personal wealth is tied up in your business. And so, if that transaction isn't handled very well, you're putting yourself at a significant financial risk. And that leads to that third component, which is your wealth. Is your wealth protected? Do you have an estate plan?



Lisa was talking about this earlier. That's more than just a will. That's a collection of documents. Is there guardianship designations in place? Is there a healthcare power of attorney? Do you have your beneficiaries outlined the way you want? So, there's huge pieces of that. And then what about a buy, sell agreement? Lisa, how many businesses have you worked with where there isn't a buy, sell agreement in place?

Lisa Horn: Well, there isn't, or there is one that hasn't been looked at in a long time. So, maybe-

Heather Parbst: Like 25 years.

Lisa Horn: Yeah. 25 years ago when we bought the business, we had this shareholder agreement or we had this buy, sell and it's never been looked at. The insurances have never been increased. It's scary really for their families if something were to happen to one of them.

Heather Parbst: Yes. It really can be. Why don't you elaborate a little bit about what types of things you've seen around financial readiness for business owners?

Lisa Horn: Yeah. So, the financial readiness, when we talk about that, one of the questions is, do you have a holistic plan in place? And it's holistic plan? Of course I do. I was presenting to a group and it was about 150 people, I'm like, "Do you think you have a holistic financial plan?" And the whole room lifts their hand. And then after we explain what a holistic financial plan is, the whole room put down their arm, and maybe they had 10 hands. So, I think the sooner you start to work on a holistic financial plan, the better. And what we talk about... A holistic financial plan is a plan that is really guided by a certified financial planner, not your 401(k) provider. And it helps you to understand what do you need to have a great lifestyle once you transition from your business? So, what's the exact amount of money that I need from the business?

So, they'll pull in your social security, they'll pull in your investments, they'll pull in your savings, and they'll look at everything you want to do when you transition. At what age do you want to transition? What are the type of things that you're going to do? In your next act, are you going to buy another home? Are you going to buy a boat? Are you going to go on vacations every year? What does it look like? What are your hopes and dreams? And then they can run the numbers and they test it multiple times and they say, "Okay, here's the gap." And where that gap helps is, you get to understand the plug you need from your business if you were to transition from it, to be able to fulfill that holistic plan, your dreams and goals, that you want to have. So, if we meet with someone and they don't have that holistic plan, it's hard for them to know if the value they're being offered for their business is enough or not.

So, the other problem is, often, when we meet with them, they're like, "Well, there's no sense of me making a holistic plan because I don't have any money. All my money is in the business." Which is, like you mentioned, very high risk. So, the nice thing is that, we have our wealth advisors, they'll step in and help them come up with ideas on how to get some liquidity out of the business and start investing their hard earned money in some safer ways, so that they can protect it to move towards where they want to be.

So, when we talk about that holistic plan, it is very necessary to have one of those in place because it can bring so much peace of mind. There's nothing better than sitting with your wealth advisor, and he's running the numbers, and you have this date in mind that you want to transition from work, whether you own a business or you're a hard worker, like you and I, Heather, and they run those



numbers and they go, "Yes, it's all going to work." You just have this great peace of mind that you're in good shape. So, why not do that for our business owners? Why not do that for yourself as a business owner? Why wait?

Heather Parbst: Exactly. So, let's go ahead and dig into the business readiness piece. So, if you know order of operations, you know where you're going, you know what you're going to need to get there, okay, now let's look at the business, and how can we use this as a vehicle to drive that? And so, one of the very first things we do in almost every scenario is we need to find out what your baseline is, what's the value of the business now? And that is important regardless of whether or not you're looking to sell the business externally or you're looking to transition it internally. And so, I am not an accountant by any stretch. And luckily, the way to calculate the value of a business ultimately can be boiled down to a very simple equation, which is what you're looking at. So, it's some form of cash and or sales times a multiple.

And that multiple is set by your industry, and to an extent, by your intangible assets. That's going to equal the value of the company. And so, your tangible assets, or your cash and sales, this is stuff that you're going to see on your financial sheet. It's going to be your inventory, your equipment, your land, your buildings, your cash, all of those sorts of things. So, what you see on financial statements, that's going to be your tangible assets, times that multiple, again, set by the industry, maybe it's times three, maybe... whatever, and your intangible assets. And Lisa's going to go into what those intangible assets are.

But the important piece is that you can see that if you can drive up the value of your intangible assets, you can drive up the multiple that you can ask for the company based on the size it is, based on the tangible side. So, I hope that makes sense. So, if you take your tangible assets and then you beef up your intangible assets as much as possible, you can drive up that multiplier so you can get a bigger value on the other end. So Lisa, why don't you dive into what those intangible assets are and how that pertains to value?

Lisa Horn: Yeah. So, the intangible assets, those are the things that make your business turnkey, somebody else can come in and just take over the business and the business is going to be successful. So, sometimes, we call that business attractiveness, sometimes we say, what's a buyer's eyes looking for? So, along with the cash and sales, a buyer or business attractiveness can be measured by what's your culture like? What are your process, systems, and structures like? What's your customer base like? Do you have a strong saturation with one customer or do you have a great diversity of customers? Is your revenue repeatable? Do you have a way to measure customer satisfaction? What's your leadership bench strength like? Are you overly dependent on any customer, supplier, or team member? What's your culture like?

So, some of these things that we're talking about, they're not easy fixes, they take a while to fix, and there's no "just add water" approach. And when it comes to that management team, a lot of times, that's you, the business owner. And a lot of times, what we find is that the business is very, very reliant on you as the business owner. And so, what Heather and I really, really, really, really, really hope you take out of this today is, what can you do to move from the business being dependent on you to the business being independent of you.



In the coming weeks, we are going to be posting a business independence assessment, where you can go in and measure how dependent the business is on you and ideas that you can do to help move from dependency on you to independent status for your business.

Heather Parbst: Lisa, what percentage of our clients would you say struggle with this one?

Lisa Horn: 120%. No, I would probably say maybe 80%. It's hard. I mean, this is their baby. They have worked so hard to build a successful business, it goes deep to their heart, they want to take care of the team members, they want to take care of their families. It's a tough one, it really is. But the best thing that they can do is to make the business so that it can run without them. Yeah, I could talk a long time about this.

Heather Parbst: Yeah. That's what hits me too because... So, I went through this process and I got the valuation back. And one of the things that it said was, "The business is too dependent on you." And I was like, "Oh, okay. I have some work to do." Yeah, totally get it. One of the things that I like to do with this specific assessment is we have the business owners go through and take it, and they get their score and they're like, "Yeah, company's pretty independent of me." And I'll be like, "Okay, let's give it to your top employee," or maybe their top employee is in present and I say, "Imagine if your key employee, your right hand person, whatever, took this assessment on your behalf, would they give you the same score? And a lot of times there's like, "Oh, maybe not."

Lisa Horn: Yeah. I love that. In fact, a client I'm going to see on Monday, they're two brothers that own a business. And I was talking to them last week and their homework was to go through the assessment, and then we talk through it and they're like, "Oh yeah, we're two to three out of five, or we're working on that." And then one of the brothers said, "Hey, Lisa, when you come next Monday, maybe we should get the next gen to take the assessments, similar to what you're saying, to see what they think on how we're doing." So, I'm excited about that on Monday to help them make sure on the roadmap we are putting all the things that they need to be considering. One of them was simply that they needed to start taking one of the next generations on customer calls. They're going out and meeting with customers or checking on different jobs, start bringing them out, start making the introduction, "This is the new future owner." Remove the brand from it being about the owner to being about the people that work in the business and the future owners.

Heather Parbst: Yep. So, you said something about perspective and that kind of queued me in. And I think this whole idea of decentralizing points to the understanding that it can't all be from the business owner's perspective and it can't all be dependent on the business owner. And so, it's really about pulling together the right team of people to help support someone, and the business itself, through this type of transition. Do you want to spend some time talking about how to structure the team that a business owner would need and who should be included in that?

Lisa Horn: Absolutely. I love talking about this. So, as a listener, as a business owner, this is how we structure our advisory team at CLA. However, if you don't work with us, what we're suggesting is that if you are only working with one person to help you manage your transition and you don't have a team of people, you might be missing out on some opportunities. Because our opinion is, is that it really takes a team to help advise and help a business owner make sure they're crossing all the T's and dotting all the I's when it comes to their transition. So, some examples of people that you might have as part of your team would be an owner transition advisor. That's what Heather and I do. And we have multiple other owner transition advisors across the nation who help business owners work through those three types



of readiesses, get a high level calculation of their business, and develop a roadmap that's going to help them get to where they need to be pulling in all these other capabilities that might be required.

We have a really strong team that helps with transactional tax planning. We talked about the gift estate trust specialists. We have teams that do sell and buy-side quality of earnings. So, they can take a look at your earnings, make sure that there are no surprises if you're selling or looking at someone you're buying. We have valuation teams. We have a super investment banking team that can really help position your business, help position the narrative on helping you to sell it and walking you through that step by step. And then our wealth advisory folks are just exceptional in helping to build that holistic financial plan and give you that peace of mind that you're going to be okay. So, we are very blessed to have all these capabilities here.

Very often, if I'm working with a client and they have professionals that aren't all at CLA, we have what is called a professional meeting. Because what we want to do is make sure that we're all have clarity on what that business owner's goals and dreams are for him, or her, and their families, or their partners. And if we're all giving advice that's not the same, it gets very confusing and overwhelming for you as the business owner. So, surround yourself with a team. So, even if we surround ourselves with a team and we work through those readiesses that Heather and I have been talking about, sometimes, we still get stuck. And we both felt that we really need to talk about this in our call here today. So Heather, tell us a little more about this.

Heather Parbst: When we're working with a business owner and we've got everything laid out, we've explained all of the logistical things that need to happen, they know what needs to happen and what they need to do to move forward and it's just not happening, what we find is that it comes down to having one or more, usually more than one, of these four worries. So it's, "Will I have enough?" It's back to that money piece, maybe they just don't feel it but, is there a way that they can get what they want so that they can fund the life that they really desire? So, will I have enough to take care of myself, my family, my business? Will my business be okay? Is it going to be sustainable after I leave? Is the successor ready to take over? Are the employees going to be okay? Am I leaving the legacy that I really want to leave in this business? Will my family be okay? Not just whether this applies to it being a family owned business and not family owned business.

Have I done what I need to do to make sure that this family is okay. After this transition, are we still going to be able to get together, have Thanksgiving meal together? Is there going to be tension? Is it going to be okay? And then, will I be okay? And that comes back to that future focused view. Do I have something that I can be looking forward to that's really pulling me towards it? So, this tends to be where we get stuck. And I think we've talked a bit about the financial side and the personal side. So, the "will I have enough" and the "will I be okay." I think we've talked a lot about that. Lisa and I both have a lot of passion around the family piece. And Lisa, I'd love to hear from you because I know that this is especially important to you. Can you talk a little bit about how this worry plays in and what we can do to help clients there?

Lisa Horn: Yeah. This family feature is a huge one. Nobody wants to harm their family, or bring any pain to their family, or do something that can break the family up. And I know that one of the things, you and I and the other owner transition advisors, we all stress is that what we're doing, the goal is to keep the family unit intact. And it can be really confusing sometimes in a family business understanding what's going on. And it can be really confusing because you can be a family member and not be an owner and not work in the business, you can be a family member and be an owner, you can be a family



member, be an owner, and be a leader in the business. So, for each one of those, whether you're a family, an owner, or a management team or a leader, every one of those roles has specific roles and responsibilities.

They have specific communication needs, they have specific decision rights. And if we don't provide clarity for each of those roles, a lot of things can go bad real quick. So, part of our process is going in and making sure that we can help with clarity between the roles, the decision making, the communication, using best practices that have been proven to work with a lot of our other families and clients, to put things in place to make sure that there's harmony. Sometimes, we do behavioral assessments just to help people understand how they're all hardwired and why they make clash and how they can lift each other up instead of push each other down. But families, they're really important. I was working with three brothers yesterday and we were going through the pros and cons of all the different transition options, and when they came up with one of the pros of selling to a third party, they're like, "We can just be brothers again."

We can get together more than just Thanksgiving. Because I guess somehow, they only tolerate Thanksgiving right now, but they're thinking if they did a third party sale, they could start vacationing and having more fun together. So, these issues are real, they can be hurtful. We've worked with clients that haven't talked to their grandkids in multiple years because there was this perception of things not being fair. Engage someone who has experience in this that can help keep your family unit intact as you work through this. Because again, we want this to be a celebration, a great day. So Heather, what about the business worry?

Heather Parbst: Well, you hit on two key pieces there and I think those lead into the business side too. So, you talked about decision making and communication, and then really those roles and responsibilities piece as well. And that also plays in, because a lot of times, with the worry about the business being okay, it falls under both external sales and internal sales. We see it on both sides. But in thinking about the internal sales, I see it a lot, and I know you do too, when there's a transition to a successor, whether that's a family member or not. And so, a lot of times, business owners will get stuck. You talked earlier about the family that was... the kids didn't want to disappoint the parents. And on the flip side, sometimes, that works in reverse where the parent doesn't want to disappoint the kid. And I say, kid, we're talking adults here. But maybe that person just isn't ready for a leadership role or an ownership role and the business owner is stuck because they don't know how to bridge that.

An area where we can do a lot of work, and I really enjoy, is coming in and working with business owners and the successors and saying, "Okay, we see that this person is maybe learning a lot on the technical side of the business, but maybe they're really just struggling. They don't have a lot of leadership capabilities. They're struggling in that area. How can we help bridge that?" So, we build out a leadership development plan. We map out these are the skills that they need to have by X date, this is how we're going to measure it, we might bring in executive coaching to help them build some leadership development skills in that way. We also focus on building a knowledge transfer plan. And so, that's really about how many times have you had a successor, and they're talking to you and they're like, "Lisa, I want to step in, I want to take on more leadership, but all of the information about the business is in my parent's head. How do we get that?"

And so, mapping out saying, "Okay, really, this is what they're going to need to be successful, how do we get this out of here and into the new leadership team's hands?" And so, building out that plan. The beauty of it is when you bring intentionality to it, you create a map, that worry just dissipates



and they have peace of mind because they can see it playing out over time, they can see that growth. So, I think that's a really important piece, and I think that that really just helps alleviate a lot of the worry for those types of transitions.

Lisa Horn: That's great, Heather. Thank you for sharing that. All right. So, we have absolutely loved talking to all of you today and we hope that you're thinking about some questions that you can ask us. And hopefully, we've really helped you see the importance of planning and starting that planning. Because when you start planning your transition as early as possible, maybe the day you buy your business you should start thinking about your transition plans. If you do good planning, you're more likely to meet your personal and financial goals, leave behind a sustainable company, protect your legacy, take care of your valuable team members and families, and capitalize on unforeseen opportunities.

Heather Parbst: And on the flip side of that, you're less likely to leave money on the table, to rush the process, and when you rush the process, you're more likely to see a failed transition. So, you're less likely to see the business fail after the transition happens. You're also able to reduce the risk around those five Ds. So, you'll experience less loss should you happen to have one of those situations happen.

Lisa Horn: A lot of studies have been conducted on what makes up a good transition. So, what makes it great for an owner or what has to happen for it to be a good transition? And they say that when the owner feels they were treated fairly, have a sense of accomplishment, they're at peace, they've discovered a new sense of purpose, and they are so proud that the company carried on, that is what a good transition is. And so, when you hear all of those things, none of them are things that you can just figure out in six months, or eight months, or a year. It takes time to plan. So, what we're really helping is that you begin your journey now to transition your business and be able to leave on your own terms. We have a great team here at CLA with all the capabilities available to help you achieve your goals and dreams. Thank you for joining us. Clearly, Heather and I love what we do, and we'll open it up to any questions that you have on any part of our presentation.

Heather Parbst: Thank you. So Lisa, we have questions.

Lisa Horn: We do. Let's see.

Heather Parbst: We do. Let's see. Do you want to... Let's see here, "Is there a minimum size a company has to be before they should consider your transition services?" Do you want to take it Lisa? You want me to?

Lisa Horn: Go ahead.

Heather Parbst: No, there isn't. Short answer.

Lisa Horn: Yeah. We help hold it.

Heather Parbst: Yeah. And I think the beauties of this organization is we've got people that can help businesses at all different levels and stages. So no, absolutely not. Okay.

Lisa Horn: That's an interesting one. "Should key employees pay full valuation price to buy into accounting firm business when key employees crucial for generating revenue and client relationships, or should a discount be offered?" Jane, we have Jane Smillieyoga. Kelly asked that question. So Kelly, that's



a great question. So, if we go back to that, number one, the owners of the accounting firm need to know how much money they need from the business for their lifestyle that they wish to have when they transition. And then they also need to think about how do they recognize, incentivize this employee for all the hard work that they've done. So, there's no real answer. You would go through a thoughtful process and be guided on what would work out best in this situation. Can't really answer it right here because it's one of those "depends," unless you have a different response, Heather.

Heather Parbst: Nope. That's exactly how I would view it. Another question, "If you're looking at a five to eight year transition, how soon should we be in contact with you?"

Lisa Horn: Now.

Heather Parbst: Yeah. Yeah. So, really five years, what you're talking about, that's really the sweet spot. So, that's a great time to start. And the big thing is going to be, do we need to build a lot of value in the business or not? So, always great to start whenever because you're able to focus in on that reduction in risk immediately. And then if you're looking at five to eight years, that gives us a good runway to really build any value that we need to and button up any loose ends that need to be buttoned up. So, that's a perfect time.

Lisa Horn: There's one here regarding ESOP part of company for next generation to see if they even want to go into business. Also, take care of their parents, my kids... So, we do have ESOP experts here at CLA that can help way out, if that's the best way to do it. I'm not sure, Keith, if you're saying this is what you've done and it's worked out and it serves what you need for your family, it is another one of those internal transitions that you can do.

Heather Parbst: So, there's another question, "Why do you say that the holistic plan should be guided by a CPA and not a wealth advisor? I don't know that we are necessarily saying that.

Lisa Horn: No, no, not at all. No, I said a certified financial planner to guide the holistic plan. So, we have many wealth advisors here at CLA, and what I'm suggesting is that, that's who should guide that holistic plan.

Heather Parbst: So, to just elaborate on that, what we see a lot is, we'll ask a business owner if they have a financial plan, a financial planner, a wealth advisor, that they're talking to or working with, and they'll point to the person that's managing their 401(k). And that person might be quite capable, but the question is, are they really factoring in the whole picture? Are they able to do modeling so that the business owner can see, okay, if I do it this way, I get this, if I do it that way, I get that. So, that's really what we were going for there.

Lisa Horn: We have one here from Deanna, who's asking us about, "How many years slash months do you recommend for the transition plan?" I have some clients, their transition plan is three years out. So, we've done the discovery process and we're working on where they want to be in three years. I have another client that I'm working with, him and his brother, and that's where they want to be in the next nine years. I have other clients, it's like where they want to be in the next two years. The longer the runway, the more opportunity we have to create opportunities for that transition.

Heather Parbst: There are a couple of technical questions in here. And so, I know we've got people looking at those, so I'm going to skip those because I think we'll get those answered.



Lisa Horn: I think everybody who has signed up for this webinar will receive a link that will have the recording of this, and as well as we will be sending out some materials post webinar in the next few weeks that will have articles that we've written that discuss this as well as that independence assessment. And I think with that, Heather, we can reach out individually with some of these.

Heather Parbst: I think so. That sounds great. Okay.

Lisa Horn: So, thank you for joining us today. Heather, it's always fun presenting with you. I love working with you as much as I do to business owners.

Heather Parbst: Same. All right. Thank you everyone. It was great having you here. We look forward to following up with you all individually.

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