

# WALKING **T**O DESTINY

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

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*Revised, Updated, and Expanded*

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**CHRISTOPHER M. SNIDER**  
WITH CONTRIBUTIONS BY SCOTT SNIDER

**think** tank  
PUBLISHING HOUSE

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— **DARREN CHERRY**, CEPA® Area President, FocusCFO
- “ A comprehensive guide for owners looking to understand the exit planning process, packed with relevant and actionable content. So many exit planning books are theory-based, but this one is the real deal.”  
— **JULIE KEYES**, Exit Strategy, Collaborator, Author and Podcaster “Build Enterprise Value today, Exit on your own terms tomorrow, KeyeStrategies, LLC
- “ The magic of *Walking to Destiny* is it forces advisors and business owners to shift their definition of exit planning. After reading this book, it will be clear exit planning is not about getting out of your business in the future. You’ll immediately recognize the power of getting what you want out of your business -- starting right now!”  
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- “ I recommend this book to owners, family members, and executives of privately held companies. I use this book to coach business owners, teach the value enhancement theory, and normalize the cycle of ownership and business evolution.”  
— **AMY WIRTZ**, Family Business Consultant, The Family Business Consulting Group, Inc.
- “ There are foundational thinkers like Chris Snider to set the stage for progress and innovation far into the future. *Walking to Destiny* was written with owners in mind and provides a clear roadmap to accelerate business value. This 2<sup>nd</sup> edition provides even more help to owners to be successful and shows Chris’s continuing growth as a seminal thought leader.”  
— **SEAN HUTCHINSON**, Thought Leader in Business Value Acceleration & Transition-Readiness, Partner, Ready for Next Advisory Group

“ The single most influential book impacting my focus on business owners. The book has given me the knowledge, framework, process and language to speak to business owners with confidence. The book teaches timeless and proven concepts that are essential to growing value in any business. Chris Snider is one of the most influential thought leaders about Exit Planning and Value Acceleration in the industry. Highly recommend *Walking to Destiny!*”

— **CHARLES JARRETT**, CFP®, CPWA®, CEPA®, CRPC®, ChFC, Private Wealth Advisor, Senior Vice President, Merrill Private Wealth Management

“ Every once and while a book is written that challenges conventional ideas and inspires action. *Walking to Destiny* is that book. The ultimate business owner’s manual for creating value, harvesting that value and building new dreams.”

— **TOM DEANS**, Ph.D. Intergenerational Expert, Professional Speaker, Author of *Every Family’s Business*, *Willing Wisdom* and Founder of the *Willing Wisdom Index™*

“ *Walking to Destiny* takes the reader through the most thoughtful and thorough process I have ever seen to help a business owner understand their options for transition out of their business.”

— **JOE W. SCHEID**, AIF®, CEPA®, CFBS®, CLTC® Owner, Financial Planner, Wealth Manager, Legacy Advisors Arizona, LLC

“ What *Walking to Destiny* does for business owners is lay out an easy to understand framework for getting from “here” to “there”. It is an essential tool that I use when working with business owners to accelerate the value of their businesses and ultimately successfully transition ownership.”

— **SHINA CULBERSON**, CFA, CEPA®, President, Quist Financial

“ Take the time to read this book; it will help you in ways you never thought possible.”

— **KENNETH HAFFEY**, CPA, CGMA, CEPA®, Partner-in-Charge  
| National Mergers & Acquisitions, Marcum LLP

“ *Walking to Destiny* breaks down the considerations, process, emotions, and opportunities in a way that makes the complex facets accessible. Enjoy discovering what you thought you knew, what you couldn’t have seen yet, and what you will discover in and for yourself.”

— **JOSEPH STRAZZERI**, Esq. Counselor and Attorney for Successful Families and Business Owners | Educator for Wealth Advisors | Speaker and Author, Strazzeri Mancini, LLP

**TO MY PEERS**

**BUSINESS OWNERS,  
THE TRUE CHANGE AGENTS  
WHO BUILD A WORLD WORTH VALUING**



# ACKNOWLEDGMENTS

**I DEDICATE THIS BOOK TO** business owners. You are the risk-takers, the visionaries, the game changers who propel society forward. Your businesses are true expressions of your talent, passion, and hard work. I wrote this book to acknowledge your unparalleled contributions to the market and to invest in your successful transition into your next and *best* act.

I have learned that writing a book is quite a taxing project, and it could not have been accomplished without the support of my family, including my lovely wife of over 40 wonderful years, Denice; my brilliant and creative daughter, Ashley; my son-in-law, Dan; and my son, Scott Snider, who is more than a son to me, but also my business partner and my best friend. I am so blessed to have a son, partner, and friend who believes in me so much.

I would like to thank my clients, past and present, for the experiences we have shared throughout the book. I would also like to thank the many mentors I have been inspired by, in particular “Uncle” Freddie, Phil Andrews, Andy Rayburn, and Peter Christman, for their patience and wisdom, which, as I now approach my third act and look back, I appreciate more than ever.

Thank you to the entire team at Book Launchers and to my book coach, Jeff Cochran, for their insights and for working through the many changes in both content and timelines. A big thanks to Sean Hutchinson and Scott Miller for providing their insights and for the friendship and belief in the cause we have chosen to pursue together and to the Exit Planning Institute® (EPI) faculty, board, and members, whose passion and expertise are changing outcomes for business owners and their families. Finally, thanks to the staff at EPI, who work tirelessly on behalf of the members of our family enterprise.

Last, I couldn't have written the original book or this new edition without having a place to go to retreat from the distractions of the day-to-day for a brain dump. Thank you to Bowman's Beach Park for that picnic table in the sun and to Tom Terrill for the use of his "Island House" on Captiva Island, Florida, both truly inspiring places where I wrote.



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# FOREWORD

**I'VE KNOWN CHRIS SNIDER FOR** 36 years. For 21 of those years, I have called him my mentor and teacher; for 16 of them, I have called him my business partner; and for all 36 of them, I have had the honor of calling him my friend and father. I have had the unique opportunity to be alongside Chris, experiencing the many different hats he may wear on any given day. I have seen him at the top, and I have seen him at the bottom.

The best way I can describe Chris is not just through his business accomplishments, or the countless lessons I have learned from him, or even the person he is in his personal life. He is more than that.

Chris Snider is the leader—for our family, for our companies, and for the industry. Chris is, very simply, the guy who drives the car when everyone else needs to sleep.

I started my first company at the age of 17 and grew that company with mentorship and support from Chris. In 2010, I decided to sell that company. Thankfully, I had a dad who was an exit planner and Value Acceleration specialist. I spent the late spring and summer of 2010 transitioning that company to the new owners and integrating it into their



organization. At the same time, Chris asked me to join his consulting firm, Aspire Management. And so, in the fall of 2010, I did that.

I started by becoming an analyst. I would analyze tax documents, recast financial statements, prepare the Enterprise Value Assessment reports for the team, review industries and comparables for the valuation analysis, and eventually, build the company book.

It was in early 2011 that Chris brought me into his office and said, “Scott, I want to be *the* exit planner in Northeast Ohio. When owners and advisors think about growing value and transitioning their companies, I want them to think of me. Can you do that for me?”

At the time, I was 25 years old, new to this industry, and had absolutely no technical experience whatsoever. I suppose the entrepreneurial, challenge-seeking, competitive spirit that burns inside me took over, and I responded, “Yes, absolutely!”

What I didn’t anticipate, or really have any idea of at all, was the magnitude that very simple answer would have for our business and future; we had stepped onto a path to become the nationally recognized authority in exit planning and Value Acceleration.

I started by analyzing all of Chris’s materials, workshops, processes, and philosophies. What I knew was that he had a pretty diverse career working with major international corporations all the way down to small family businesses, and that, within those organizations, he had a diverse career path, moving from auditor to systems implementer to supply chain manager at Sherwin-Williams to logistics, then over to consulting for Price Waterhouse, then leaping over to being an executive at a nuts and bolts distributor, then running a multibillion-dollar division as chief information officer for Textron. He got into IT, websites, and content marketing and eventually started his own consulting firm.

All of that robust experience, when you really analyze it and boil it down, equated to helping owners and their executive teams grow their companies, manage and execute on projects, and lead teams.



Chris had something unique. I think if you ask Chris why he started his consulting firm, he would answer it was to challenge himself to convert all that experience and knowledge into actions that would produce successful results for any size company. Would it work?

Chris had a concept entitled BIGS: Buy, Improve, Grow, Sell. It was a process, but to me, it was really more of a workshop series that existed inside something else bigger. It was when I started digging through some of his sales binders, presentations, and white papers that I discovered that he had organized “something bigger” into a single process. I remember talking to Chris about this content and telling him he needed to take the time to build it into one system or methodology that we could follow and take owners through. He already had all that robust, diverse knowledge and experience. It just needed to be fully developed. I envisioned that finished methodology appearing on the front page of our Aspire Management website. I wanted it to be a core part of who we were and what we did. So Chris made time to articulate the exact process he would utilize with a business owner who was focused on growing enterprise value, with the intent of always being prepared for an exit. What emerged was significant. Chris had created what we know today as the Value Acceleration Methodology™.

Then came the Exit Planning Institute® (EPI). Chris was a member of EPI before he was the owner, holding the Certified Exit Planning Advisor® (CEPA) credential since 2008. We believed exit planning needed a clearer definition and a more practical process. We believed exit planning was actually just good business strategy, driven by focusing on building enterprise value and complemented by aligning business, personal, and financial goals (a concept now called Master Planning created by Peter Christman). With the acquisition of EPI, we could bring this methodology full circle and now teach it to fellow advisors and CEPAs across the nation. It was something our industry and marketplace was lacking, and it was much needed. It defined what exit strategy really is and provided a practical system to execute. In the fall of 2012, we purchased EPI, and by the fall of



2013, the Value Acceleration Methodology was the core curriculum taught at the CEPA program. In fact, it quickly became the most recognized and widely adopted system in the exit planning industry.

These days are an interesting time for me. Chris has now stepped forward to concentrate on writing, speaking, teaching, and building content. And I have stepped into Chris's shoes, leading our team, who use the methodology that I grew up with. Truly, I don't know any other way to operate a business.

As you begin to read about Value Acceleration in this book, you will find that it has become much more than a methodology. It has become the best practice management system. It is the appropriate way to run and build successful companies. It is your road map to an eventual transition. It is your bodyguard for unplanned events. It prepares you. It's a tool to engage your employees and build a culture of ownership and entrepreneurship. It's a process that integrates business, personal, and financial goals and aligns them equally. It is the vehicle to harness and harvest wealth. It's a project management tool. It is a *proven* process that, if followed correctly, will dramatically increase the value of your business and, perhaps more importantly, give you, the owner, a sound Financial Plan, a vision for the future, and a passion for life after business. At minimum, Value Acceleration will change the way you think.

So, Chris Snider: family man, businessman, corporate executive, entrepreneur, teacher, speaker, writer, and consultant. An average golf buddy, and my best friend. A man of many hats, many roles, and a lot of wisdom. Chris is a true visionary. He is a pioneer for the industry helping to create and change a marketplace.

After you read this book, I challenge you as an advisor to think about how this process will change your business, how it may help you better engage your clients, and how it will help them grow and transition their companies. You can be a key part of all of that with them.

For you, the owner, I challenge you to think about the immense ways these actions will change your business and life. I challenge you to embrace



the opportunity of building value and planning personally and financially.

It's certainly not an easy road, but if you embrace these concepts and truly integrate them into your daily practice and operations, it will change your life, both professionally and personally. It certainly has mine.

— *Scott Snider,*  
*President of the Exit Planning Institute*  
*and Operating Partner of Snider Premier Growth*



# THE PERFECT EXIT

## My Career as a Change Agent and the History of the Value Acceleration Methodology™

**I HAVE BEEN WORKING IN** the realm of business improvements for more than 40 years now. My first role as a value accelerator was as an operational auditor for The Sherwin-Williams Company (SW), headquartered in Cleveland, Ohio. I was a 22-year-old kid who had just graduated from John Carroll University, and I knew little about how to operate a store. However, each auditor was given an audit guide (Structural Capital), which spelled out how we were to conduct our reviews and what to look for. My job was to ensure compliance to the audit guide.

We were also encouraged to listen to the store manager's suggestions and complaints. If we saw something that did not make sense, we were incited to challenge the norm, bring it up to the audit manager, and make



suggestions for improvements. Coming up with ideas to make things better put you on the fast track to promotion. Anybody could follow an audit guide, but making suggestions on how to improve operations was the way you got ahead. It's how you stood out as more than just an enforcer. We actually had buttons made up that we wore on our lapels that read "We're Here to Help." That always got a big laugh from the store and commercial managers. But, in the big picture, that's what we were really there to do.

Store and commercial branch managers didn't trust the auditors at first. But once we built reputations in our territories as people who could make things better, we became bridges to getting things changed back at corporate. The audit department could do that. It carried a lot of weight at SW.

This became even more important once I started doing corporate audits. I audited all kinds of different corporate departments, from purchasing to manufacturing and distribution. The audit department was the proving ground for advancement at SW. It was like a boot camp for future division managers. Usually, within three years, you either graduated to a position in one of the divisions or you were out. SW used the audit department to screen and build talent that it could send to the divisions (Human Capital).

I graduated from the audit department and joined the purchasing department in 1985. There, I introduced the first personal computer to the department. Boy, I could tell you stories about the first computer and both young and old readers would find them amusing. If you are over 50, you probably have a few yourself. Let me say the computer has come a very long way since 1985. I was the first to put a budget on the computer. My boss was simply amazed at the productivity advantages of a computer. He immediately ordered me to "Get one of those things on every desk in this department."

That success led to being assigned to a full-time team called IBA (Integrated Business Applications) with the responsibility to implement enterprise resource planning (ERP) systems at all SW plants. That further led to numerous other special projects like designing and implementing



the first inbound freight system used by SW and leading the Batch Tracking Project (BTP), which is still one of my most cherished experiences to this day.

SW was growing, and the Morrow, Georgia, plant was reaching capacity. Several of us believed that ERP systems, specifically shop floor control, could, if used properly, increase the capacity of the plant by 20% with minimal to no increase in space or equipment by improving the flow of manufacturing through the plant. The capital investment savings to SW would be enormous if we could prove this true. Many, both at corporate and at the plant, doubted it.

My boss and mentor at the time, Fred Ristow—or “Uncle Freddie,” as we affectionately called him—was a 42-year veteran at SW. He helped me take the idea to the president and VP of manufacturing. I asked for six months and my pick of two IT people to go to Morrow with me to show them it could be done.

The plant manager was so against it that he put up a sign at the plant entrance the first day I arrived that read “Chris Snider, You Now Have 180 Days Left.” Every day he would update the countdown. “Chris Snider, You Now Have 179 Days Left.” “Chris Snider, You Now Have 178 Days Left.” After a few months, he began to see we were making progress and took the sign down. Six months after that, he was handing me an award. His results were so improved that the other plant managers started calling to ask what he was doing. When he told them it was this “system” they installed, all the plant managers started asking for it. It was eventually rolled out to all the plants.

Bear in mind, it wasn't just the system. Systems don't solve problems; people do. You will learn as you read this book that systems are important. But more important were the people: my team, the people on the floor, and the staff in the plant office, including the purchasing manager, the plant scheduler, and the controller.

A key part of our success was the bond we built with the people on the



floor. I required each member of my team to work on the shop floor for two weeks. Just imagine the fun the shop floor workers had with the corporate guys. It was all in good fun, and at the end of the day, they respected that we would get out there on their turf and make paint. We did many of those kinds of things to build teamwork and demonstrate our respect for the team on the floor. I would meet the first-shift supervisors for breakfast at the Waffle House at 6 a.m. to pick their brains and bond with them. I asked a lot of questions. One of the things I learned was that the people who worked on the floor already knew what needed to be done. All you really needed to do was be respectful of them and then ask a lot of questions. Your interest had to be authentic. If not, they would see right through you. Once they felt they could trust you, they were more than willing to help. Working out on the floor with them was one of the big steps to earning their respect, making us seem less threatening, demonstrating our sincerity, and earning their trust. It worked.

In a post-project review with the president, I told him I had learned two very important lessons on that project: (1) put people in positions where they will be successful, and (2) create a culture where change thrives.

After completing that project, I considered starting my own consulting business. But I was nervous about it. From my experiences at SW, I knew how to successfully implement change, but what did I really know about running a consulting business? Feeling like it was time to see what was going on in the rest of the world and to learn how to operate a consulting business, I chose to join Price Waterhouse (PW) as an “experienced hire” to learn about consulting and branch out.

At PW, I met a wonderful new mentor, Phil Andrews, a gritty, tough, really smart SOB. Phil took me under his wing, and we did several projects together. It was Phil who first introduced me to the “gating” process. Gates represented project transitions. You proceeded through a gate only if you met certain criteria. Clarifying these criteria was really important. It forced you to articulate the deliverables and accomplishments needed to proceed



through the gate to keep a project on track. It also forced accountability. Since working with Phil, I have developed some form of gating process in almost every situation, including the gates defined in the Value Acceleration Methodology.

I likened my days at PW to getting my MBA. PW taught me the science behind methodology and process improvement through the deployment and engagement of people in change. PW invested heavily in training and education. During my unbillable time, I attended classes on general management, change management, engagement management, and project management. I would then have opportunities to apply this new knowledge to projects. That's when I learned that change starts with education, but education alone is not enough. Real learning comes when you apply education to real-life situations. *It is only through educated action that things get improved.*

From PW, I joined Roadway Logistics, which today you know as FedEx Logistics. The best part of that job was that it was a blend of the implementation experiences I learned at SW and the really creative consulting solutions of PW. We would not only recommend logistics solutions, but we would then have to implement them to make money. In other words, we only ate what we killed. The best part of that experience was the team chemistry.

One of the groups they gave me to manage was in a row of cubicles along the windows. This was a group of outcasts labeled Depression Row. They were rebellious and outspoken. They also happened to be the best project implementers in the company. I can clearly remember a moment from one of my first days, as I was sitting at the computer in my cubicle with my back to the opening. All of a sudden, someone walked in and, standing behind me, yelled, "I am getting screwed over and I don't like it!" I slowly turned around to see it was one of the managers from Depression Row.

"Hold on," I said. "Calm down. What's going on?"

He began to rail about how the management team was interfering



with his project and screwing it all up. “They don’t know what the hell they are doing! Why can’t they just stay out of my way and let me do my job?” he asked.

I got him calmed down and had him explain the situation. Then I went to the director’s office and got them to back off; “Stop butting in,” I said. I told them that we knew what we were doing, and we accepted responsibility for the deliverable. Truthfully, I was not sure. However, putting my faith in the group known as Depression Row showed them I was ready to back them up. I told them if we deliver, nobody will mess with us. They might disagree with our methods, but success would trump that. However, if we didn’t deliver, we’d be dead meat.

That group in Depression Row ended up being the best project management group I ever managed. All they really needed was a voice that could keep the management team at bay while they did their jobs. They were, in reality, a very talented group of change agents. They were creative and ambitious; they were doers; they were fighters. They just needed someone to believe in them.

The business was growing so fast we sometimes had up to 40 projects going at one time either in transportation, warehousing, order management, or all three at one time, which we called integrated. We designed and implemented a Gateway Process to keep all these projects going.

Every Monday, between 10 a.m. and noon, we would host a Gateway Meeting where project managers would present their stage deliverable to the Gateway Council and either receive approval to proceed to the next stage of the project (through the gate) or be asked to gather additional information. The Gateway Council was made up of managers from IT, marketing, and operations. They would review the project for its quality of approach, consistency with other projects and customer solutions, consistency with company strategy, and probability of success in its next gate.

The entire company was always invited because those meetings were the one place where you could find out everything that was going on in



the company. We always had a full room. We created a matrix of solutions along the one end (e.g., transportation, order management, warehousing, integrated) and size along the other. We then predefined solutions at the intersection of each point on the matrix. That allowed us to create reusable solutions that could be predictably, consistently, and quickly implemented while keeping maintenance costs down.

One day, I got a call from a recruiter. I took the interview at (what was to me at the time) a small (\$90M) JIT distributor called Flexalloy (or Flex, as we called it). Little did I know that this interview would change my life, my professional direction, and my family forever.

There, I worked for a man named Andy Rayburn. No words can convey the spirit of this man.

If there was ever a perfect exit, it was the exit engineered by Andy Rayburn. I was very fortunate to be part of it. Funny thing is, I didn't know it at the time. I was just happy to be part of a great team in a great company, building value, having fun, and enjoying our culture.

In my initial interview, Andy explained that he wanted to grow the company to \$250M in the next three years. He described his vision and really inspired me. He didn't say anything about selling the company, yet we did sell a little more than two years after I joined. Andy made so much money from the sale that he was able to start his own private equity company with the net proceeds.

To give you an idea of Andy's character, every single employee of the company received a payout based on their level and their years with the company. I heard that Andy paid out \$10 million to the employees after the sale. It was amazing to see all the new cars in the parking lot two weeks after the payout.

What made Flex so unique that it would sell at such a premium? You have to remember first that we were a fastener company: nuts and bolts. When you think of a fastener manufacturer and distribution company, what image comes to mind? When I first joined the company, to get to



my office, you came in the front door, walked through the main office into the factory, went out another factory door, followed the black trail in the carpet down a long hall, and then turned left. There you would find several IT people all working on card tables—yep, that’s what I said, card tables. In fact, my first desk at Flexalloy was a card table. I can vividly remember standing and looking out the window one day soon after I started there, wondering why the hell I had left Price Waterhouse. That, of course, would all change.

Soon, we moved to a beautiful new facility in the woods with ponds and walking trails, a full outdoor basketball court, a 50-yard flag-football field, and musical rocks at the entrance of the building. Andy was building a brand, and it rubbed off on the partners. Imagine the reaction of customers and suppliers as they parked near the pond and heard Grateful Dead playing in the landscaping as they approached the building. This was not your typical fastener company. The whole company was jazzed.

We did not have an HR department. We had a Partner Development department. Every employee was considered a partner. I know this sounds corny, and if it’s not real, it is corny. But at Flex, it was real. Each month we would have an “In-The-Paint” meeting, which was a total company meeting. Every Flex facility had a basketball key painted in it somewhere. Every month, all employees would gather in the paint, and we would share company-wide success stories. Andy would communicate our plans, our numbers, and pump everyone up. Yes, we actually had a cheer. For me, coming out of a corporate environment, this was amazing. I had only read about companies like this in books. Now I was here. And, on top of that, I was one of the leaders.

In addition to building a brand unlike any other in the industry, we were building a culture and a management team that could run the business without Andy (Social Capital). We were investing heavily in systems, allocating 2% of revenue to IT each year. Andy knew that if the sales came as fast as he thought they would, the company would need scalable systems.



Andy knew things would need to change. And sales did come. They came fast and furious. We almost tripled sales in just three years. My role was to implement the systems to help the company grow and evolve. I brought in my team from Depression Row to help.

During this period of growth, Andy's income did not grow as fast as revenue. There was a lot of pressure and cash flow challenges. Yet think of the value we were creating! We had five bidders on the business and selected the largest manufacturer in the industry to buy us. They paid dearly. They wanted to sell more of their fasteners to our customers and get us out of the way (Customer Capital). But, even more so, they were 20 times our size, and they couldn't help but imagine the synergies that could be created if they could leverage Flex's talent, customer relationships, purchasing power, culture, processes, and systems.

After the sale, I was immediately promoted by the new corporate owners. But, after about a year and a half, I knew I didn't fit in with the corporate culture anymore. All this talk of strategy and no action frustrated me. We were cutting, not building. That was not my thing, and I was very uncomfortable with it. I had always been part of growth cultures. The culture at Flex shifted. It wasn't that fast-paced, empowered, action-oriented culture anymore. It was just about the numbers now. Not surprisingly, we were now part of a public company. It wasn't fun for any of us who were used to the other way of doing things. Within two years, every director was gone. Andy was the first person out the door. I wasn't far behind.

After Flex, I wondered if that experience could ever be duplicated. This became a quest for me. I wondered if what I learned over all those years about improving middle-market companies and big corporations could be scaled so it could be effectively leveraged in smaller businesses. Over the next five years, I led two technology companies that doubled and tripled in sales over two- and three-year periods. I learned a lot about small business and a lot about myself while working for these privately held businesses. One of the positive things that came from those experiences was proof that



what I had learned in middle-market and big companies could be scaled to small business. It was at that point I knew I had a model that worked.

In 2006, I launched my consulting company, Aspire Management (AMI), which helped business owners buy, improve, grow, and sell their businesses. I also launched, with the help of my son, Snider Premier Growth (SPG). Truth is, AMI was originally created to help *my son and me* buy, improve, grow, and sell our own companies. I was convinced at this stage of my career that the only way to the kind of wealth I was after was going to be through business ownership. Once word that I had launched my new business got out into the market, I received a lot of phone calls from business owners and advisors. This helped to firmly establish my consulting firm in about six months. I had a business!

Some of the companies SPG has invested in over the last 17 years were my clients' companies. I have invested alongside my clients in a few ventures as well. AMI also led me to obtain my Certified Exit Planning Advisor (CEPA) designation in 2008 and to the acquisition of EPI in 2012. I was one of the first 100 CEPAs at EPI.

As you can see, the Value Acceleration Methodology didn't form overnight. In fact, from the time I took my first job at Sherwin-Williams as an operations auditor and onward throughout my career, I have focused on business value improvements that optimize processes, lower costs, invest in future growth, and maximize income. The one thing I have learned in all these years of accelerating value and have taken away from all these experiences is that it is only through action we create the life we seek.

# HOW TO USE THIS BOOK

**IT IS SUCH A PLEASURE** to meet an owner for the first time and see the pages of *Walking to Destiny* dog-eared, folded over, and highlighted, and the book looks beat up and worn. That is its intent.

*Walking to Destiny* shares 40 years of insights, experience, and wisdom. When I teach the Value Acceleration Methodology to my students, they often comment, “It’s like drinking water out of a fire hose.” So, let me provide you with some guidance on how to read this book.

During your first read, read the book through in its entirety. Then go back and read it again, chapter by chapter. After each chapter, go to the reflection questions for that chapter in appendix A. These questions and exercises will help you internalize the leadership concepts and management tools contained within. Make sure you read chapter 14. It’s your call to action. Keep the book close by and refer to it frequently as you implement the Value Acceleration Methodology.

It has been said those who can’t do, teach. I couldn’t disagree more.



The primary role of an owner *is* teacher. Teaching others is the way you leverage your wisdom, knowledge, skills, and desire and manifest your vision. With that said, another helpful way to internalize the methodology is after reading each chapter a second time, immediately consider how you would teach what you learned in that chapter to your teams.

You can eat this elephant. Just remember, take it 90 days at a time.

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# PART ONE

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## YOU AND YOUR BUSINESS: EMBRACING THE CHANGING TIMES

*This first section provides an overview of the Value Acceleration Methodology™ and its benefits, reviews market trends, and explores the compelling case for Value Acceleration and exit planning. We will review the story of you—the business owner—and define the 11 actions to evolve your mindset and shift your paradigm to create a company of significance and a successful exit in your future.*



# CHANGE THE OUTCOME

*Each receives but that which is his own returning.  
Each hears but that which is the echo of his own call.  
Each feels but that which has eaten into his own heart.*

— Muriel Strode

**WHAT IF I TOLD YOU** I could teach you a system that would help you make more money now, build business independence, reduce risk, empower your teams or children to take your business to the next level, and increase your wealth by 400% or more? 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.

The Value Acceleration Methodology has become the leading process



for exit planning and is predominantly utilized by exit planning advisors across the world. It is a proven system to maximize value, grow income, and build a business that can run without you, even if you never plan to leave. Though I think it is naive to think you won't ever exit your business, the business owner who never plans to leave needs a well-functioning, attractive business more than anyone.

The Value Acceleration Methodology is a system that will help you accomplish that. Value Acceleration

- Makes the timing of your exit irrelevant—you are always ready for growth or exit.
- Produces very predictable results.
- Acts as a catalyst to drive organizational behavior:
  - It helps you determine priorities.
  - It gets your employees and management thinking more like owners and helps them understand the financial impacts of their performance.
  - It uses business value as a benchmark to measure current and potential performance.
- Mitigates personal and business risk.
- Breaks big strategic programs *into 90-Day Sprints*.
- Connects your daily activities to their impact on business value.
- Integrates personal, financial, *and* business objectives into one Master Plan.
- Puts you and your family at the center of the plan.
- Addresses your confidentiality concerns.

This book is designed to give you the knowledge of Value Acceleration and exit planning necessary to take deliberate and intentional steps on your



walk to destiny. I want you to unlock the wealth trapped in your business prior to your imminent exit and create the future and legacy you deserve. It is your destiny to grow the value of your most significant asset, harvest those riches, and enter the best act of your life.

I want to change the outcome for business owners like you who have invested their hearts and souls in their businesses. To do that, we need to change the paradigm of how you perceive exit planning. Exit planning is simply good business strategy. Exit planning is now. With readiness comes success, freedom, and wealth, and providing that road map to your destiny is the purpose of this book.

## Two Types of Business Owners

I have met two types of business owners in my career as an exit planner and value accelerator: Lifestyle Business Owners and Value Creators. What's the difference? Both typically make good money, especially if they have been at it for a while. Value Creators make the best money because their businesses are best-in-class in a given market.

Although Lifestyle Business Owners may make decent money—most owners do—it often stops there. Lifestyle businesses do not usually have much market value, and thus, their owners usually cannot transition their businesses and unlock the wealth trapped in them. It's usually because lifestyle businesses are heavily dependent on the business owner. They have weaker intangible capital. Due to owner concerns about giving up control and confidentiality, they usually have weaker talent. Customer relationships are with the owner, not the company. They have not packaged up their intellectual property (IP). They have weaker structures, systems, and processes, if any documented processes at all. Most of the knowledge of how to run the business and work with the customers resides in the owner's head. As such, lifestyle businesses tend to have weaker cultures.



Most lifestyle owners have their identities tied to their business itself. They don't have time to do personal or personal financial planning because all their time goes into operating the business. That's the bad news, but here's some good news. It doesn't have to be that way for you.

Value Creators have made a paradigm shift. They are typically independent of their businesses. They realize that the less they are needed, the more valuable their businesses are. Their intangible capitals are strong. Talent blossoms and flourishes. People feel empowered, and they *are* empowered. The company invests in their development. These owners may still be integral to customer relationships, but the relationships do not depend solely on them. Rather, customer relationships are with their team. The IP of the company—the company structure, systems, and processes—is built by, documented by, and shared with the employees. This creates a culture that does not depend on the owner to stay motivated and ambitious. Opportunities for growth are endless. These businesses are an attractive place to work, and they attract the top talent in the market who want to work there. Because these owners are independent of their businesses, they have time to do holistic planning. Their identities are not strictly tied to their businesses. Rather, their businesses are just an extension of who they are. This is my hope for you.

## Common Characteristics of Value Creators

Value Creators intrigue me. Are there common characteristics that Value Creators share? My research showed me the resounding answer is *yes*.

First, Value Creators do holistic planning. They harmonize personal, personal financial, and business planning. They have personal aspirations and a life beyond their business.

Second, they understand that there are stages to growing a *valuable* business, beginning with identifying what they already have and its



potential. They proactively mitigate risk before launching high-risk build strategies. They are always positioned to harvest their wealth, whether on their terms or not. They understand all their exit options and often have multiple options to choose from. Their organizations have a deep level of value management maturity.

Third, they understand that 80% of the value of a premium business is tied to intangible assets versus tangible assets. This focus on building intangible assets delivers superior earnings and business value.

Finally, they execute well. In fact, I would say relentlessly well. Their team understands how to prioritize and focus on the most important things. Their companies are visionary, dynamic, fast, and flexible. They can pivot quickly. Even if they are not the smartest, their ability to execute well—relentlessly well—gives them a competitive advantage.

Does this sound like something you want for your business? I know it was something I wanted for mine.

## The Value Acceleration Methodology™

Being a Lifestyle Business Owner versus a Value Creator is a choice. You may have your reasons for being a Lifestyle Business Owner. However, what you need to realize is if you want to build a company of significance, unlock the wealth trapped in it to make yourself five to ten times wealthier, and pass on a legacy, becoming a Value Creator is the only way to do it. That's why I created the methodology. Value Acceleration focuses you on value growth and aligning your business, personal, and financial goals. It is a management and life-planning system focused on value *and* income. It is grounded in action. It promotes team play for all stakeholders in an engaging process. It clarifies the road map to success. Accountability is built into the system, providing you with key deliverables and metrics. Most importantly, it creates a *leap in business value*.



Value Acceleration can also be used as a developmental, intergenerational, and employee transition and measurement tool to educate the next generation of management. It is used to teach your team how to create value—not just more income—measure their performance, and benchmark value creation.

Value Acceleration is based on a concept called gating, which I learned at Price Waterhouse (PW) in the 1990s. At PW, we were implementing large, complex, expensive, and emotional multiyear change efforts at major corporations. Doesn't that sound a lot like exit planning? It did to me. Yet as complex, emotional, and personal as this exit planning journey is for business owners and their advisors, when I arrived in this industry, I was stunned to learn that it had no common process to help owners navigate this journey. The industry needed an overarching methodology, one that helped clarify roles, improve team play, introduce a common language, communicate the key deliverables to produce, and move teams through the process intentionally and deliberately. In fact, one of the biggest complaints I hear from business owners is that their advisors have different ways of doing exit planning. Their CPAs say one thing, their attorneys another, and so on. Many throw their hands up in frustration. "If they can't get their act together, why do they think they can help me?"

The idea behind gates is that at each gate you need to produce certain outcomes to move through the gate into the next gate of the methodology. The toll paid to move through the gate is called a Deliverable. Simply stated,

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■ *A **Deliverable** is an outcome produced by an action.*

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For example, a deliverable might be a report, meeting, workshop, or event that represents the conclusion of an assignment, step, stage, task, or



action. These key deliverables in each gate are critical outcomes. The reason is, if you don't complete them in the right order, you put completing the next gate and the entire process at risk. I have implemented a gating process at every company since I first learned this at PW.

In the Value Acceleration Methodology, there are three gates: Discover, Prepare, and Decide. In part three, we will review the management tools used to move through the methodology. For now, let's just do a little flyover to get a sense of what the methodology is all about.

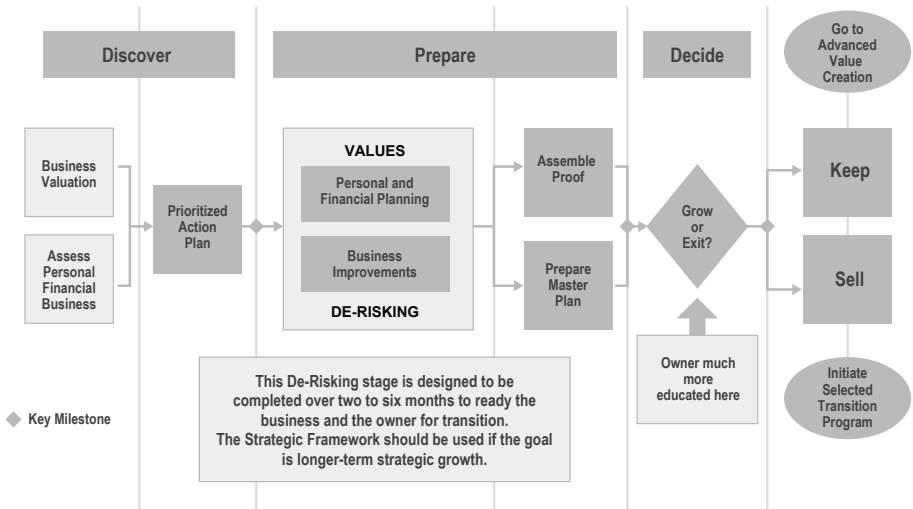


Exhibit A: Value Acceleration Methodology



## Gate One: Discover

There are two major deliverables in Gate One.

### ***Deliverable 1: The Triggering Event***

The first is what I refer to as the Triggering Event.

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■ *The **Triggering Event** is an independent personal, financial, and business assessment correlated to the business range of value.*

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The Triggering Event is like a supercharged business valuation because it not only tells you what your business is worth today (if anything), but it also tells you what its potential Best-in-Class Value may be. For many business owners, knowing the potential value is even more valuable than knowing its present value. Better yet, it explains *why* your business is worth what it is today and identifies specific *actions* you can take to protect, build, and unlock its value. Further, it predicts the probability of succeeding with growth and transition strategies and identifies your Wealth Gap, Profit Gap, and Value Gap. Knowing these three gaps is critical. Yet, most owners are not even aware of them.

The reason I chose the term *Triggering Event* to refer to this deliverable is that it triggers action 70% of the time. Inaction is your enemy and is often a root cause of poor transition success.

There are two parts to the Triggering Event deliverable that make it so compelling that it triggers action 70% of the time. The first is a Business Attractiveness and Personal, Financial, and Business Readiness Assessment, completed in a two- to three-hour interview with the owner.



If the business has partners, each partner is interviewed separately. Usually, key management also participates, and sometimes even family members. This assessment identifies the strengths and weaknesses of your personal, financial, and business situations, as well as actions that could be taken to improve them.

The second part of the Triggering Event deliverable is the determination of the *present and potential best-in-class values of the business*. Using the scores from the Attractiveness and Readiness Assessment, we can assign a market multiple from the range of multiples for your business. Using these multiples and your present sales and earnings, we can calculate your present business value. It's simple math!

Additionally, using benchmarking data, we can calculate what your earnings would be if you were operating at the best-in-class level at your level of sales. This number is called your Best-in-Class Earnings. The difference between your best-in-class earnings versus your actual earnings is called the *Profit Gap*. The Profit Gap is a measure of how much money you may be leaving on the table each year.

Multiplying your best-in-class earnings by the best-in-class multiple for your industry reveals what your business value could be if you were operating at the best-in-class level. This is your *best-in-class value*. It's not unusual for this number to be two to three times your present value. It is a theoretical number, yes. Yet it is highly valuable in that it tells you how much value you would leave on the table if you were to exit now at the present value versus waiting to exit until you had reached your best-in-class value. The difference between your best-in-class value and actual present value is called the *Value Gap*.

If you are a little confused at this point, hang in there. In part two and part three, I explain in much more detail how to calculate these numbers and why they are so compelling that business owners go forward with action 70% of the time once they learn them. Unless you are already operating at the best-in-class level, these gaps can be staggering. For



example, a company I recently worked with was doing \$26 million in sales. Their earnings were \$2.7 million, and their Profit Gap was \$2.4 million. That means because they were not operating at the best-in-class level, they were potentially leaving \$2.4 million on the table every year. When we presented the number to the owner, I looked at him and asked, “What could you do with another \$2 million-plus rolling in here every year?” Clearly, he was intrigued. That same business had a present value of \$11 million. Yet, the best-in-class value was \$25 million—resulting in a Value Gap of \$14 million. In other words, we were confident we could sell his business today for \$11 million, but if over the next several years he worked to improve his value factors, driving his business into best-in-class status, we could potentially sell his business for \$25 million. Profit and Value Gaps like this are not unusual. Once you know your Profit Gap and Value Gap, you can build a business strategy to close them and reap the benefits of improved earnings and a higher business valuation, creating significantly more personal wealth in the process.

### ***Deliverable 2: The Action Plan***

We cannot pass through the gate, however, until we complete the second major deliverable in Gate One, which is the creation of a Prioritized Action Plan. The Action Plan reflects the prioritization of personal, financial, and business value factors to drive improved earnings and business value. What would be the point of doing all this analysis in the Triggering Event, learning what we can do to drive value, identifying our risk, and so forth and then not taking any action? The preparation of the Action Plan will be explained in more detail in part three, but for now, let me provide you with a few highlights.

The Action Plan will include a three-to-ten-year vision of your chosen destination. That vision is then broken down into one-year goals and 90-day actions. These 90-day Action Plans are called 90-Day Sprints. When I



teach this, I ask the question “How do you eat an elephant?” Most people know the answer: “One bite at a time.” Growing and exiting a business is a multiyear, complex, expensive, emotional journey. It can be overwhelming. Breaking the long-term vision into little 90-day bites helps you focus on the little things you can do every 90 days to eat the elephant. The smaller scopes and short time horizons make it more doable and realistic. You think to yourself, “Looking out five years, who knows if we can accomplish that? But I am pretty confident I can get these two or three things done in the next 90 days.”

You want to prioritize no more than five personal and five business actions each 90 days and assign them to a *champion*. Your champion is accountable for delivery of the 90-day action. The champion might be you, the owner, or someone from your management team. It may even be an outside advisor you have engaged to lead the team.

Some business owners I work with are so focused they just pick one prioritized personal action and one business action. After all, people already have a job to do, and that job is probably already keeping their plate pretty full. Asking them to take on one or two more actions, or no more than five as a team, is more reasonable.

Your Prioritized Action Plan is your toll allowing you to pass to the next gate.

## Gate Two: Prepare (90-Day Sprints)

The Prepare Gate is all about executing your Action Plan relentlessly. The Action Plan is executed using *90-Day Sprints* on two concurrent paths in the Prepare Gate. These two paths combine two of the three legs, personal and personal financial planning on one path and business improvements on the other. Personal and personal financial actions are combined because they are so interdependent. As a result, two teams are created to execute



actions on these two paths. Each team is led by a quarterback. The quarterback's role is to oversee the 90-Day Sprint. A quarterback may also be a champion if assigned a specific action, but they may also not be, or their role might be limited to just helping your champions resolve issues and keep things on track. The quarterback is accountable for helping the champion successfully deliver the actions assigned to them. Often, your financial advisor will quarterback the personal and personal financial team, and your value advisor will quarterback your business improvements team. However, you may decide a key employee or family member is best to play the role of the quarterback. The overall composition of these teams, discussed in more detail later in the book, will change as you progress through implementation of your sprints and move through the gates of the Value Acceleration Methodology. The *90-Day Sprint* is your primary tool for executing relentlessly.

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■ **A 90-day Sprint** *is a continual loop of prioritizing, measuring, reconnecting, and recalibrating every 90 days.*

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This process repeats indefinitely, every 90 days. Several of my business-owner friends and clients have been working through 90-Day Sprints for over ten years. They just keep recycling, recalibrating, and getting better, 90 days at a time.

Several years ago, I spoke at an owner forum event hosted by our Dallas chapter. One of our members asked if I would stop by his table to meet the CFO of one of his longtime clients. He told me his company had greatly benefited from this process. "It started at the executive level," he said. "It took us a little while to build the discipline and get a rhythm going. But once we did, we moved the process to the functional level,



where each department began setting their own set of priorities and doing the workshops within each of their departments. The whole company is using this process now, and we are thriving. It has really helped us focus and connect how each functional group contributes to the overall company objectives and vision.”

### **Gate Three: Decide**

Every 90 days, dip your toe into the Decide Gate, and ask yourself the following questions:

1. Do I want to (a) keep growing or (b) shift focus to exiting?
2. Am I ready?
3. Is my business ready?
4. Which exit options or hybrid options should I be considering?

In the old model of exit planning, the last question was the first question. In the new paradigm of exit planning as a business strategy, you should ask the first question first. Your answer will affect the choices and priorities you establish when updating your 90-day Action Plans. It doesn't have to be a big deal. Just check in with yourself every 90 days. “How am I feeling? How is the staff feeling? Is it time or will it be time soon to consider a shift in direction?” In doing so, you make exit planning present tense.

Either way, whether you decide to grow or exit, it will be a multiyear decision. It takes years to plan and execute a proper exit. Get out in front of it if you see it coming within five years. If you decide to grow, you will most likely need to take on debt, invest capital, buy another business, expand markets or products, hire key employees, and such. It could take you years to achieve your return on investment. So, consider and choose carefully every 90 days.



If you choose “grow,” you need to ask: Are you ready for growth, is your team ready, and is the business ready? Have you mitigated risk properly? Growing a business is risky. At this stage of your life, is that what you really want? If you decide to focus on “exit,” it’s the same set of questions. Are you ready, is the team ready, and is the business ready to be transitioned?

Even if you decide to keep growing, you should be considering exit options every 90 days. Just dip your toe in and make exit planning present tense. Are you driving toward a third-party sale, an employee sale through an Employee Stock Ownership Plan (ESOP), a management buyout or buy-in, or perhaps a family transition? It is a good idea to just check in with yourself every 90 days. Are you educated well enough with regard to your exit options? Do you need to create more options for yourself? EPI’s State of Owner Readiness™ Surveys indicate that nearly two-thirds of business owners are not familiar with all their exit options.

If you decide it is time to focus on exiting, chapter 13 lays out the pros and cons of each of your options.

You should periodically go back to Gate One and remeasure your personal, financial, and business value factors and assess the value gains. If you are doing it right, the actions being implemented should raise your value factor scores. As your scores go up, the multiple assigned to your company will go up, and your business value will grow. This is the measurable Value Gain.

As you move through the 90-Day Sprints, you should also be experiencing better financial performance. This may not happen right away, so be patient. However, if you follow the methodology diligently, relentlessly, it will happen. Seeing how much value gain you are driving into your business is very motivating. It justifies all the pain and hard work it takes to get you a higher score and thus a higher business valuation. It will also position you to achieve multiple exit options. If you don’t see improvement in financial performance, challenge yourself; you are probably not setting the right priorities or executing well enough.



Sometimes I get the question “How much should I be sharing with my team? Some of this stuff is highly confidential.” I encourage you to be transparent with your key management and employees. The more involved they are, the better. We want them to own these actions and improvements. They will learn and grow with this process. Remember, you are building a culture that relentlessly executes and doesn’t need you. That alone is a huge competitive weapon.

Another question I get is “Will my team be concerned I am building a business that has many options to transition?” I believe one of the biggest contributions *Walking to Destiny* has made to the industry since the first edition was released in 2016 is that we have made exit planning a business strategy and present tense. Years ago, when I first got into this industry, it was taught that exit planning begins in Gate Three: Decide. *Walking to Destiny* and the Value Acceleration Methodology moved the process back to Gate One: Discover. Its focus is not about the end. It’s about building a business that is always ready to grow or exit.

## **Additional Value Acceleration Benefits**

Value Acceleration will help you make more money and build wealth *right now* while you still own your business. And who doesn’t want more wealth? You see, Value Acceleration not only helps you harvest and manage your business wealth. It also focuses on protecting and building your most valuable financial asset—your business. Managing your intangible capitals, the “4Cs,” is the key to unlocking the wealth trapped in your business while driving more sales and income today. This will be discussed in more detail in part two. For now, briefly understand this. Your 4Cs are the Human, Customer, Structural, and Social Capitals. These make up the sum of your intangible capital. They are not just the most valuable assets of your business; they also determine how well it performs. I think



you would agree that a company with superior talent, customers, processes and systems, and culture will perform better financially. It's common sense. Value Acceleration helps you identify, protect, build, harvest, and manage these intangible assets. As these assets improve, your sales and income are very likely to improve as well.

Given this, I could argue that Value Acceleration can increase your wealth even greater than five times. How about ten times? With Value Acceleration, you drive sales, earnings, and your multiple, which results in accelerated increases in business wealth. Ten times is not unrealistic.

Just wait. The benefits of using Value Acceleration get even better because it is more than just a business growth and management system. It is a holistic system bringing into harmony your business and personal needs and goals while helping you figure out a plan to accomplish this in a more holistic way and then execute that plan. Figuring out what drives you personally is good for your business. It gives you and your teams clarity and purpose—both of which are critical to achieving superior business performance and a holistic, rewarding life. I can't imagine you would disagree if I said a team with clarity and purpose will perform better than one without clarity and purpose. It's just common sense.

The best scenario you could put yourself into would be one where the business runs without you. A business that is owner independent immediately screams high 4Cs to me, meaning it's likely to have great talent that can run the company with or without the owner present. It is also likely to have strong Customer Capital and solid processes and structure that predict how the business performs whether you are there or not. Finally, because of your talent, customer relationships, systems, and processes, you likely have a great culture created and owned by your employees versus being dictated by you, the owner.

Independence from your business not only reflects strong 4Cs, but it has likely helped you develop a more valuable and transferable business. It helps you live a more balanced life, gives you financial security, manages risk, and



gives you back time to work on personal and financial planning. You likely have multiple exit options too. You can do an inside or outside transition, “inside” meaning a sale to employees, your management team, your family, or your partners. You may not need a big liquidity event upon transfer, allowing you to finance a deal over time, easing your way out and taking advantage of tax benefits offered by this type of exit. Given the strength of your 4Cs, you likely have a valuable business that a third party would be willing to pay a premium to own. This puts you in a position to exit on your terms and timeline. Or maybe you just want to hold the business as an investment and let it generate ongoing investment income for you while someone you chose and mentored operates it. A strong transferable business from which you are independent gives you many options. We owners like having options, don’t we? We don’t like being dictated to. We like controlling our own destiny.

By the very act of starting this entrepreneurial lifestyle, you secured your imminent walk toward certain destiny. That destiny is to grow the value of your most significant asset and harvest those riches. Achieving that destiny will require a commitment to changing your paradigm, a renewed focus on execution, your energy and time, and the evolution of your management system. If you are willing to take that walk with me in this book, I will show you how to maximize your business value and get yourself and your business prepared so you can unlock the wealth trapped in your business and walk into the best act of your life.



## ➔ CHAPTER 2

# MARKET DYNAMICS— THE TIMES THEY ARE A-CHANGIN’

*The best way to predict the future is to create it.*

— Peter Drucker

**HOW MANY PRIVATELY HELD BUSINESSES** are able to sell when they’re ready? Buckle up because the answer will surprise you. It may even terrify you. The good news is it doesn’t have to.

So, what’s the answer? As we’ll discuss later in this chapter, only 20% to 30% of businesses that make it to market will actually sell. To make things



worse, many of those that do sell will leave significant money on the table because they aren't ready. Let me ask you a question. Can you afford to lose the money locked in your business? Can you afford to be one of the 70% to 80% that aren't able to sell?

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, that it won't. The late Léon Danco, America's expert on perpetuation and continuity of family-owned businesses 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 exit from your company represents the harvest of your wealth from the business itself, which is most likely your most significant financial asset. Many financial advisors estimate that business owners have 80% of their net worth locked in their businesses. But that wealth is without any value if it is not transferable. The only way to access that wealth, to unlock it, remains through a business transition.

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.

I expect that, like many owners, you find that your business produces a pretty good income for you and your family today. And, possibly, you have



accumulated some wealth outside the business. Perhaps you have retirement investments, commercial real estate, an additional home, and some cash to play with. Yet that is peanuts compared to the value of your business.

## A Stockpile of Wealth Locked in American Businesses

Just how big is the stockpile of privately held business wealth locked in American businesses? You might be amazed to learn it is estimated to be over \$18 trillion. Are you doing what you need to do today to unlock your stockpile of business wealth and ensure your 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 by EPI throughout the United States, the answer is no.

You are not alone. There are over 32 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 privately held businesses represent over \$37 trillion in annual sales. Loosely estimating value at 50% of sales, these businesses represent over \$18 trillion in privately held, 90% family-owned wealth.

	Sales Range	# of Cos. (thousands)	%	Sales \$ (trillions)	%
Micro Market	<\$5M	5,580	93.1%	\$3.81	10%
Lower Mid-Market	\$5M-\$100M	390	6.5%	\$6.71	18%
UpperMid-Market and Above	>\$100M	26	0.4%	\$26.85	72%
<b>Total Employer Firms</b>		<b>5,996</b>	<b>100%</b>	<b>\$37.37</b>	<b>100%</b>
Non Employer Firms		26,486		\$1.29	
Total All Firms		32,482		\$38.66	

*Exhibit B: Privately Held Businesses in the United States*

*Source: Corporate Value Metrics, LLC 2021*



Obviously, these businesses are not alike or equitably distributed. As you can see in exhibit B, most of these businesses do less than \$5 million in sales. These are considered micro market businesses, and there are approximately 5.6 million of them. The micro market represents about 93% of the total privately held businesses in the market, \$3.8 trillion in sales, and \$1.9 trillion in business value. The lower-middle market, which is defined as businesses with sales between \$5 million and \$100 million represents 6.5% of the market. They do about \$6.7 trillion in sales and have a value of around \$3.3 trillion. The upper-middle market has only 26 thousand businesses, which is 0.4% of the market. Although they only represent a fraction of the number of privately held businesses in the market, they hold the majority of sales with nearly \$27 trillion in sales and \$13.4 trillion in value.

Let's go a step further and quantify this opportunity. Based on the 12 State of Owner Readiness studies released by EPI over the last ten years, on average, 63% of business owners indicate they would like to transition in the next ten years, while 41% indicated they would like to transition in the next five years. If 63% of business owners transition in the next ten years, we could be looking at nearly \$12 trillion of potential wealth transfer. If 41% exit in the next five years, we could be looking at nearly \$8 trillion in just the next five years!

The trouble with that reality is historically only two to three out of ten businesses that go on the market will actually sell. *70% to 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. Only the most attractive and ready businesses move into the next stage of their life cycle. Take a moment and think about this. Can you afford to be one of the 70% to 80% that will not sell?

If you think you're immune because you are going to do a family transition versus selling outside, you're not. Historical data shows family businesses only have a 30% success rate into the second generation, 12%



into the third generation, and 3% into 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 father, the answer isn't just yes. My answer is hell yes! 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. However, knowing what you now know about the realities in play and what you need from your business transition, is it wise to ignore the exit planning phenomenon?

## Facing the Realities of Change

Times are a-changin', my friends. At this point, it's anyone's future. It's up to you to change them for the better. There are significant strategic drivers at work today that, when viewed together, are influencing and will continue to influence business transitions.

The age-wave transition is well underway as predicted. Today we still have roughly six million privately held operating businesses in the market—the same number as ten years ago. However, ten years ago, baby boomer business owners owned nearly two-thirds of them, around four million. According to recent U.S. Census data, today baby boomers only own 51%, meaning one million baby boomer businesses transitioned over the last ten years. Even with the shift of a million businesses, boomers still own three million privately held businesses valued at nearly \$10 trillion. As the boomers' average age moves from 68 years old to 78 years old over the next ten years, it is very likely the age-wave transition phenomenon will further accelerate.



But there is an additional market dynamic, perhaps even more significant, that has evolved over the last ten years. Non baby boomer business owners now own 49% of the privately held businesses in the market—up from one-third ten years ago. A majority of those businesses are owned by Gen X, whose age as of 2023, ranges between 43 to 58 years old with an average age of nearly 50 years old. They are now in their prime. And Millennials, as of 2023, range from 23 to 42 years old with an average age of 32 years old.

As opposed to the many baby boomers who view the exit from their business as the end, this new generation of business owners is more open and more educated about the benefits of integrating exit planning principles and processes into the way they operate their businesses. Many acknowledge that harvesting the wealth in one's business is an enabler to achieving a more holistic life. This is good news for the exit planning industry and, in a broader way, for privately held businesses.

Why is this significant, you may be asking? Because along with the wave of business transitions, we are seeing our social and economic value systems changing as these new generations take ownership and assume control and their influence grows. Ten years ago, baby boomer business owners were in the driver's seat. And they had been in the driver's seat since they first were born starting in 1946, over 75 years ago. That dynamic is changing.

	Traditionalists	Baby Boomers	Generation X	Millennials
Birth Years	1900–1945	1946–1964	1965–1980	1981–2000
Gen Nicknames	Moral Authority	“Me” Generation	Gen X	Gen Y; Echo Boomers
Key Attribute	Committed to Company	Ability to Handle Crisis	Work/Life Balance	Ambitious But Not Focused
Work Ethic	Pay Your Dues	60-Hour Work Week	Work Smarter, Not Harder	What's Next?
Views on Money	Pay cash	Buy now, pay later	Save, save, save	Earn to spend
Core Value	Family/Community	Success	Time	Individuality

*Exhibit C: WMFC Generational Differences Chart Excerpt*



These next generation business owners are younger, think more holistically, and are better educated with regard to the benefits of exit planning. Based on EPI's research, next generation owners see their businesses as only one aspect of their identity, in contrast with many baby boomer business owners whose identities are deeply tied to ownership of their businesses. Many view the ability to unlock the wealth in their businesses as an enabler to a more holistic life. Many of these next generation business owners indicate they would like to exit in their 50s, in contrast with baby boomers, who have had difficulty separating from their businesses.

What impact do you think this dynamic will have on the market? Baby boomer exits are likely to accelerate. Combine this dynamic with the next generation business owners desiring to exit younger and, finally, the pandemic, which began in 2020 and drove business owners who were on the fence into the market, and I see the potential of a significant and accelerated increase in business transitions in the next ten years.

Combine this with the dynamic that capital available to invest in businesses continues to grow, creating tremendous demand for good businesses. Current estimates of capital targeted for business acquisitions are estimated at \$3 trillion.

If we, the business owners of today, don't change something, we put at risk trillions of dollars of family wealth and potentially suffer the worst social crisis of modern times.

But hey, let's go positive and think of the glass as half-full. What if you were ready to harvest that wealth, put it to work, and in turn, empower the next generation of business owners? What if we were to dramatically improve transition rates? What impact could an injection of trillions of dollars mean to our economy? How much economic and social goodwill could you foster with this unlocked wealth?



## How “Ready” Are Business Owners?

The fact is, unfortunately, many business owners are woefully unprepared to take advantage of these market dynamics, which, at this point, are still in their favor. Many owners significantly underestimate what it takes to exit well. Not to mention many don't recognize what “exit” means!

Getting into this industry in 2006, I was stunned to learn how poor successful business transition rates were.

- 70% to 80% of businesses put on the market don't sell.
- Only 30% of all family-owned businesses survive into the second generation, 12% survive into the third generation, and only 3% operate at the fourth generation and beyond.
- Three out of four business owners surveyed “*profoundly regretted*” the decision 12 months after selling.
- 95% of M&A professionals believe a business owner's unrealistic expectations of company value is the biggest obstacle to a sale or transfer.

The thought of an owner working most of their entire adult life in their business and not being able to cash it in when the time came blew my mind. It was like diligently putting money into a 401(k) program, month after month, year after year, for an entire career and then, when the time came, not being able to pull that money out. I couldn't stop thinking about the social and economic consequences of that. That was just crazy to me.

Yet my experience in my advisory practice was different. I would estimate it was the complete opposite. Of my clients, 70% to 80% were successful. I might even move that number to 90%. Then I thought even further back to my experiences at Sherwin-Williams, Price Waterhouse, Roadway Logistics, Flexalloy, and the two tech companies I ran. Although only a few of those



had involved buying and selling, they all had grown significantly, and the value gains were even more significant than the increases in sales and profits. I wondered why my experiences were so different from those in the rest of the industry. Did I just qualify my clients better? Or was the process I used to guide my clients and the companies I worked at, that much better? Or maybe it was a combination of both.

Continuing to research the industry, I found very little research that could provide data related to why these transition rates were so poor. So, in 2013, the Northeast Ohio chapter of EPI, where I was president, launched the first State of Owner Readiness study with the help of our partners at PNC Bank and Grant Thornton, as well as the assistance of the 180 CEPAs around the U.S. at that time.

**SIDE NOTE:** to view all of EPI's STATE OF OWNER READINESS studies, visit [www.OwnerReadiness.com](http://www.OwnerReadiness.com)

The data from this study made it clear why business transition success rates were so poor. The first obvious point of clarity was that business owners were simply unprepared. For example,

- Two out of every three business owners admitted they were not familiar with all their exit options.
- 78% indicated they had no formal transition team; 83% had no written transition plan; 49% admitted *they had done no planning at all*.
- 93% had no formal life-after plan for what they would do after they exited their businesses.
- 40% had no plans in place to cover illness, death, or a forced exit.



- 50% said their ownership transition plans required the company to remain profitable for plans to be properly executed, yet 86% had not taken on a strategic review or a value enhancement project.
- 56% felt they had a good idea of what their business was worth. Yet only 18% had completed a formal valuation within the previous two years.

In future studies, we began asking the question “Do you agree that having a transition strategy is important both for your future and for the future of your business?” On average, 99% of the business owners responded they at least somewhat agreed with this statement. Over 60% *strongly agreed!*

What gives? If most owners at least somewhat agree that having a transition strategy is important both for their future and for the future of their business, why weren't they doing the things needed to ensure a successful transition?

## ➔ CHAPTER 3

# EVERY HERO HAS A FLAW

*The business owner is, in fact, the giver of life.*

— Léon Danco

**BUSINESS OWNERS ARE HEROES. YOU** are leaders in your communities, distributors of many of our national products and services, and suppliers to many of our public corporations. Yet every hero has a flaw. And when it comes to your business, what's yours? You aren't planning for the day you leave your business.

Why not? It's common sense that you pay significant attention to managing your most significant financial asset. One reason may be you



didn't begin with the end in mind. Most of you started, bought, or assumed a business for income, freedom, or a sense of duty toward the continuity of the family business. You've been successful, sure, but why stop there? Why not take that next step to create value, which is worth five to ten times the income you generate? That reality is the exact problem that exit planning and Value Acceleration addresses. It is the method to benchmark your business today, make meaningful adjustments, and rapidly grow value so you can monetize the value of your business when you are ready. So if that's what it means to plan for exit, why don't more owners do exit planning?

“ *At some point the business owner must recognize that success has radically changed his relationship to his company. He must understand that businesses which survive do so because the founder has taken measures to ensure the continuity of his company. The business owner must change his role from that of super employee to that of respected leader and teacher, who must gain his ultimate glory in the accomplishments of those who follow him.*

— Léon Danco

## **Lonely at the Top: Understanding the Mind of the Owner**

It's lonely at the top. Even with all of the generational information and statistics, business owners are misunderstood. You recognize this, and many who work with you see you as a uniquely different breed who can be very difficult to understand and navigate. You are a fighter and are used to and comfortable with going it alone if you have to. You want to surround yourself with others who can contribute to success, and you build a team of



talented people, but in the end, you are the one with skin in the game. You have to make the hard choices. You make the sacrifices. You live with the rewards and consequences of trusting others to care like you do. But you don't get to clock out and leave work at work. You built it, you feel it, and you live it: *You are an entrepreneur*. That's what you do. That's who you are.

But looking forward to the future, it is abundantly clear that you need to instill that "ownership thinking" into the next generation of management in order to see your business into its next stage. It's a bad bet to go it alone or allow another year to go by with you as a critical, irreplaceable piece of the operations puzzle. You need successors that you have confidence in, a management team that feels the impact of their leadership, and an alignment of your vision for your family's future. These are not simple tasks.

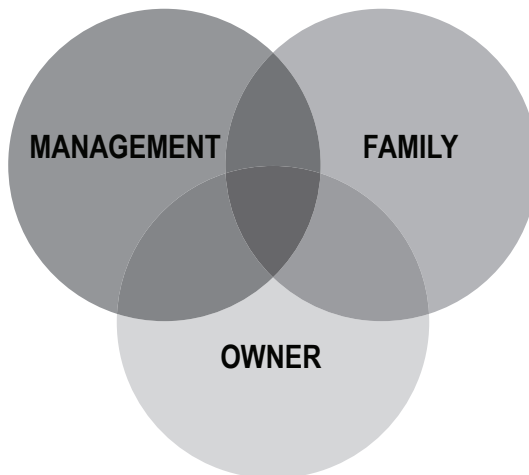
Most business owners have a blend of left-brain and right-brain thinking, what Warren Bennis calls "whole-brain" thinking. Left-brain thinking is logical, analytical, technical, controlled, conservative, and administrative. Right-brain thinking is more intuitive, conceptual, synthesizing, and artistic.

Entrepreneurs have more right-brain tendencies. Business owners are entrepreneurs who are creative, innovative, expressive, passionate risk-takers. However, as you've likely experienced throughout your career, the larger workplace employee mix tends to be left-brain thinkers. This can make it challenging to stumble across the right people for your strategic or management team. I love how Bennis put it in his book *Managing the Dream*:

“ One of the reasons so few corporate executives have successfully made the leap from capable manager to successful leader is that the corporate culture, along with society as a whole, recognizes and rewards left-brain accomplishments and tends to discount right-brain achievement.



Most employees do tend to be more left-brain focused, looking for and following instructions rather than challenging the norm, taking chances, and being creative. Having been on both sides of this equation, first as an employee with the mind of an entrepreneur and later as a business owner with the perspective of the staff, I appreciate the differences. Many employees, even incredible ones, have a hard time understanding the person they work for and follow. One key difference is that the entrepreneurial business owner wears a different lens than the standard left-brained employee. For example, you could pull in your team to look over a list of action items written across a whiteboard outlining a huge project or key initiative for your business. What do you see? Opportunity. What do they see? Tasks. That's not to say that your team can't crank through some tasks to amazing results. With your leadership and vision, they absolutely can. But what will happen when you choose to leave your business, explore the next act of your life, and empower your taskmasters to fill your shoes? Unfortunately, the vision leaves with you. The real accomplishment would be to challenge those like you, who exist in the whole-brain space, to look at that same list and consider what they are building versus what they are doing. Just like you.



*Exhibit D: Business Owner Roles*



Being an owner is a tough job. A business owner has three roles that are often in conflict: management, family, and owner/investor. First, as manager, you are clearly responsible for managing the business, and you are often the best employee in the business. Second, and regardless of whether family is in the business, the business itself is the lifeblood for the family. When you get to third- and fourth-generation businesses, family ownership interests are typically vast. Relationships involve brothers and sisters, fathers and mothers, sons and daughters, cousins and uncles. Many times, those who don't even work in the family business think they should have a say in how it is operated. Third, the owner is an investor expecting—*requiring*—a return on investment. Every day, you are faced with decisions affecting all these constituents and roles, which are often in conflict. You always juggle what might be right for the business versus what may be best for the family.

Several years ago, I met a friend for lunch at the Union Club in Cleveland. I could tell when he sat down there was something troubling him.

So I asked him, “Hey, what’s up?”

“Well, right after this lunch, I have to go back to the office and fire the president of my company.”

I listened to him and tried to offer some comfort and perspective because his concern and worry was evident. We finished up our lunch and went our separate ways, but his level of concern was troubling to me. So I called him up the next day to see how he was doing after the termination.

He told me that, after lunch, he returned to the office and called the HR director and president to his office. He explained to the president that things were not working out. The president was missing his numbers



and had lost the confidence of the staff. A change needed to be made. He told the president he was letting him go.

“How did he take it?” I asked.

“Honestly, not well.”

He recounted how he had told the president to return to his office to clean out his stuff and leave that afternoon. A few hours later, my friend stepped into the excused president’s office to see how his progress was coming and how he was doing. He walked in to see this man, the now-former president, sitting in the chair across from his desk with his back to the door, head down and shoulders slumped over in disappointment. He went slowly up to the defeated ex-employee, put his hands on his shoulders, and said, “Son, it’s going to be okay. Your mom and I are here for you. We’ll help you get through this.” That day, he had fired more than an underperforming president. He fired his son!

My friend’s story shows how painful the role of the owner can be, especially when family is involved. It was hard, but as the manager and investor in the business, my friend knew he had to make the decision that he did. That didn’t compensate for the anguish he felt, but he knew in the long run, this was the best thing for the business, his son, and the family—even if he was the only person who could see that. He knew his son would get back on his feet, but it wouldn’t be at the family business.

## Stakeholders in Your Success

Many depend on your ability to transition successfully. Employees who work for your company are one obvious area where continuity is needed, but look past that. Look at who you are in your community.



Communities and charities that depend on your contributions, suppliers, and customers—all are impacted. Privately held and family businesses are the primary supporters of philanthropy through gifts of time and money. You likely support private schools, colleges, charities, and the communities in which you live and operate. You, as the business owner, are at the very heart of your community. If the business goes, the community will suffer, maybe not even survive.

Further, many small-business owners represent distribution of goods and services throughout the country. Many large manufacturers distribute their products through dealers and distributors. Many of these are small family-owned businesses. What happens if 70% to 80% of them perish?

Not long ago, Peter Christman introduced me to the CEO of one of these manufacturers. I asked him what he was doing, if anything, to ensure that the dealers in his network were going to be able to transition their businesses.

Shrug. “Not anything, really.”

He said they were aware it could be an issue but hadn’t given it much thought or put any programs together to address it.

“How many dealers do you have?” I asked.

“Around 200,” said the CEO.

“Did you know in a recent survey conducted by EPI, 76% of business owners indicated they would like to transition in the next ten years? And are you aware that success rates on both inside and outside transitions are only about 20%–30%?”

“No.”



I was starting to see the discomfort as he ran numbers in his head. “Yes, well, think about that. If we apply those stats to your dealer network, that means that 150 of your dealers are very likely to transition in the next ten years—that’s 75% of your distribution network, right?”

“Yes.”

“With success rates of only 20% to 30%, somewhere between 30 to 50 dealers in this group will be successful. The rest, over 100 of them, will fail to exit successfully and remain operable, so they’ll shut down. That’s more than half your distribution network today, right?”

Silence. He now looked worried.

I looked him straight in the eye and asked, “What impact do you think losing half of your dealer network in the next ten years will have on your business?”

“It would be devastating, frankly. We’re not prepared for that.”

“Well, what are you doing about it?”

Now looking me straight in the eye, he answered, “What did *you* have in mind?”

Soon after that meeting, I spoke at their national conference to begin creating awareness and implementing the educational process. Then Peter and I put together a multiday Exit Planning and Value Acceleration Workshop, sponsored and held at the manufacturer’s headquarters. After the keynote, the CEO announced the workshop date and described its purpose. “Your spouses and children are welcome and encouraged to attend with you,” the CEO suggested. Rather than wait and gamble on the tidal wave of exits, this CEO realized his professional ecosystem needed him to take a leadership role and get this process underway on behalf of his distributors.



“ *When the distributor ceases to do business in this market area, the companies he represents are also out of business in that community.*

— Léon Danco

This situation is all too common across our great country. Small businesses, dealers, and distributors are vital suppliers of goods and services throughout our supply chains. Big corporations' supply side is also affected. Many middle-market, privately held businesses are suppliers to these big corporations.

## **Why Don't More Owners Do Exit Planning?**

Exit planning is the number one private business challenge of our time. Although the exit planning industry and some business owners have made progress over the last ten years integrating exit planning into this area of business strategy, readiness to transition continues to be a challenge for many business owners.

Based on our nature alone, there are predispositions at play that make business owners hesitate to approach exit planning. The idea of leaving your business works against the core value embedded in each of us. Why would I choose to leave behind a successful career and my youth? It's not an easy pill to swallow. And honestly, for many (myself included), they don't *want* to stop working. I love my business. But, if we're honest with ourselves, there are many reasons owners don't do exit planning.

## **I Don't Know How**

The most obvious reason owners are so unprepared is that many simply do not know how to do it. Despite all the progress the industry has made over the last ten years, this is still the number one reason given by business



owners as to why they don't do exit planning. If you think about it, why would you know how to exit well? Most owners have been running a business their entire career. Most have never sold or bought a business. For most business owners, exiting is a once-in-a-lifetime event. You have no idea how challenging it is and how the odds are against your successful transition. It's understandable. You don't know what you don't know. Exit planning is simply good business strategy, but few view it as such.

Part of the issue is many of the advisors you rely on to teach and guide you through the exit planning process are misleading you. Ten years ago, most advisors didn't know how to do exit planning right either. Furthermore, why would advisors even know how to do it right? Most didn't even have a holistic understanding of exit planning. If you asked an advisor back then, "What is exit planning?" most would give you an answer skewed toward whatever service they provided. If you were in insurance, the answer might be "mitigating risk and building financial security." If you were an estate planner, the answer might be "doing proper estate, tax, and charitable-intent planning." If you were an M&A advisor, the answer might be "selling your business." A family advisor might answer, "Transitioning to the next generation." Exit planning is all those things and more. Many of your advisors, most of whom are functional, technical, and left-brained, view exit planning through their narrow and functional point of view. Few advisors view exit planning with the holistic view I am teaching you in this book. They, too, focus on the end. And so does most of the literature about how to do exit planning.

Many advisors I spoke to after getting my Certified Exit Planning Advisor credential in 2008 didn't even think you should use the word "exit" in a conversation with a business owner. "Don't use that word, 'exit.' Owners don't like to talk about exiting. If they bring it up, use a softer word like 'transition.'" Give me a break! We are smarter than that today. Today, we know that 99% of owners at least somewhat agree that having a transition strategy is important to their future as well as the future of their business.



After achieving our CEPA designations in 2008 and 2009, my partner and I reengineered our whole practice around the concept of exit planning. I was never afraid to bring it up with my clients. I wanted to be provocative. And I wanted exit planning to be a differentiator for us. I would ask owners, “Have you thought about your eventual exit from this business and how you are going to monetize all the wealth you have locked in it?” If I saw them get fidgety, I would try to engage them in a conversation about why they felt uncomfortable when I brought that up. I mean, really, what are you doing all this for? Just a good income to support your lifestyle? Changing the word from “exit” to “transition” would not have made them feel more comfortable. The *thought* of leaving their business is what made them feel uncomfortable—not the word “exit.”

Most other advisors disagreed with this approach at the time. Yet, in 2014, the Northeast Ohio Chapter of EPI hosted a one-day owners forum in Cleveland focused on exit planning. Over 100 business owners attended. At least a dozen owners came up to me during the forum, asking me, “Where the hell have you been? I didn’t even know there was an advisor who did this stuff (referring to a CEPA) nor an organization (referring to EPI) behind it. This stuff is great!”

No doubt, invoking a conversation about exit planning with business owners did bring out some strong emotional reactions. Yet I felt the real reason most advisors did not like to use the word “exit” in their conversations with business owners was because *they* were not comfortable talking about it with business owners. Saying business owners don’t want to talk about exiting was an excuse to avoid talking about it. The truth was, they were not educated properly either, so why would we expect them to educate their clients properly?

The way the industry was teaching it back then was misinformed. Back then, the focus was all about creating this “exit plan.” And the process typically didn’t even start until the owner approached you.

So, much of the time, your advisors’ misinformation is understandable.

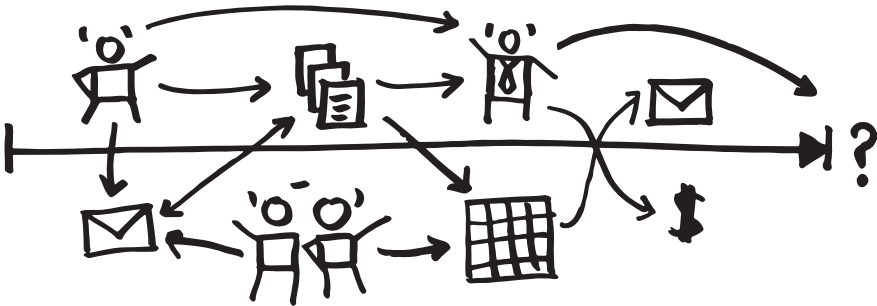


Many have functional myopia. Many have a particular expertise, be that financial planning or accounting or law (or many others). That's functional. They tend to view the world of exit planning from their functional and technical world. On top of that, most advisors don't work well as a team. It complicates the process when your accountant, your attorney, your insurance professional, and your financial planner are giving you conflicting advice. Add your spouse's and family's opinions to the equation, plus the cost of dealing with all these "plans," and you just write off everyone's advice as more trouble than it's worth. Who wants to deal with six different advisors with six different plans anyway? You don't want plans—you want action! You want results! And you want them yesterday!!

## Exit Planning Looks Confusing and Time Consuming

The number two reason owners say they don't do exit planning is because they don't have time. They are too busy growing their businesses. Time is the most valuable resource for many business owners. Exit planning ticks further down your priority list and becomes something you plan to do down the road.

It also looks confusing. For many business owners, exit planning looks like this (see exhibit E).



*Exhibit E: Exit Planning Process – Owner's View*



You have a bunch of advisors who cost a lot of money, and maybe even members of your staff, running around doing a bunch of stuff that one day may put you in a position to exit. Even when owners do consider doing exit planning, it looks fragmented, complicated, and time consuming.

The fact is, exit planning *is* complicated and time consuming. There is no way around that. And it does require several different skill sets, many of which you will need to bring in from the outside. In the past, we treated exit planning like a project rather than a way of operating. Not having a common framework that fits all the pieces together makes it more confusing. So, rather than deal with it, the tendency is to put your head in the sand. But today, with Value Acceleration, we have a common definition and common framework.

## You Love the Game of Business

Several owners have told me they don't do exit planning because they simply don't *want* to leave their businesses. I have met owners who are in their 80s and still go into the office every day, not because they have to but because they want to. Not long ago, I posed a question to a group of business owners who were attending one of the owner roundtables I host to educate business owners on the Value Acceleration Methodology. I asked, "Which of these sounds more appealing to you? Would you rather, (a) liquidate your business at some point in the future if you could, or (b) keep the business and have it produce an ongoing dividend without you having to be there every day?"

What do you think their answers were? What is your answer to that question?

It was unanimous. Every single one of them answered (b) *keep the business*.

One hundred percent wouldn't exit their businesses if they didn't have to. Your business represents more than your identity; for many, it is your



life. The game of business is what you love. Given a choice, you honestly wouldn't do anything else. You are already doing what you love to do. The other advisors in the room were stunned.

Many advisors who make up this industry have this perception that all owners want out. All their advice and messaging are about making a plan to get you out. And, though their help is needed, it's unwanted by you because their message itself makes it clear that they don't actually understand you. If an advisor met with you and said, "Hey, let's make and adopt a business plan that leverages your intangible assets, producing more sales and income now and multiple exit options on your terms and timeline. You can keep the business and have more flexibility. Or we can position you to sell the business at the highest multiple. We'll get you to a place where you have choices."

Do you think you would be more receptive to the concept of exit planning? Obviously.

At this same roundtable, all of the owners said they knew the "number" they needed to exit and live comfortably, but given the choice, they would stay in. Moreover, they saw the business as the least risky asset in their portfolio. One owner pointed out the volatility in the market recently. "Where would I even put my money if I got it out? I don't trust some third party to manage my financial assets, and I don't trust the market. If I keep my money in my business, I can manage my own assets."

He is not alone in thinking this. Most owners don't trust third parties to manage their assets. And, as a business owner who has navigated crises and established success, you believe you are the best steward of your money. In truth, if you did sell and put the money into a diversified, professionally managed portfolio, it would never produce the kind of income you produce in your business today.



## What Would I Do?

Another very personal reason business owners do not want to exit is they don't know what they would do after exiting their business because they have not developed a plan for what they would do next. EPI's research indicates almost 50% of owners haven't even thought about exiting, let alone prepared a written Personal Plan.

I spoke with a retired accountant about exit planning trends and got into the subject of why owners don't want to transition their businesses. He got an indignant look on his face that stopped me.

“Are you kidding? It's not just owners, Chris. It's all of us.”

“Sure, I agree, but it's a little different for owners,” surprised I had hit a sensitive spot.

“Maybe the financial risk is different, but the feeling is the same. I retired, moved my wife and I down to Florida, just like we'd planned. I'm out on the golf course the other day, and a guy walks up to my foursome and says to me, *‘So, who were you when you used to be somebody?’*”

Owners find passion and reward in their careers. We all know someone, not unlike my accountant friend, who worked their entire life, retired as planned, and struggled to find real fulfillment. That fact has tarnished our perception of what life after business looks like. Even if you overcome fear and are financially prepared, many of us don't know what to do next. Since there is no other thing besides your business to get and keep you motivated, you decide to keep your business as long as you can. It's not just the income; it's your identity. You are the business. At one of my speaking



events, an owner raised his hand and asked me. “*What if death was your exit strategy?*” Yikes!

Several months ago, my son and I were asked to participate in an owner discussion group of a larger owner-peer association. A few weeks went by, and then my son got a phone call from one of the owners on the group call. After introducing himself, he said to my son, “I was on the peer group call where you and your dad were talking about exit planning and Value Acceleration. It really struck a chord with me, and it kind of hit me hard this morning, so I had to call you. I am divorced, and my kids are grown and out of the house now, so I am alone here most of the time. I sold my business about a year ago for \$42 million. I have all the money I need. But here I am, down in the lower level of my house on a Tuesday, playing pool at 9:30 in the morning. I didn’t do any personal planning to figure out what I would do next, so although I have more than enough money, I really have nothing to do. I am bored out of my mind! As I was playing pool and thinking about this, I remembered what you and your dad were saying about the importance of personal planning before exiting. I wish I had met you guys before I exited.”

Life-after-business planning feels like a soft topic, and as a business owner, you have a lot of immediate demands that keep you from finding time to really explore that part of your future. And it isn’t as simple as figuring out how much money you need to pack up the house, move to the beach, and golf four times a week. As your future rapidly becomes your present, your lack of attention to this area is the source of your discomfort. Don’t just hang it up. You owe it to yourself to plan a life after business that sets you up to stay connected with your identity and excel in your new ventures, embracing who you’ve been and who you want to be, and staying relevant.



## Owners Are Trapped—The Income Conundrum

Many owners are trapped in their businesses, unable to unlock its wealth, because they are so reliant on its income. They are financially unprepared for life without that income.

Let's face it. The amount of income is one of the many perks of business ownership. You live well. You likely live in a nice home in a nice neighborhood. Your children may have the opportunity to attend private schools. You probably sit in the best seats at the ball game and theater. You may drive a nice car, probably multiple cars. You may have country club memberships and possibly a second home on the lake or at the beach. You have become a pillar in your community. Plus, once your business is established and your kids have moved out and become more independent, you now have more disposable income than ever. Some of you may feel some financial freedom. You've arrived! And I'm saying, you really do deserve it. What it took for success in ownership was a lot of personal sacrifice. I get it. I'm an owner too. Your employees will never understand the risks; many in your family won't either. The missed paydays, the long hours, the times you chose work over family and yourself, and the worry and grief that come with business ownership. You have more than earned your income.

But you spend a lot too, right? And you are generous. But do you have adequate resources outside the business to support your lifestyle without the income from the business? Let's assume you are a sole shareholder of your business. Your gross sales are \$10 million, and your average income equates to about 10% of sales. You average around \$1 million in income per year. Let's further assume you have a pretty solid business and are able to sell it for eight times your income, or \$8 million. Sounds like a pretty nice payday.

Forgetting taxes and fees and such for now, let's say you invest that \$8 million in a reasonably safe retirement portfolio and are able to earn on



average 5%. What's your new gross income? Your annual income just went from \$1,000,000 to \$400,000 per year. Now, \$400,000 per year may still be pretty good. Just remember, that's likely before taxes, and you can no longer run personal expenses through the business. Yet, if you can live on that, your principle is sound. But it won't be for long if you now need to live on \$400,000 a year but continue living on \$1 million a year. You just took a 60% pay cut! So, you work hard your entire life, and in your last act, you take a \$600,000 pay cut? Ouch!

It is easy to see that, if you haven't planned properly, you are now trapped if you are living on \$1 million per year and you need the income from the business to support your lifestyle. Even if you pull cash out of the business in your later years to invest in retirement, you face the risk of undercapitalizing the business to fund your retirement. So, what do you do? You keep the business.

## **Business Owners Have Priorities That Feel More Urgent Than Exit Planning**

Ninety-nine percent of you see the importance of exit planning, but it's not urgent. You are often the chief operator and best employee in your business. Your wisdom and experience are needed, especially if you have not identified and groomed a successor. The daily success of the business is likely still dependent on you. You may actually know that exit planning is something you need to do, but you are too busy solving today's problems.

What you need to understand is that *every day* you are making decisions that impact your exit. You address this by integrating the principles of exit planning and value growth into the daily operations of the business *now*. Exit strategy is present tense. It's not a project to be taken on somewhere down the road. It integrates your personal, business, and financial goals and serves as a guide for success. When done correctly, exit planning provides



*immediate return and benefits* on top of what is possible in the future. It only becomes urgent when you wait.

## Confidentiality Concerns

The final reason owners tell me they don't do exit planning is they are concerned with confidentiality.

Shhhh.

Keep your voice down.

I don't want anyone to know I am thinking of exiting.

If word gets out, the employees will leave, the customers will leave, the suppliers will abandon me...

*Are you kidding me?*

Several years ago, my partner and I met with the owner of a successful engineering firm. The owner was a 73-year-old, tough, hard-nosed kind of guy who had earned his stripes.

"Listen," he said, addressing my partner and me, "I want to make this very clear. I don't want anyone to know I am considering exiting. The whole place, everything I built, could fall apart if they do."

"Really?" I said, with a surprised look on my face.

"Yeah, what do you mean?" he said.

I couldn't contain myself. "Who are you kidding? *Everyone already knows!* They are probably all wondering what you are doing and, frankly, are afraid because you are leaving them out of the loop! You are 73 years old, for Christ's sake! What do you think would be more appealing to your stakeholders? Being left in the dark wondering when the big news will come? Or do you think they would find it more



appealing to participate in a well-thought-out succession plan that addresses the future and road maps an orderly transition?”

I can tell you, as an owner myself, that our team at EPI understands that our business could be sold at any time. Not that it will be, but it *could*. Our team fills out quarterly enterprise scorecards, and we rate the value of our intangible capital and provide analysis. I want my leaders to know that building our business with high market value would be a major success regardless of the endgame. The result of knowing and participating in exit strategy has made my staff stronger leaders and greater strategic thinkers. And I'd challenge you to be more transparent with the leaders you rely on to operate your business. You need to address that immediately so you can start to grow and benefit from the accomplishments of a staff that truly embodies ownership thinking and frees you from it.

Many successful businesses adopt a focused vision for who they are, who they serve, and what they are ultimately doing. This simple truth sits at the core of everything you do, from daily operations to strategic planning. 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.

There are plenty of reasons why you haven't started exit planning. Part of the reason is there is too much emphasis on the end. Rather, you should focus on what you can do *right now* to make your business and personal planning better. If you embrace that, you'll see major results and have many exit options, including sustaining your involvement in the business even longer (which is probably what you want). Get yourself in the position to unlock the value you have built. An investment in your exit is an investment in creating a better lifestyle right now *and* in the future. Exit can be what you want *if you plan for it*.

➔ CHAPTER 4

# CHANGING YOUR PARADIGM

*The way we see the problem is the problem.*

— Stephen Covey

## **A New Map for Exit Planning**

The headline read “The Exit Planning Institute Doesn’t Want You to Exit.” Well, that’s not exactly true. I was being interviewed by a leading financial investment publication, and I was trying to make the point that to be successful with exit planning, you need to change the way you view exit



planning—your paradigm. Exit planning is not an either/or decision. Exit planning is a multiplier. Exit planning is about being Attractive AND Ready. You can have more income today AND position yourself to unlock massive wealth in the future. You can have a better life today AND position yourself to move into the best act of your life in the future.

What's your paradigm of exit planning? You learned in the last chapter that according to EPI's research, almost half of all business owners haven't even considered exiting. For those that have, most don't have a written plan or a dedicated team for how they will take on what likely will be the most difficult business and personal challenge of their life. For many, exit planning is a misunderstood discipline.

## Making the Paradigm Shift

Although we all know we don't have to accept things as they are, and we can change, making a paradigm shift is a very difficult thing. A paradigm is *a set of assumptions, concepts, values, and practices that constitutes a way of viewing reality*. It is, in effect, your lens for how you view the world. It is often deeply rooted. This worldview is driving your behavior.

To successfully exit your business and harvest the wealth locked in it, you need to view exit planning as a business and personal life-management tool that can help you achieve business performance improvements today while positioning you to harvest that business wealth in the future. It is also a life-management tool that can help you figure out what's driving you to dedicate so much of your life to your business and decide what you really want to achieve after you exit your business.

My belief is that, with awareness and education, you can change your perception of "the exit" itself. This one paradigm shift will change your fear of exit to embracing the future. As others like you change their mindsets, a new worldview of exit planning will improve the rate of businesses that



successfully transition from two out of ten to eight out of ten. It could take the 75% dissatisfied with their post-life to 75% thriving and happy in their third act. In the process of changing your paradigm, you have a real opportunity to own your destiny and change your outcome.

## What Exit Planning Is Not

To redefine the paradigm of what exit planning is, let's start with a sense of what it has been by looking at some of the definitions of exit planning over the last 17 years.

Richard Jackim, the coauthor of *The \$10 Trillion Opportunity* and cofounder of EPI, defines exit planning this way: "An exit plan asks and answers all the business, personal, financial, legal, and tax questions involved in transitioning a privately owned business. This plan includes contingencies for illness, burnout, divorce, death. Its purpose is to maximize the value of the business *at the time of exit*, minimize taxes, and ensure the owner is able to accomplish all his or her personal and financial goals in the process." There's no denying this is an accurate definition of what an exit plan addresses. *But is exit planning a "plan?"* No. Is its purpose to maximize the value of the business *at the time of exit*? No. Exit planning is not about creating a written report. You don't find success in exit planning by creating a printable document that captures the static nature of your business. Exit planning is dynamic and present tense. Integrating exit planning principles into the way you run your business today will improve your business performance in real time. It's what you do every day in your business and personal life that determines a successful outcome. That said, Rich hits on some important points. Let's read on.



*Exhibit F: What is Exit Planning?*

Peter Christman, the other cofounder of EPI and author of *The Master Plan*, has one of the best conceptual definitions of exit planning. It has become the basis for the core principles on which EPI's curriculum is built. According to Pete, exit planning is achieved through developing a business transition plan that addresses three things: (1) maximizing the value of your business, (2) ensuring you are personally and financially prepared, and (3) ensuring you have planned for the third act of your life.

We refer to this concept as the Three Legs of the Stool. Think about it. If you have a three-legged stool, what happens if each leg isn't equal? What if one leg is missing altogether? The point is, all three legs are *equally* important for success. Pete is absolutely right in emphasizing the importance of balance in exit planning. If you focus solely on business and financial factors (ignoring your third-act needs), you are likely to be one



of the 75% “dissatisfied” with their exit. Master Planning is an important concept (which we will explore more in chapter 7), but here’s the question. *Is exit planning a “concept”?* No. Exit planning is not an abstract idea or notion existing at 30 thousand feet. Exit planning is grounded in action.

Patrick Ungashick, the author of *Dance in the End Zone: The Business Owner’s Exit Planning Playbook*, defines exit planning as the conscious effort to grow your business in a manner that efficiently converts ownership into personal financial freedom and peace of mind. I like this definition because it plainly states the output exit planning provides: “freedom and peace of mind.” That sounds good to me. You have spent years feeling the responsibility and sacrifice ownership requires (and you feel it 24 hours a day). You would be happy to convert that effort into some rest and relaxation in your third act. But again, I ask, *does exit planning only focus on the “conscious effort” to grow and convert the value of your business?* No. Exit planning requires equal effort on personal and financial planning.

John Brown, the founder of BEI and author of *How to Run Your Business So You Can Leave It in Style*, expands on the definitions I’ve listed here by describing exit planning as an established process that creates a written road map or exit plan, involving efforts of several professions facilitated and led by an exit planning advisor. John hits two big nails on the head. Exit planning, like any multistep project, should involve a process, and it will involve the overlap of several professions to achieve a well-rounded, methodical exit. So then, *is exit planning simply a “process?”* No. The collaboration of teams using a proven process is an absolute necessity in exit planning. But that alone is not exit planning.

## So What Is Exit Planning?

Exit planning is your business, personal, and financial value management system that makes the timing of your exit irrelevant, and it should be laser-



focused on what you can do right now (present tense) to grow the value of your business *and* drive income. Forget the future. Focus on today. By focusing your approach on building a business with characteristics that drive value and integrating your personal and financial objectives into it now, you will have lots of options to exit on your timeline and terms.

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■ **Exit planning** *combines the plan, concept, effort, and process into a clear, simple strategy to build a business that is transferable through strong Human, Structural, Customer, and Social Capital. The future of you, your family, and your business is addressed by focusing on creating value today.*

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Exit planning is about protecting, building, harvesting, and preserving family wealth for generations to come. You can evolve by integrating best-in-class business practices into your daily operations. The key is managing your enterprise value to drive positive outcomes, including a better lifestyle. A well-planned business succession program efficiently transfers business value to your personal legacy while honoring the needs of your stakeholders and creating a developed vision for your third act.

## 11 Actions to Help You Shift Your Paradigm

If it is true that 70% to 80% of transitions fail, it is also true that 20% to 30% *are* successful. Are there specific actions that those owners take that set them up to achieve a successful transition? What can you learn from their success? Do you have the motivation to emulate and repeat these success patterns?



From	➤	To
“Exclusive” Point of View	➤	“Inclusive” Point of View
Future	➤	Present
Business	➤	Personal, Financial, and Business
Income	➤	Value
Owner	➤	Stakeholders
Tangible Assets	➤	Intangible Assets
Tax Number	➤	Real Number
Project	➤	Process
Plans	➤	Actions
Individuals	➤	Team
VERSUS	➤	AND

*Exhibit G: Owner Paradigm Shifts*

Changing outcomes for business owners like you and your families starts with changing your point of view—your paradigm—about exit planning.

1. *Recognize that exit planning is simply good business strategy* integrated with your personal and financial goals and objectives. The very same things you would do to build a thriving business are the same things you do to build a business positioned to exit. Stop thinking of them as two separate things.
2. *Focus on the present, not the future.* Much of what has been written



about exit planning focuses on the endgame. It is *not* accomplished by focusing too far down the road. Your successful exit is based on what you do *now*; every day counts. There is no reason you can't benefit today *and* in the future. You can do both.

3. *Embrace the personal nature of owning a business.* Owning and exiting a business is a personal journey more than anything else. Personal financial goals and personal aspirations should be driving the business, not the other way around.
4. *Make value, not income, your primary goal.* This sounds like a subtle play on words, but in reality, this is a significant paradigm shift. Focusing on value first drives all other positive outcomes.
5. *Manage your five stages of value creation.* You need a system that continuously focuses your team on identifying what you have and its potential, mitigating risk and maximizing value to prepare you for a transition at any time under any conditions.
6. *Measure the value of your intangible assets.* Value Acceleration is achieved by focusing on the multiple, which is primarily based on the strength of your intellectual capital (your intangible assets). 80% of your business value is tied to the transferability of your intangible assets.
7. *Adopt a process.* Great planning makes execution needs clear. There are sequential steps that should be respected to keep you moving in the right direction. Taking the time to get organized before you execute will help determine what you should be doing and in what order. It ensures you are working on the right things at the right time.
8. *Execute relentlessly.* Much of what is written on exit planning focuses on *what* you should do, but *how* is a question that often remains unanswered. A plan helps you prioritize, organize, and focus. But



only with action do you achieve it. Value Acceleration is grounded in action. It provides you the road map to help you execute and deliver.

9. *Measure your results.* You need a scorecard and a management system that measures and reinforces your focus on value growth every 90 days. Your value management system needs to be flexible and frequently (and quickly) recalibrated. Metrics provide you with a systematic approach to accomplish this.
10. *Involve your team.* It takes a diverse team to be successful. You can't do it alone. Collaboration is your ally. Working as a team uncomplicates the process and improves your exit planning experience.
11. *Invest in your success.* You will need to spend some money to be successful. Accept that. Back up your commitment with investments in creating value. Bringing in the expertise needed will get you over the hump and keep you focused. Investment in exit planning is justifiable with growth of enterprise value as the goal. It will pay dividends far exceeding the costs. Put it in your budget.

Exit planning is easy to understand, but it will not be easy to accomplish. You have to be willing to change. Ditch the current paradigm and make the shift. Value Acceleration requires tireless commitment and Relentless Execution. It's worth it. Your business is your most precious and often your largest, by far, financial asset. I could argue it is likely it is much more than that. For many of us, our businesses are the loves of our lives. Don't let yours perish after you are gone. It's a seed that will be cherished and will bring happiness and prosperity to all those who follow you.



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## PART TWO

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### 5-4-3-2-1—THE LEADERSHIP CONCEPTS OF VALUE ACCELERATION

*In this section, you will learn the leadership concepts that form the foundation of Value Acceleration, including the core characteristics of Value Creators versus Lifestyle Business Owners, the Five Stages of the Value Maturity Index, the four intangible capitals (4Cs) that account for 80% of the value of premium companies, why a successfully growing company with the ability to harvest its wealth is equally dependent on each of the Three Legs of the Stool (personal, financial, business), the importance of and how to execute relentlessly on two concurrent paths (personal and business), and finally, why your one goal should be to focus on value, not income.*



➔ CHAPTER 5

# THE FIVE STAGES OF THE VALUE MATURITY INDEX

*Try not to become a man of success. Rather, become a man of value.*

— Albert Einstein

**LET ME ASK YOU. WHAT'S** your level understanding of how to identify, protect, and build the value of your most significant financial asset—your business? Do you know what your business is worth today? Are you aware of the specific value levers that determine its current and potential value and your likelihood of unlocking that wealth? Are you taking deliberate



steps to mitigate the risks associated with business ownership? And how seriously have you educated yourself about how you are going to harvest the wealth locked in your business? Are you aware of all your exit options? What if you were forced out? Could all that wealth perish?

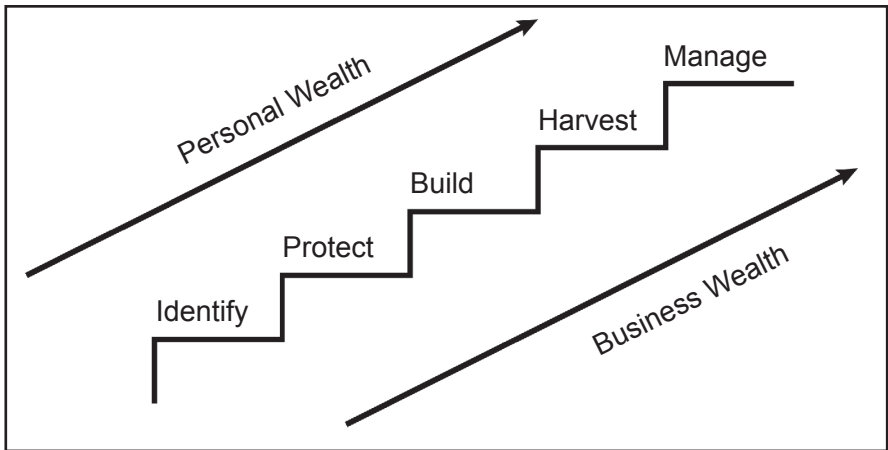
James Clear, author of *Atomic Habits*, wrote, “Goals can provide direction and even push you forward in the short term, but eventually a well-designed system will always win. Having a system is what matters.”

Building a business that has transferable value requires that you and your entire organization systematically manage value through the Five Stages of Value Maturity. As you and your team move through these stages, your knowledge and skill, your Value Maturity, grows. You will get better at identifying, protecting, and building value. You will also develop the knowledge and skill to significantly improve your odds at unlocking (Harvesting) that value, which is often 80% of a business owner’s net worth. And when you reach the most mature stage, Managing Value, you will be holistically managing *all* your wealth.

You develop this knowledge and skill, this level of Value Maturity, by following the development stages sequentially. For example, you cannot protect and build if you have not identified what you have and its potential. You should protect before you build. Many owners love my ideas for growing their companies. But they often tell me they would prefer to first protect what they already have, or at least understand their risk tolerance, before they launch into a three-to-seven-year Build Value stage, which adds risk. It is an undeniable fact that at some point, all owners will exit. Unfortunately, those who have not completed the first three stages of Value Maturity usually exit but don’t harvest. It doesn’t have to be that way for you. You can use Value Acceleration to logically move you through these stages and develop the knowledge and skills you and your teams need to position you to harvest that wealth at any time under almost any condition, while reaping the short-term benefits of increased earnings.

## The Five Stages of the Value Maturity Index

There are five stages to creating a more valuable business: Identify, Protect, Build, Harvest, and Manage. You use the Value Acceleration Methodology to guide your progress through each of the stages. As you move to each advancing stage of Value Maturity, your business value grows.



*Exhibit H: The 5 Stages Of Value Maturity*

The Identify stage corresponds to the Discover Gate in the Value Acceleration Methodology. The Protect and Build stages correspond to the Prepare Gate. The Harvest stage corresponds to the Decide Gate. And finally, the Manage stage represents full maturity and sits over all the Value Acceleration gates.

### ***Identify Value***

Identifying Value is always first and should never be skipped. It is completed in Gate One of the Value Acceleration Methodology. Understanding



where your business benchmarks in the Range of Value sets the baseline for everything going forward. This is important for several reasons.

First, as you know, it is likely that 80% of your net worth is locked in your business. Second, you need a system that is built to continuously focus your team on maximizing value. Third, the ability to unlock that value at some point in the future will make a significant difference to your lifestyle and, at exit, will fund your next act. Last, you need to know this valuation number for business planning, personal planning, and estate and tax planning purposes.

You should have your business professionally and independently valued at least annually. The first time you do this will take a little work and expense. But thereafter, to keep score, you can simply update your most recent year's recasted financial statements, update your personal, financial, and business scorecard, and take another scan of the range of multiples in your industry. But really, you should be doing these things continually anyway. I'll go into this process at length in part three. For now, understand that the value of your business and how it benchmarks to others in your industry will identify the value factors that you should focus on to protect what you already have and accelerate the value of your business.

### ***Protect Value***

Once you have identified your baseline and potential value, your next priority is to protect what value you already have. How? By mitigating personal, financial, and business risks! Protecting value is accomplished by creating and implementing prioritized de-risking Action Plans. In reality, protecting value is the first step in building value. But due to its importance to business owners, I recognize it as a separate stage of the Value Maturity Index.

If you were to do nothing else, mitigating risk alone will improve your business value because valuations are based in part on the real and perceived



risks from a buyer's point of view. Actions to reduce risk are common sense and the easiest to implement. You probably love the idea of growing your business, but before you get there, you are more likely concerned about the risks involved, especially if you are over 50 years old.

Review the list below; which of these risks do you face from a personal, financial, and business standpoint?

<b>PERSONAL</b>	<b>FINANCIAL</b>	<b>BUSINESS</b>	
Death	Market Risks	Customers	Environmental/Safety
Disability	Diversification	Key People	Technology/ Machinery
Divorce	Personal Loans/Debt	Business Interruption	Owner Dependence
Health	Personal Lawsuits	Economy	Data/Information
Accidents	Loss Of Earnings Power	Distress	Compliance/Legal
Family Tragedies	Long-Term Care	Partner Disagreements	Loans/Debt

*Exhibit I: Risk Areas*

Do you take mitigating your personal, financial, and business risks seriously? Ask yourself the following questions:

- Have I integrated risk management into my business management and personal and financial planning today?
- Do I take risk seriously enough?
- How much am I willing to risk to grow?

Growth is not easy; plus, it's risky. To grow, you will likely need to put personal assets at risk (including personal wealth), take on debt, add



people, add machinery, and expand facilities. You may need to strategically acquire another company. Understanding your tolerance for risk and willingness to complete actions that Protect Value is imperative before you begin Building Value through strategic growth investments. Consider the **5Ds**: Death, Disability, Divorce, Distress, Disagreement. Most of us don't think those things will ever happen to us. But did you know that there is a 50% probability that you will be impacted by one of these 5Ds? How prepared are you?

Several years ago, the landlord of a building I was leasing walked into the office to see me. We had become friends, and I thought he was just stopping by to say hi. I had not seen him for a while, and I had been wondering where he had been. He owned several businesses that were doing well, and as such, he was well-regarded by the business community for his business success. He had a net worth of about \$12 million, and he was only 42 years old.

He sat down, and I could tell from his demeanor this visit was not a social one.

“Chris, you will never believe what happened to me. I made a trip to my home in Florida a few weeks ago. (This was only his third visit in the last five years because he was so busy all the time.) I was really feeling run-down and felt like I needed to get away before the busy season hit. As I approached the door, I got a sharp pain in my stomach, and then I collapsed. I had to crawl into the house to get to a phone, and I called 911. I ended up in the hospital for two weeks with an internal infection. I thought I was going to die. I'm here because I need to change my life. I can't do this anymore. I have to start taking care of myself. I want to start to divest by selling off my businesses, starting



with the flagship. I can live off the real estate I own, so I'll keep that. But everything else needs to go."

"Oh my God," I replied. "Are you okay?"

"No, I'm not. My life is a mess. The businesses are very dependent on me. I work all the time. I've alienated my wife and children. They wouldn't even make the trip with me."

"Wow," I said. "That's tough. I didn't know things had gotten that bad for you. I'm really sorry to hear that. But I think I can help you."

I explained the process we would need to go through and told him I would draw up the contracts.

After completing an Attractiveness and Readiness Assessment and determining where his business placed in the Range of Value (the Triggering Event), we settled on a target selling price. But I told him I had concerns about his advisory team. His CPA was not cooperative, and the process he was using to keep the books updated was ancient. I also noted he did not have a *real* wealth manager who was overseeing all his wealth. Everything was disjointed and unorganized. He had no written life-after plan or Financial Plan reflecting the income he needed after selling off the businesses. And his attorney was someone he had been using since he started in business 20 years ago. The attorney had officially retired years earlier and was only doing his legal work to make some money on the side.

"The first thing we need to do," I suggested, "is upgrade your advisory team."

I brought in a new CPA, attorney, and wealth manager that I had been working with through EPI's Northeast Ohio chapter. The wealth manager, from a prominent firm in Northeast Ohio, explained that my friend's personal financial planning was a mess, but he could get



it together. We all got busy preparing him for his next stage in life, starting with selling the flagship.

Over the next several months, he was in and out of the hospital, and his condition, both from a health standpoint and a personal standpoint, was getting worse. His flagship business was seasonal, and with all the trips to the hospital, he had virtually missed it. As a result, his sales projections for the coming year were much lower. And because the business was so dependent on him, none of his managers were up to the task of managing the business. Things continued to get worse.

I hurried to put a package together to get the business on the market. We agreed to use an auction process to get the business sold as fast as possible. Despite all our efforts to maintain confidentiality, given the stature of the business in the region, it wasn't hard for the strategic buyers to figure out whom we were selling.

"I'm not touching that business," several potential bidders said. "I think I know who it is, and he's going down."

The business world can be cruel when they know you are weak.

While this was all going on, his wife filed for divorce. This really complicated matters because two years before, he had put 60% of the business in her name so that the business would qualify for special status when bidding on government work. She didn't have any involvement with the business, but now she and her attorney were quite interested. It was about this time that the real estate market collapsed as well, now leaving his real estate exposed.

Then my friend disappeared. I couldn't reach him. I later learned that he had fallen into a coma. I recall it was a month or so before he came out of it, but now he was in an extremely weakened state. With everything in his world collapsing around him, he decided to declare



bankruptcy and lost most of his \$12 million estate. Today he is back, he is alive, but he is not the same man he was back in the day. His wealth is gone, and so is his family and almost everything he once had.

This is a really sad true story. I share it with you because if you have not taken actions to protect your wealth, you could lose it all very quickly, just like my friend did. This type of tragedy is never something you expect. But it can happen. It does happen. There is a 50% chance it will happen to you.

### ***Build Value***

I hope the story I shared with you has compelled you to realize the importance of protecting value. Once you have taken steps to mitigate risk, you can start focusing on *building value*.

The difference between protecting and building is that, in the Build Value stage, you will take a longer-term point of view, prioritizing more strategic actions to increase intangible capital versus less strategic actions (a.k.a. de-risking).

Building value results from increases in cash flow, normally measured using Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) and improvements to your multiple. The multiple is the number assigned by the private capital market based on the value of your tangible and intangible assets and the risks associated to your business. As I mentioned, protecting value is also the first step in building value. The second step is improving intangible capital. That is where the opportunity for accelerated value lies and where Value Acceleration can really help you.

Intangible assets are knowledge capitals and can be divided into four areas: Human (the value of your talent), Structural (the value of your systems and intellectual property), Customer (the value of your customer relationships),



and Social (the value of your brand and culture). Understanding each of the four capitals (4Cs) and how you can manage those value factors is critical in your value-growth venture. We'll take a deeper look into this in the next chapter.

### ***Harvest Value***

At some point in your future, you are going to want to cash in, or *harvest*, the value of your business. I have specifically chosen the word “harvest” because it represents the activity of reaping, gathering, and storing something you’ve grown. And, like any growth season, the completion of harvesting marks the end of the growing cycle for a particular crop. In this case, the crop is your business.

Considering your exit options, you may have decided to sell the business to a partner, to employees, or to family. Or maybe you’ve decided to sell all or some of it to a private equity firm, a family office, or a strategic buyer. Your strategy might even be an orderly liquidation, which is a valid option. The key word there is “orderly.” A review of the pros and cons of all your options is provided in part three. For now, understand that your Value Maturity is determined by how well you *understand* the pros and cons of all your options. Honestly, you are probably not aware of all your exit options. According to EPI’s State of Owner Readiness Survey, two-thirds of all business owners are not aware of all their exit options.

It is worth your time to explore all these options. Meet with a few private equity companies or family offices. Meet with an investment banker. Meet with an ESOP specialist. Learn all you can and take your time.

I have had owners who brought me in to sell their businesses and, after reviewing all their options, went an entirely different way. I have had owners assume they would transfer their businesses to sons or daughters, only to realize their best option was to sell it, extract the cash, and go in an entirely different direction. This new direction could even mean funding



another enterprise that the children were more interested in. If you haven't already, read *Every Family's Business: 12 Common Sense Questions to Protect Your Wealth* by Dr. Thomas Deans. Tom positions that selling the business is often your best bet, even if family is involved. And he takes a hard stance on gifting. If you are going to transition to a son or daughter, you should at least consider having them buy your business from you at market value.

### ***Manage Value***

The most mature stage of the Value Maturity Index is *Manage Value*. It represents that you have identified, protected, built, and are at least prepared to harvest value from a personal, financial, and business standpoint. Remember, to effectively achieve results, it's not just the value of your business you need to manage. You need to manage your personal value and personal financial net worth as well. By actively managing value through the entire Value Acceleration process, you emerge financially independent of your business with lots of options when the time comes to exit it, making the timing of your exit irrelevant. It also often preserves those options *whether or not* your exit is on your terms and timeline.

## **The Value Maturity Index**

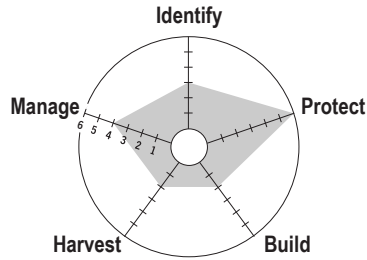
A simple exercise I teach at my owner roundtables is to create a simple scatter diagram. It can even be handwritten. Keep it simple.



### Create a circle and then label five points around the circle.

The labels should be

- Identify,
- Protect,
- Build,
- Harvest, and
- Manage.



*Exhibit J: Scoring Value Maturity*

Now draw a line from the center of the circle to each label. Place five hash marks on each of the lines. Number each hash mark, starting from the center, with one through six. (Six should fall on the most outer layer of the circle.) Now it's time to score yourself! Go through each category and score yourself on how you have been developing your Value Maturity. Be honest. A score of six is perfect. A score of five means you would consider yourself best-in-class. A score of three or four marks you slightly above or slightly below average. A score of one to two means you may have thought about it but have taken no action or know nothing about it.

For example, for the Identify Value stage, score yourself a five or better (best-in-class) if

- you have completed (in the last year) a professional valuation and Personal, Financial, and Business Assessment,
- you have correlated your assessment and financial analysis to determine where you place in the Range of Value of businesses in your industry. You and your core and extended teams deeply understand how a business is valued;
- you have a comprehensive understanding of personal, financial, and



- business value factors;
- you create prioritized, focused Action Plans around these value factors every 90 days focusing on de-risking first, and you give them equal attention;
  - the 90-day personal and business actions are connected to your personal, financial, and business vision, three-year strategy, and one-year initiatives;
  - your management and family are in alignment with your vision and plans; and
  - you have discussed your valuation with your partner(s), loved ones, and your advisory team.

Score yourself a one if you have done nothing at all; award a six if you have fully fulfilled everything you can do in that category. You, like other owners, tend to be overly optimistic, but I'm sure you have a pretty good sense of where you actually lie.

Once you have gone all the way around the circle, connect the dots between the ranked numbers on each line. This will form another circle inside the outer layer. Now color in this inner circle. What do you see? The space between the outer circle and inner circle is your opportunity for improvement. The larger the shaded area, the higher your Value Maturity. But thinking positively, the larger the white space, the larger the opportunity!

In this system, which I call Common Sense Scoring™, there is no “average,” and you cannot use decimals. If you consider yourself average, challenge yourself to go further and truly decide if you are slightly above or slightly below. It's hard to be that honest with yourself. It's too easy to say, “I'm average.” If you have to pick a side of the equator, it makes you think more critically. We'll review more uses for this scoring system later in the book.



I have found this scoring method initiates thoughtful conversations for owners. More importantly, it's really simple.

Do this every 90 days. It will take 15 minutes of your time, and it will remind you of your progress. Every 90 days, as you complete actions, your score should increase, which means your shaded area will increase, which means your value is rising. It's pretty straightforward.

Understanding that you cannot snap your fingers and go from low Value Maturity to high Value Maturity is critical. Rather, you need to develop this maturity with your teams over time by following the stages sequentially, at least the first time through. Once you have developed a more mature value-based management team, you may have actions in multiple stages. In other words, once you have become more mature, you may have a couple Protect Value actions while, at the same time, working on a couple of Build Value actions. Over time, your team will develop the self-awareness, motivation, and knowledge necessary to help them deliver continuous improvement of the value of your business while positioning you to be independent of it with many options to unlock the wealth trapped in it.

## ➔ CHAPTER 6

# THE 4Cs

*The sum of everything everybody in a company knows that gives it a competitive edge.*

— Thomas A. Stewart

**DID YOU KNOW THAT 80%** of a business's value is tied to something most business owners don't intentionally manage? It's true. It's a blind spot. Most business owners overlook it. In this chapter, I want to show you exactly where a majority of your business value lies and how you can squeeze the most out of it with a little intentionality.

A premium business has 80% of its business value tied to its intellectual capital. Managing intellectual knowledge has become the single most important task of business. Wealth is built by your ability to create, assemble,



integrate, protect, and exploit knowledge assets. The value of knowledge assets can be multiplied many times because they can be bought and shared.

Most business owners intuitively know what drives value into their companies. I mean, what owner doesn't want to improve the talent, deepen relationships with customers, make processes more efficient and effective, and enhance their company culture? It's what we do every day intuitively. It's common sense. But what many business owners don't have is a system that allows them to quantify and measure those attributes. Most of you are likely familiar with the saying "What gets measured gets managed." If you are not measuring your intellectual capital, which is so influential to your company's value and your wealth, I must ask, are you managing your intangible value as well as you could be?

What is intellectual capital? In his book *The Wealth of Knowledge*, Thomas A. Stewart defined intellectual capital as knowledge assets. "Simply put, knowledge assets are talent, skills, know-how, know-what, and relationships—and machines and networks that embody them—that can be used to create wealth." It is because of knowledge that power has shifted downstream. Unlike in the past, when the power existed with manufacturers, then moved to distributors and to retailers, it now resides inside well-informed, well-educated consumers.

### Forbes' 2020 Most Valuable Brands

Rank	Brand	Brand Value	Industry
1.	Apple	\$241.2 Billion	Technology
2.	Google	\$207.5 B	Technology
3.	Microsoft	\$162.9 B	Technology
4.	Amazon	\$135.4 B	Technology
5.	Facebook	\$70.3 B	Technology
6.	Coca-Cola	\$64.4 B	Beverages
7.	Disney	\$61.3 B	Leisure
8.	Samsung	\$50.4 B	Technology
9.	Louis Vuitton	\$47.2 B	Luxury
10.	McDonalds	\$46.1 B	Restaurants

Exhibit K: Forbes.com Top 10 Most Valued Brands on the Market in 2020



If you look at the top ten most valued brands today, what do they all have in common? They come from different industries, but they all have a commonality: They all have significant knowledge capital that is reflected in their brand value. You could buy a burger anywhere, but McDonald's has a structural process and skilled system for mass producing and scaling their product and service. Coca-Cola has the secret formula that people can't live without. Disney is right behind them. There's a loyalty there. Speaking of brand loyalty, Apple, Google, Microsoft, and even Facebook are companies that people interact with constantly, all day, every day. These are public companies, yes, but the concept of knowledge capital is the same across businesses of all sizes.

Looking at the value of a business, its intangible assets, not its tangible assets, account for most of its value. Yet most owners do not get regular feedback on the value of their intangible assets. That is because most accounting systems were built to give you feedback on tangible assets. Tax systems were set up for the manufacturing economy of the 1950s, not the high-tech knowledge economy you exist in today.

Intangible assets are the sum of your company's intellectual capital, which is divided into four categories: (1) Human, (2) Customer, (3) Structural, and (4) Social. I call them the four intangible capitals, or 4Cs.



## Human Capital

Human Capital is a measure of the strength of your people, talent, ability to execute, ability to choose and prioritize, ability to adapt and innovate, energy and passion, personal character, grit and intelligence, and ability to deploy these independently of the business owner. If you have strong talent, someone will place a high value on that. Moreover, if you have really strong, developed talent, most likely your business does not depend on you to be successful.

You know developing Human Capital is paramount. It is also likely your biggest headache. In fact, 62% of the owners who attend my owner roundtables indicated finding and retaining top talent is the biggest business challenge they face.

Jim Collins, author of classic business books like *Good to Great* and *Built to Last*, emphasized the importance of the power of Human Capital. Collins coined a lasting and memorable metaphor by comparing a business to a bus and the leader to the bus driver. He rightly states that it is crucial that you continuously consider “*First Who, Then What.*”

He has a linear process for implementation of that concept:

1. Get the right people on the bus.
2. Get the right people in the right seats.
3. Get the wrong people off the bus.
4. Put “who” before “what”—no matter how dire the circumstances.

Jack Welch, the famous leader of GE and arguably one of our country’s greatest business leaders in the last 30 years, wrote in his book *Jack: Straight from the Gut*, “Getting the right people in the right jobs is a lot more important than developing a strategy.” He looked for leaders who had the courage to “*kick ass and break glass.*” “We learned the hard way that we could have the greatest strategies in the world. Without the right leaders

developing and owning them, we'd get good-looking presentations and so-so results."

## Development Considerations for Human Capital

### ***Recruit***

First, are you recruiting top talent? Why would top talent want to join your company? What makes your company an attractive place to work? Can you clearly articulate this to recruits? What competencies do you need (and already have) to achieve your targets? What core values and personal characteristics are you looking for to ensure new recruits will fit into and contribute to your culture? What does your bench strength (talent pipeline) look like? How are you filling the talent pipeline?

### ***Motivate***

Next, what specific actions are you taking to motivate your talent? Top talent wants more than "a job." They want to be part of something bigger than that—a cause. They are looking for real passion and a leader who will provide inspiration. Do your core values represent this? Is your core purpose inspirational enough? Can you describe actual experiences and share stories that demonstrate your commitment to these core values and core purpose?

Do you have the right rewards and incentives in place to motivate top talent and keep them motivated? Do you have the right kind of feedback systems that reward top performers and weed out poor performers? Keeping poor performers around and not distinguishing financially and providing visible recognition of top performers from poor performers is de-motivating to top performers.



If you don't have a financial incentive program in place, you should consider implementing one, or perhaps, if you do have an incentive program, you should take a fresh look at it. Does it reward people for increases in value or just income? Do your people feel entitled to a bonus every year? Or rather, do they understand that good incentive programs are based on the theory of abundance, meaning they are paid only when more resources are created than are consumed?

Top performers not only want and need visible recognition for their contributions to the company, but they deserve to be rewarded financially. The right incentives incite actions that produce results. In this way, incentive programs become self-funded and earned by successfully completing actions that result in increases in profits and business value. Top talent does not look for handouts. They do not exhibit the behavior of entitlement. They are willing to earn their way to higher income and possible equity by being vested in the success of the company. A terrific book on this subject is *Ownership Thinking* by Brad Hams.

Financial incentives, though, are not enough. What are you doing outside the business to build teamwork and culture? Are your teams getting enough education and training? Have you made it clear how to professionally advance in the company? Top talent wants to be in an environment where they can continuously learn and grow. Have you created this kind of environment?

### ***Retain***

How well do you retain top talent? What are the turnover rates of high performers and poor performers? You should have specific goals, actions, and metrics that measure retention and attrition of both top and marginal performers.



In addition to providing a path for professional growth, you should consider providing retention incentives to key employees. Retention incentives are tied to value growth, not just income. They provide the opportunity for your superstars to benefit from value gains. There are a variety of forms of retention programs, too diverse to go into in this book. However, it would be worth your time to investigate them. Typically, they do not require capital investment by the company. They are designed to reward employees based on Value Gains and realized upon some form of Triggering Event like the sale of your business. They typically have a vesting component that incents key people to stay with the company, even after a sale.

## ***Evolve***

The final thing to consider is how your team needs to evolve as your business evolves. Verne Harnish, author of *Mastering the Rockefeller Habits*, estimated when a business doubles in size its complexity increases by a factor of 12. Think about that for a minute. Every time your company doubles in size, its complexity grows by a factor of 12! How are you going to deal with that when Value Acceleration starts cranking your sales and income?

I imagine you would prefer to promote from within if you can. Most of the time you can if you have the right management development programs in place. Price Waterhouse had exceptional Human Capital. A big reason was because it had an amazing professional development program that incented top performers to continually learn, grow, and evolve.

Occasionally, you may need to reach outside to acquire knowledge that is not present in your business. Sometimes you can't wait for it to develop. That's what Andy Rayburn at Flex did when staging "The Perfect Exit." He reached outside his organization to hire me, who brought IT and supply



chain experience, and our CFO, who brought prior sell-side experience, to fill in the competency gaps.

Whether promoting from within or bringing in outside talent, your leadership team needs to be able to evolve as your business evolves. All their people need to evolve, too, and so on.

This is how you evolve and build Human Capital.

## Vitality Curve

I love the way Jack Welch measured talent at General Electric, which was a top ten most valued brand when Mr. Welch managed it. I have adopted a version of his approach since I first read his book *Jack: Straight from the Gut*. Welch described GE as a people factory. He was extremely proud of the talent at GE, and he knew developing it was his number one job.

“*We build great people, who then build great products and services.*”

— Jack Welch, *General Electric*

In looking for a better way to evaluate the organization, he came up with the term “differentiation” to sort out the A, B, and C players. These A, B, and C players were ranked on a “Vitality Curve.”

People who are filled with passion, committed to making things happen, and open to ideas are A players. They have the ability to energize themselves and everyone who comes in contact with them. They make the business productive and at the same time, fun. At GE, A players had “the four Es”: high energy, ability to energize others, edge to make tough yes-and-no decisions, and the ability to execute. These were directly connected by one P—passion.

It was passion, more than anything else, that separated A players from B

players. B players are the heart of the company and are key to operational success. The C player is the person who can't get the job done, described as "enervate rather than energize."

GE would classify people into the Top 20, the Vital 70, and the Bottom 10. Most time and attention were spent on the Top 20 and Bottom 10. They didn't focus much time on the Vital 70 because they just wanted to show up, do their jobs, and go home. They are still vital because they are needed. But they will not elevate your culture or your business to the next level, and in turn, they will never be able to replace you. Although you want to give everyone an opportunity to learn and grow into a leader, most of your Vital 70 are not interested.

It's the Top 20 who carry the company. They are the ones with passion. They don't need to be motivated. They self-motivate and spread motivation. Remember "First Who, Then What." They are the "Who." They drive the bus. They determine the direction of the bus. They determine who sits in what seats. The Top 20 should be getting raises, bonuses, and recognition far exceeding the Vital 70.

At GE, losing a Top 20 player was a sin. GE's turnover rate for A players was less than 1%. The Bottom 10 are the players who need to be turned over. You should look to replace a Bottom 10 with a potential Top 20 every time. Over time, by regularly following this routine, you will continuously improve the strength of your Human Capital because the bar is always being raised. Price Waterhouse used a similar model too. I have deployed this model within my own businesses, plus with several clients, and it proves to be accurate almost every time.

Welch and GE have received some criticism that this Vitality Curve model is cruel and cold. Welch felt very differently. "What I think is brutal and 'false kindness' is keeping people around who aren't going to grow and prosper. The characterization of the vitality curve as cruel stems from false logic and is an outgrowth of a culture that practices false kindness. Performance management has been a part of everyone's life from the first



grade. Differentiation applies to football teams, cheerleading squads, and honor societies. It applies to the college admission process ... it applies at graduation when honors like summa cum laude or cum laude are added to your diploma. There is differentiation for all of us in our first 20 years. Why should it stop in the workplace, where most of our waking hours are spent?" I agree with Jack. There is absolutely room for kindness in valuable businesses, but false kindness? No.

Some might argue that programs like GE's only apply to big corporations, but again, I disagree. These principles can be applied to any size organization. I am a lower-middle-market business owner, and they absolutely apply to my company. And I'll bet if you look at your organization right now, about 20% of your people are carrying the organization and creating its culture, about 10% are marginal performers at best, and about 70% show up, do their jobs, and go home. I see it over and over. Size doesn't matter. You can have 20 people or 2,000 people. It almost always comes pretty close to this split. If you want to increase the value of your business by building Human Capital, focus your attention on first who, then what, and on your A and C players.

## **Customer Capital**

Customer Capital is a measure of the strength of your relationships with whom you do business. Developing strong Customer Capital requires you to focus on building deep, integrated, and recurring relationships with your best customers and suppliers with shared goals and benefits.

“ *The basic goal of any strategy is simple enough: to win the customers preference and create a sustainable competitive advantage, while leaving sufficient money on the table for shareholders.*

— Larry Bossidy and Ram Charan

Consider these questions in looking at the value of your Customer Capital:

- Have you defined what you do best, and do you dominate your market in those one or two things?
- Do you regularly analyze profitability by customer and by product?
- How strong are your partnering relationships with your best customers? How well do you know their businesses, and how well do they know yours?
- Are you indispensable to them?
- Are you integral to your customers' success because the products and/or services that you offer are unique?
- Are these relationships deep, long term, and contractual?
- Are the relationships delivered in a consistent, reliable, recurring fashion?
- Most of all, are these relationships transferable?

If you can answer yes to those questions, you have strong Customer Capital. Recurring revenue, in particular, is highly regarded. In *E-Myth*, Michael Gerber writes, “The Entrepreneurial Model does not start with a picture of the business to be created but of the customer for whom the business is to be created.”

Ask yourself: How does your business look to the customer today? How does it stand out? What three things would a customer say you do well? What three things would a customer say you should start doing? What



three things would a customer say you should *stop* doing?

Everything starts with the customer and getting a clear picture of the customer. In fact, how the business interacts with the customer may be more important than what it sells.

Be aware of the risk of customer concentration. If one customer accounts for more than 25% of your total revenue, it will likely reduce your business value, sometimes to the point that it is a deal killer. It's a common challenge in middle-market companies that have customer concentration without much option for diversification.

So what do you do? You can mitigate this risk by making your relationships so entangled, and by becoming so indispensable, that your customers can't live without you. Plus, add customer contracts (building transferability), and you have reduced your concentration risks.

## Structural Capital

Structural Capital is a measure of the strength of your strategy, systems, processes, capital, and financial structure that augment the Customer and Human Capital on which your company is built. It explains the how and why of your company's outcomes—"the secret sauce." How well are these documented, proven, and are they scalable and transferable? It has two purposes. First, it takes what exists inside your brain and gets it into a transferable form. It converts best practices into company property that can be sold and transferred.

Second, its purpose is to connect people and knowledge so it can be shared to enable your business to scale. Structural Capital captures the knowledge assets within your company, converting that mental process into company property and, therefore, making it transferable. Knowledge assets include the people, processes, and technology, as well as the intellectual property that enables your team to do the things that make them so special,



allowing them to meet and exceed customer expectations and enabling them to build and sustain these lasting and recurring relationships.

Your knowledge needs to be documented and transferable, such that someone else can learn from you and apply it. Making this knowledge company property ensures that when your talent walks out the door at night, the knowledge they house doesn't walk out the door with them.

I like to divide Structural Capital into four areas: processes, people, technology, and facilities. Ask yourself: Are there specific processes, people, technology, and facilities that we deploy that make us special and help us to outperform competitors? Another way to ask it is "What specific processes, people, technology, and facilities do we need to make us special and help us to outperform competitors?" Are these well documented to the point that they are transferable and someone will pay a premium to get them?

## **Social Capital**

Finally, and arguably even more important in today's world, there is Social Capital. Social Capital is a measure of the strength of your culture. Human, Customer, and Structural Capitals are blended and optimized by Social Capital to create a rhythm that self-perpetuates, drives, and elevates your company to best-in-class. It is the greatest predictor of success. It reflects organized energy that is used to create group flow from the coordinated effort of a group of individuals. Success requires social intelligence, not just cognitive abilities. It is primarily driven by proven leadership from the top, from the owner, and requires inspirational purpose, alignment, accountability, and high social EQ.

Bossidy and Charan considered Social Capital the Social Operating System. It represents your culture, your brand, the way your team works, the rhythm of the day-to-day operations and communications, and the way you communicate with customers. All of us have seen flashes of this in



the market. Great companies like Apple, Google, and Flexalloy in its day all have or had high Social Capital. These companies have moxie, a vibe, group flow. You feel it as soon as you walk on the property. You know there is something special about them. And it's reflected in their market value. Social Capital is hard to measure, and it takes years to discover it. But you know it when you have it.

When you have built and packaged your intellectual capital, your business has replaced you, which is a good thing. It's not about you anymore; it's about the business. Your business now becomes the product, versus the products or services you sell.

## **Case Study: Flexalloy**

### ***The Company***

Flexalloy was in the business of Just-in-Time distribution of fasteners to trucking and heavy equipment manufacturers—or was it?

When I joined Flexalloy, it was doing around \$93 million in sales. Within three years Flexalloy achieved around \$265 million in sales, a compound annual growth rate of 42%. This was all organic growth. Because the company was private, I can't share with you what it sold for. However, a reasonable estimated valuation at \$93 million in sales may have been \$46 million. At \$265 million, a reasonable average valuation would be \$132 million, an increase of \$86 million in just three years. What I can tell you is that Flexalloy sold at a much higher price than that because it was a premium company and, as such, earned a premium multiple.

Let's explore what made Flexalloy so valuable.

Managing fasteners for the manufacturers was a real pain. You have thousands of five- and ten-cent parts. Yet these parts were in the top five bill of materials on every piece of machinery being assembled. The last

thing you wanted to do was shut a line down because you ran out of a five-cent part. So, what did the manufacturers do? Of course, they stockpiled them, carrying excessive amounts of inventory tying up excessive amounts of financial resources. Then an engineering change would hit, and they were stuck with all these obsolete parts, now forced to write off excessive amounts of financial resources.

Further, if you took all of the physical assets of Flexalloy combined, they accounted for a fraction of what was spent to acquire the company. So the question is why did our corporate buyer pay so much more than Flex's tangible physical asset value?

The answer: *intellectual capital*.

I am not suggesting you don't have to invest in physical assets. You do. At Flex, we invested in traditional physical assets like facilities, equipment, IT, trucks, and bins. But the investment in physical assets is not enough. The exponential value of Flex was created through the knowledge capital of how to optimize the use of these physical assets. We had to figure out how to deploy them in such a fashion that it would eliminate waste (without assuming the burden) and improve the flow of our customers' assembly lines.

We had to reduce the financial capital and improve our *customers'* ability to produce more product in reduced time. To accomplish this goal, we had to

- reduce the number of suppliers,
- improve supply chain flow,
- improve quality,
- reduce waste,
- engineer better parts,
- improve on-time delivery, and
- replace their systems with ours.



It was our knowledge of how to do that that made the difference. We figured it out. Our knowledge trumped the manufacturer's knowledge, which allowed us to displace them in the supply chain. What the customers were really buying was our knowledge, not our supply.

### ***The Talent***

Andy already had notable talent when I joined. But he was missing a couple elements he needed to round out his talent: (1) a strong IT person who understood supply chain management and (2) a strong financial person with the experience and know-how to position a company to sell at a premium.

The company didn't depend solely on Andy. Granted, the company thrived on Andy's personality; he was a great leader. But the key was we didn't *need* Andy to fulfill our mission.

Andy had a very flat organization made up of several directors who reported to him. The directors included finance, IT, operations, engineering, and two sales directors. We would meet with Andy every Monday from 10 to 12. The purpose of the weekly meeting was to just sit down as a team and talk about what was going on, resolve conflicts, and simply talk to each other. After that, we might not see Andy the rest of the week.

We were empowered to do what we needed to do to hit one brand promise objective: 99.99% on-time delivery. Obviously hard to do, but a pretty simple focus. And the teams that worked for us were handpicked to fit into our culture.

### ***The Customers***

We had tremendous Customer Capital.

The key to our solution was to get our customers to single source *all* fastener components from us. We provided what we called delivery at the



*point of use*. If you worked on the line of one of the factories we supplied, all you had to do was turn around, grab a fastener from the point-of-use bin, and install it. Everything previous to that was handled by Flex.

We had satellite facilities within minutes of our customers. Every two hours, one of our employees would scan the bins sending a signal back to the satellite, which would initiate an order and send a truck over to replenish the bins. We handled the inventory, the quality, the purchasing, the freight—everything prior to point of use.

Even if a customer wanted to replace us, which they never did, can you imagine how difficult it would be? We were deeply entangled in our customers' businesses. We were so intertwined; you couldn't tell whether an employee in the factory was ours or our customer's. We were part of the customer's team, integrated into the team.

We dominated the market, capturing most of the large trucking and heavy equipment manufacturers. The manufacturers hated it because we were able to insert ourselves between them and the customer, lessening their Customer Capital. We controlled the flow of product. We consolidated suppliers, which drove down costs. We inserted technology to make our processes efficient, and we trained our people extremely well. Flexalloy was a premier company in many ways, and this was clearly expressed by what our corporate buyer paid for it.

### ***The Systems & Processes***

Our intellectual capital went beyond talent and customers. Flex knew that in order to scale at a compound annual growth rate of 42%, we needed upgraded systems and processes. Strategically, we sold the manufacturing component of the business and focused only on Just-in-Time distribution. We agreed to invest 2% of revenue into information technology to upgrade everyone's ability to perform.

Our motto was *FlexAbility* to reflect that the purpose of our technology



was to improve people's ability to serve the customer. We documented all our processes and got ISO 9000 certified. We did all of this in a three-year period of time. And it was all transferable.

### ***The Culture***

Socially you could not find a better place to work. We held "In-the-Paint" company-wide meetings every month. We moved to a brand-new, custom-built, beautiful facility. Our employees were called partners and were treated as such. Andy had a dugout suite at Jacobs Field. Every Friday, we would have a drawing so that a group of employees would have a chance to attend a ball game in the suite. Every single employee had an opportunity to enjoy that privilege.

We had a program called CARE: Customers Always Receive Excellence. Each department had a nickname and competed in the quarterly CARE Challenge. I ran IT, so my team was called The Hard Drivers. To compete in the CARE Challenge, each department was asked to prepare a set of improvement initiatives that were customer oriented.

We had a big board displaying a racetrack when you entered the facility so everyone could see it, with your department's nickname on a horse. As you completed your initiatives, your horse would move toward the finish line. Whoever won the quarterly challenge received their pick of any restaurant to take their entire department out to dinner. Andy would provide limousines to take the group back and forth to the restaurant. Also visible to everyone every day and posted on the wall near the CARE Challenge board was our service challenge: 99.99% on-time service.

We had our competitive battles day-to-day, but when the chips were down and we were in trouble, our departments put that all aside and came together to solve the problem quickly. I remember one of the corporate buyer executives telling me that one of the major valuation points of Flex was the potential to leverage Flex's culture throughout all their facilities,

in addition to our customer relationships, talent, and Structural Capital. Flexalloy used knowledge capital to create Human, Customer, Structural, and Social Capital, driving the value of the company sky high.

## Transferability Is the Key

Value can only be harvested if your intellectual capital is transferable. Ask yourself:

- Is your business transferable?
- Is your talent transferable?
- Are your customer relationships transferable?
- Are your processes and technologies transferable?
- Can someone else learn and then benefit from them?
- Is your culture so deeply ingrained that integrating your team into your buyer's business would raise the bar, providing them the opportunity to perform like you do?

The only way you cash in on your most valuable asset is to transfer it to someone who will pay you a premium because they have not been able to duplicate what you have done (or maybe they don't want to spend the years or the money to get to the place you have). It's a lot easier to scale a business than it is to start a business, especially if you can leverage an existing successful model. Having a model right in front of you that is already proven and leverageable into operations is extremely valuable to a buyer.

“Well, I am going to transfer the business to family versus selling it, so I don't need to worry too much about driving up my 4Cs,” you might be thinking. Understand that, to unlock your business's wealth, you still need to transition it to someone—if not to an outside buyer, then perhaps to



family, a partner, a management team, or employees. If you choose any of the “inside” options, you will likely not have a big liquidity event at the time of your exit. You will need the business to perform as well, or even better, to get all your money out of it. And you will not be around to make sure that happens. Strong 4Cs mitigates that risk.

The business may have been producing a very nice income for you over the years. But you will never get four to ten times EBITDA if someone can't continue doing what you have been doing. There must be continuity. The option you choose is irrelevant. What you have created has to be transferable.

If you personally own all the customer relationships, if the talent at your company will only work for you or cannot produce without your guidance, then there is nothing to transfer. When you go away, the relationships go away and, therefore, so does the business. Remember, you are transferring a projected stream of income with the potential for this stream of income to get even better after you are gone. If that income goes away or gets reduced when you extract yourself, then there is limited value, if any value at all.

Having a strong management team, a high degree of Customer Capital, well-documented systems and processes, and a winning culture doesn't just benefit you at exit. A transferable business benefits you *right now*. It drives more sales and income now. It develops your team so that the business can run without you and frees you to take more leisure time to spend sustaining yourself or being creative and visionary. You are free to spend more time working *on* your business instead of *in* it and on personal and financial planning, adding personal value now.

Value Creators understand that business value is primarily driven by intangible capital, not tangible capital. In fact, I would say most business owners intuitively understand the importance of the 4Cs. However, what many of us are not doing is intentionally managing them because we don't measure them. And most of our accountants do not provide these measurements either—although they should.



Scoring your intangibles means you can track them and, with that, develop strategies and actions to improve your multiple, drive and/or defend earnings and competitive position, and dramatically improve business value. That certainly sounds like something every business owner should be doing intentionally and deliberately. More importantly, you can start doing it today, and you will never regret it.



## ➔ CHAPTER 7

# THE THREE LEGS OF THE STOOL

*Lack of harmony is the first, and often the last and only, cause of failure.*

— Napoleon Hill

**MANY OF US RACE THROUGH** our lives failing to pause and discover who we really are or who we want to be. Faced with relentless demands on our time, we cram as much as possible into our days. Returning home, we are exhausted, brain dead, from the rigorous days at work. We don't view personal planning, taking care of our health, family time, or financial planning as a source of renewal. Rather, we view them as just more ticks on an endless to-do list that further tap our energy. At what price?



One thing I have learned in working with business owners (and as an owner myself), the thought of separating personal from business is ludicrous. *Business is personal*. It's part of our very nature and a huge part of our identity. Face it—succession is a deeply personal experience. The transition of your business is complex and emotional. It forces you to deal with your business and personal mortality. It can rob you of your identity. It threatens your sense of purpose and self-worth.

Personal, financial, and business goals must be in harmony to successfully grow and transition your business. This alignment of the *Three Legs of the Stool* is a concept called Master Planning, created by Peter Christman, the cofounder of the Exit Planning Institute and an exit planning visionary. Pete noticed that, despite having a lot of money after the sale, many owners were miserable. He realized that the cause of this was because all the personal and financial planning were happening *after the sale*.

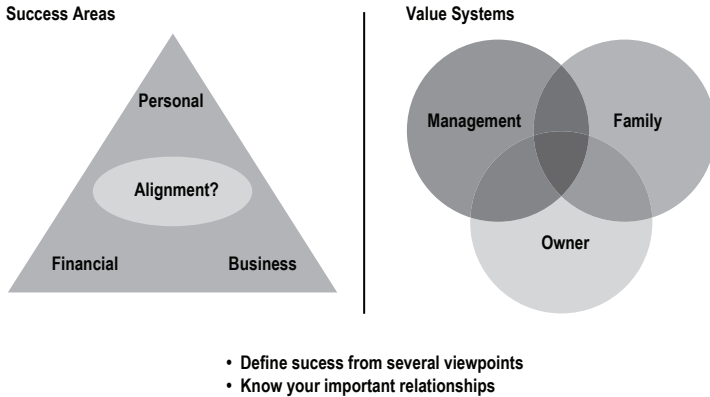
Realizing he needed to change this, he wrote a book called *The Master Plan*. This book was written with business owners in mind and specifically discusses how to use Master Planning to align the Three Legs of the Stool into one “Master Plan,” putting the owner and the owner’s family at the center of the process.

## Success Areas of a Master Plan

Your definition of “success” needs to be defined in each of these *success areas* from several viewpoints considering the important relationships that come from your roles of family, manager, and owner. From a personal standpoint, you need to consider things like family and friends, self-worth, self-identity, philanthropy, health, what you do for fun, and for many, your religion and personal spiritual values. Financially, you need to consider your income requirements, risk profile, personal wealth, retirement needs, and possible long-term health needs. For your business, you need to consider things like



the direction of the business, the intangibles of the business, the salability and ongoing viability of the business, the predictability of the business's income stream, and the overall health of the business, plus your staff, systems, management succession, and business risks.



*Exhibit L: Drivers and Influences*

## The Importance of Personal and personal financial planning

Over the course of my career, I have helped hundreds of business owners align personal and personal financial planning with business planning. Knowing the importance of having all three legs aligned to ensure a successful business and life, I would connect my clients with some of the best estate-planning and financial advisors who could coach them properly.

Faced with the reality of my own imminent exit, I too had to get serious about personal and personal financial planning. I evaluated and selected a personal financial advisor and estate-planning attorney. Combining these two advisors with my CPA, business attorney, and my son, I formed a Personal Advisory Board (PAB). A PAB plays a similar role to a Business



Advisory Board, only they focus on a family's personal and personal financial needs versus business needs. At least one of these advisors should be on both boards so they can help you see the connections between your business and your personal and personal financial needs.

This personal and financial planning process took years to complete. To properly optimize my plan, my first step was to mentor someone to replace me. That ended up being my son, Scott, and it took ten years to accomplish. My plan required some restructuring of the company and revisiting my basic estate-planning documents for my wife and me, which included our wills, trusts, and financial and healthcare powers of attorney (POAs), for example. I formed a Family Council and began hosting family meetings to discuss with our children and their spouses what Mom and I were planning and to solicit their input. After evaluating five different financial advisors, we selected one to consolidate all our personal assets into one place and identify my *Wealth Gap* (more on the *Wealth Gap* later in this chapter). Just identifying and consolidating all these assets was a major undertaking. Concurrent to this, we met with our estate-planning attorney, our business attorney, and our CPA to discuss possible exit options and wealth-transition strategies. Exploring the pros and cons of all the different trusts and wealth-transition options was mind-boggling—and I am in the business! Once we decided on a strategy, several legal documents needed to be written and executed, and many of our financial assets needed to be retitled.

If you are an estate-planning attorney, CPA for a private business, or financial advisor reading this, you are probably chuckling to yourself right now. I know you get it. But the thing that really hit home for me as a family-business owner when I was doing it for myself versus helping other business owners through the process was just how time consuming the whole process was. While all this planning work was underway, I was diagnosed with cancer. Today I am, thankfully, fully recovered. But I had a real fight, a fight for my life, on my hands for 18 months. I remember



thinking one day during prayer about how grateful I was that I had my son, Scott, and a wonderful team at EPI to run the business while I tended to my personal and personal financial needs.

That would not have been possible if I had not begun the succession process ten years earlier. That personal experience made me realize that perhaps one of the main reasons more owners don't spend time on personal and personal financial planning is that *we just don't have the time*. It takes a considerable amount of time and energy to do personal, estate, tax, charitable intent, and financial planning right, let alone fight a major health issue that you didn't predict at the same time. You cannot be running the business 24/7 and give equal attention to personal and financial planning. This is one reason why it is so important to have a successor and a team who can run your business as well as or even better than you can. Being independent of your business creates the time to plan your best act and to protect and build your wealth outside the business. You won't be able to do these things if you are stuck running the business every day. One of your best long-term investments is to invest in the development of a successor to position your business to run without you.

## Planning Your Best Act

Which of the Three Legs of the Stool do you give the least attention to today? It's likely *personal planning and personal financial planning*. It's pretty true across the board, and frankly, you probably didn't get where you are by putting your own needs ahead of your business or your loved ones. What was a strength in your career can manifest as a major weakness in your transition. You have been the one who has sacrificed the other parts of your life for so many years that planning a meaningful third act gets pushed aside as a soft topic. You need to apply the same skills that made you a successful owner toward planning your next 30 years. Value Acceleration only works



if your personal needs and personal financial needs receive *equal* attention to your business needs.

According to Michael Gerber, the noted guru of small-business management and author of *E-Myth*, your personal purpose is what motivates you to get up every morning and slug away. In fact, his well-regarded business development process starts with a personal question, *What personal purpose is the business serving you?*

“*I don't believe your business is your life, though it does and can play a significantly important role in your life. But before you can determine what that role will be, you must ask yourself these questions: What do I value most? What kind of life do I want? What do I want my life to look like, to feel like? Who do I wish to be?*

— Michael Gerber, *E-Myth*

Getting in touch with your personal purpose is vital to having a successful growing business and, even more so, to building a successful and fulfilling life after you exit.

Several years ago, I received a call from Tom, an attorney I work with. He wanted me to meet one of his clients, who he said was “ready” to exit.

“What makes you think he is ready?” I asked.

“He and the wife are burned out. They've had enough. They are ready to retire and move on,” Tom replied easily.

Upon hearing these kinds of statements, I always have a private chuckle.



“Okay,” I said, “let’s meet with them and see if they are really ready.”

The next week I sat down with Tom and his two clients, Ed and Joan, the burned-out husband and his wife. I was initially pleased thinking it was a good sign that both the husband (the true and sole owner) and his wife were present for the meeting. “Off to a good start,” I thought. After some introductions, discussion about the business, and a little getting to know each other, the conversation evolved.

Chris: “So Tom tells me you are ready to sell.”

Ed: “Oh yeah, I’m done. I recently turned 65, and I just can’t do it anymore. Time to move on.”

Chris: “What do you plan to do after you sell the business?”

Ed: “We’re moving to Colorado.”

Joan was beaming. She looked very happy.

Chris: “Oh, great. Why Colorado?”

Joan: “We love it there. We have been vacationing there for years. We just love the mountains.”

Chris: “Cool. Sounds nice. But what are you going to do there?”

Ed: “We’re going to build a home and retire there.”

Chris: “Excellent! But what are you going to do there?”

Ed: “I just told you. We’re going to build a house and retire there.”

Chris: “Right, got it. But what are you going to do there?”

Ed started to show a little aggravation.

Ed: “I already told you what we’re going to do. We’re going to retire. What are you getting at?”



Joan was not smiling anymore.

Chris: “Well, how long have you owned this business?”

Ed: “For about 35 years.”

Chris: “And how many hours a week do you spend working in the business?”

Ed: “It varies, but probably 50, 60, maybe even 70 hours a week sometimes.”

Chris: “So let me get this right. You have been working in this business for 50 to 70 hours a week for 35 years, and your only plan after you leave this business is that you are going to build a house in Colorado and live there for the rest of your life? How long do you think it will be before you drive each other crazy or die from boredom? Do you know what kind of income you will need to get you through your retirement?”

Ed: “Well, yes, we have some money saved up, and once you sell the business we should have plenty of money, right?”

Chris: “What makes you think the business is saleable?”

Ed: “Well, I just *assumed* someone would want it. After all, it’s been producing a nice living for my family for 35 years.”

Ed *assumed* he could sell his business without assessing if it and he were ready. That’s a bad assumption, and it can get you into a lot of trouble. What do you think Ed’s chances were of succeeding with this transition? And by “succeeding,” I don’t mean just having enough financial resources to live comfortably even if the business could be sold. His success in his third act was dependent not only on being able to sell his business but also on him being personally fulfilled, having a purpose, and being active after he exited the business.



To contrast, I have seen some incredible personal transformations and life experiences by owners who have exited and are now living completely different lives. Some have dedicated their lives to philanthropy, giving back to the communities that helped them succeed. Some have started new business ventures. Some have even started families for the first time in their life.

One of my good friends grew a successful tech business and sold it at a premium. He was single all those years, as he dedicated his life to building his business. But there was a hole in his life. In his next act, he found love, and now he is married and raising two children. His center has shifted from work to family.

I helped another owner friend of mine transition his businesses to his children. He had gone on autopilot, and in turn, so had the business. He had a few health issues, and his enthusiasm for the business was diminishing rapidly. He thought bringing in his children would allow him the opportunity to slow down. Just the opposite happened. The energy and passion exhibited by his much younger children energized him. Not having to spend as much time working in the family business gave him back the time and freedom to pursue other passions that he never had time to pursue before.

He loves fishing, so after transitioning two of his other businesses to his children, he invested in a company that was selling fishing gear over the web. He recently told me that business is now doing \$60 million in sales annually and generating \$20 million in profit. It's bigger and more valuable than any other business he has ever owned. He told me he is working harder than he ever has at any time in his life—and he loves it! He and his partners are considering selling the company soon. “Chris, the money I will make on this business would change the family’s legacy. I would have never done this if I had not transitioned my other two businesses to pursue what I really love.”

We don't think about these things as much as we should, and we tend



to neglect these personal things as our business consumes us. However, it's these personal things that ultimately determine our welfare and happiness. The reason in most cases that 75% of owners profoundly regretted the decision to exit in the Price Waterhouse survey mentioned earlier was due to personal reasons, not financial ones. Most owners don't know what they are going to do after they exit. If you have not planned how to stay relevant, it's highly likely you won't have enough fulfilling things in your life anymore. You will get bored. And if your next act goes another 30 years, you could be bored for a very long time.

Owning a business fills up your life. Your identity is tied to it. It is a great source of pride and joy. It keeps you busy and fulfilled. It provides you with a great living. It doesn't cheat on you. It doesn't betray you. It's loyal and steadfast. It's one place you can go where, in many ways, you feel totally in control. You have status and respect. The business is a vehicle for expression of your vision and aspirations.

But staying busy in your business also gives you a reason to ignore the personal things that are gnawing at the back of your brain and poking you in the heart. You're too busy to deal with that soft stuff. You'll deal with it at another time. You think there will be plenty of time to deal with it down the road. Right now, you have a problem in the business that you need to solve ... sound familiar?

You can't continue to do this as you approach the needs of your third act. You need to integrate the personal side into the daily operations of your *life*. You need to spend equal time getting in touch with your personal purpose.

## **Bring Personal Planning into the Present**

To bring personal planning into the present, begin planning your next act now. By getting started early, you give yourself time to plan your best act properly. I was working with the owners of a business, who, before going



into business together, had a serious musical career. At the pinnacle of their music career, they were nominated for a Grammy Award in this previous life! What do you think their passion was outside the business? Of course, it was music. We began to explore this in their Personal Envisioning Workshop.

Chris: “What did you have in mind for what you want to do after you exit?”

Owner 1: “I would like to start a musical institute where we could help children get into music and provide them coaching so things don’t happen to them like they happened to us.”

Chris: “Go on, describe it to me.”

Owner 2: “We would have a building where we could teach music and voice, provide them coaching about the music business, and it would have a recording studio in it so we could start recording again.”

Chris: “Do you have a written plan for this?”

I knew the owners would need to personally fund the institute or borrow money to fund the enterprise. Their Personal Financial Plan would need to account for this.

Owner 1: “Well, no. It’s all up in my head. But I can visualize it right now.”

Chris: “Okay, one of your personal actions over the next 90 days is to outline, or even better, write a business plan for this musical institute. Let’s make it real by putting it on paper. Write a vision and mission statement. Where will the building be located? What’s your budget? Where will the funds come from to construct the building and stock it with all the equipment you will need? How will it be staffed? How



will you market it?”

These owners had no intention at that time of exiting their business. They knew, of course, that someday they would but not right now.

Chris: “How are you going to fit this in, given your current workload with the business?”

Owner 3: “I don’t know, but it sure would be nice.”

Well, they got very excited about this. Within a couple years, they had a building up and a recording studio, and they were recording a new album. They created time for this because music was their real passion. One day, several years later, when I was visiting them, I suggested we meet at 10 a.m. the next morning.

Owner 1: “Oh no, I can’t do 10. That’s my recording time!!!!”

When the time does come for them to exit their business, it will go much smoother, and it’s very likely their third act will be their best act.

## **S.T.E.P.**

To get in touch with your “personal” side, there is a simple exercise called S.T.E.P. that is available to download at [www.WTDDownloads.com](http://www.WTDDownloads.com). S.T.E.P. stands for Spiritual, Things, Experiences, and People. Go through the S.T.E.P. exercise over a weekend, and try to reconnect with what’s really driving you personally. Find out what’s important to you. What’s your center?

Your Primary Aim, as Gerber has named it, or your personal purpose “is the vision necessary to bring your business to life and your life to your business. It provides you with a purpose. It provides you with energy. It



provides you with the grist for your day-to-day mill.”

## Personal Financial Planning—Mind the Wealth Gap

From a personal financial planning aspect, the first thing you should do is calculate your *Wealth Gap*.

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■ *The **Wealth Gap** is your Wealth Goal minus your current net worth, not including your business value.*

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For example, if your Wealth Goal was \$25 million, and you had \$2 million of personal financial assets, not including your business value, you would have a Wealth Gap of \$23 million (\$25 million less \$2 million). Why is this significant? Because usually the only way to close your Wealth Gap and achieve your Wealth Goal is by unlocking the wealth trapped in your business. I think you would agree, living on \$2 million would be very different from living on \$25 million in your post-business next act.

Your Wealth Goal should reflect how much money you need to accomplish your Personal Plan without the income from the business. This is one reason it is imperative you have a written Personal Plan for what comes next after you exit. It is simply impossible to do appropriate financial, estate, and tax planning if you do not have a written plan for what you will do *after* you exit your business.

Andy Rayburn bought two minor league baseball teams and other entertainment venues once he exited his business. He needed a lot of money for that. The owners who wanted to start a musical institute needed a fair amount of money to fund that. My friend who wanted to invest in a fishing gear company liquidated a portion of his business assets and quite



a bit of his real estate to fund that venture. My friend who wanted to start a family and work less and the couple who wanted to move to Colorado and chill out needed less. The point is to determine your Wealth Goal, you need to figure out what you want to do *after* you exit, develop a written plan, estimate the capital needed to accomplish your plan, and determine how much annual income you need.

One way to figure out what your Wealth Goal needs to be after you exit your business is to determine how much you need in annual income each year and then calculate the amount of investible assets needed to produce that amount of income without affecting your principle. The financial services industry has traditionally used something called the *4% Rule* to help you figure this out.

Assume your business is producing \$1 million in annual income for you today. If you want to maintain that level of income after you exit, what does your Wealth Goal need to be? \$25 million! You determine that by using the 4% Rule. Divide \$1 million by 4%.

That's pretty straightforward. But here's the catch. If you have only \$2 million outside the business today and your Wealth Goal is \$25 million, your Wealth Gap would be \$23 million (\$25 million less \$2 million). Most likely you will need to monetize the value of your business to close your gap and meet your goal. If your business is not worth \$23 million, how are you going to make up that difference? You have two options: (a) you could lower your Wealth Goal, or (b) you could drive the value of your business up with value enhancement.

Do you see now why knowing your Wealth Gap is so important? Additionally, do you see why having a detailed written Personal Plan is so important? Once you know your Wealth Gap, you can get busy devising a strategy to close it. Remember, one of the reasons owners get trapped in their businesses is because of this *Income Conundrum*. They simply cannot get comfortable with the income they need or want after they exit the business because they have not done the personal planning to determine



their Wealth Goal and Wealth Gap. It is almost impossible to save your way to closing your Wealth Gap. Most owners simply do not have enough wealth outside the business to accomplish that. Building and harvesting the wealth locked in your business is usually the only way to close the Wealth Gap and achieve your goal.

## **Taxes, Fees, and So Forth—Net Proceeds**

A financial advisor can help you explore what you want to accomplish personally and financially today and in your future post-business life. A good financial advisor will present you with several questions that, when answered, will allow them to dial in your Wealth Goal and Wealth Gap as you figure out what it is you really want to accomplish today and after you exit your business. They would also take into consideration inflation, risk, taxes, tax strategy, estate planning, and charitable-intent strategies and exclude assets that are not income producing and help you dial in your true net proceeds once you choose your preferred exit option. That's assuming you get the financial advisor involved early in the process—like now! Remember, your financial advisor is one of the few people who will be by your side on this journey before, during, and after your exit. They may also act as the quarterback of your personal and financial advisory team.

## **Integrating the Three Legs into a Master Plan**

Aligning personal, financial, and business objectives is a core principle on which Value Acceleration is built. To succeed today and in the future, you need to make sure that you are giving equal attention to all Three Legs of the Stool. Your walk needs to begin by making sure you are in touch with your center and your personal purpose. This personal purpose will identify what your personal financial wants and needs are, today and in the future.



You will use your business to drive the income and, more importantly, the transferable value to create the financial resources to enable you to achieve your personal purpose. Choose to create what you want to create. Choose to have what you want to have. Choose to be whomever you want to be.

This is the way you walk your path to destiny.

# TWO CONCURRENT PATHS

*Vision without execution is just hallucination.*

— Henry Ford

**KNOWLEDGE CAPITAL IS WORTHLESS IF** not expressed in action. As an entrepreneur, you intuitively know *what* would make your business stronger and *what* you need to do to accomplish that. My guess is your strategies are not often wrong. But do your strategic plans collect dust, or do they come off the shelf and get executed?

Execution is more than a set of tactics. It is a discipline, a *system* that needs to be built into a company's strategy, goals, and culture. Many



thought leaders have written about *what* needs to be accomplished to build more-valuable businesses. But when you ask them *how* to do it, the dialogue often goes silent. In this chapter, I'll show you how you build a culture that executes relentlessly so your strategic plans come to life.

## A Culture of Relentless Execution

In my companies, we live by a core value we call Relentless Execution. When setting priorities, we get into the details. Who will be responsible? What are our options? What are the deliverables? Where are the resources going to come from? How much can we take on while still fulfilling our daily responsibilities? What are the risks? What are the milestones that will demonstrate we are on track? Furthermore, our Action Plans are scoped within reasonable delivery timelines. Big projects are broken down into incremental 90-day periods of delivery, accountability, and recalibration. In other words, our *system* is built to be *fast* and *flexible*. We use Value Acceleration.

Today's business environment is always throwing curves at you. Granted, you need to set long-term direction with vision, purpose, and targets that you keep top of mind. To stay connected to your vision, you should revisit that vision *every 90 days*. Does it still make sense, or does it need to change given what you have learned over the last 90 days? As you implement the vision in 90-day cycles of improvement (called *90-Day Sprints*), assess your accomplishments and disappointments, then align and recalibrate a new set of priorities for the next 90-Day Sprint. If you recall, 90-Day Sprints are a *fast and flexible* strategy, with a continual loop of setting, executing, measuring, reconnecting, and recalibrating action every 90 days. If you do this, you have a culture of *Relentless Execution*.

Your management team and key employees must be involved in establishing priorities prior to executing them. People need to be educated,



and your management systems, like Value Acceleration, need to provide them regular feedback. Accountability does not mean that you beat your people up for missing goals. *Accountability is a learning process.* If your team made the goal, ask why? What did we do right? If you missed—why? What did we do wrong? Which assumptions were incorrect? Which resources were promised that were not provided? How can we do better the next time?

With an execution mindset and strong Human Capital, you won't have to tell your people what to do. Instead, you become a conditioning coach for leaders. You ask questions so that your team can figure out what to do on their own. As Bossidy writes in *Execution*,

“ *In this way she coaches them, passing on her experience as a leader and educating them to think in ways they never thought before. Far from stifling people, this kind of leadership helps them expand their own capabilities for leading.*

The business owner's key role in this process is that of a teacher. Good leaders regard every encounter as an opportunity to teach. With this in mind, consider your methods for acknowledging positive performance. Because you not only want to measure accomplishment, but you also want to influence behavior. If your company rewards based on achievement and accomplishing action (demonstrated by deliverables) and promotes people for execution, your culture will evolve.

Some staff just don't produce—*ever*. These people are the Bottom 10%, and they should be changed out. However, in most cases, not delivering an action is due to choosing the wrong priority, some unanticipated problem, or most likely, a process issue, not a lack of staff commitment. You may have estimated wrong, or another opportunity popped up that you needed to get on right away. These things happen. When they do, it should not



take you completely off course. This is why the Value Acceleration system recalibrates every 90 days. Sometimes you absolutely do have to change your people, but most of the time, lack of execution is a systematic problem (or lack thereof).

Execution is based in reality. Years ago, when I worked for Sherwin-Williams, I took on a process improvement project to reduce manufacturing cycle time by 20% with minimal investment in equipment and facilities. We started the process with analysis, selecting a sample of key products and setting standard cycle times for each stage of production and standard wait times between each of these stages. We made assumptions based on the formulations and the equipment on the floor. Next, we began to measure deviations to the assumed standard. The deviations were fact based. We would sort through the list, focusing on the products that had the greatest deviations. We would meet with the floor crew to get their input to find out why—what happened? Then we would reset the standard, if appropriate, and run another series of deviations. We continued through this *Learn-Practice-Test* process for months, consistently narrowing down the causes and the number of deviations until we got them into reasonable range. By consistently looking at real data, challenging our assumptions, and being persistent, we were able to produce results and dial in the processing times. Within nine months, we accomplished our objective, improving cycle time at a fraction of the investment that would have been required to expand capacity by adding physical equipment and facilities. That was real value creation.

Execution requires discipline grounded in action. Following sequential steps to getting things done keeps you moving in the right direction. Taking the time to organize *before you execute* will help clarify your capabilities and determine what you should be executing first, second, and third, ultimately ensuring you are working on the right things at the right time.



## Purpose and Vision

Great execution begins with great planning. Planning begins with vision and purpose. Your business is a living, breathing thing. It is driven by people who share your vision and who create and execute processes and systems to deliver extraordinary services and products to your customers. These customers place a high value on the experience of doing business with *your company*, not just your products and services. The way you do business is a reflection of your culture. This vision, alignment, accountability, and rhythm are the raw materials that make up that culture and the customer experience. If your team is connected to your vision, they will be more passionate, more creative, and more committed. *Vision sustains action.*

If you commit to creating a culture of accountability, you will get things done. If you don't get things done, you will be able to analyze why. Your metrics will reflect your priorities, so all of your employees understand your definition of success in clear terms. If you create routines, fostering better communication, providing guidelines for how things should flow and how people should behave, and you repeat these patterns until they become habits, your company will be both effective and efficient.

Before goals comes purpose. Purpose expresses personal values, inspires and unifies the team, focuses action, and disciplines you to think strategically. When your company lacks purpose, good people leave. Purpose is energizing, and energy attracts people who are willing to subordinate individual agendas to the group's agenda. In *Managing the Dream*, Bennis wrote:

“ *All leaders have the capacity to create a compelling vision, one that takes people to a new place, and the ability to translate that vision to reality.*

In creating vision, you need to consider personal and financial goals including your health, family responsibilities, partner and family situations,



community involvement, as well as the business life cycle, the market, and the source of your enthusiasm and passion. Start by asking yourself a simple question: *What does success mean to me?* In *The Science of Getting Rich*, Wallace Wattles wrote,

“ You must form a clear and definite mental picture of what you want; you cannot transmit an idea unless you have it yourself. Behind your clear vision must be the purpose to realize it; to bring it out in tangible expression. And behind this purpose must be an invincible and unwavering faith that the thing is already yours; that it is “at hand” and you have only to take possession of it. You do not make this impression by repeating strings of words; you make it by holding the vision with unshakable purpose to attain it, and with steadfast faith that you do attain it.

Creating a compelling vision is a must! You can test the strength of your vision with just four words: *Belief, Passion, Opportunity, Focus*. To learn how to use these words to test your vision, go to [www.WTDDownloads.com](http://www.WTDDownloads.com) and download the exercise I have provided there.

### **Brand Statement**

Once you have tested your vision, express it in the form of a *Brand Promise Statement*. You should be able to express this on one sheet of paper by creating a few sentence statements in each of the following areas:

**Mission:** *What is our mission?*

**Reason to Believe:** *Why do we believe we can achieve it?*

**Proof:** *What proof do we have to back up this reason to believe?*

**Tone and Manner:** *What is the experience going to be like (behavior)?*



### ➤ **Mission**

We provide innovative, process-oriented professional services that help clients get better returns from their technology investments by improving organizational ability and aligning people and technology through business processes creating tech-savvy organizations that make their businesses faster, more efficient, and more profitable.

### ➤ **Reason to Believe**

We are professionally seasoned and experienced in managing complex technology portfolios in growing organizations. We have expertise in supply chain management systems and processes, process engineering, change management, project and program management and strategy development. Our knowledge base encompasses multiple industries, best practices, and development of organizational learning programs.

### ➤ **Proof Statement**

We have successfully delivered multiple package and custom software developments, ERP selections and implementations, and development and implementation of logistics solutions for small and large organizations, as senior members of executive management teams within organizations and in third-party situations.

### ➤ **Tone and Manner**

We provide people who are business solution-oriented, focusing on the customer, people, and processes before technology. We are problem solvers, practical and financially sensitive, persistent, energetic, and enthusiastic about what we do. We are “success junkies,” thriving on challenge and the success of our clients.



## Pick Two Areas to Dominate

To complete your vision, the next thing you want to do is to decide on two areas of the marketplace where your company can dominate. What are you best at? Your vision should be built around these two areas of specialization.

In the old economy, companies tried to optimize balance between price and services. Most resided somewhere in the middle (refer to Exhibit N). But over the last several decades, companies have moved either left (to compete on price) or right (to compete on specialization).

The mass-market strategies of left-moving companies have resulted in many of our big-box retail outlets of today, companies like Walmart and Home Depot. Their primary driver is price reduction. They offer an array of products, as cheaply as possible, and capture as much of the consumer's dollar in one place. If you are not a big-box business, like most of you reading this, you are unlikely to compete on price. If you are a middle-market privately held business, your strategy should be specialization, where you compete on service and the deployment of knowledge capital. So again, ask yourself: considering that price is not an option, in what two areas can you dominate?

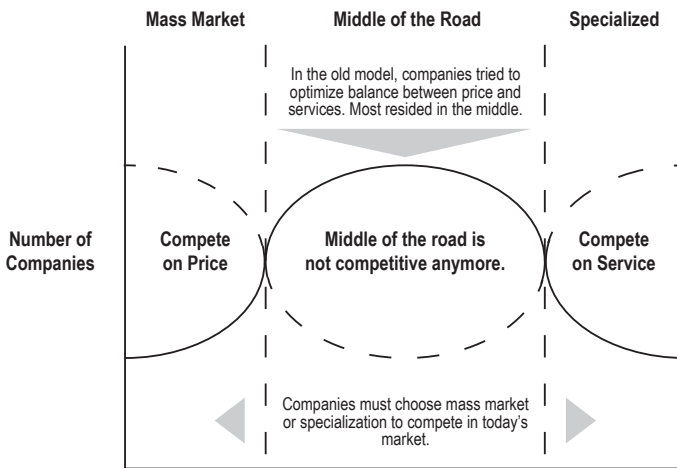


Exhibit N: Mass Market vs. Specialization



At the time they purchased Flexalloy, our corporate buyer was a \$14 billion multinational organization. The business unit that purchased us was 20 times our size. The reason they wanted us so badly was for our specialization, which we produced through the application of knowledge. Nobody in the industry could distribute fasteners at the speed and quality that we could.

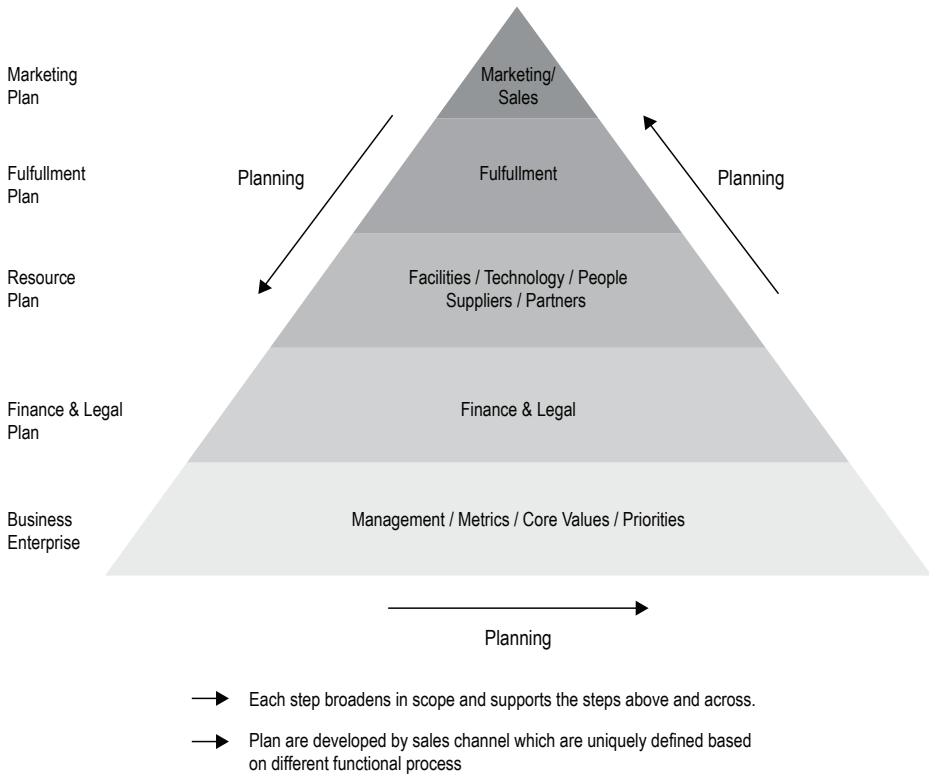
## **The Importance of Planning—Setting Goals and Objectives**

In my experience, it takes ten years to accomplish a vision. Goals, objectives, and targets should be set at three to five years, one year, and 90 days. The three-to-five-year goals should focus on the competencies you need to develop to reach your targets.

Ask yourself: What three to five competencies does my company need to develop to reach our targets and achieve our vision? These competencies could be in any number of functional areas including but not limited to customers, marketing, sales, customer service, fulfillment, operations, human resources, information technology, facilities, processes, finance, and legal.

I created a model called the Business Planning Pyramid to provide guidance on building integrated business plans that drive business value. It can help you figure out the competencies you need to develop over the next three to five years to accomplish your vision.

This pyramid will help you build integrated business strategies, right down to specific sales channels if that's where you want to go. I also use this model to divide a company into its functional components and the value factors that will drive it to be best-in-class. Score the value factors in each of the functional areas on a regular basis to measure value creation.



*Exhibit O: Business Planning Pyramid™*

- There are five levels to setting longer-term business strategy: marketing plan, fulfillment plan, resource plan, financial and legal plan, and the business enterprise strategy. Each could be different based on the sales channel. Determine what is common and unique for each channel.
- Planning starts with the customer and flows down the functional model and then back up based on supporting resource capabilities, strengths, weaknesses, competitive advantages, and limitations.
- Implementation is managed by establishing themes that support



functional strategies and cross-functional areas. Then specific actions focusing on improving value factors are defined within themes.

- A matrix-planning document can be used to define common and unique processes by sales channel.
- Ultimately, finance and legal determine the viability of the business model based on financial capabilities and targets, and legal considerations.

Always start with the customer and begin to move down the model. For example, who are your ideal customers? What are their demographics and psychographics? Why are they ideal for you? Sales and marketing will define what they need to be able to attract, land, and service the ideal customers. Then fulfillment can respond by specifying what they need in order to fulfill the needs defined by sales and marketing. Next, operations can respond to what they need to have the product or service ready for fulfillment. From there, you can define the resources required: people, IT, facilities, and partners. Finally, finance and legal can address the money and legal requirements.

At this point, you begin to see constraints. A key part of this process is making trade-offs between the functional groups and between long-term and short-term actions. Finance may respond and say, “We don’t have the money for all that,” so the process starts moving the opposite way, and you need to begin to consider trade-offs. If you can’t get the resources that operations and fulfillment need to accomplish their goals, will they be able to meet the requirements of sales and marketing and the demands of the customer? If not, how do you need to reframe the strategy? What ultimate impact will this have on the customers?

This forces sales and marketing to more clearly define what they must have versus what they would like to have. With this, you can start moving back down the pyramid. You continue with this until the entire organization



is in alignment. Once you are in alignment, establish no more than five actions in each function area. From all these actions, pick the top five that are the most important at the business enterprise level. Set a few metrics that will provide feedback on execution of these actions and a reality check that they are in alignment with your core purpose.

This process should be followed for both business and personal—your two paths. Granted, I agree it's more difficult to think through the personal side (personal includes personal and personal financial planning). Define a personal purpose/vision ten years out. Test your personal vision with the four words. Do I really believe in my vision? Am I passionate about it? Why? Have I defined the opportunity with enough detail? Have I developed a focused plan? Then write a personal Brand Promise Statement.

If you just change your frame of mind from business to personal, you can still use the Business Planning Pyramid. Who are you serving personally (customers)? Perhaps it is family, friends, employees, key management, business partners, and your greater community. Maybe for you it's spiritual. Perhaps your personal purpose in life is to serve God. Maybe it is all of the above. What is your personal brand promise to them (brand promise)? How are you going to connect with them (sales and marketing)? How will you fulfill your promises to them and yourself (fulfillment)? How do you need to operate your life so that you can fulfill your promises to them and yourself (operations)? What competencies do you need? What resources do you need (facilities, people, IT, advisors)? What are the financial and legal considerations (finance and legal)? This is where your Personal Financial Plan and estate-planning needs come in. Finally, how are you going to manage your life (the business enterprise) in such a way that you are able to achieve your personal purpose? What are the key metrics? What team do you need? What core values define your life? What are your one-year and 90-day priorities?



## Can Do Versus Will Do

A plan helps you prioritize, organize, and focus. But, at the end of the day, it's still all about building habits to execute relentlessly. Peter Christman once said to me, "There are a lot of people who *can* do, but not a lot of people who *will* do." If Master Planning is the concept, Value Acceleration is how you execute and deliver it.

With your core purpose, core values, two areas of market domination, brand statement, and the three to five competencies identified, you are ready to turn your vision into reality. With the direction clear, focus on the next year and next quarter. Set one-year and next 90-day business and personal goals and priorities. What three to five key actions will you complete in the next year to move the company and your personal planning toward the three-to-five-year targets? With these one-year goals set, you can now create a personal and a business *Action Plan*, focused on accomplishing three to five key priorities in the next 90 days. These are your Big Rocks.

The Big Rocks analogy comes from a story about a professor who was teaching a group of high-powered, overachieving students about the importance of setting priorities. During the class, he pulled out a one-gallon, wide-mouthed mason jar and set it on a table in front of him. Then he produced about a dozen fist-sized rocks and carefully placed them, one at a time, into the jar. When the jar was filled to the top and no more rocks would fit inside, he asked, "Is this jar full?"

Everyone in the class said yes.

He replied, "Are you sure?" He reached under the table and pulled out a bucket of gravel. Then he dumped some gravel into the jar and shook the jar, causing pieces of gravel to work themselves down into the spaces between the Big Rocks.



Looking up at the class, he smiled and asked the group once more, “Is the jar full?”

By this time, the class was onto him. “Probably not,” one of them answered.

“Good!” he replied. And he reached under the table and brought out a bucket of sand. He started dumping the sand in, and it went into all the spaces left between the rocks and the gravel.

Once more, he asked the question, “Is this jar full?”

“No!” the class shouted.

Once again, he said, “Good!” Then he grabbed a pitcher of water and began to pour it in until the jar was filled to the brim. Then he looked up at the class and asked, “What is the point of this illustration?”

One eager beaver raised his hand and said, “The point is, no matter how full your schedule is, if you try really hard, you can always fit some more things into it!”

“No,” the speaker replied, “that’s not the point. The truth is, if you don’t put the Big Rocks in first, you’ll never get them in at all.”

Everyone in business knows, whether we like to admit it or not, that individuals and organizations can only realistically focus on a few things at a time. I know there are 30 things that need to be done. However, to execute relentlessly, you need to focus on five Big Rocks in the next 90 days, which will move you toward reaching your targets and achieving your vision. Of these five things, decide which is the most important—your *one thing*.

To focus and execute, you should set no more than five business and five personal actions that can be completed in the next 90 days (Big Rocks).



## The Importance of Alignment

Many organizations have the knowledge. But it's applying this knowledge that wins the day. You do this by having a system that enables you to apply that knowledge to create and sustain improvement. Having a great game plan isn't enough. If each member of the team does not act when the play is called, you don't move the ball downfield. Your team needs to be in alignment with the vision and internalize it into what they do every day.

Everyone needs to align with the top three to five priorities. You align your team using workshops to prioritize your top five personal and business actions. These workshops provide great learning and teaching opportunities, both from you sharing your wisdom and posing a lot of questions and from the team who is sharing various points of view. It helps everyone see the company as a whole and how each functional group within the company fits into it. Your key employees will build relationships based on learning how to prioritize, choose, allocate, and assign resources to complete the action. I will share more detail about these workshops in part three.

Your team will find this process energizing, and their skills and capabilities will grow, which will grow your Human Capital. You will build Customer Capital, too, as employees will feel connected to how what they do, even if far down the line, ultimately affects the customer. It will build Structural Capital. Your strategy will be connected right down to the specific actions needed to be completed in the next 90 days, and you will be able to specifically document and communicate to your successor the story of how you went from point A to point B. Finally, you will begin to build stronger Social Capital as your key employees build relationships, build confidence, expand their capabilities, and grow their social and emotional intelligence. They will thrive off the energy created from success as a team.

So, with that, let me ask you:

- Can your staff articulate your company vision and values?



- Can they state two areas of the market where you want to dominate and proof points demonstrating your commitment to these?
- Have you established clear company and individual standards of performance? Does your staff receive regular feedback, including one-year and 90-day goals and objectives, both for the company and individually? Do you meet regularly to reconnect and recalibrate if necessary?
- Does your staff feel their individual goals and objectives are in alignment with each other's goals and objectives and the company's?
- Do you have learning and growth goals established and included in their goals to encourage them to build their competency? How much have you budgeted for personal and professional development?
- Is there an internalized rhythm in the company that facilitates good communication on a regular basis?
- Is your staff connected with the expected financial performance of the company? Do they understand how their actions affect the profitability and value of the company?
- Is your financial incentive system aligned to reward staff for creating value?

## The Importance of Accountability

Years ago, my client's management team was doing an exercise where they wanted to associate a quote that described the character of each manager. To my delight, they included me, and my quote was "Is it done?" We all had a good laugh about it.

At every quarterly review, I had earned a reputation for asking this simple question over and over: "*Is it done?*" The reason I always asked was



that I wanted the managers to own accountability. *Done is done*. You either met the goal or didn't. The reason I emphasized "done is done" is because one of the things I noticed when someone did not achieve their Big Rock, and I asked them why, I often got excuses.

For some, it is always someone or something else's fault. Missing the goal could be attributed to many reasons. You didn't define the scope of the task properly. Something unanticipated happened that threw you off course. You didn't get the resources. You made the wrong assumptions. But the bottom line is that you got it done or you didn't. It's hopefully not the end of the world. Still, you should be exploring the reasons why you did not produce the desired outcome that you had committed to producing. It doesn't necessarily mean you are a bad person or bad manager. At the end of the day, it didn't get done. Own that!

I will always remember receiving my first "marginal" performance review score on a review from my first real mentor, "Uncle Freddie" at Sherwin-Williams. I was a young hard charger and took a lot of pride in being someone who could be relied on to get things done. Fred had given me five objectives to complete. At my review, Fred gave me a marginal rating on one of the five things because I didn't get it done. Fred would hand out his review in advance of the meeting with him so you could read it and prepare for the evaluation meeting. I remember being quite upset at seeing M (Marginal) next to one of my goals. "I'm not marginal," I remember thinking. At the meeting with Fred, I immediately went into all the reasons that were outside my control that had prevented me from achieving the goal.

Fred agreed. There were several things that had happened outside of my control that contributed to my inability to get that goal accomplished. So I calmed down and said, "So that means you are going to change



the score, right?”

Fred responded, “No, you didn’t achieve it, so a marginal score is appropriate.”

I said, “C’mon, we just agreed that it wasn’t in my control.”

Fred responded, “Yes, we did agree on that. However, you either met the goal or you didn’t. Did you meet the goal?”

“Well no, but, but, but ...”

Before I could finish, Fred interrupted. “You were responsible, and you are accountable. It’s that simple. You either accomplished it or you didn’t. You missed it, and therefore, for that item, I’m giving you a marginal.” Fred continued, “I am not saying you are a bad person or a bad manager. In fact, on all the other goals I gave you a high standard. Overall, you did very well. And your overall rating is ‘high standard.’ You are a great manager, and you are getting better. But for that particular item, you failed. Own it.”

Setting goals, making promises, and keeping them are at the heart of accountability. Not only must you commit to the deliverable, but you need to be smart enough about your business and personal obligations to understand how to choose priorities, set goals and objectives, and scope in ways that show you are committed to achievement. Accountability is also about setting the scope of promises to be kept.

My most valuable managers are the ones who I can count on to keep promises. Aren’t yours? I am sure you feel the same. When they say they are going to get something done, I can trust that it will be done and done to the standards that represent our brand. They don’t always achieve their goals completely. They make mistakes. Sometimes they miss due dates. They



sometimes set goals that are too aggressive because they are high achievers. But they own it. Missing objectives, however, should not be about beating people up—although sometimes, that’s needed too. Most of the time, it’s because the company leadership didn’t understand the action well enough to make the right choices and commitments. Delivering or not delivering an action is an opportunity to learn.

## The Importance of Rhythm

Every company, like most people, has a rhythm to how they proceed through their days, weeks, and months. There is a flow in your business and in your personal life. This flow reflects what it is like to work at your company and work with your company (tone and manner) and how you get things done.

Once you have prioritized your actions, aligned your team, and established metrics defining what success means, you need to build habits to reinforce the day-in and day-out, moment-by-moment routines of actually implementing them—that’s execution. These routines need to produce outcomes that demonstrate the team’s commitment to completing the prioritized actions. This is where you get into the real nitty-gritty process of actually doing—not just thinking or dreaming. Accomplishing these actions requires that your teams work well together by communicating regularly, collaborating on their own, and creating opportunities to focus not only on what needs to get done but *when* it gets done, the steps to get it done, actually doing it, and producing the outcome.



## Run Your Personal Path with the Same Vigor You Run Your Business Path

Although I have focused most of this chapter on business planning and execution, I want you to consider running your personal and personal financial legs (your personal path) with the same rigor and discipline as your business leg. If you think about it, why wouldn't you? You can use the same techniques, just change your frame of mind. All of you should have a personal vision as well as a business vision. You should be aligning your personal resources to achieve your personal vision. You need that same sense of accountability, as well as disciplined systems to keep you on track. Eventually, you will build a personal rhythm with the same pride and joy you have for your business.

Personal and personal financial are the two legs most often compromised as our businesses take over our lives. But recall, we need to address all three legs equally if we are to achieve a holistic and fulfilling life during the period we own our business *and* after we exit it. This is the primary reason I created *two concurrent paths*. By putting personal and personal financial on its own path, we can bring equal attention to them.

Vision, alignment, accountability, and rhythm are the foundation for *Relentless Execution*. But, at the end of the day, you still have to execute. You have to deliver. You have to get things done on both paths. Execution is how the game is won. Relentless Execution alone can be your advantage. You need a fast and flexible system to facilitate disciplined execution and build rhythm. Value Acceleration is that system. If followed and reinforced, with committed resources, Value Acceleration will produce results. Relentless Execution converts your vision to reality.

## ➔ CHAPTER 9

# ONE GOAL = VALUE

*What is the one thing I can do such that by doing it everything else will be easier or unnecessary?*

— Gary Keller

**DID YOU KNOW IT'S POSSIBLE** to leave millions of dollars on the table and never even know it until it's too late? Business owners like you and me do it all the time. It's always a surprise, and worse, it's always a gut punch. If you're not careful, you can unintentionally trap the value of your business in a way where you can never get it out. In this chapter I'll show you how to shift your paradigm to focus on value first and, with a little intentionality, what you can do to double or even triple your present business value.



Not long ago, I evaluated a \$44 million company with reasonable income. The owner turned white when I commented that his business may not have any value.

“How can that be?” he asked, looking irritated and concerned.

“Well,” I said, “the business relies almost exclusively on *you*, your relationships with the customers, and your ability to drive sales. You admitted to me you are the best salesperson in your company, and maybe there was one other person who could even come close to selling as well as you. Past that, you have not documented what you do that makes you such a great salesperson, and you have no replacement. You have no contracts with your customers or your suppliers. You have no documentation of your company’s standard operating procedures. You have no awards or community recognition of your accomplishments. You have no brand. You don’t feel the need to do marketing because the majority of your revenue comes from just a few customers. There are few barriers to entry, and you don’t hold a dominant position in your industry. You have no trademarks or intellectual property.”

*Stunned silence.*

“So let me ask you, what exactly would a buyer be buying?”

Focusing on sales and income first is understandable but misguided. It’s a blind spot for many Lifestyle Business Owners. Sales and income are important. I am not saying they aren’t. But the only way to have value AND income is to focus on *value first*. This sounds like a subtle play on words, but in reality, it’s a major paradigm shift.



## How the Private Capital Market Determines the Value of a Business

To begin the paradigm shift from income first to value first, let's spend a brief time understanding how businesses are valued. Understand there are different values of your business depending on the purpose of the valuation. For our purposes, we want to determine the value the private capital market places on your business and what we can do to maximize it and unlock it. This is called its *market value*, which is the value if it were to be sold to a third party in the open market. This is normally the highest value of your business.

Earnings, growth, and risk drive business value. The higher the earnings, the greater the growth potential, and the lower the risk, the greater the business value. I use a simple formula to calculate market value two ways: one based on Recasted Sales and another based on Recasted EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). EBITDA is the most common number used to define earnings and calculate business value because the market feels it's the best representation of the real earnings of your business as an ongoing concern.

The formula to calculate your business's present value based on sales is

$$\text{RECASTED SALES} \times \text{SALES MARKET MULTIPLE} = \text{BUSINESS VALUE}$$

The formula to calculate your business's present value based on EBITDA is

$$\text{RECASTED EBITDA} \times \text{EBITDA MARKET MULTIPLE} = \text{BUSINESS VALUE}$$



Exhibit P: Strategic Value = Simple Math



Pretty simple math, right? There is value in knowing your market value using both formulas. For example, if your value based on Recasted Sales is more than your value based on Recasted EBITDA, this immediately screams that your business is underperforming financially. The reverse could also be true. We'll learn more about that later. For now, let's just focus on understanding the math. Going forward, I'll use Recasted EBITDA to demonstrate how the math works.

## The Left Side of the Equation—The Real Number Versus the Tax Number

To get a better understanding of the power of the Strategic Value = Simple Math formula and learn how to play and win the math game, let's start with the left side of the equation: Recasted EBITDA.

There are two numbers in every business: the Tax Number and the Real Number. Almost every business owner knows their tax number. Most of you receive that regularly from your CFOs, controllers, and CPAs. It's the number that shows at the bottom of your P&L statement—net income, net operating profit, etc. You are probably reviewing that number monthly or quarterly. It is the number passed through and reported to tax authorities.

Here's what's important for you to understand: *the tax number is not the number used for business valuation purposes* because it does not reflect the current and projected *real* earnings generated for the present owner or the real benefit that would pass to a future owner. It's not adjusted for interest, taxes, depreciation, amortization, one-time nonrecurring expenses, normalization, and discretionary expenses you may be charging to the business.

The real number is what is used to calculate business value. Do you know your real number? In my experience, it's rare that you see it. Most often, business owners only become aware of this real number if and when



they get a valuation done, which is not very often. This is an issue because we know from our research at EPI that less than 20% of business owners have had a formal valuation in the last two years. Given the importance of this real number, if you are not even aware of it, how can you intentionally manage it?

This is another big issue because the difference between your tax number and the real number can be significant. For example, a business we evaluated recently had a net loss/net profit for the previous three years of (\$102,000), \$940,000, and (\$825,000) respectively, with an average net profit of around \$4,000 over the three-year period. Basically, it was breaking even on \$26 million in sales according to their tax number. On the surface that would not make many business owners too excited. After adjustments, the Recasted EBITDA, or the real number, was quite different. Recasted EBITDA for the same three-year period was \$3,100,000, \$3,500,000, and \$1,600,000, with an average Recasted EBITDA of \$2,733,000. So from a tax standpoint, this business over the last three years did an average of \$26 million in sales and an average net profit of \$4,000. But the real average earnings being generated by this business was \$2.7 million. That is a substantial difference. Using net income (the tax number) to calculate business value would result in a much different value than using Recasted EBITDA (the real number). From a personal, financial, and business planning standpoint, you would likely make significantly different strategic decisions if you thought you were earning \$4,000 a year versus \$2.7 million a year.

Don't get me wrong, both numbers are essential to manage. Yet most accounting systems are not built to give owners regular feedback on the "real" number and what can be done to improve it to increase earnings and business value. What you need is a management system that gives you feedback on both on a regular basis. Reducing net income lowers our tax burden, yes. But should we be only using the tax number to drive strategic business decisions? I hope not.

You, the owner, have significant control over this real number. It is



determined by the strategic decisions you make and the performance of your company, which I would hope you strongly influence. Given its importance to determining business value, strategic planning, and priorities selection, you should be asking your CPA, CFO, or controller to provide both numbers to you regularly.

## The Right Side of the Equation—The Market Multiple

Now let's look at the right side of the equation, the market multiple. *This is where the game of Value Acceleration is played and won.* Generally speaking, when you break down the multiple assigned to your business, the first one to two turns represent the tangible market value of your business. Turns above two generally represent the additional lift from the value of your intangible assets.

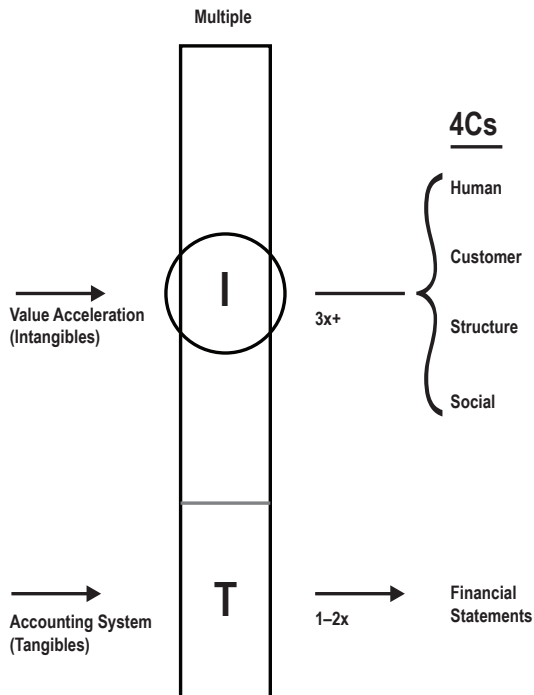
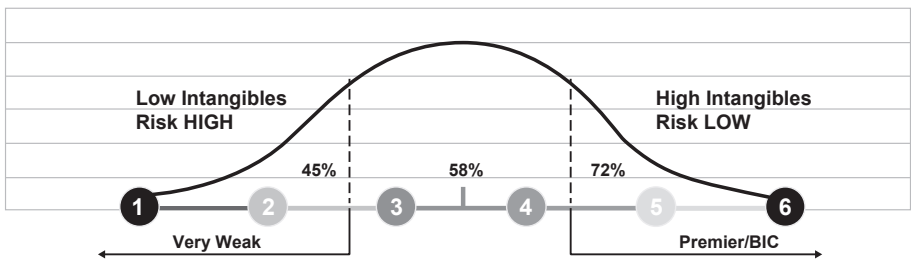


Exhibit Q: Tangible vs. Intangible Assets Relation to the Multiple



Traditional accounting systems are set up to provide regular feedback on tangible assets, but they do not measure intangible capital, which is the direct driver of the multiple assigned to your business. Think about it. Where on your current balance sheet does your intangible capital display? It doesn't. Your balance sheet only reflects the written-down tangible assets of your business. Does the net profit on your P&L statement reflect the true earnings your business produces? Again, the answer is usually no. I created Value Acceleration to help you focus on and manage intangible value.

All industries have a range of multiples assigned to them by the private capital market. As displayed in the exhibit below, the range of multiples in a particular industry will spread across and form a bell curve. Weak, high-risk companies with poor intangible value land on the left side. They are not attractive to a third party, nor are they ready to grow and transition. The companies on the right side are the opposite. These are strong, low-risk companies with strong intangibles. They are attractive AND ready to grow and transition. Most companies reside somewhere in the middle.



*Exhibit R: Range of Value*

The range of multiples for a particular industry is determined by the private capital market. You don't control this. For example, at the low end of the range, the multiple of earnings might be four times Recasted EBITDA, and at the high end, the multiple might be ten times. This range of multiples times your real earnings (Recasted EBITDA) effectively



establishes a Range of Value.

The private capital market uses many factors to determine the range of multiples. More robust industries and better market conditions, among other elements, produce higher ranges. In other words, if you are in a weak sector with weak market conditions, the range of multiples will be lower than if you are in a strong sector with healthy market conditions. There's a bit more to it, but in essence, that's how it works.

The business owner cannot control the range of multiples that is assigned to their industry. That is determined by the private capital market.

However, what you do have control over is where your business *lands* in the Range of Value. In other words, you strongly influence the specific multiple assigned to *your* company within the range of multiples for your specific industry. Where your business lands in the range, the specific multiple assigned to your business, is primarily determined by two things: your Business Attractiveness and your Personal, Financial, and Business Readiness to grow and transition. Effectively, these two measurements assess your level of growth potential and level of risk, the other two factors besides earnings that determine your business value.

Companies and business owners that score below 45% in the Range of Value are neither attractive nor ready to grow and transition, which effectively means the private capital market places little to no value on them. As such, they don't have anything more than liquidation value at best. Scoring 58% puts you right at the midpoint. In this case your company will achieve an average multiple. My firm has set an arbitrary goal of 67% as our target score. We call this the *Green Zone*. We know that if our companies score 67% or better, they are very attractive and ready and



will achieve a high multiple in the market. It's highly likely they are also generating above-average earnings. Best-in-class companies usually score 72% or higher. Get here and you will achieve the highest multiples and the highest values in your industry.

## Attractiveness and Readiness—Not the Same Thing

Recall the opening story in this chapter. The lesson this owner learned is that sales and income may make your business look *attractive*, but that does not mean it's *ready* to grow and transition to unlock its wealth. To grow your business and be positioned to transition it to unlock its wealth, your business not only needs to be attractive to the private capital market, but you also need to be able to prove you and it are ready to grow and transition. You need both. Attractiveness is how your business looks from the outside in. Readiness is a view of it from the inside out. Both are assessed from a third-party (a buyer or new owner) point of view. Go to [www.WTDDownloads.com](http://www.WTDDownloads.com) if you are interested in downloading list of some of the more common readiness issues.

Why does it matter? If you achieve a decent score on Business Attractiveness but a lower score on Personal, Financial, and Business Readiness, you still have issues that lower your valuation. What typically happens is that someone from the outside looks at your business, and it has decent sales and income and therefore looks attractive. Given its attractiveness, they make an offer to buy it. At the time of the offer, they have only limited information—probably information you have presented in the best light possible. But once they get into the due diligence process and look under the hood, sit down at the wheel, and test drive it, they are disappointed. It looked good from the outside in (attractiveness), but once they looked deeper, it did not meet their expectations (readiness). *Readiness is equally as important as attractiveness.*



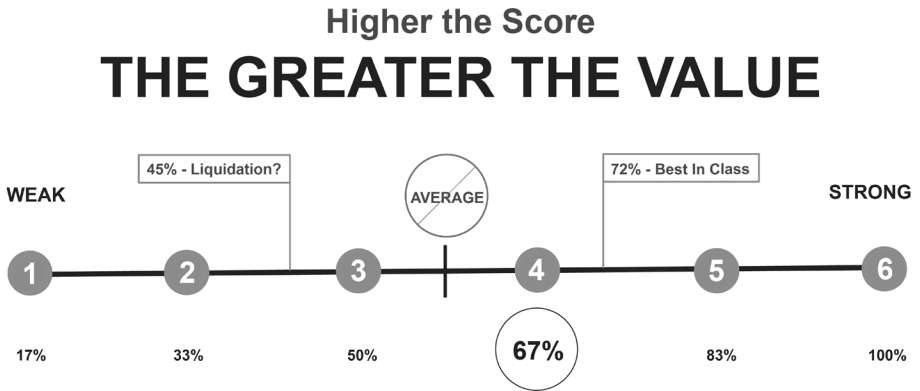
Additionally, you need to understand that Business Attractiveness and Growth and Exit Readiness are a state of fact, not a state of mind. You can't just say your business is attractive and that you and it are ready. You must be able to *prove* it. When the private capital market looks at your business, it's unemotionally trying to understand where it places in the Range of Value. In other words, should they be paying a premium or getting a discount? Owners tend to look at their businesses much more personally and usually through rose-colored glasses. I call this the *Ugly Baby Syndrome*. Their business is their baby. Even if their baby is ugly, it's still *their* ugly baby. As a result, you tend to overstate the value of your businesses. In fact, in a survey by the Alliance of Mergers and Acquisitions Advisors (AM&AA), 95% of M&A advisors indicated an owner's perception of value versus its real market value is the number one reason they can't sell a business. To get a true read on the value of your business, you need to look at it unemotionally from the private capital market's viewpoint.

## Common Sense Scoring

The characteristics of Business Attractiveness and Personal, Financial, and Business Readiness are easily defined and can be scored. I have been referring to them as *value factors* throughout this book. After scoring each of your value factors, you total them up and divide by the total possible maximum score to determine a percentage overall score in both Business Attractiveness (Attractiveness Index) and Personal, Financial, and Business Readiness (Readiness Index). Your overall scores can then be correlated to the range of multiples in your industry to determine where you land in the Range of Value.

If your scores are low, you will be assigned a low multiple. If your scores are high, you are given a high multiple. This number multiplied by your Recasted EBITDA (the real number) determines your business value using

the Simple Math formula presented earlier. The higher your score, the greater your business value.



*Exhibit S: Common Sense Scoring*

All is not lost even if you score poorly. At least you will know from a state of fact where you stand. That outcome is worthy enough. Even more worthy, scoring them identifies the specific value factors that, if improved, increase your attractiveness and readiness to raise your multiple, earnings, and accelerate business value.

I use a system I call Common Sense Scoring to measure and score Business Attractiveness and Personal, Financial, and Business Readiness value factors. It's simple and easy to use. I like simple and easy—don't you?

Each value factor is scored using a scale of 1 to 6, with 6 being perfect and 1 being the worst. Briefly, the scoring system works like this:



- 6 You are perfect. This value factor cannot be improved.
- 5 You are best-in-class, meaning you are in the top 10%–20% in your marketplace.
- 4 You are better than average and can prove it.
- 3 You have something; you can prove it. But it's below average.
- 2 You have thought about the value factor and maybe even do it, but you do not have proof.
- 1 The value factor is not even on your radar.

Feel free to go to [www.WTDDownloads.com](http://www.WTDDownloads.com) to see an example of how the Common Sense Scoring system could be used to score your 4Cs.

## How You Create a Leap in Value by Focusing on Value First

As we learned in chapter 6, the attractiveness and readiness of your intangible capitals (4Cs: Human, Customer, Structural, and Social) have the biggest impact on determining and improving business value. The stronger your intangible capital, the higher your multiple.

Your success at managing your 4Cs significantly influences the multiple assigned to your company.



Think about it. It's common sense. A company with more substantial talent, deeper customer relationships, niche products, dominant market positions, and better processes, systems, financial structure, and culture most likely has better growth potential, less risk, and is producing more earnings, making it more valuable than the one with weaker intangibles. It receives a higher multiple. Beyond a higher multiple, there is an additional benefit of strong intangibles.

There is a direct correlation between the strength of your 4Cs and earnings performance.

Why does one company financially outperform another? Again, it's most likely because it has more substantial talent, deeper customer relationships, niche market positions, better processes, systems, and financial structure, and a better culture.

Pay attention because we haven't even gotten to the best part yet! Improvements to the 4Cs increase earnings AND the multiple simultaneously, effectively *accelerating your business value exponentially*. It's simple math!

Simultaneously increasing both the multiple and earnings, both the left and right sides of the strategic value = simple math formula, leads to a leap in business value.

Let's go back and revisit the company we referred to earlier in the chapter. That business was producing \$26 million in annual sales. Its



Recasted EBITDA (*real number*) was \$2.7 million (10.4% to sales). The range of multiples in that industry was four on the low end and eight on the high end. We assigned a low multiple to that business because it scored below average in attractiveness and readiness. It was worth four times \$2.7 million, or roughly \$11 million.

Studying other businesses in that same market, assume we learned that the best-in-class businesses were achieving 19.5% Recasted EBITDA to sales and an eight multiple. This means at \$26 million in sales, these best-in-class businesses would be producing \$5.1 million in Recasted EBITDA, almost 90% more, at the same level of sales (\$26 million). In addition to better earnings performance, it's safe to conclude these best-in-class businesses had best-in-class 4Cs, which would justify the private capital market assigning them the highest multiple in the range, which was eight. Simple math shows us these best-in-class businesses at the same level of sales would have a value of \$41 million (eight times \$5.1 million). That's a \$30 million premium! More than three and a half times our sample company's present value. Wouldn't you like to achieve a premium like that and unlock that kind of wealth? I know I would.

## How Personal and Financial Value Factors Drive Business Value

It's clear that focusing on improving the attractiveness and readiness of your intangibles creates a leap in value. It's simple math. How do personal and financial readiness impact value? Let me explain.

Earlier, we learned the number one reason deals fail is sellers' cold feet. Indulge me as I use a football analogy to explain. You are driving down the field, and you get into the red zone (within the 20-yard line). You are about to score and win the Super Bowl. Then you stop and say, "I quit," and walk off the field. Everyone looks around stunned. "Why would he quit and



walk off the field just as we were about to score and win the Super Bowl?”

Emotion, uncertainty, sabotage—the main reason owners don’t follow through near the end of the deal is that their emotions take over because they are not personally or financially ready. The reality of not owning their business anymore, their baby, even if it’s ugly, sets in. You wonder, “Will I have enough money without the income from my business to be able to continue my lifestyle?” If you have not completed a Personal Plan addressing what you will do after you exit your business, you also wonder, “What will I do now? Where will I go? How do I stay engaged and fulfilled without my business?”

From a buyer’s point of view, this adds risk—the risk of investing significant resources into a deal that may not close or an owner who will not cooperate post transaction because the owner doesn’t have their personal and personal financial act together. As we learned earlier, adding any element of risk does what? It reduces the selling price and tends to shift risk from the buyer back to the seller. If the buyer feels you do not have your personal and personal financial act together, they will contingency plan for the risk of the deal not getting done, transition and integration issues, and the loss of resources. As a result, they may do a holdback or force you into an earnout to shift risk back on you.

Adding any element of risk is likely to reduce your business value or, at a minimum, shift terms and risk to the buyer’s benefit.

Consider the opposite. A buyer comes in to evaluate your business and determine its value. This time, they meet an owner who has a formal Personal Plan for what they will do next. They have their estate, tax, and financial planning act together. How would you feel about working with



this well-prepared owner? How would you feel about the likelihood of a deal getting done with this owner? I would expect a lot better.

## Building Value Is a Team Sport

The task of Building Value is a team sport and requires a paradigm shift and culture change. The only way to really change your culture and get everyone thinking this way is to integrate value thinking into what you do every day by making it your number one goal. You need to adopt metrics and reinforce this focused thinking in your daily huddles, weekly management meetings, monthly accountability workshops, quarterly reviews, and annual strategic planning.

Business valuation should be part of the very mainstay of your business planning. Business value *is* the baseline measurement of success. You should be revaluing to measure your Value Gain at least annually. Even better would be to do it semiannually or quarterly.

This shift to focus on value as your one primary goal needs to permeate through your entire organization. Teaching your employees about the importance of value versus income will bring a different perspective to the business decisions they make every day. The next time one of your managers asks to hire someone, invest in new technology, or buy new equipment, ask them, “What value does this add to the company?” It’s likely you will receive back a blank stare. They won’t know what you are talking about because most of them are thinking in terms of fulfilling orders, producing products, or paying bills. They don’t understand the concept of value creation. Why would they? Have you ever introduced the idea of value creation to them?

Not long ago, I held a meeting with Chad, a key sales manager at one of my clients. Chad proudly laid out his sales strategy to me. He noted



that he had the chance to land a massive new customer that would add a significant level of sales for the company. Chad was well-informed; he knew his gross margin, and he was fired up.

“What value does landing that customer create?” I asked.

“Uh, are you kidding me? It will add about \$4 million in sales and about \$2 million in gross margin.”

“That’s fantastic, congratulations,” I said. “But what value does that customer create in terms of its impact on the value of the business?”

He looked at me, confused.

“Okay,” I said. “Let’s take a look. You know this customer will add about \$2 million in gross margin, or about 50% of sales, yes?”

“Yes.”

“What do you think the SG&A expenses will be to land and manage this customer?” I asked.

After working through the numbers, we came up with a number of about \$1 million, about 25% of sales.

“So the net EBITDA for this client will be around \$1 million, right?” I asked.

“Yes,” Chad responded, highly engaged in this new look at Customer Capital.

“Okay, great. And what multiple of EBITDA are we using to value the business?”

“I don’t remember,” Chad admitted. “But I know you did a business valuation when we started this process last year.”

“No problem. We came up with five times Recasted EBITDA,” I



responded. “So, what’s the value of this customer?”

“\$5 million?” Chad answered excitedly.

“Yes, \$5 million,” I said (equally excited). “The generation of \$1 million EBITDA is wonderful, but the real value of the customer to the business is \$5 million, *assuming* we set the relationship up so that it is transferable at some point in the future. Sounds like you should pursue it.”

This concept of value applies across the board. Every time someone says they want to hire someone, you can easily figure out what it will cost in terms of salaries, benefits, and SG&A expenses. If you only concentrate on the expense, you may think twice about hiring that person because on the surface it only looks like a pure expense. But if you go a step further by asking your team to consider the value being created, it forces them (and you) to think deeper.

## Your One Goal—Value

Can you recall a time in your life when you were focusing on so many things at once you got all twisted up and ended up doing none of them well? Value Creators focus on one thing, *value*, and make it their one goal, understanding that *focusing on value drives all other positive outcomes* including more sales and income. They don’t have to choose between benefits today or benefits in the future. They have both.

Premium business value *and* premium income are measurable, predictable, and within reach with a value-first paradigm. By increasing both your multiple *and* earnings, you achieve accelerated increases in value—*it’s simple math!* This begins with the identification of the personal,



financial, and business value factors that are driving business value. You cannot protect and build them if you have not first identified them. A well-thought-out, proactive, and intentional approach to identify and improve Personal, Financial, and Business Attractiveness and Readiness improves the baseline.

The things you would do to build a thriving business are the very same things you do to position it to exit and harvest (*unlock*) the wealth locked in it. There is no difference. If your assessment scores are low, you have a low probability to exit well, *and* you also have a low probability of being able to execute your business growth strategy. Forget about “*exit*” right now and focus on “*growth*.” Do you need strong talent to achieve your strategic growth plan? Do you need deeper customer relationships? Do you need processes, systems, and appropriate financial structure? And do you need a culture that knows how to set priorities, execute well, and embrace the enormous change that comes with growth? Of course! All of the above!! Your assessment scores reflect the strength of your 4Cs. So, if you are scoring low, it indicates you do not have the intangible strength, the know-how, and know-what, needed to be able to execute your growth strategy.

Simultaneous increases of each side of the Simple Math equation are what Value Acceleration is all about—exponential growth! That’s something every business owner wants and should be pursuing deliberately. The lesson? Make focusing on value your *one thing* and your *one goal*, and the rest will follow.



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# PART THREE

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## HOW TO IMPLEMENT VALUE ACCELERATION

*In this section, we'll go beyond concepts, peel back the onion, and learn the management tools used to put the Value Acceleration Methodology into action. I'll show you how to calculate the numbers, determine your present and best-in-class business value, your Profit and Value Gaps, and how to create an Action Plan and execute it relentlessly, 90 days at a time. We'll also learn the key questions you should ask every 90 days and review the pros and cons of your exit options.*



# GATE ONE | DISCOVER: THE TRIGGERING EVENT

*The way to get started is to quit talking and begin doing.*

— Walt Disney

**DO YOU RECALL A FIRST** in your life that was so compelling it triggered a dramatic change in the direction of your life? Perhaps it was when you started or bought your first business. Its first sale. Or maybe the first time you made a profit. Or maybe it was the first time you met the love of your life, or your first child. Do you recall how compelling that moment was in your life?

Firsts are so critical in our lives. They trigger action and set us on a



path. I aptly named the first step on your journey to create a company of significance and unlock its wealth the Triggering Event. I am often asked, “If you could only recommend one thing a business owner should do, what would it be?” My answer is always the same: perform a Triggering Event. This one thing is so compelling, owners move forward with action 70% of the time. Inaction is your enemy. Using the Triggering Event, you discover things about your business and your personal aspirations that were not evident prior, and it sets you on your path to destiny.

The Triggering Event, completed in Gate One of the Value Acceleration Methodology, is the process of taking off your rose-colored glasses and embracing the realities—and associated potential—of your business as it is today. *Identifying* what you already have provides a baseline measurement of value. Whether you are buying, improving, growing, or selling, the Triggering Event is always the first step, and it should never be skipped.

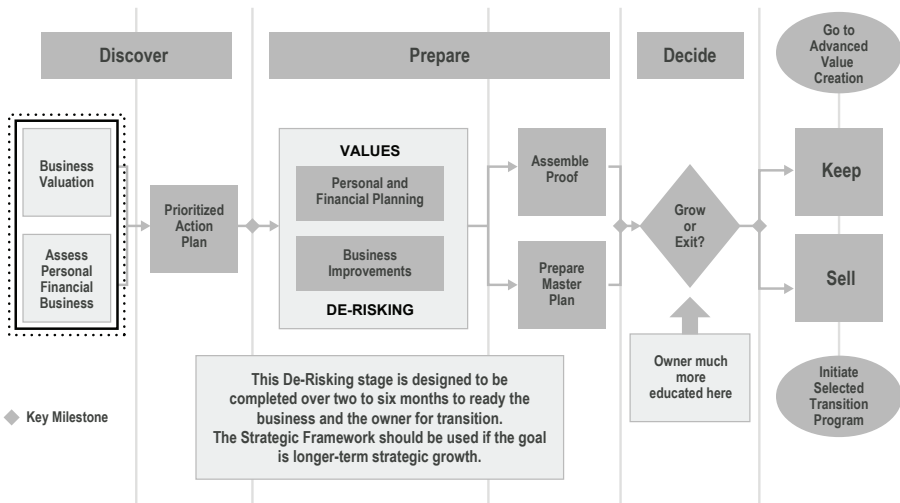


Exhibit T: The Triggering Event



🔖 *The **Triggering Event** is a personal, financial, and business assessment correlated to the business range of value.*

It provides you with quantitative proof of the value of your business and identifies the specific actions you can take to de-risk, increase the value and transferability of your business, and generate best-in-class earnings and value. Even if you don't want to transfer your business at this time, you will discover the actions to make your business perform better without you. And should a tragedy strike, you will be ready for that too.

Another question I am often asked is “Chris, what is the biggest benefit of completing the Triggering Event?” I answer with one word: Clarity. For the first time (or the first time in a while), you have a clear view of your business and can make clear choices on what to do next and what those choices mean in terms of business value and personal wealth. You can quantify the investment needed and the return on value expected as a result of implementing these value-growth actions. These returns are worth millions of dollars and often ten times or more than your investment. You come away understanding not only the value of your business today but *why* it is valued where it is and *what* to do to accelerate its value.

- ✓ Recast Income Statement and Balance Sheet
- ✓ Complete financial analysis
- ✓ Pull benchmarking data
  - industry performance
  - recent trade multiples
- ✓ Complete a Personal, Financial & Business Assessment, which scores the business attractiveness and the owner's personal, financial, and business readiness
- ✓ Correlate the interview scores with the business valuation and financial analysis

**Deliverable:**

- ✓ A specific and qualified list of personal, financial, and business strengths and weaknesses
- ✓ Correlated and used to justify present value and potential value
- ✓ To establish a \$ value with regard to what value enhancement is worth

**Prioritized Action Plan is created**

- ✓ Personal/Financial Actions
- ✓ Business Actions

Which will be implemented in 90-Day “Sprints” (Interval Training)



Knowing what your business is worth today sets the baseline, yet you may find knowing your business's *potential best-in-class value* even more valuable. Setting best-in-class value as your goal and identifying the value drivers that get you there are used to establish personal and business strategies and tactics to mitigate risks and improve performance.

## Performing a Triggering Event

There are five major steps to performing a Triggering Event:

- Step 1: Financial Recasting to determine your *Real Numbers*
- Step 2: Financial Analysis and Benchmarking
- Step 3: Determining the Range of Value and your Profit Gap
- Step 4: Conducting a Business Attractiveness and Personal, Financial, and Business Readiness Assessment
- Step 5: Placing your business into the Range of Value and determining your Value Gap

### ***Step 1: Financial Recasting to Determine Your Real Numbers***

The process of determining your real number versus your tax number is called financial recasting. The purpose of recasting is to demonstrate a true picture of your company's earnings, assets, liabilities, and net worth. Both the balance sheet and income statement are recast.

If you are not sure how to pull this set of numbers together, you may want to get the help of a CPA or value advisor. Ideally, both will be CEPAs. They will know what to ask, where to look, and will provide you a list of what to look for and report. Your CPA understands these well. Most of the time I work directly with the CPA or CFO or controller to pull these adjustments together. We don't have time to get into these details here. However, if you want a deeper understanding about adjustments to move



from your tax number to your real number, go to [www.WTDDownloads.com](http://www.WTDDownloads.com). I have provided a summary for you there.

Avoiding abuse with regard to this recasted number is important. A buyer will look very closely at the adjustments made to determine Recasted EBITDA. A synergistic buyer will look even harder to see where synergies can be created. For example, if one of your competitors buys your business, they may be able to reduce facilities and staffing costs. As the present owner, you get credit for this. For example, if you are paying yourself \$300,000 per year and you can be eliminated after the sale, this amount will be added back, and you will get credit for the \$300,000 times whatever your multiple is. So if your business is worth four times EBITDA, eliminating you as the owner would be worth \$1.2 million in value.

After you do the initial recast, you will want to get a regular read on what this number is. Ideally, you should do this every 90 days. It takes some time and expense to set up the first time, but after that, it's very manageable. I do this for all my businesses and ongoing clients, although this could easily be done by your CPA. I am always amazed by how many CPAs don't do this on a regular basis for their clients. If you are like me, I want my CPA to provide me with useful financial analysis about how my business is performing, not just raw financial data pushed my way. This is really a simple, justifiable, value-added service they can provide you.

### ***Step 2: Financial Analysis and Benchmarking***

Once you have your recasted income statement and balance sheet, conduct a financial analysis by studying the numbers and trends and prepare a forecast.

In your analysis, benchmark your numbers to similar companies in your industry. How do you stack up? It can be quite revealing. My favorites are gross margin as a percent to sales and Recasted EBITDA as a percent to sales. Understand that from the private capital market's viewpoint, generally



companies with gross margins under 40% are considered commodity businesses. This reduces the value placed on your business. For Recasted EBITDA, I look for around 20% to sales as my benchmark for a well-performing business, depending on the industry.

If you are underperforming, you won't have data yet as to why, but at least you will know how you measure against your peers and identified opportunities for improvement. The attractiveness and readiness scoring in the next step will reveal why. Also compare your numbers to businesses outside your industry to see if there is anything you might learn by looking outside the box.

I have looked at hundreds of companies and financial statements over the years. I can pick up a ton of information about how a company operates just from studying the recasted financials. If you are not comfortable doing this yourself, get a good, experienced advisor who really understands recasting and can read between the lines of your financial statements.

Your CPA or CEPA has these skills. Additionally, there are other groups that can provide you with a part-time CFO. These are experienced financial people who you may not be able to afford to hire full time, but you could use their services on a fractional basis. They are not accountants, although many have an accounting background. They act more like strategic financial advisors specifically for your business. Again, your business is likely 80% or more of your net worth, so if you don't have these skills, engage someone who does. It's worth it.

### ***Step 3: Determining the Range of Value and Your Profit Gap***

With a clean set of recasted financials and your financial analysis and benchmarking complete, turn your attention to figuring out what the private capital market is willing to pay for companies like yours and determine the Range of Value.

How value is determined can appear very complicated when you hear



terms like “discounted cash flow,” “weighted average cost of capital,” and other technical terms like that. But, depending on the purpose of valuation, calculating your business value is actually simple math as we learned in chapter 9. And for your purposes, that simple math is all you will need.

For our sample business, the EBITDA multiples ranged from a low of 4.0 to a high of 8.0 with a median of 5.8. The sales multiples ranged from a low of around 45% to sales to a high of around 110% of sales and had a median of 77%. After plotting them, enter the low, median, and high into a worksheet like shown below. Calculate the midpoints between each of these. For example, the midpoint between 45% and 77% is 61%. Now you have the range of multiples in your industry.

	Low		Median		High
Sales Multiplier	45.0%	61.0%	77.0%	93.5%	110.0%
EBITDA Multiplier	4.00	4.90	5.80	6.90	8.00

Using the Simple Math formula, do some simple math to calculate your Range of Value using the Recasted EBITDA and Recasted Sales information from step 1. For illustration purposes, I will use \$26 million in Recasted Sales and \$2.7 million in Recasted EBITDA (see below).

	Amount
Recasted Sales	\$26,000,000
Recasted EBITDA	\$2,700,000
R/EBITDA % to Sales	10.4%



Now do the math (see below). Multiply Recasted EBITDA by your EBITDA market multiplier and your Recasted Sales times your sales market multiplier.

	Low		Median		High
Sales Mult	\$11,700,000	\$15,860,000	\$20,020,000	\$24,310,000	\$28,600,000
EBITDA Mult	\$10,800,000	\$13,230,000	\$15,660,000	\$18,630,000	\$21,600,000
Average	\$11,250,000	\$14,545,000	\$17,840,000	\$21,470,000	\$25,100,000

The Range of Value using the sales multiple is \$11.7 million to \$28.6 million with a median of \$20.0 million. The Range of Value using the EBITDA multiple is \$10.8 million to \$21.6 million with a median of \$15.6 million. Combining the two produces an average range of \$11.2 million to \$25.1 million with a median of \$17.8 million. You have now produced 15 valuation points ranging from roughly \$11 million on the low end to \$28 million on the high end. *This is your Range of Value.*

There are a couple of things you might notice right away from this analysis. First, the range is quite large. The high end (\$28 million) is 2.5 times the low end (\$11 million). That is not unusual. It reflects the difference of how the market values low-value companies versus best-in-class companies.

Second, you will notice the differences in the values using the EBITDA multiple versus the sales multiple. In the example above, the median using the sales method is \$20.0 million versus the EBITDA median at \$15.6 million. This is your first benchmark.



If your value using EBITDA is less than your value using sales, it tends to indicate that *you are underperforming financially compared with similar companies in your industry*. One of the ways you can double-check this is by going back to your sample and calculating the average Recasted EBITDA as a percent to Recasted Sales. You can also look at what the best-in-class companies are producing.

In this situation, we learned the average Recasted EBITDA as a percent to sales for this industry was 13.3%, and the best-in-class were in the range of 19.5%. If you multiply these percentages by your Recasted Sales, you produce a theoretical average and best-in-class Recasted EBITDA benchmark (see below).

	Amount	Average	BIC
Recasted Sales	\$26,000,000		
Recasted EBITDA	\$2,700,000	\$3,458,000	\$5,070,000
R/EBITDA % to Sales	10.40%	13.30%	19.50%

You can interpret this to mean that if your company was an average performer, you would be producing \$3.458 million in Recasted EBITDA versus \$2.7 million at \$26 million in Recasted Sales. This difference is \$758,000, a 28% premium. It reflects how much more earnings your business could be generating if it were operating at average. It further indicates your business is a below-average performer financially.

If you were operating best-in-class, you would be generating 19.5% Recasted EBITDA to Recasted Sales or \$5.07 million in Recasted EBITDA.



This is close to \$2.4 million more Recasted EBITDA annually, almost a 90% premium. This variance represents your *Profit Gap*. It demonstrates how much profit you may be leaving on the table each year because you are not performing as well as the best-in-class companies. This establishes an empirical standard to shoot for and is a Value Acceleration opportunity. But why are you underperforming? Move to the next step and conduct a Business Attractiveness and Personal, Financial, and Business Readiness Assessment to find out.

#### ***Step 4: Conducting a Business Attractiveness and Personal, Financial, and Business Readiness Assessment***

With your financial analysis complete, you know your Range of Value and how your financial performance benchmarks against other companies in your industry. Where you land in the Range of Value is determined by completing an Attractiveness and Readiness Assessment.

I recommend you use a CEPA to conduct this assessment with you. You might think I am being self-serving (since I own EPI and I am a CEPA). That's not my motivation. I simply know how critical it is to have the right people in the right seats on your Value Acceleration bus. CEPAs are trained and experienced to deliver this assessment. They have had to study and pass a proctored exam and agree to a code of conduct and continuous education to maintain their credential. Many manage this process as their careers. They already utilize the Value Acceleration Methodology with owners on a regular basis.

Having someone skilled at conducting this type of interview is extremely helpful. They can answer your questions and clarify your answers and scoring. Even more critical, they will challenge some of your answers, asking you why you scored a value factor this way or that. They'll take notes so that they can follow up on some of your answers later. There are also many, many, more benefits that come with having a skilled practitioner. Although



some CEPAs execute the discovery process differently, what all CEPAs have in common is the step of “discovering” the strengths and weaknesses of your personal, financial, and business situations.

### ***Conducting the Assessment Interviews***

In my opinion, it is most effective when these interviews are done privately, in a one-on-one session with you and your CEPA. Some advisors execute this step differently. They feel this discovery process should be more open and transparent. Yet I feel this interview experience is so deeply personal, most owners and their teams are more comfortable sharing their true feelings and scoring themselves more honestly in private sessions, less so in a group setting.

The time to involve the whole group in a group discussion will come later. If you have multiple partners or multiple family members who are owners or stakeholders with you, or you want to involve your management team, I still feel it is best to do individual one-on-one interviews. It takes more time and money to do it this way, but in the end you will get a better result. The point of the Triggering Event is to get a clear view of your business and personal situation, so honesty is not a luxury; it's essential.

Some people are intimidated in group sessions, especially if they are going to score a value factor that someone else is responsible for poorly. It can be embarrassing to realize how far behind you are. If the other person is in the room, they may soften their criticism. You don't want false kindness. Rather, you need the truth, or at least the truth as you and others perceive it.

In addition, with each party separate, you can determine where points of view are out of alignment. For example, one person thinks marketing is a 5, best-in-class, and the other thinks it's a 3, slightly below average. That's probably something the partners and management team should have an in-depth conversation about. However, if they were together while completing the assessment interview, each is more likely to compromise, perhaps agree



to disagree, and settle on a 4, with no further discussion. The reality is, one partner saw it as a 3, below average, and the other a 5, best-in-class, for a reason. By agreeing to split the scoring difference, you are avoiding a great opportunity to get the real picture and get into alignment.

Compromise on the assessment defeats the purpose, don't you think? Brutal honesty, even if tainted, is vital to the process. Also, in order to get the assessment completed in three hours or less, which I like to do, you don't have a lot of time to go in depth on any one point. Groups want to discuss and debate. You aren't trying to solve problems here. Rather, you are just identifying where the opportunities are.

Conducting separate interviews produces interesting variances in perception, which are usually important for the partners and management, and possibly family, to discuss. In fact, this assessment process is a great tool for focusing discussion when partners and family members are not in alignment. Even in my own businesses, I have used the process numerous times to assist with resolving family and partner disputes. No matter how much you might try to hide it, a dispute with a partner or in the family permeates through the organization. It kills the culture and eventually erodes the performance of the business like a cancer.

You can use this process to open communication and get the partners focused on specific areas of the business and on personal matters, where points of view are different. The same would apply in getting family members, management teams, and boards of advisors to communicate. These different points of view are healthy if managed well, though they can be a source of problems if not managed well. If nothing else, the process keeps the dialogue going, which often combats a bigger problem when people stop talking to each other. Do the option you feel most comfortable doing because, when you get to the Prepare Gate, the Value Acceleration Methodology frequently revisits the scores.

You will be producing two scores, *Business Attractiveness (Attractiveness Index)* and *Growth and Exit Readiness (Readiness Index)*, and you will be



self-scoring, so challenge yourself and be honest.

*Business Attractiveness* answers the question “How attractive is your business from an outsider’s point of view?” meaning in the eyes of a buyer or the future new owner, which means from the private capital market viewpoint. *Growth and Exit Readiness* answers the question “How ready are you and your business to grow and transition from an outsider’s point of view?”

Understand a buyer could be a family member, a partner, or an employee, not just an outside third-party buyer. A few value factors should be specific to a strategic buyer because, if maximizing price is your primary goal, selling to a strategic buyer is likely to be your best bet. Bear in mind that a strategic buyer is not just a competitor or a member of your company’s value chain. Private equity firms and family offices may also be strategic if they are looking at buying you as an add-on to an existing platform company.

I recommend using the Common Sense Scoring approach presented in chapter 9. Each value factor is scored from 1 to 6, with 1 being the lowest and 6 the highest (perfect). Then total the scores for each index and divide by the maximum possible score to determine an overall percentage in both attractiveness and readiness. A score of 58% overall is the midpoint. A score of 50% or lower is a red flag and discounted. A score of 67% is considered a premium. A score of 72% or better is considered best-in-class. I suggest 67% be your target goal, or what I call the *Green Zone*. A score of 67% means you are well above average but not quite at the best-in-class level. That’s still pretty good and will justify a premium multiple assigned to your business.



EXIT READINESS SCORE			
Government Grants	NA	NA	R&D, Fed, State, Local
Compliance Issues	83%	Premier	Taxes, environmental, regulatory, retirement
Systems Processes and Databases	79%	Premier	CRM, accounting, customer, sales
Brand Issues	70%	Meets Goal	Does the brand add value?
Valuation Expectations	70%	Meets Goal	Value and timeframe
Expense Reduction	69%	Meets Goal	SGA, insurance, banking, cash, payroll, GM
Immediate Value Readiness	69%	Meets Goal	How ready right now—strategic buyer?
Personal Knowledge	67%	Meets Goal	Understanding of how buyers place value
Financials	64%	Below Goal	Taxes, mgmt reports, customer analysis
Revenue Drivers	60%	Below Goal	S&M, lead generation, conversion, conversion rate
Product and Marketing Strategies	58%	Below Goal	Product and market strategy analysis
Employee and Management Issues	57%	Below Goal	Reliance, competency, morale, P&P, turnover
Personal Expectations	57%	Below Goal	Post-sale expectations
Customer Contracts	56%	Below Goal	Customers & strategic alliances, warranties, maint.
Expense Contracts	50%	Discount	Suppliers, leases, insurance, web, etc.
Marketing Documentation and Systems	50%	Discount	Systematic, proof
Payment Considerations	50%	Discount	What taxes bonuses
Credibility and Justification	47%	Discount	Customers, awards, community
Shareholder Goals	44%	Discount	Shareholder alignment when how who
Intellectual Property	42%	Discount	Trademarks, patents, software, domains
Management Systems and Forecasts	39%	Discount	12 months—3 years, scorecard
Company Documentation	38%	Discount	Paperwork, operating agreement, buy-sell
<b>OVERALL SCORE</b>	<b>57%</b>	<b>Below Goal</b>	

Exhibit V: Sample Readiness Score

### **Step 5: Correlating Attractiveness and Readiness to the Range of Value and Determining the Value Gap**

Using the attractiveness and readiness scores, your benchmarking data, and your financial analysis, you now have the information to support objectively and quantitatively placing your business into the Range of Value. If your scores are below average, you would place yourself in the lower end of the Range of Value or in the higher end of the range if your scores are above average.

In addition to being able to justify your placement in the Range of Value, you also have a list, all the value factors that scored below 4, of the actions you can take to begin to drive your placement in the Range of



Value higher, thus achieving a higher valuation and a business that is ready for growth or exit. As your score increases, your placement in the Range of Value increases, and as a result, your value increases, your probability of growing sales and earnings increases, and your probability of successfully transitioning increases.

Continuing with our earlier example, the Range of Value we established for this business was \$11 million on the low end to \$28 million on the high end. A 58% score (the midpoint) would put this business right in the center of the range, at around \$17.8 million. Using the averages, a score of 50% to 57% (below average) would achieve a valuation between \$11.2 million and \$17.8 million. Generally, a score below 45% would indicate your business has *no value* because it is highly unlikely you could sell or transition it successfully, and the probability of growing it is limited. Remember, your business really has no value if you can't transition it. It needs to have transferable value to harvest its wealth.

Going the other direction on the Range of Value, a score of 59% to 67% (Green Zone) would deserve a valuation in the range of \$17.8 million to \$21.5 million. If you were best-in-class, represented by a score of 72% or above, you would be placed at the highest best-in-class value, which averaged \$25.1 million.

In this example, the owner and I eventually settled on a Range of Value of \$11 million to \$12 million—the lowest quadrant in our Range of Value. We justified this because:

1. The business Recasted EBITDA to Recasted Sales percent was below average.
2. The attractiveness score was below average.
3. The readiness score was well below average.

The good news was this owner's business *did* have market value—it was



saleable and transferable. However, the bad news was the probability of successfully transitioning was below average. Plus, it was likely the terms would not swing in his favor and the business would sell at the lowest value in the Range of Value, because it was not positioned to grow and transition. In particular, the owner's lack of personal and personal financial planning really dragged down his readiness score. Even though he wasn't thrilled with this valuation, the additional good news was that we now had a specific list of actions to improve Business Attractiveness and Growth and Exit Readiness!

## **Do the Attractiveness and Readiness Scores Pass the Smell Test?**

Once you have your scores, you want to double-check them to make sure they are in line with your business's financial performance. Remember this:

There is a direct correlation between financial performance and your attractiveness and readiness scores.

If you scored poorly, it is likely that your financial performance benchmarked against others in your industry is poor as well. In the example above, the company was financially performing below average. Its Recasted EBITDA to Recasted Sales percent was only 10.4% compared to the sample average of 13.3% and the best-in-class companies doing nearly 20%. This makes sense since this owner's attractiveness and readiness scores were below average.



If you find that you are scoring high but your financial benchmarks are low, it is likely you have not been accurate in your scoring.

If this is the case, challenge yourself to be more accurate, perhaps more honest. Below is an example where I had this situation.

The business was owned by two partners. Tom was a proud owner who thought he outperformed in all areas, a natural salesman and visionary entrepreneur. Helen provided great balance in ownership to Tom, with complementary skills and a knack for making the vision touch the ground. As leaders and operators of the business, they felt they had produced some concrete results and certainly took a lot of pride in that.

The owners scored themselves 56% (slightly below average) on their readiness score and 65% (above average) on their attractiveness score. Based on their scores, it appeared they did have an attractive business, although it was not quite ready to grow or transition. Yet something was off.

When I benchmarked their financial performance, they were producing around 9% Recasted EBITDA to Recasted Sales, and the industry average was 15%. They were well below average when it came to financial benchmarking, but their attractiveness and readiness scores were near average or above average. I challenged them at the Triggering Event deliverable workshop, suggesting this didn't make sense.

“I’m questioning how accurate you were when I interviewed you to establish your scores because your attractiveness and readiness scores are average to above average, but your financial benchmarks are below average.”



“Well, it’s possible I rounded up in some areas,” Tom confessed.

Across the table, Helen sighed and rolled her eyes at him.

They sat back for a bit and then admitted they both had probably given themselves higher scores than they should have.

With this fresh perspective, we went back, reviewed the value factors again, and more honestly and accurately adjusted the scores. Their attractiveness score was reduced to 54%, and their readiness score was reduced to 52%, resulting in an average score of 53%. This was more in line with what I would expect given the financial benchmarks.

We determined that inefficiencies in their operating model had driven their SG&A expenses too high as a percent to sales. This was the primary cause of their below-average financial performance. This presented a Value Acceleration opportunity. We agreed to add an action to further investigate their SG&A expenses to see what improvements could be made.

The lesson learned is there is no place for false kindness. When it comes to self-scoring, take off your rose-colored glasses, swallow your pride, and get real with yourself.

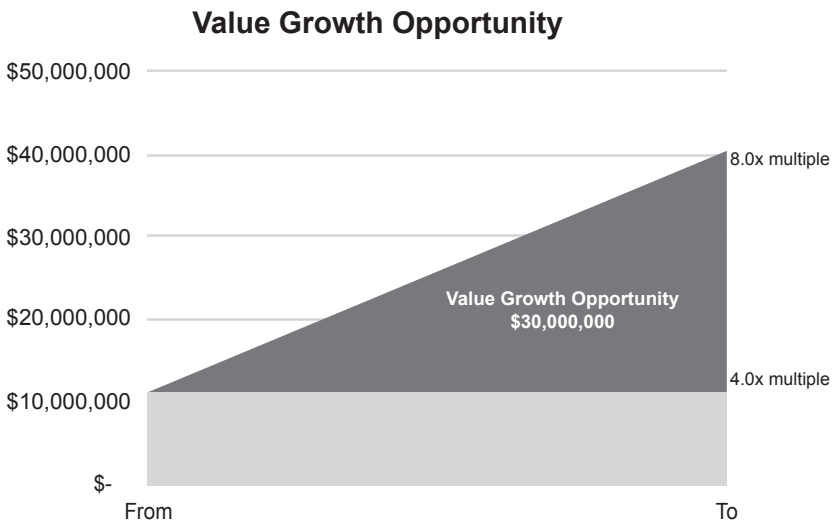
### ***The Value Gap***

Using benchmarking, we were able to determine that this owner’s business had a Profit Gap of \$2.4 million. Those were real dollars that owner was leaving on the table every year because the business was not operating at best-in-class. Let’s take it to the next level!

Now knowing where this business placed in the Range of Value, \$11 million to \$12 million, we could calculate the *Value Gap*. Remember, the Value Gap is the difference between your actual value versus your best-in-



class value at a given level of sales. If this business were operating at best-in-class, it could potentially be worth ... ready for it ... \$41 million! We get to that number by multiplying the best-in-class Recasted EBITDA (\$5.1 million) by the best-in-class EBITDA multiple, which was eight. Wow! That's 3.7 times more than the present value—a \$30 million premium. Granted, that's a theoretical number and an empirical standard. But it's worth shooting for, isn't it? Just getting this owner's business to even average would drive the value of the business to almost \$18 million from \$11 million resulting in a premium of \$7 million.



*Exhibit W: Value Growth Opportunity*

In addition to having a supportable justification for where you place in the Range of Value, the Triggering Event presents you with a specific list of actions holding your valuation down, which is any value factor scoring below four. That alone is worth the entrance fee.



Some professional valuers suggest the Strategic Value = Simple Math formula is not technical enough. They feel I have overly simplified business valuation. Being overly technical at this stage is not the purpose. All you want right now is to get a sense of the strategic Range of Value for your business to create awareness and provide some basis for strategic discussion, and an idea of the potential wealth you can create by investing time and money to implement value enhancement.

After completing the Triggering Event with this owner, I told him I was very confident, given the information from his analysis, that his business would sell today between \$11 million and \$12 million, although the terms might not be in his favor because his attractiveness and readiness were below the midpoint. I was also confident that value enhancement, in his particular case, could potentially be worth another \$30 million in business value. Just getting his numbers to average could add \$7 million in business value and \$800,000 in additional earnings annually—all pretty compelling, if you ask me. I suggested he focus on using Value Acceleration to get both his Readiness Index and Attractiveness Index to a score of 67% or higher. If we could accomplish that, it was very likely to result in an accelerated improvement of his sales and earnings, which would result in an accelerated increase of his business value, while positioning him to successfully unlock that wealth through a transition. Most owners I know would be willing to put \$100 on black to achieve those kind of results.

## ➔ CHAPTER 11

# GATE ONE | DISCOVER: CREATING ACTION PLANS

*You must form a clear and definite mental picture of what you want;  
you cannot transmit the idea unless you have it yourself.*

— Wallace D. Wattles

**WHY DO SOME COMPANIES REPEATEDLY** get things done while others continually fail to achieve their plans? The answer: *poor execution*. Unless we execute, the best strategies will fail. Failure to execute is a threat to your exit strategy.



Upon completion of the Triggering Event, you learned what your business is worth today and have a list, usually a big one, of value-creating actions to transform your life and drive your business's value toward being best-in-class. Time to take a look at how to prioritize this list and execute the actions to get you where you want to be: attractive and ready. In this chapter we'll learn how to use a series of superefficient workshops I designed to laser-focus your team on value growth and begin the process of creating a culture of Relentless Execution.

In my opinion, this is where a lot of the literature about maximizing value and exit planning, and many of the tools, fall short. I have found that owners intuitively know what needs to be done to improve their businesses. That's not the problem. The more common issue is you and your teams get caught in the whirlwind and focus too much time on unimportant priorities, some of which are urgent, but mostly are not urgent. You need a management tool to keep you grounded in action. Value Acceleration is the answer. It will help you protect what you already have, build value, and position you to harvest your wealth when that day comes.

Most likely your present management tool (if you have one) focuses heavily, if not exclusively, on income. Most likely it doesn't integrate personal and financial planning either. To change this, your culture will need to change. Your core and extended teams, both personal and business, will need to learn, practice, and test these new concepts for Value Acceleration to be truly internalized.

Before you pass through Gate One, you need to sort through all the value enhancing actions to improve earnings, your multiple, and ultimately your business value, and create two *90-day Action Plans*, one for your business and one personal, and two teams, business and personal. Your first 90-Day Sprint will likely be dedicated to organizing and creating your Action Plans. This will get you and your teams deliberately working on value growth.

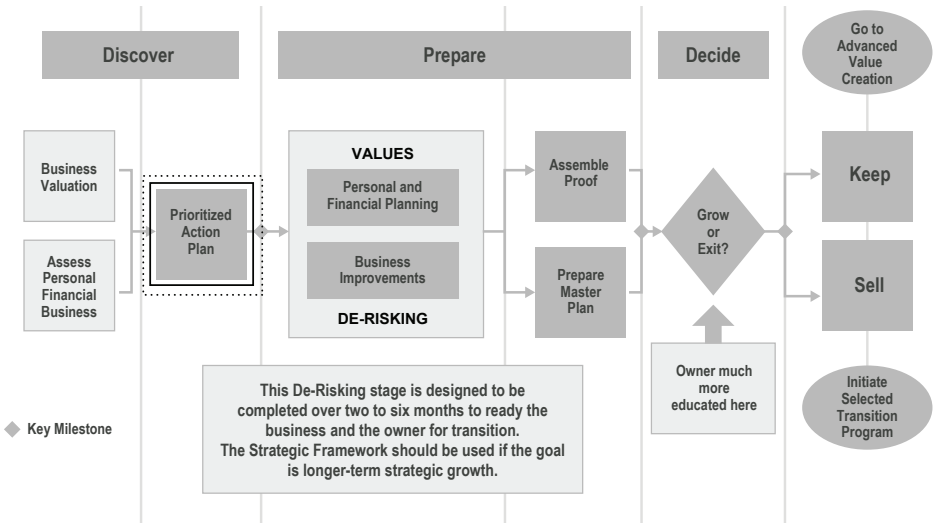


Exhibit X: Prioritized Action Plans

## Organize Before You Act

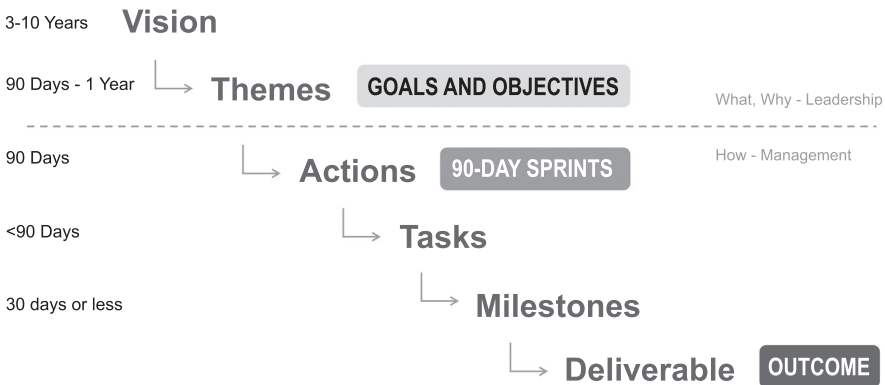
Resist the urge to take a shotgun approach. That will result in disorder, frustration, and lack of accomplishment. You need to make sure you are doing the right things at the right time in the right order. And you want to make sure your team is capable of accomplishing any action assigned to them. It's a common mistake to expect your team to just jump on board and start cranking out actions to increase value effectively, right from the beginning. That's just not realistic. They will likely struggle in the beginning. Don't give up on them; they are learning a new behavior. After they have completed a few 90-Day Sprints, most of your team will learn, develop a rhythm, and become more effective.

To relentlessly execute, you need to be purpose driven, well organized, and laser-focused. The entire team needs to be connected to your vision, so you need to focus on vision first. *Vision inspires action.* More importantly,



vision sustains action. When your team is down and out and frustrated, it's the vision that keeps everyone inspired and energized.

Your goal in developing the Action Plan is to connect these business and personal visions to specific actions you can complete every 90 days to move you toward realizing your vision. In fact, the whole purpose of a plan is to create a road map showing how to realize your vision. But you need to tackle that by eating the elephant one bite at a time. In this planning process, you connect your vision to themes. Connect themes to actions. From actions come tasks. Completion of tasks achieves delivery of milestones. Milestones produce deliverables.



*Exhibit Y: Integrated Action Plans*

Vision should be three to ten years out. Themes are 90 days and annual. Actions are scoped to produce deliverables every 90 days. Tasks are scoped to less than 90 days. Milestones are set in no more than 30-day increments.

Deliverables represent completion of an action. Milestones represent interim deliverables, which indicate if you are on track to produce the 90-day deliverable. These milestones are important because they help you to look through the front windshield and predict if the outcome of an action



is likely. Tasks are the detail steps needed to complete the milestones and deliver the 90-day action.

Organize your actions, personal and business, into themes. For example, Improving Marketing might be a theme, or Management and Staff Development, or Documentation, or Personal Planning. Use the Business Planning Pyramid (chapter 8) or the 4Cs (chapter 6) as a guide to organize your business themes. Also establish personal (and financial) themes. Remember, you will implement prioritized actions on two concurrent paths: personal and business. Organizing your actions by themes helps you see the forest from the trees, connecting each 90-day action to a bigger purpose.

## Workshops, Not Meetings

I recommend using workshops, not meetings, to prepare your Action Plan. What's the difference? A workshop

- gathers the right people,
- has time constraints (two to three hours),
- encourages input and defines outcomes,
- facilitates buy-in,
- is conversational (mindshare), and
- promotes decision-making and *action*.

A workshop produces a deliverable or a milestone and has a different tone. Who wants more meetings? I know I don't. In a workshop, you go beyond communicating. You robustly debate; you make decisions and leave with a set of actions everyone is aligned to. Workshops are a management tool to help you and your teams

- articulate your personal and business visions and ensure they are



connected,

- establish three-to-five-year goals and objectives based on the themes discovered in the Triggering Event,
- establish one-year targets and initiatives, and
- create a 90-day Action Plan, which is implemented in 90-Day Sprints.

It's through this series of workshops you establish priorities, align your team, and establish metrics and rhythm to begin Value Acceleration. A well-thought-out Action Plan requires that you complete 14 workshops, 7 personal and 7 business. I know that sounds like a lot of time, but it isn't really. Would it sound unreasonable if I told you that you could complete a Business Plan and a Personal Plan that connects your vision to the five most important actions you can take in the next 90 days in just 14 to 21 hours? Using workshops (versus meetings) is superefficient. One reason is that they have a time limit of two to three hours. Upon completion of these workshops, you and your teams will be extremely well organized and laser-focused, two critical success factors for Relentless Execution. For additional guidelines on how to facilitate these workshops, go to [www.WTDDownloads.com](http://www.WTDDownloads.com) and download *Guidelines for Conducting Workshops*.

## **Guidelines for Choosing and Setting Priorities (Your Big Rocks)**

Your goal is to come up with *no more* than five personal and five business actions to implement in 90-day bursts of actions called 90-Day Sprints. But what should you do first, second, and third? How do you prioritize and choose your Big Rocks?

When organizing your actions, first separate strategic from nonstrategic actions. Defer strategic actions until after you get some experience with



Value Acceleration. Strategic actions require that you invest significant time, effort, and money, and it may be years before you achieve the target return on investment.

Your first set of priorities (actions) should be targeted at protecting what you already have (Protect Value in the Value Maturity Index) through **de-risking**. By simply removing risk from your personal situation, your personal finances, and your business, you increase value. Remember, any element of risk decreases value. Plus, de-risking activities are usually fairly easy to implement and help build momentum. These are things like planning for unplanned events (5Ds), contingency planning, completing an enterprise risk assessment, evaluating your insurance requirements, documentation of standard operating procedures (Structural Capital), reviewing customer contracts (Customer Capital), and addressing dependencies and backups (Human Capital).

## Setting Priorities



Exhibit Z: Setting Priorities



Here's an example. One of my clients had a customer-concentration issue, which can be a deal killer. Solving customer concentration is a strategic action. It cannot be solved short term. About 30 days after setting their 90-day personal and business actions, I hosted the end-of-month Accountability Workshop. That day, they told me they were going to hire a marketing person. I asked why they were doing that. It was not included in our 90-day Action Plan. Further, I asked why they would do that knowing they were planning to sell the business in the near term. They responded by saying that I had stated in the Triggering Event management conclusions that customer concentration was an issue.

Rather than sticking to the plan, they decided to hire a marketing person to begin the process of diversifying their customer base right away. I responded by explaining that hiring a marketing person is a strategic initiative.

Rather, in our Business Actions Workshop, we decided our most immediate priority should be to focus on locking in contracts with their current customers (an act of de-risking). I also suggested that developing a written diversification strategy might be something to take on in the following 90-day period (again, another de-risking action). That strategy *might* include hiring a marketing person, but it would depend on how long they decided to keep the business and continue growing it. If they decided to exit versus keep it, having a written strategy to diversify the customer base and written transferable contracts with existing customers would likely be enough to de-risk the situation. Additionally, these two actions could certainly be delivered in the first two 90-Day Sprints.

Do you see the difference?

It's important to keep promises, so keep the scope of your actions to small, incremental 90-Day Sprints. It's better to exceed the goal than miss it, especially in the beginning when you are building momentum. Here's another example of what I mean. After completing the Triggering Event for a client, I learned that two of three partners did not have a personal



financial advisor. How could we move forward without a financial advisor for all the partners? We couldn't. It's a key role in the Value Acceleration Methodology. When setting priorities, all I asked them to do in the first 90 days was interview several advisors and pick one. That was certainly something that could be completed in 90 days in addition to all the other work on their plate. I didn't ask them to complete a whole Financial Plan. That would have been too aggressive. Perhaps, I suggested, they could do that in the next 90 days after the financial advisors were engaged and up to speed with their personal and financial goals.

After de-risking, your next priority is to evaluate your business and personal models to determine whether they are aligned to your visions and either update or build integrated business and personal strategies. At some point you will want to merge these to create your Master Plan.

The next set of prioritized actions should focus on efficiency. Why? You need a scalable architecture and the competencies to grow. Otherwise, you risk the organization and the systems collapsing because they are not prepared to absorb the increase in sales that will surely come with Value Acceleration.

Working on business efficiency also generates cash that can be used to fund longer-term strategic initiatives, which require more time, effort, and money. Business efficiency doesn't just include improving processes. It also includes improving your talent, customer delivery, and Social Operating System and usually requires new technology and getting your people trained.

Once you have de-risked, updated your model, and improved efficiency, you are ready for growth, the fourth priority. Growth initiatives are strategic. Some of your efficiency actions are strategic as well. You don't want to take these on until you have had some experience and internalized the Value Acceleration Methodology. My recommendation is that you defer efficiency and growth strategic initiatives until you have completed two 90-Day Sprints successfully. This means you are probably 9 to 12 months into the methodology.



I bet you are probably thinking, “Wow ... I have to go 9 to 12 months before I start growing?” Simply, yes. You need time to *prepare* for growth. After two 90-Day Sprint cycles, you and your team will be much more aware of your organization’s strengths and weaknesses. You will be in a much better frame of mind to make strategic growth decisions with a much greater probability of implementing them. Nine months into the methodology, the de-risking and efficiency actions you implemented in the first few 90-Day Sprints will improve scalability and be producing increases in value. Think about it. If you hold true to the system, you will have refreshed your vision, organized, trained, aligned, and laser-focused your teams in your first three months. If you execute well, in the first six months you may have already implemented ten personal and ten business actions to align your three legs (personal, financial, business) and grow your value and income. That alone is pretty significant, especially if your organization doesn’t have a proven track record of producing expected results.

The final priority is culture. You may ask why culture comes last. Shouldn’t developing a winning culture be first on your list? You don’t build a culture; you realize it. Changing a culture is a long-term, strategic outcome. It can take years to develop strong Social Capital. As your organization improves and internalizes Value Acceleration, your culture will evolve. You can’t force culture. You cannot command “it shall be.” It comes from success, winning, team play, rewards, and hard work.

Realize that not everyone on your team today may survive the change. You probably have already been thinking of specific players on your team who will hinder progress. And it’s true, a few will resist (expect about 10%). You may need to make changes. As Uncle Freddie, one of my first mentors, use to say, “*People change*, or *people change*.” The Value Acceleration bus is leaving the station.

On the other hand, some of your Vital 70 will begin to shine. They will begin to stand out. And your A players (your Top 20%) will flourish. The only way to find out is to enable them with tools, education, and



opportunity, then challenge them. From there, you'll see who flies and who doesn't.

You want to see your team excel. I get it. I like seeing my team flourish too. Chances are, you are willing to give them training and invest in them to help them succeed. But as the company grows, all of them may not be willing or able to grow with it. You may need to bring in new skills and new people to shore up your present team's weaknesses.

## **Action Begins with a Compelling Vision—Personal and Business Envisioning Workshops**

Post Triggering Event, you should immediately complete two workshops: a Personal Envisioning Workshop and a Business Envisioning Workshop. Do them on your own first or with a facilitator such as a CEPA. You might also consider inviting key members of your core team, which could be your spouse, children, and partner(s), to participate. You generally will not include your management and other advisors at this point, primarily because these first two workshops are highly personal. They require some soul-searching and that you dig deep to grasp and articulate your life and business long-term goals while exploring the reasons you strongly feel one way or another. For now, you are simply capturing your vision to be able to articulate it to your team in the next set of workshops. Take these steps prior to the Envisioning Workshops:

- Revisit your attractiveness, readiness, and business valuation.
- Group your actions into themes (e.g., Customer, Marketing, Operations, Finance, or Human, Customer, Structural, Social—don't forget Personal and Personal Financial).
- Do some soul-searching. Find a place to reflect on where you see yourself and your business in ten years, and write down your



thoughts and ideas.

- Document four to five opportunities to exceed your plan and four to five risks that threaten your ability to achieve your ten-year personal vision and ten-year business vision.
- Write your core values, personal and business.
- Think about an example (a story) where you have demonstrated your commitment to your core values in the last 90 days. This brings your core values to life.
- Using the brand statement example provided in chapter 8 as a guide, write a mission and core purpose, both personal and business.
- Why do you believe in this mission? Why do you think you can achieve it? Do you have any proof that you can achieve it?
- Why are you passionate about this mission? Explore your centers (e.g., family, money, self), thinking out ten years.
- Set a few three-to-five-year quantitative targets: for personal and financial, these might be net worth, annual income, written Personal Plan, relocation, health targets, etc. For business, they might be business value, sales, gross margin, EBITDA, growth rate, market share, headcount, revenue per employee, etc.
- Write the names of your personal and business core teams and extended/secondary team members for each. You will invite the core team (inner circle) to your next set of workshops.

Approach running your life like you run your business. Completing a SWOT analysis, setting core values, stating your mission and core purpose, and setting three-to-five-year targets is needed for both business and personal planning.

In the next set of workshops, you will connect your vision to your 90-day prioritized actions, which are called *Big Rocks*. You will assign responsibility,



consider options, resources, and cost benefits, and establish milestones for each 90-Day Big Rock. That 90-day Action Plan will be recalibrated every 90 days in the Prepare Gate.

## **Creating Your Action Plan—Six Weeks to Better Business (and Personal) Workshops**

The primary objective of the next 12 workshops (six personal, six business) is to establish no more than five personal and five business actions to complete in the next 90 days.

I realize that the reality is you and your team have many more than ten actions to complete in the next 90 days. What I am asking you and the team to define are the five personal and five business actions that are the *most important*. This is where trade-offs are considered, and hard choices need to be hashed out with your core team. This is why it is so important to involve others in setting these priorities. It is not mandatory that you set five actions for both personal and business. You can decide on something less. For example, if you feel that a particular action in the next 90 days is particularly important, and you want nothing else to distract the team from that one action, then choose only one. By selecting only one, you will clearly emphasize how important it is. In some cases, your business may already be growing, and you simply don't have the time right now to focus on ten improvement actions. These are real-life challenges.

The point is you need to prioritize well and commit to completing these actions. What you don't want is for 90 days to pass and then hear, "Well, I didn't get to that because I was working on something that was not on the top five list." That's a no-no and a reflection that you didn't pick the right top five—you overscoped, or you were just not committed enough.

This will be an enlightening process for you. Sometimes you find you get reinvigorated about the business and your life and decide you don't want



to leave the business at all, even if that's not what you expected when you started this. I have seen owners reengage with the same energy they had when they first started out. In other cases, I've seen owners become aware of their lack of passion for the business at this stage of their lives, ultimately deciding to expedite their exits.

I was working with an owner several years ago, and this is just what happened. She had expressed to her CPA that she wanted to sell because she was feeling frustrated, burned out, and alone. This started to bleed into her team. Secretly, what she was really hoping was that our focused process would deliver a burst of energy to her and her team and that she would come out the other side reengaged.

We went through the Triggering Event and determined that her business was saleable but, of course, not at the price she was hoping for. I pointed out to her that we identified many opportunities to improve the business. It would take time and investment, but if she worked on these value-growth opportunities, she could drive up the price and value of her business in the marketplace.

I suggested we defer the decision to go to market for six months (two 90-Day Sprints). Instead, her first set of priorities should focus on de-risking actions. "It's work we would have to do anyway to get the business ready for market, so the time would be well spent whether you keep it or sell it. Let's just save the conversation about exit until after we have completed a couple of 90-Day Sprints," I suggested. She reluctantly agreed and put the sell decision on the shelf.

We completed the personal and business workshops choosing five personal and five business actions to be completed in the next 90 days. As I guided her and her team through the next two 90-Day Sprints,



the management team members exceeded their goals, hitting all their milestones and producing all their deliverables on time. The owner had not met any of hers. It was clear she was caught in the whirlwind. It was a bit embarrassing for her, so I asked if we could meet privately.

“What’s going on?” I asked.

She had all kinds of excuses.

“What’s *really* going on?” I asked. “We agreed, didn’t we, that these actions assigned to you were a priority. Are we choosing the wrong things?”

“No,” she said. “These are the right things.”

“Then why aren’t you getting them done?” I asked. “I know you. When you view something as important, you get it done.”

“It’s sinking in that I have lost my passion for it. There are so many other things I would like to be doing, and I just don’t have time. I know now I really want out.”

“Okay, fair enough,” I said. “You’re not engaged anymore. It’s cool. It happens. Let’s focus our next 90 days on actions to get into something new.”

Remember in chapter 10, when I said one of the big deliverables of the Triggering Event is clarity? 90-Day Sprints also deliver clarity. This exercise helped this owner figure out what she really wanted, or, more accurately, what she didn’t want anymore. The decision to leave the business was clear now. We moved in the direction of exiting the business with rigor and six months later, sold it. She didn’t get the price she wanted, but she got something much more valuable than that: peace of mind and new life.



Below is a description of each of the workshops included in the Six Weeks to Better Business (or Personal Planning) workshops series, which were in part inspired by the book *Mastering the Rockefeller Habits* by Verne Harnish. Your core teams, including your key people, personal and business, should participate in the workshops. This is the time to bring them into the picture.

The personal and business workshops will likely involve different people. You should complete all six workshops for business and for personal, totaling 12 workshops, over 90 days. Alternatively, you can complete them over three days each by doing two per day. Sometimes we do it this way when core team members travel in from out of town. Each workshop should be timed and should last no more than three hours. If you are using a facilitator, which I highly recommend, the facilitator will take notes and publish the decisions and results. If you do use a facilitator, make sure you use someone who has experience, like a CEPA. This is a big investment, not just in money and time. You want a great result.

### **WORKSHOP 1: EDUCATION**

**Deliverable:** Team educated on the Value Acceleration Methodology

This includes overall education on the process and the expected outcomes of each workshop, the roles of each person participating, and some general education on how to manage the growth process, both personal and business. Usually, different teams are involved for personal versus business. Both should include key people in your personal life and business. Summarize the results of the Personal, Financial, and Business Assessment and valuation. Share a summary of the strengths and weaknesses and themes. This is your first opportunity to begin teaching your teams about value.



**WORKSHOP 2: STRATEGIC  
FRAMEWORK I—FOCUS  
ON THE THREE-TO-TEN-  
YEAR VISION**

**DELIVERABLE:** Three-to-five-year goals and priorities

You will begin this workshop by sharing with the team the output from your Envisioning Workshops, which will include opportunities and risks, core values, vision, and targets. This is your opportunity to inspire the team and begin the process of connecting them to your vision. After you share your vision, ask your team to comment. Write all this stuff on flip charts, and hang them up around the room. Time each section so that you can complete the workshop in no more than three hours. Include the following in your output:

- Share/validate opportunities and risks.
- Share/validate core values.
- Share/validate core purpose/  
Primary Aim.
- Share/discuss actions (deliverables) you have completed in the last 90 days that demonstrate your commitment to your core values.
- Share/validate your ten-year goal.
- Validate your three-to-five-year quantifiable targets (for business: value, revenues, profit, market share; for personal: net worth, annual income, needs vs. wants) and your two areas where you think you can dominate.
- Share/validate your brand statement.
- Define three-to-five-year capabilities (priorities) to dominate and reach three-to-five-year targets.
- Define metrics that provide you feedback.



**WORKSHOP 3: STRATEGIC  
FRAMEWORK II—FOCUS  
ON THE NEXT YEAR  
AND 90 DAYS**

**DELIVERABLE:** One-year goals and 90-day prioritized actions (no more than five personal and five business)

With your vision shared and bought into, drill down to establish one-year goals that reflect what you need to achieve in the next year to move toward realizing your vision. Then set no more than five personal and five business actions to deliver in the next 90 days to move toward achieving your one-year goals. Write all this stuff on flip charts and hang them up around the room. Time each section so that you can complete the workshop in no more than three hours. Include the following in your output:

- Define annual one-year targets (quantified, e.g., revenues, profits, net worth, personal income).
- Define no more than five key initiatives (priorities) over the next year.
- Define next 90-day targets (quantified, e.g., revenues, profits) and top five 90-day priorities (actions).
- Define a few key performance metrics (KPIs) that measure progress and provide feedback for both the next year and the next 90 days.
- Using priorities, KPIs, and targets, establish a 90-day theme, design a scoreboard, and decide how you will celebrate your accomplishments.
- Assign each priority to a champion.
- Assign the work to be prepared for the next workshop (Opportunity Assessment).

**WORKSHOP 4:  
ALIGNMENT****DELIVERABLE:**  
Opportunity  
Assessment

This workshop is primarily focused on those who were assigned a 90-day priority—the champions—although other stakeholders may attend. Each champion will describe their plan to complete the action using the Opportunity Assessment format. Start the workshop by confirming the top five priorities. Each champion takes a turn and presents the following for their action item:

- Description of action, history, and why it is important. What problem are we trying to solve or what opportunity are we trying to jump on?
- Alternatives considered.
- Suggested action from the alternatives considered.
- High-level cost-benefit.
- Timeline and team structure.
- Three to five milestones.
- Description of the deliverable.
- Define and commit resource requirements.
- Define who is accountable for each task on the plan.
- Name an accountability buddy.



### **WORKSHOP 5: METRICS AND FEEDBACK SYSTEM**

**DELIVERABLE:** Individual and company dashboards

In this workshop, you will develop a handful of key performance metrics that will provide weekly, monthly, and quarterly feedback. You continue to align the team to these metrics and develop a company dashboard.

- Confirm the 90-day theme.
- Define success factors.
- Define key metrics.
- Design (create) dashboards: personal and company.
- Discuss/agree on how to make the dashboards visible.

### **WORKSHOP 6: RHYTHM**

**DELIVERABLE:** Meeting & workshop rhythm

In this final workshop, establish the meeting and workshop rhythm to be used by the personal and business core teams.

- Midmonth check-in one-on-one session.
- Monthly Accountability Workshop.
- 90-Day Renewal Workshop.
- Set 90-Day Renewal Workshop date.
- Assign ownership of the calendar.



With delivery of this Action Plan, you are prepared to begin the transformation of your vision to reality. Consider the knowledge and clarity delivered to each key member of your personal and business teams who participated in this process, which you completed in only 90 days or less. You sorted through all the value factors that are holding your value down and grouped them into themes. You produced a prioritized list of no more than five business and five personal actions to complete in 90 days. These actions are now aligned with your one-year goals, your three-to-ten-year vision, and your core values and purpose.

## Stepping Through Gate One

The assessment and business valuation delivered in the Triggering Event and the completion of these workshops, creating a Prioritized Action Plan, represent the deliverables in the first gate (Discover) of the Value Acceleration Methodology. Now you need to execute! Without Relentless Execution, all your plans are pointless. Let's move to Gate Two, Prepare, and learn how you can deliver and sustain action to keep you moving toward achieving your destiny.



➔ CHAPTER 12

# GATE TWO | PREPARE: DELIVERING ACTION PLANS

*Execution is the greatest unaddressed issue in the business world today. Its absence is the single biggest obstacle to success.*

— Larry Bossidy and Ram Charan

**THE FIRST CRITICAL SUCCESS FACTOR** to become a culture that executes relentlessly is putting together a well-thought-out plan. If you use the process I taught you in the last chapter you will have a very articulated road map of the actions and goals needed to achieve your vision. That alone will



provide a lot of clarity.

However, you know it, and I know it: As important as planning is, the act of planning does not deliver results. You want results—not fancy plans. Results only come when you put your plan into action and deliver. The inability to execute a plan, to overcome the hurdles you will most certainly face, is why a lot of plans never produce expected results. Why is that so often true?

Well, first, *things never seem to go as planned*, do they? You start out all pumped up and ready to rock, and then something that you didn't predict, something unplanned, happens. Some of these might be in your control but many are not. You lose a major customer or employee. Some key person has a health issue or dies. Or maybe something as wild as a pandemic hitting—who predicted that? I know I didn't.

In the three years prior to the pandemic, EPI was growing at a compound annual growth rate of 42%. We were on fire! Then March 2020 hit, and we had millions of dollars of prepaid sales and no way to deliver our product. Our distribution path literally shut down. I didn't predict that! But because EPI's operating model is fast and flexible, my team was able to pivot, quickly creating an entirely new distribution path in just 45 days. And it certainly helped that the investments we had made in our 4Cs resulted in strong relationships with our customers, who worked with us to help the company stay on its feet, and a strong internal team and culture, prepared to respond to the urgent call for action. My team's performance was creative, gritty, and downright heroic. Disruptions, small and large, take you off track. If you don't regularly recalibrate, you stay off track.

Second, sometimes you go off the rail because you realize as you proceed through your 90-Day Sprints that your vision has changed. Maybe you changed your mind, or maybe you just didn't dial your vision in well enough. For example, when I set out on my corporate career, I was all in on my vision to become a C-Level executive in a big corporation. At the time, that's what I really wanted. I took deliberate and sometimes risky steps to



make sure I was heading in that direction. After 20 years in corporate, I arrived at my desired destination.

Yet, after the experience I had working in a privately held company and working with my son who is a born entrepreneur, I realized that I had climbed the wrong tree. I didn't want to be a corporate executive anymore. I wanted to be a business owner and be in a business with my son. My vision of who I was and what I wanted changed. After some soul-searching, I recalibrated. I created a new vision, and I left big corporate to become an entrepreneur. It took me several years to get back on track, but my belief and passion and the support of my family and friends carried me through.

Planning is important. I am not implying it isn't. Yet, things change, and stuff happens that take you off track. That's just real life. But if you have a system that helps you recalibrate and pivot quickly, you can get back on track, and sometimes it may even be a different track. This is the whole point of using 90-Day Sprints in the Prepare Gate. The Prepare Gate has been designed to help you become *fast and flexible* to get you back on track or on another track when things go off the rail or when you simply change your mind. It also brings your vision back to earth and challenges you every 90 days to ask yourself: Is this what I still want? Plans are static. They reflect what you know at that point in time. But the reality is, today's world, more than ever, is dynamic.

This chapter will show you how you can deliver that kind of focus, reinforcement, accountability, and resilience and how to sustain momentum by spending just four to six hours a month managing and recalibrating your most important actions every 90 days.

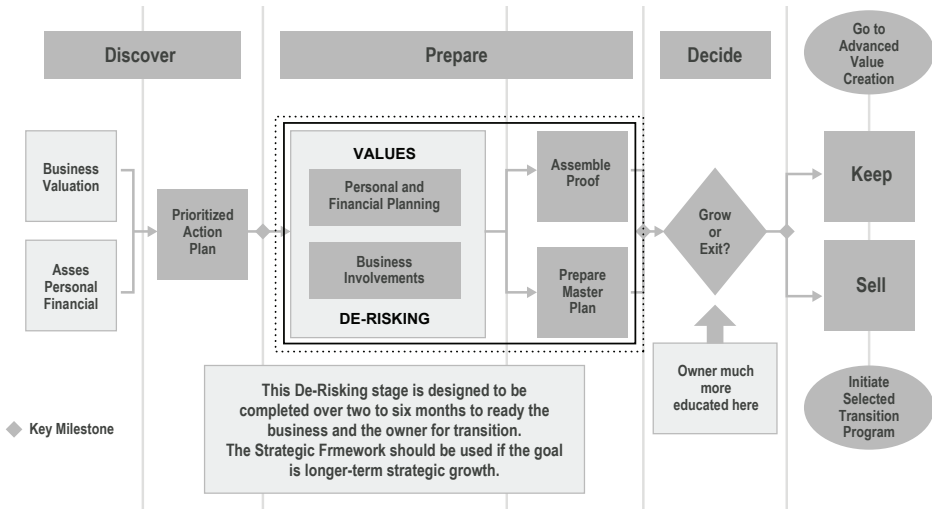


Exhibit AA: Gate Two: Prepare Gate

Think of the Prepare Gate as a series of 90-Day Sprints toward accomplishing ten prioritized actions.

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■ **A 90-Day Sprint** is a continual loop of prioritizing, executing, measuring, reconnecting, and recalibrating every 90 days.

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You will move on the two concurrent paths, personal and business, and recalibrate every 90 days. If you have completed the workshops in Gate One properly, these 90-day actions will be the means to accomplish your one-year goals, which lead to accomplishing your three-to-ten-year vision.

To help you execute your plan, I created a series of workshops designed to manage your time efficiently and reinforce action to accomplish your priorities. You use three types of workshops in the Prepare Gate.



## Midmonth One-on-One Check-In Workshop

Each month, hold a *Midmonth One-on-One Check-In Workshop*. These are individual sessions with your champions. Once a month, carve out a morning or afternoon, and host a workshop to check how well your champions are making progress toward their 90-day deliverable and the milestones due each month. You can meet with all of them in a two-to-three-hour period if you keep the dialogue to 30 to 45 minutes each. Are there hurdles that you can help remove? Do they need some education? Maybe they need some time with you to brainstorm their next actions. You may need to share an example or help them work through the design or delivery of their solution.

Use this time to help them succeed and prepare for the Team Accountability Workshop, where they will each need to present a status report to the entire team at the end of the month. You can accomplish this with something as simple as a phone call or Zoom meeting. I prefer face-to-face. With the workshop, there is no agenda per se, but there should be a planned outcome. Let your champion decide what they want to accomplish with you. But make sure at the beginning it is clear what your deliverable is for the workshop. Remember, workshops, not meetings.

The main purpose of the Midmonth One-on-One Check-In Workshop is to provide guidance, if needed, to help your champions prepare to deliver a project status report at the end-of-month Team Accountability Workshop. This usually involves reviewing one of the milestones they were scheduled to hit in the current month.

If you check in and your champion indicates everything is good to go, it may not even be necessary to continue with the workshop. Workshops that don't have a purpose are meetings. *You don't want a meeting.* If you are going to spend time together, make sure something is accomplished. But beware—your champions may be saying it is not necessary to have the workshop because they want you to *think* everything is okay.



Have the Opportunity Assessments your champions created in Gate One with you. With the Opportunity Assessment in front of you, ask them some specific questions. Does the description of the action still make sense? Have you received all the resources you said you needed? Does the cost-benefit analysis still seem realistic? Are you still on track to hit your milestones? Answers to these specific questions will allow you to assess whether things are on track or not. If you are the champion, use this time to assess your own progress or meet with your accountability buddy.

I inserted this midmonth check-in step into the 90-day improvement cycle because it's very likely many of your champions will struggle with execution in the beginning. They may show up at the end-of-month Team Accountability Workshop with missed milestones, excuses, and poor presentations. This becomes frustrating for you and the others on the team who accomplished their milestones and prepared properly. The check-in provides you an opportunity to meet with your champion in advance, one-on-one, before the team status deadline, to make sure they are on track and reinforce your and their commitment to delivery. This avoids awkward and embarrassing situations at the monthly accountability workshops, which need to be crisp and positive to be effective. Over time, your team will get better with these processes after they complete a few cycles of the Value Acceleration Methodology and your culture starts to evolve.

Don't forget about your personal actions. You will facilitate these same Midmonth One-on-One Check-In Workshops with your personal team too. Now, you might be thinking, "Wow, this is *a lot of time* I need to spend. Can I do this as a team workshop instead of one-on-one with each team member?"

You can, but I would not recommend it. The "one-on-one" is that special time that you and your champion get to spend to really laser in on the action item. It is an opportunity to teach, encourage, and motivate, which is really important. It gives your champion time to pick your brain and have your full attention. To ensure your time is well spent, you need



to reinforce adherence to the system. If someone calls for a meeting, ask them if it can wait until the midmonth check-in workshop, where you will have already reserved the time and they will have your full attention. Doing this develops discipline. It also teaches them to carry on without you and to make decisions without you. That's good for their development and addresses the owner-dependence issue in many middle-market businesses.

If you are short on time, consider bringing in a CEPA to help you. I have played this role for many owners over the years. Owners have asked me to help oversee some, or even all, action items and teams, and we split up the workload. It just depends on how much time you want and have to spend. CEPAs can do this with mature and deeply talented management teams as well as immature, first-line managers in small businesses.

Justifying a CEPA, or any outside advisor, for that matter, really depends on your point of view. Do you view your advisors as an expense or an investment? If you don't view the advisors working with you as investments, you should get new advisors. Advisors should be held accountable to produce, just like any employee in the company. They need to produce more resources than they consume. If you (and they) can't see that, you probably don't have the right advisor sitting at your table.

## **The End-of-Month Team Accountability Workshop**

The midmonth workshop is your time to spend one-on-one time with each champion. Every 30 days, hold a full team workshop, which is called the Team Accountability Workshop, where each champion presents the status of their prioritized action(s) to the entire team. If possible, I like to have them prepare a PowerPoint to present to the team. This forces them to really think about where they are, be professional, and articulate so that an accurate description of the status of their priority can be presented formally to the rest of the team.



For my clients and employees, I provide a template for this. You can prepare one yourself or have one of your champions prepare it. Have everyone on the team use the same format. The first time, it will take some time to design it. Thereafter, it will be a piece of cake. This also encourages ownership. No one likes to be embarrassed coming into the workshop unprepared. This also encourages team accountability. If four of your champions have prepared properly and one has not, peer pressure is generated on the underperformer. Or perhaps the underperformer really has an issue completing the tasks associated to their priority, and by their lack of preparation or effort, you have clarity they truly need help. I have seen great teams rally in support. The emphasis of the presentations is to demonstrate their progress toward achieving their milestones and 90-day actions. Are they on track? If not, why not? If so, let's recognize them and celebrate their accomplishments.

Below is an example of an agenda for a Team Accountability Workshop:

#### Milestone 60 Day Check-in Workshop

November 6, 2018

Time	Description	Leader	Comments
200-230	Review the updated Business Roadmap	LB	Review 1-year initiatives and targets Overview of 90-Day Priorities and Champions Confirm Q4 info - LB Theme and Reward identified? MH/RK
230-345	90-Day Priority Updates	MH RK RH LB	4 priorities, 15 minutes each. What are the milestones for each priority and what is the current status?  PLEASE NOTE: THIS TIME SLOT DOES NOT ALLOW FOR ISSUE RESOLUTION; ONLY ISSUE IDENTIFICATION (if any). IF THERE IS AN ISSUE, I.E. MILESTONE WILL BE MISSED, RESOURCES NOT AVAILABLE, EDUCATION NEEDED, ETC., IT SHOULD BE IDENTIFIED AND TAKEN OFFLINE.
345-415	Summary Actions & Next Steps	CS	Schedule next 90-day renewal check in workshop. Summarize and agree to follow up actions

*Exhibit AB: Sample Team Accountability Agenda*



## The 90-Day Renewal Workshop

At the end of the 90-Day Sprint, replace the end-of-month Team Accountability Workshop with a 90-Day Renewal Workshop. Some of my clients, and in fact my own company, prefer to make this a half day or full day and host this workshop off-site. It gives everyone a chance to gather outside the office and do some team building. Team building is an additional benefit of this workshop. You might even consider adding a recreational team outing or a team exercise as part of the process. The spirit of this workshop is accountability and renewal. Below is an example of an agenda for a full-day 90-Day Renewal Workshop:

### *Sample 90-Day Off-site Agenda*

The Club at Key Center

730–830	Kickoff, management team exercise (John—Owner) (Continental breakfast)
830–945	Q2 accomplishments and disappointments John to do overview (15 minutes) Michelle (15 minutes) Patty (15 minutes) Joe (15 minutes) Sean (15 minutes)
945–1015	Break (30 minutes)
1015–1145	Revisit vision and metrics Identify Q3 top five priorities
1145–115	Lunch (out)
115–245	Finish top five priorities (prioritize and assign).
245–300	Break
300–330	Revisit vision, metrics, and rhythm
330–400	Wrap up

*Exhibit AC: Sample Full-Day Team Accountability Workshop Agenda*



### ***Accomplishments and Disappointments***

In the first part of the workshop, each champion presents their deliverable from the previous 90 days to the rest of the team. There is usually some short dialogue back and forth. Often, the discussion is around whether the deliverable is really done as it was originally defined at the beginning of the 90-day period. Or there may be discussion about why the priority was not completed or not fully completed. Remember, accountability is a learning process. Give the teams a little time to explain why they were able to accomplish their priority or why not. Time-limit the discussion. If further discussion is needed, write that as a follow-up action on a sideboard and assign it to someone. To wrap up this portion of the workshop, sum up the 90-day period by doing a simple exercise of accomplishments and disappointments. Write them on a flip chart, and hang them up on the walls. Note that if an action from the previous 90 days was not completed or only partially completed, and it is still a priority, it may be chosen again as a priority for the next 90-Day Sprint.

### ***Recalibrate Priorities***

After a break, look at your vision, your three-to-five-year competency goals, your brand statement, and your metrics. Given what has happened in the last 90 days, should anything be recalibrated or changed? Are there new strengths, weaknesses, opportunities, or threats? If so, write them on the flip chart and hang them up. You will consider these when you set your next 90-day priorities. Revisit your annual initiatives, targets, and metrics. Does anything here need to change? If so, write it on the flip chart.

Next, discuss *potential* priorities for the next 90 days. It's helpful to have the notes from the previous 90-day workshop in front of you. For advance prep, have each person think about and write down what they think should be the top three priorities or actions in the next 90 days before coming to



the workshop. Designate someone to facilitate and ask them to write all the actions on a flip chart. I like to facilitate this process using a system I call Green-Yellow-Red Light. Green Light is idea generation. During Green Light we are only looking for ideas. We are not judging whether they are good or bad ideas yet. We'll do that in Yellow and Red Light. Yellow Light means it may be a good idea, but there may be some issues or problems, or perhaps it is not high priority, or the idea has not been fully formed enough to be considered. Red Light is when we look at an idea and decide it is definitely not a priority—at least not now. In the beginning, stay in Green Light—idea generation, which encourages people to participate because their idea won't be criticized. Don't start debating the priorities yet or discussing why something can't be done or isn't worthy of being a top five priority. Once you have written all the possible actions (remember to time-limit this idea-generation time period) on the flip chart, hang the sheets up on the walls.

After another break, group the actions, keeping in mind your themes from the Personal, Financial, and Business Assessment. Now move into Yellow and Red Light, debating back and forth which actions should be established as top five. Put a time limit on the discussion. Reach consensus as best you can. Vote if you must, by having each person write a 1, 2, and 3 on three sticky pad sheets and post them on the actions they think should be priority 1, 2, or 3. After they do, stand back and choose your next 90-day priorities. If the group can't come to a consensus, you, as the owner, decide.

Bear in mind the process and interaction of the team are more important than the actual choice. Don't dwell on whether it should be this or that. Pick one within the time period allowed and move on. The idea that we are actually having this kind of discussion and making these kinds of choices is the most important benefit. You are only committing for 90 days, so it's not likely the end of the world if you choose one or two of these actions incorrectly. Besides, your goal is to create an operating environment that is



fast and flexible. If you make the wrong choice, you can pivot quickly in a culture of Relentless Execution. Typically, if a priority from the previous period was missed or only partially completed, it will make the top five list for this next 90-Day Sprint if it's still a priority.

Once a priority is chosen, determine who should be the champion for the action. Many times, it's logical. For example, if you selected a marketing priority, most likely the best champion is the marketing manager. Some people may volunteer to be the champion. If you are comfortable with the volunteer, approve it. If not, discuss it as a team. Sometimes people will volunteer for things they simply don't have time to deliver or are not qualified to deliver. Deal with the brutal facts and make the call. False kindness is not useful here.

Assign a scribe to the meeting, bring an assistant, or, if your workshop is facilitated by a CEPA, have them take notes, and distribute the notes after the workshop, including a list of follow-up actions, to everyone who attended. If you get stuck on something, put it on a sideboard as something that needs to be addressed after the workshop. Assign each action on the sideboard to a person who is responsible for following up.

### ***Metrics/Rhythm***

Before you leave, spend no more than 30 minutes revisiting your metrics and rhythm. How is your rhythm? Are communications appropriate and effective? If not, write down some actions to be followed up on later. Do the metrics you track need to be changed? What's your next 90-day theme? Write it all down.

Now, go back and use the process of creating Opportunity Assessments you learned in Gate One (chapter 11). Within one week after the 90-Day Renewal Workshop, hold a team follow-up workshop where the champions present their Opportunity Assessments. You should discuss their thought process for the analysis and justification for the prioritized



action, the resources required, the deliverable, and the milestones as a team. Often a manager may be the champion of one action and an extended team member on another. Discuss and work out resource constraints. Also, follow up on any changes you need to make to your metrics and company rhythm as a result of your new top five prioritized actions and decide on your 90-day theme.

Remember, you don't have to pick five. It can be less. If there is a really critical action or if there are resource limitations, you can pick fewer than five. Find your team's rhythm. Identify which one of the five is the most important and get consensus from the team.

You will perform a similar 90-Day Renewal Workshop with your personal team, reviewing your personal accomplishments and disappointments. Then select no more than five personal actions for the next 90 days, just as you did with your business team. Your personal team might include your spouse, children, and other family members who may not be active in the business. This gives them a chance to participate. If you have business partners, I suggest you do this together. It would also benefit you to include your personal financial advisor, and perhaps your legal counsel. If you have a life coach, they would be included. The more people from your inner circle, the better, as you will likely be assigning them one of the priorities.

### ***Too Much Time?***

One pushback I get on this delivery process within the Value Acceleration Methodology is "Chris, I don't have time for this." Yes, you do. You and your teams are most likely already spending too much time on not urgent *and* not important activities. What we're doing here is prioritizing your time and focusing your key resources on the five to ten most important things over the next 90 days that drive a five to ten times increase in your wealth. Once you build a rhythm with the workshops, it should take no more than four to six hours a month to execute them well. Is that an unreasonable



request of time to spend on your top five most important personal and top five most important business actions each month? It's not if you are really serious about building and unlocking the wealth trapped in your business.

## Update Your Scorecard

Once you have completed at least two 90-Day Sprints, rescore yourself using the Personal, Financial, and Business Assessment you learned in Gate One (chapter 10). Place the value of the business in the Range of Value that you started with as a baseline. You will literally see the quantitative benefits happening right before your eyes. By rescoring and relating this to your new, higher place in the Range of Value, you will witness the quantitative measurement of Value Acceleration.

## Sustaining Change—The Wow Curve

At this point, you may be thinking, “Chris, you make all this sound so easy.” I may be making it sound easy, but in reality, it's not easy at all! You are changing behavior and creating a culture of Relentless Execution. That will take a little time to internalize. Eventually, your team will develop a rhythm, a group flow, and a culture of Relentless Execution will evolve. At that point, it gets much easier. Prepare yourself and your team to power through the learning process. Set your expectations properly. Your biggest challenge during this developmental period will be sustaining the energy over the long term.

Craig West, an Australian CEPA, uses something he calls the Wow Curve as a brilliant tool to set expectations. His Wow Curve tracks enthusiasm as you move through the Value Acceleration Methodology. Owners usually come out of the Triggering Event very enthusiastic and with a lot of energy. You're thinking, “Wow, I have never looked at my business and personal life



this way.” This is reflected on the Wow Curve. Enthusiasm is usually at its highest. From this point forward, over a period of 9 to 12 months, you will notice the enthusiasm begins to slowly decline month after month. Around 9 to 12 months into the methodology, your “Wow Factor!” is at its lowest point. If a business is going to jump off the Value Acceleration bus, this is the time it usually happens. However, if you and they can get past this tipping point, you really begin to see the benefits of the methodology kick in. Growth becomes rapid, and massive wealth is unlocked.



Source: Craig West, CEPA

Exhibit AD: The WOW Curve

Why the decline? It’s because in the beginning everyone is excited to get going, but then reality sets in. Change is very difficult and can be as frustrating as it can be exciting. Early in the implementation cycles, you will be implementing actions that primarily mitigate risk. This second stage of the Value Maturity Index (Protect Value) is focused on de-risking. These



actions are fairly easy to accomplish, and you bank some early wins.

But as you progress past the Protect Value stage into the Build Value stage, the changes become more difficult to implement. You will begin working on changing your business model and implementing efficiency improvements and growth initiatives, which means *people will need to change* the way they do things. Even if you have prepared your team for the changes, which I recommend you deliberately do, few people have the ability and skill to adapt quickly. This can get a little frustrating for you and for your teams. Your key people start marching into your office saying, “I don’t have time to do all this extra stuff.”

If you can get past this tipping point, you are usually good to go. But you will need to lead your teams and help them power through this period and stay focused and committed. Once you are through the thick, it’s like the lights just come on one day. Everything just seems to start clicking. It always amazes me how this just seems to click in one day. Your culture evolves. You develop a rhythm. People stop viewing these actions as isolated changes and internalize them as “this is the way we do business here.” For owners, it’s incredible to watch your business evolve so deliberately. To get there, it will take resolve on your end. Just realize that. Take it 90 days at a time.

Aristotle once said, “We are what we repeatedly do. Excellence, then, is not an act, but a habit.” Our behavior is based on our decisions, not our condition. You can choose to adopt a process to help you focus on and execute the five most important things in the next 90 days. By being proactive, you can choose to follow through using the workshops I showed you in this chapter and demonstrate commitment. Commitment to delivering those actions will result in a behavioral change within your company, and that behavioral change will create a culture of Relentless Execution. Step up to the challenge, walk to your destiny, and step into greatness.

# GATE THREE | DECIDE: GROW OR EXIT?

*Life is a matter of choices, and every choice you make makes you.*

— John C. Maxwell

**YOU NEVER KNOW WHEN OPPORTUNITY** will knock. One day, out of the blue, you may get a call from someone like me who wants to purchase your business. Will you be ready?

If your Personal, Financial, and Business Readiness scores are low, you are not ready, and there can be serious consequences. You will not maximize the value of your business and your personal wealth at the time of exit. If you have not completed a Personal Plan for what you are going to do next



and have not considered how you will fund it, it is highly likely you will be bored and miserable and a lot less rich than you think. The likelihood that you will be like one of the owners in the Price Waterhouse survey who profoundly regretted the exit decision is very high. If you don't believe me, talk to other owners who have sold without having a written plan for what they are going to do next. Many wander around for years, wondering what to do with their lives. On the contrary, owners who have a *written* plan for what they want to do next and have taken steps to position themselves have wonderful next acts.

If you decide to sell to a third party, it is likely that your deal will not close or that, to get it to close, the original offer will be modified lower, and you will not receive the original offer price. The buyer may hold to the original price and modify the terms to lower the cash delivered at close, requiring you to accept holdbacks, earnouts, or contingent notes so that you bear the risks. Even if you decide to transition to employees, family, partners, or management, the chances of succeeding with this transition will be very low. That can turn into a real problem for you, as inside-transition options do not usually include big up-front liquidity benefits. And if the business has issues going forward, which is likely if you have not prepared it properly, you put getting your full payout at risk.

But, hey, let's go positive. If you stay ready, you won't have to get ready. If you have been using the Value Acceleration Methodology to produce the deliverables I have shown you how to produce in the last three chapters, *you are ready*. Or perhaps your preference is to keep your business and continue to focus on protecting and building Business Attractiveness and Personal, Financial, and Business Readiness, driving more value, more income, and more wealth.

In the old paradigm, the Decide Gate is where exit planning began. But you now know that exit planning begins far before this gate in Discovery. You are now aware that exit planning is nothing more than good business strategy and that exit planning is present tense, not something we consider



too far in the future. In our new paradigm of exit planning using the Value Acceleration Methodology, you dip your toe into the Decide Gate every 90 days. Why? To make exit planning present tense in your personal and business life.

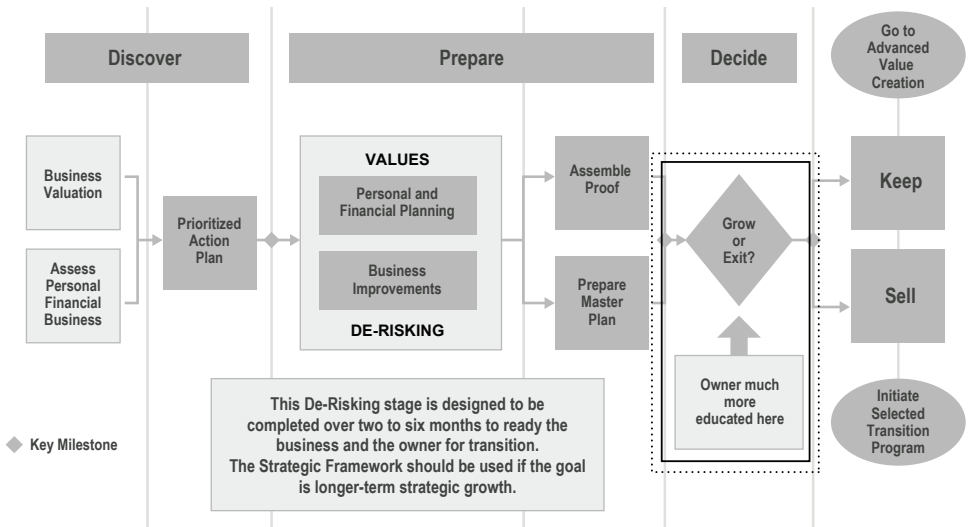


Exhibit AE: Gate Three: Decide

After each 90-Day Renewal Workshop, I want you to consider doing some soul-searching. There are four questions you need to consider in this third gate of your Value Acceleration journey.

- Do I want to keep growing my business, or do I want to exit?
- Am I ready?
- Is my business ready?
- Which exit option or hybrid options should I be considering?



## Question 1: Grow or Exit?

You should visit this decision, *grow or exit*, every 90 days! This brings the keep-or-sell choice into the present. In either case, you will cycle back through the Creating Action Plans step in Gate One and set priorities based on your decision. If you choose the exit path, you will prioritize actions that focus on getting you prepared to sell. If you choose the grow path, you will give growth actions higher priority.

This is a major decision for you, so take it seriously. If you decide to keep growing, you will invest in that path, which could mean taking on more debt, more people, and more complexity, which are all strategic in nature. You need to be personally committed and willing to assume the risks associated with growth. If you choose to exit, you will likely emphasize the opposite, focusing on less debt, less risk, and preserving earnings. The choice is a strategic one. It's a multiyear commitment either way, and there is a cost for shifting back and forth. For example, if you make a strategic investment to grow and then decide to exit before these investments have a chance to pay off, you may not accomplish the full return you expected from the investment. If you decide to exit now, you will likely be forgoing the opportunities for growth and value enhancement.

This is why I recommend you kick this can down the road and don't consider the choice seriously until after you have completed at least two 90-Day Sprints, focusing on de-risking in the Prepare Gate initially. You never know if tragedy will strike, and at least 50% of the time, it does. Recall the 5Ds? If you do complete at least a couple 90-Day Sprints, you will be much wiser and more in touch with your personal goals and aspirations, personal energy, and risk sensitivity, and you will be in a much better place in your head and heart to *decide* what you want to focus on over the next several years.

Take your time in this first part of the Decide Gate. I have worked with owners who thought they wanted to sell but realized, after completing a



couple of cycles in the Prepare Gate of Value Acceleration, that they were reinvigorated and wanted to make a run at Advanced Value Acceleration. On the other hand, I have worked with owners who thought they wanted to sell to a third party but, after researching their options, determined that a sale to management or employees fit better with their personal and financial goals and objectives.

One of my past clients scored 61% (slightly above the midpoint) on his Attractiveness Assessment and 82% (well into best-in-class) on his Readiness Assessment. This meant that the business was slightly above average from an attractiveness standpoint, and the owner and the business were very prepared to grow or transition. This is unusual. In most cases, the attractiveness score is higher than the readiness score. He told me that he was looking at a five-year horizon (*the magic five years*) to exit his business. His market was flat.

I asked him, “Why five years?”

He said he was only 55 and not ready personally or financially to exit now and, given five more years, he felt he still had time to improve his Business Attractiveness and drive more value into the business. He had completed actions to Protect and Build Value, preparing his business and himself for growth and the day he would exit. This was reflected in his high readiness score.

“Good thinking,” I thought. He was giving himself time to prepare. However, the market he was in was flat with no prospects to grow anytime soon.

So I asked him, “Where’s the growth going to come from? Your market is flat and not growing.”



He thought for a moment and answered, “We haven’t figured that out yet.”

“Well,” I said, “you scored really high on your Readiness Assessment—one of the highest scores we have ever had. You were either not being honest, or you really are very prepared to grow or exit. Your attractiveness score showed us that the business is slightly above average, with some room for improvement. One of your strengths is your strong management team and long-term tenured employees. Your systems, processing, and customer relationships are also above average, and you have a strong leader in marketing. You said you are not in a hurry and still engaged.”

“Yeah ... so what’s your question?”

“*Why aren’t you buying?*”

“What do you mean?” he asked.

“Well, if you’re not in a hurry and the market is flat, one way to grow is to acquire other businesses in your market, consolidate, benefit from synergies, and take market share. It certainly seems that, given your scores, your reputation in the market, and your size, there would be synergies that could be created if you acquired players in your industry that are not as strong as you and integrated them into a highly efficient model. Perhaps you should consider talking to a private equity company. You are approaching \$50 million in sales and have a pretty strong forecasted EBITDA. Partnering with a private equity company would not only bring the capital you need to do a roll-up but the expertise to accomplish it. Plus, you could take some chips off the table, so you aren’t risking all the value you have built into the business.”

“Hmmm, that’s something.”

“Have you spoken to any private equity firms?” I asked.



“No,” said the owner, “I was just thinking I would sell out in five years.”

“To whom? How do you know what the market will be like in five years?” I asked.

“Ha, I don’t,” said the owner. “That’s why I brought you in. I expected you to know.”

“Well, I have an idea, but who really knows for sure? In your opinion, how accurate have market forecasters been in the past?” I asked.

“They usually don’t know shit,” he laughed.

“Exactly. No one knows for sure. I know that I don’t want you expecting that, five years from now, the market will be as strong as it is now.” I continued, “If that’s your strategy, you need to be ready to sell when I tell you it’s time. That could be a year from now, three years from now, or five years from now. Who really knows? We can keep an eye on it, but trying to time the market is not something I advocate. It’s impossible to really know. In my entire career, I’ve only seen someone time the market perfectly once

“You have a great management team and employees,” I said. “Have you considered an ESOP or management team buyout?”

“I don’t know anything about those options,” he said.

“Well, you aren’t in a hurry; that would give us time to do some tax and estate planning and examine the pros and cons of selling to your employees or management.”

“Thinking about it now, one of my managers did express some interest in buying the company,” said the owner, “and I’m sure if I asked the employees, there might be some interest.”

“Okay then,” I said. “Why don’t we take some time over the next couple



of 90-Day Sprints and talk to a few PE firms? I know of several I have worked with that might be a good fit. I can arrange for you to meet them and discuss the PE model. I can introduce you to a couple ESOP firms too. Maybe you should attend an ESOP conference to get more educated on the subject and speak with owners who have successfully done an ESOP. I also have relationships with several nationally recognized ESOP consulting and valuation firms. I'm certain one would be happy to talk to you and provide you with some education. And I know a couple attorneys who are members of the Northeast Ohio chapter of EPI. They understand the Value Acceleration Methodology and have done a number of management buyouts. While we're at it, let's also talk to some investment banking firms in town to get their perspective on the market and your business. After all this, we may still decide selling to a strategic buyer is the best option. But you should explore all your options before you decide."

"Agreed."

## Questions 2 and 3: Are You Ready? Is Your Business Ready?

The next two questions are asked regardless of how you answer the first question. Whether your decision is to grow or exit, ask yourself:

- Am I ready for growth (or replace the word "growth" with "exit")?
- Is my business ready for growth (or replace the word "growth" with "exit")?

How will you know if you are ready for growth or exit? Your Personal,



Financial, and Business Readiness scores will tell you. Remember, if your scores are below 50%, you are unlikely to be able to grow or exit well. Between 50% and 57%, you have a lower-than-average probability of being successful. 58% is the midpoint, so an average chance. Between 59% and 66% is an above-average chance. At 67% (the Green Zone), you have a really good chance of doing either option well. At 72% or above, you are best-in-class and have a very high likelihood of being able to grow *or* exit at the highest value in the Range of Value.

Growth can be organic or through acquisitions. Ideally, it will be a mix of the two. The reason I was confident my earlier client would be able to integrate the companies he would acquire and achieve synergies was his high readiness score. I had never seen a readiness score that high. Frankly, I have never seen one that high since. I hadn't spent a lot of time with this business at that point, but I could tell it had above average 4Cs. Just a walk through the facility was impressive. This owner knew his business, and he knew his numbers. And the few people in key leadership roles I met were very impressive. They knew the business too. They were in a dominant market position—number one or two in their space.

On the opposite side, I can tell you from my experience with buy-side searches that, when you call on a business, you can tell from a short conversation whether an owner is ready or not. If they are not ready, I'll suggest they contact a CEPA in their area and begin the process of getting ready, and then I move on. I might talk to 40 owners in a search and pursue only two because the other 38 are not prepared. I often wonder if these owners realize they may have just missed their golden opportunity to sell at a premium. I wonder if they will ever get another opportunity and what will happen to them if they don't get their acts together.



## “Are You Ready?” Checklist

During the process of preparing the questions for the first EPI State of the Owner Readiness Study, one of the team members asked me what seemed like an obvious question: “How does an owner know if they are ready?”

That seemed like a simple and obvious question that deserved an answer. Below is a set of ten simple statements to help you determine what you need to accomplish to be ready to grow and exit your business. Use this as a simple checklist.

You are ready to grow or exit your business if

1. you have spent some time and money getting *educated* on the process of how to transition your business. You have discussed transitioning with your loved ones.
2. your *personal, financial, and business* goals are aligned, meaning they are defined, codependent, and linked.
3. you have created an *advisory team* that includes at minimum an attorney, CPA, financial advisor, CEPA, spouse or partner, or other family member who is a significant other in your life. Other advisors may be included: personal friends and advisors, banking advisor, M&A attorney, estate-planning attorney, real estate attorney, business attorney, ESOP specialist, tax specialist, insurance specialist, foundation/charity representative, key employees, investment banker or business broker, board members, family, or personal counselor.
4. you have created a *contingency plan* that should include buy-sell instructions, appropriate insurance, basic estate-planning legal documents (e.g., will, POAs, trusts), and specifies what should happen if, before you transition, something were to happen outside of your control that would prevent you from operating your



business or unwillingly force you to transition. You have reviewed this plan with your trusted advisors, including family members and/or partners if applicable.

5. you have completed a *strategic analysis, business valuation, and Personal, Financial, and Business Readiness Assessment(s)* within the last year.
6. you have considered all your *exit options* and optimal deal structure and weighed the pros and cons of each in relation to your stated goals and objectives.
7. your *transition plan* is written and includes goals and objectives, clearly defined tasks and accountabilities, definition of your transition team, definition of your transition process, a plan leader or project manager (e.g., CEPA and value advisor), timelines, a budget, and your role before, during, and after transition. This plan ideally has a multiyear implementation timeline.
8. you have considered and designed a *post-business life-after plan*. This plan is linked to or is part of your Wealth Management Plan, which has been prepared by a professional financial advisor and, if applicable, estate-planning attorney, insurance specialist, tax specialist, and charitable foundation specialist.
9. you have a pre-transition *value enhancement/preliminary due diligence* project underway to de-risk the business, maximize its value, minimize taxes upon transition and improve the probability of a smooth transition to the next owner, including family, partners, or employees if applicable. Family transitions should be treated no differently than other transition options. This plan ideally has a multiyear implementation timeline.
10. you have a *management succession program* underway to ensure the post-transition leadership is prepared to operate the company after



you exit, and you have secured the appropriate specialists to handle your desired transition option.

## **Question 4: Which Exit Options or Hybrid Options Should I Be Considering?**

Before we get into reviewing the pros and cons of your exit options, let's bust another old paradigm in exit planning. Exiting your business does not have to be a once-in-a-lifetime event.

Fellow pioneer in the exit planning space Sean Hutchinson, a partner at RFN Advisory Group and classmate of mine from the 2008 CEPA graduating class, changed this paradigm many years ago. Sean is one of the smartest advisors I know. When my son and I need insights, he is always on the short list of people we call. Think about this. You are powering through your 90-Day Sprints in Gate Two, Prepare, quarter after quarter and year over year. I have had clients working through these sprints for over ten years. Each time you complete a sprint, you measurably raise your attractiveness and readiness scores, which raises your business value in the Range of Value. If 80% of your net worth was already locked in your business when you started the process and each 90-day period you raise your business value, what happens? Unless you are taking chips off the table along the way, which most owners don't do, your business value grows to become even more than 80% of your total portfolio. In addition, during this high-growth period, most owners usually invest even more of their personal assets into their businesses. This puts you, the owner, at even higher risk.

What's the alternative? Exit over a period of time, taking chips off the table along the way. You can do a partial sale to employees, family, management, or partners. You could consider doing a partial sale to a PE firm or family office. Even a strategic buyer may be willing to consider keeping you in



the game. De-risking is not the only benefit of this type of strategy. You are also likely to get a second bite of the apple somewhere down the road when you sell your remaining stock in the company. Sometimes this can be equal to or even more than what you could have sold the entire company for on the first go.

You can also combine options to create a hybrid option. Let's say you have a great management team or next-gen family member(s) that you want to pass the business to. But hey, they don't have the capital or credit to close the deal. Instead of *you* financing the entire deal, you could partner with a PE firm that can fill the lack-of-capital void. The PE firm gets the benefit of keeping your seasoned team in place. Your valuable team gets the benefit of working with a well-experienced PE firm that knows how to grow business value. You get the benefit of taking some chips off the table and maybe a second bite of the apple down the road. Sounds like a win-win-win!

My point is, *change your paradigm*, think of exiting over time, and consider hybrid options by combining different options. You need two things to make this work: *growth and time*. A growing business is attractive, considering its upside and its ability to fund growth. You also need to consider a longer-term time horizon to make it work, possibly ten years. That's why I want you to get out in front of this using Value Acceleration. Determine your own destiny. Don't let someone else dictate it by waiting until the last minute, or for an unsolicited offer to come in that you are not ready to accept, or to be hit by one of the 5Ds at probably the worst time.

If you decide to exit, it's not like you can do this quickly (or at least you shouldn't look at trying to do this quickly). It takes serious time and financial commitment to do it right, and you don't want to rush it. At EPI, we generally recognize eight primary exit options: four inside and four outside.



Inside options include the following:

- Intergenerational transfer
- Management buyout
- Sale to existing partners
- Sale to employees (ESOP)

Outside options include the following:

- Sale to a third party
- Recapitalization
- IPO
- Orderly Liquidation

IPO is a valid exit option, but I will not spend any time on it because for the vast majority of lower- and middle-market businesses, IPO is not an option, realistically.

## Exit Options Pros and Cons

Now let's explore the pros and cons of each of our options.

### *Intergenerational Transfer*

The transfer of business stock to direct heirs, usually children. 50% of business owners want to exercise this option—in reality, only about 30% actually do so.



Pros	Cons
Business legacy preservation Planned Lower cost More control Less disruption High buyer/seller motivation	Family dynamics Illiquid buyers/lack of funds Lower sale price Key employee flight risk Tradition may outstrip good strategy Path of least resistance—but not always a path to growth or success

### ***Management Buyout (MBO)***

Owner sells all or part of the business to the company's management team. Management uses the assets of the business to finance a significant portion of the purchase price.

Pros	Cons
Continuity Highly motivated buyers (pent-up desire) Preserves key Human Capital/knowledge Planned Can be combined with private equity to access additional capital and resources for growth	Management "sandbagging" Distraction Threat of flight (coercion of owner) Illiquid buyers Lower price and unattractive deal terms for seller Heavy seller financing introduces risk Managers are not always good entrepreneurs



### ***Sale to Existing Partners***

Success is closely linked to the existence and quality of a Buy-Sell Agreement, which is not available to single-owner businesses.

Pros	Cons
Less disruptive Planned Well-informed buyers Controlled process—if buy-sell agreement in place and funded Lower cost	Lower sales price Potential discord Competency gaps? Buy-sell may restrict selling options Realization of proceeds from sale is often slower (and less)

### ***Sell to Your Employees (ESOP)***

Company uses borrowed funds to acquire shares from the owner and contributes the shares to a trust on behalf of the employees.

Pros	Cons
Business stays in the “extended family” Shares purchased with pre-tax dollars by the ESOP Taxable gain on the shares sold to the ESOP by the owner may sometimes be deferred ESOP is an employee benefit May cause employees to think and act like owners	Complicated and expensive Requires securities registration exemption Company compelled to buy back shares from departing employees Generally suitable only for gradual exit over time



### ***Sell to a Third Party***

The owner sells the business to a strategic buyer, financial buyer, or private equity group through a negotiated sale, controlled auction, or unsolicited offer.

Pros	Cons
Higher price (highest of the options)	Long process (9–12 months)
More cash up front	Distraction/loss of focus
Walk away faster	Privacy concerns
Stability of deal terms	Emotional for owner
Business refresh (growth, new energy)	After-sale tie-downs
Cost effective	Highest absolute cost of options (but higher benefit)
Breaks deadlock at management level with family	Complex—involves about 1,000 professional hours
	Can be difficult to close

### ***Recapitalization/Refinance***

Finding new ways to “fund the company’s balance sheet.” Essentially brings in a lender or equity investor to act as a partner in the business. Can sell minority or majority position.



Pros	Cons
<p>Allows partial exit</p> <p>Reduces owner risk—diversifies asset concentration</p> <p>Provides growth capital</p> <p>Second bite at the apple</p> <p>Works well with other exit options</p>	<p>Continuing accountability to partners (not a clean break)</p> <p>Loss of control</p> <p>Culture shift</p> <p>May be slower transaction</p> <p>Expensive relative to benefits</p>

### ***Orderly Liquidation***

The business is shut down through a simple, quick process. Makes sense if asset values exceed the ability of the business to produce income required to support an investment.

Pros	Cons
<p>Good option when asset value exceeds value of going concern</p> <p>Sum of the parts is greater than the whole (asset division produces value)</p> <p>Efficient way to exit</p> <p>May be less expensive than some of the other options</p>	<p>Uncertain proceeds—no guarantee</p> <p>No \$ for goodwill</p> <p>Emotional—stigma?</p> <p>Hard to predict costs</p> <p>Damage to employees/jobs/community</p> <p>Higher tax (C-corporations)</p>



## Advanced Value Acceleration

If you choose to continue down the path of growing value, you will enter the stage of Advanced Value Acceleration (AVA). In AVA, you invest more money into the business and increase your personal risk, so consider this carefully. Once you sink the money into AVA, you will need to give your investment time to reach its full return. If you recall, going back to our initial list of actions, we sorted them into strategic versus nonstrategic. It's in AVA that we begin to take on strategic actions. These are things like

- Hiring key talent,
- Investing in new equipment,
- Expanding a facility,
- Reengineering a manufacturing or distribution process,
- Engaging in a longer-term customer service or product initiative,
- Diversifying your customer base,
- Moving into new markets, or
- Making and integrating an acquisition.

In AVA, you take on more risk and usually more debt. When Flexalloy invested in new technology, it was a long-term operational and customer investment. Although we were able to implement in a relatively short period of time, the long-term payback would be years down the road. Even though the cash flow was not immediate, we still were adding considerable value through the increase in Customer, Human, and Structural Capital.

You use the same process to implement strategic actions as you do with nonstrategic/de-risking actions in the Prepare Gate. The difference is, your projects will be bigger and longer term. You will use the same system by breaking these big projects into 90-Day Sprints and 30-day (or less) milestones.



In determining your personal and business actions, perhaps you will decide to include one strategic and four nonstrategic. Or perhaps, if you really want to go full board and have already made significant progress on de-risking, you may only take on one action instead of five. You will use all the things you have already established as your guide: your vision, your SWOT, your core values, your longer-term targets, and your brand promise. These will act as your North Star to guide you in making the right choices. By this time, you will have completed at least ten personal actions (within two sprints), which will provide you the guidance to determine whether you are personally committed to these long-term investments. Do you have enough passion? Do you still believe in your vision? Are you willing to assume additional risk? Have you put aside enough financial assets so that you are personally secure?

At this point in the methodology, you have developed and acquired the knowledge you need to be successful. You have made your systems, processes, and technology more efficient, and they are prepared to scale with the positive changes that will come. If you have accomplished these in the first two cycles of Value Acceleration, you are ready for exponential growth. It's yours! See it. Believe it. Receive it! Destiny awaits!

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# PART FOUR

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## GETTING STARTED ON YOUR WALK TO DESTINY

*This section includes the Owner's Call to Action written by my son, Scott Snider, as well as a short conclusion written by me. Scott discusses the immediate next steps business owners should take to begin their journeys to a Value Acceleration-centric life. There are also two bonus chapters, one for business owners and one for professional advisors. "Bonus Chapter for Business Owners" describes the owner's core and secondary team members and stakeholders and the roles each of them play in the Value Acceleration Methodology. "Bonus Chapter for Professional Advisors" includes Scott's insights and a call to action for professional advisors.*



# CALL TO ACTION: THE BUSINESS OWNER

*Don't worry about being successful but work toward being significant and the success will naturally follow.*

— Oprah Winfrey

**DID YOU KNOW YOU HAVE** a destiny? Your destiny is not to simply own a business, despite the magnitude of that undertaking. By the very act of starting this entrepreneurial lifestyle, you secured your imminent walk toward certain destiny. So where are you headed? *Your eventual exit*. All things have a beginning and an end, and it is every business owner's reality to eventually transition the business they built. I am here to tell



*you, you can maximize your destiny, getting five to ten times more value out of your business when you exit, by unlocking its wealth and empowering the next generation of ownership*, whether that be one of your children, your employees, management, or some third party you don't even know right now. Your destiny is to leave a legacy, stretching far beyond the present and into a future that is better because of your achievements and contributions.

The Value Acceleration Methodology is rooted in action and is results driven. In this concluding section, I challenge you by asking, “So what, and what now?” As you learned throughout this book, it takes a pursuit of Relentless Execution to better the business owner and their company. After reading this book, learning about the business-owner mindset, the exit planning statistics, and the concepts and process of the Value Acceleration Methodology, what's going to change for you? Within this part of the book, I have laid out a clear path with deliberate and intentional actions for you to take that will allow you to put the elements and insights of this book into action, depending on what type of person you are: the business owner or the professional advisor.

Regardless of which seat you sit in, I would suggest you read this chapter and the two bonus chapters in totality, as they will show you both perspectives and how both types of people are putting Value Acceleration into action for them, the people around them, and their companies.

## **If You Are a Business Owner**

You have learned a new way of life, a life that will not only make you happier as a person but will also give you a more successful company today and a more valuable company in years to come. Value Acceleration will help you balance your life and optimize your time. We call this creating a significant company. To get moving along this Value Acceleration–centric



life, there are five critical actions you need to take, listed in order of what you should do first.

1. Get educated and immerse yourself.
2. Join a business-owners group.
3. Get an outstanding and diverse team of professional advisors.
4. Conduct an Enterprise Value Assessment (EVA).
5. Share the results of the EVA with your leadership team.

### ***1. Get Educated and Immerse Yourself***

Hopefully this book has challenged and changed your mindset from “exit strategy is something that I should begin doing 12 to 18 months before I put my company on the market” to “exit strategy is something I should do right now, present tense.” By focusing on now, you will totally change your mindset and reap the benefits short term and long term from all three perspectives: business, personal, and financial.

A good way to start this educational process is simply to start reading some research and see how you and your company fit in. Benchmark yourself. EPI conducts a multitude of research regionally and nationally through the State of Owner Readiness Survey. Read a report and answer the questions for yourself to see how you line up.

71% of business owners who have taken that survey indicated they have not done any education related to their exits. Education is key, and if you can begin to immerse yourself within the Value Acceleration Methodology, you will be a step ahead of the game compared to your competition.

Pick up some of the best exit planning books. The subject of exit planning is hotter than it has ever been since its creation back in 1998. There are plentiful experts within the space who write about the methodology at a



high level, showcase their own versions of the methodology and how they are implemented, and write about some of the core topics in greater depth. By reading some of these exit planning books, you will see the variations of the methodology and different approaches that may fit your philosophies and align with your core values. I would challenge you to read holistically, meaning you should read about all Three Legs of the Stool—business, personal, and financial. If you are like me and tend to “visit” books versus read them, try listening to their audio versions while you drive, mow the lawn, work out, golf, lounge at your vacation homes, or whatever it may be for you. Go back after you listened and skim them.

I find when I really enjoy a book and I can see how it can be implemented into my business immediately, I tend to pick up the whole thing and go cover to cover. To give you direction, here are my top five—plus a bonus sixth if you are a family-business owner—must-read-cover-to-covers to get yourself educated on the Value Acceleration Methodology.

1. *Your Baby's Ugly: Maximize the Value of Your Business or You'll Have Nothing to Sell* by Justin Goodbread

The why, what, and how to create a better and more profitable company today and more value long term. A book by a serial business owner for business owners. Gives a good look into the Five Stages of Value Maturity and into the 4Cs concentrating on the eight areas of a business.

2. *The Business Owner's Dilemma: Take Control of the Mental Chatter, Clarify Your Ideal Future, and Enjoy the Success You've Earned* by Ali Nasser

Explains the three dilemmas all business owners have and is loosely



based on the Three Legs of the Stool. It is a great supplement to this book and ties all three things together for owners, then helps you design how to align and Harvest Value.

3. *Drive One Direction: How to Unleash the Accelerating Power of Alignment* by Dave Ramos

A big part of growing value in a company and living a purposeful life is alignment. This provides you 12 accelerators for alignment. It's simply one of the best alignment books I have read, and I use it in my company daily.

4. *Discover Your Next Best Step: 10 Proven Principles of Servant Leadership Wisdom* by Gordon Bell

Gordon Bell is one of the original Certified Exit Planning Advisors and a growth expert who has helped many owners exit their companies. However, in this book, he takes a step back and concentrates on the personal side of planning. The book certainly has a Christian/religious tone to it, but if that's not for you, I still challenge you to take the principles to heart, taking the religion out of it. A great book for thinking through what's next post-business exit.

5. *Sell Your Business by Design, Not by Default: A Guide to Selling Your Business for More Money* by Rick Krebs

A simple read for those looking to sell to a third party. Another great supplement to this book. It allows business owners to understand the M&A process at a high level and gives you some additional value accelerators.



6. *Every Family's Business: 12 Common Sense Questions to Protect Your Wealth* by Dr. Thomas Deans

One of my favorite business books. For those owners in family business, this is the read for you. My father, Chris, and I put this into action annually, utilizing Tom's family-business blueprint, which is in the back of this book. It has helped Dad and I have much better conversations and helps provide strategic direction in our family-owned company.

If you find yourself wanting to dive deeper, or perhaps books are not for you but podcasts and other such things are, jump onto [www.exitplanningreads.com](http://www.exitplanningreads.com) for further information on additional resources.

As you begin to read and listen to books, podcasts, and research, you will begin to immerse yourself within the methodology. Hopefully, these become additional motivators for you as you become more educated about what it takes to grow something of significance. By becoming more educated, you become more intentional and deliberate with your actions, which will help you begin to talk to your trusted advisors and internal leadership team about some of the potential changes that may have to be made within your company and within your life to begin to live a more Value Acceleration–centric lifestyle.

Undoubtedly, business owner to business owner, if you immerse yourself within these books and this methodology, you will have a better business today and a more valuable one longer term.

## ***2. Join a Business Owner Group***

As you begin to consider exit strategy and the preparation of your company for an eventual sale, you will begin to look to other key and trusted advisors



for insights. If you took a look at the State of Owner Readiness Survey, you would find, time and time again, when the business owner is asked, “Who is your most trusted advisor?” the advisor coming in at second place is the owner’s peer groups. Fellow owners! As a business owner myself, I would say this is true, certainly within my top three or four choices. If you are a baby boomer business owner, it is likely that those owners are going through similar things in life from a business, personal, and financial perspective. Gathering advisors and sharing stories and insights within these circles of business owners could be critical to your success throughout this journey.

There are several groups that provide you with not only the opportunity to share and gather insights but also with opportunities for additional education and growth. For those in family businesses or businesses that believe they want to transition their company to the younger generation of employees or managers internally within the company, these groups can act as great educational platforms for the younger generations.

The first opportunity for this would be to find an Owner Roundtable. These are small groups led locally, typically by a Certified Exit Planning Advisor. These groups walk through and put into practice the many concepts within this book. This allows you to not only benchmark yourself and your company but to learn from additional experts and share your insights and opinions with fellow owners who are also immersing themselves in this methodology. What I love about these sessions is that they are collaborative, action-based, and a good roll-up-your-sleeves kind of workshop. The CEPA and their fellow experts take the business owner and sometimes the owner’s team through things like the Five Stages of Value Maturity, the four intangible capitals, an exit options analysis, and an overview of the methodology in action. It allows the owners to self-assess, develop high-level plans, themes, and strategies, and get others involved within their companies while again learning from fellow owners. Some CEPAs have specific roundtables for next-generation developing owners, executive leaders who support owners, baby boomer owners, and women business owners.



There are also more general but very successful business-owner groups where you can collaborate with fellow lower-middle-market and middle-market business owners within your area or nationally through their conference and gatherings. For lack of better words, these are business-owner peer groups. A notable three for the business owner to consider would be

1. Vistage,
2. Entrepreneurs' Organization, and
3. Chief Executive Boards International.

### ***3. Get an Outstanding and Diverse Team of Professional Advisors***

My father Chris and I shared a common passion back in 2012 of helping business owners create more significant companies. Back then, we owned a growth management and M&A firm called Aspire Management, which helped business owners grow value and exit. We had been heavily involved in EPI at the time as members when the organization was offered for sale and came onto the market. What hit Dad and I hard at the time is that maybe we needed to flip our model and, instead of working directly with owners, work with professional advisors. Why? We believe in the old saying that it takes a village to raise a child. In other words, the business owner needs a highly intelligent and collaborative team that helps guide them along the path to creating a significant company. Just as we as owners also have good internal teams and executives that support and oversee functional areas of our company, it's all about people and having the right ones in the seats.

The challenge we saw back then was that the advisory team was not cross-functional and not diverse, and it did not share common goals, principles, or objectives. For example, although the business owner's attorney was likely providing solid legal advice along the way, the attorney



was not connected to the overall exit strategy and was operating siloed in their functional space. Or the owner's financial advisor (if the owner even had one) was left completely out of the equation until the liquidity event actually happened. Business owners needed a team that all operated together as one—a true team.

Dad and I then, in 2012, purchased EPI and began to bring a community of advisors all together around the Value Acceleration Methodology. Now teams had common goals, objectives, and an organizing principle that allowed everyone to believe in the alignment of the three-legged stool. They communicated on a regular basis, sharing insights not just in their functional expertise but across the board throughout the methodology and strategy. However, though the results are better now than they were in 2012, many owners today still lack a cross-functional team of advisors focused on the eventual transition of the owner and their company. Accordingly, the State of Owner Readiness research indicates 78% of owners do not have a formal transition advisory team.

One of the big problems historically for many owners is the limited ability to measure the impact of all these advisors and their associated fees. Using value as the measurement provides a baseline for the entire team, including the family, management, and employees. If you use the value of the business and an integrated Action Plan that synchronizes these activities to the creation of value, you will be much more open to the idea of using professional advisors.

You can and should contact a credentialed subject matter expert, such as a Certified Exit Planning Advisor in your area. These advisors have completed EPI's MBA-style Value Acceleration credentialing program. A CEPA can meet with you to discuss the process and answer your questions, and many conduct a Triggering Event. With their help, you will know more about your business value than you may have ever been able to assess. From there, your CEPA will be able to support you, quarterback your team, oversee your de-risking and growth projects, and secure the business legacy



you deserve.

The Certified Exit Planning Advisor Program, created in 2007, was developed by nationally recognized experts in the field of exit planning and is based on the Value Acceleration Methodology. Today, there are more than 5,000 credentialed CEPA advisors worldwide, and the credential is rapidly growing. Those who hold the CEPA designation are CPAs, accountants, financial advisors, wealth managers, attorneys, commercial lenders, insurance advisors, M&A advisors, business brokers, ESOP advisors, family enterprise advisors, value advisors, and management consultants who have gone the extra mile to learn how to do this right for the business owners they serve.

Most CEPAs operate right here in the U.S., and there is likely at least one in your local community. Go to EPI's website ([www.Exit-Planning-Institute.org](http://www.Exit-Planning-Institute.org)) and search for a CEPA in your area, or call the headquarters office for a referral. My team will gladly get you an introduction to a top-notch advisor. The CEPA belongs at the head of your team.

To learn more about the core and secondary teams, which you will need to support you, and the role each of them plays in Value Acceleration, read “Bonus Chapter for Business Owners,” which follows this chapter.

#### ***4. Conduct an Enterprise Value Assessment (EVA)***

You learned throughout this book about a deliverable within the Discover Gate of the methodology called the Triggering Event engagement. When you get into the market itself, the professional advisor conducting this engagement will likely call this an Enterprise Value Assessment, or EVA for short. Other terms can be used for the same engagement. These terms could include “an opinion of value,” “a discovery,” or “a readiness report.” These are all the same type of engagement, giving you the data you need to make better decisions as a business owner.

Remember the very first step in this entire Value Acceleration process is



Identify Value, stage one of the Five Stages of Value Maturity. This cannot be skipped. If you have an advisor who is suggesting you jump right into value growth or value creation, you have the wrong advisor. Think about it. When you have a health issue, you walk into your doctor's office and say, "Hey doc, this seems off or painful." Does the doctor just look at you and say, "Yup sounds good, we will prescribe you this." No, of course not. They do some type of analysis to understand exactly what is wrong with you. So you cannot possibly start the process of Value Acceleration without identifying where you are today.

Knowledge is power. Get a clear view of your business. That clarity is a stand-alone benefit. As a business owner myself, I get that clarity each year through analysis of our four intangible capitals. This is the analysis that was reviewed in depth in chapter 6. Doing this on an annual basis shows where my company is weak and strong. It allows me to direct resources where needed and make very educated strategic and nonstrategic decisions that make my company better. It makes my business more profitable and fosters happier employees who stay long term, more entangled and diverse customers, great culture, and optimized systems and processes for efficiencies and operational excellence. At a bare minimum, by conducting the EVA, you will learn where to better your business immediately and make more money.

Longer term, you will understand four major things:

1. Your gaps: Wealth Gap, Profit Gap, Value Gap
2. The attractiveness and readiness of your company
3. Your personal preparedness for transition
4. Your company's real number vs. tax number

Many think these numbers are exit focused. Though they will undoubtedly affect your exit, knowing them will provide you with immense



benefits today. All four of these sets of numbers are likely numbers you do not know today. By conducting the EVA, they will shine bright and, again, allow you to make better decisions in your life and in your business. These numbers should also be shared with the overall transition advisory team and reviewed every 90 days and every year.

### ***5. Share the Results of the EVA with Your Leadership Team***

Now for the hard part for most business owners: sharing your transition plans and intent with your close executive leadership. Let's start with the obvious first. If you read point four, Conduct an Enterprise Value Assessment, you know that the results of the deliverable will help to direct strategic and nonstrategic actions soon, within the year, and longer term, within the three-to-ten-year vision and strategy. Simply, it makes sense to share the results of this deliverable with your executive leaders because it will allow them to position their strategies better and deploy resources more effectively.

For example, let's take a very simple Protect Value (stage two of the Five Stages of Value Maturity) action. A few years ago, we identified in our own company that the marketing department thoroughly lacked standard operating procedures (SOPs). SOPs are simply documented processes that allowed our employees to know exactly what to do and how they effectively make it happen. I likely wouldn't have known that SOPs were lacking if we hadn't conducted an EVA where we were asked to produce these SOPs within our departments. Our director of marketing made it a priority, or Big Rock, for the year, to produce, document, and file SOPs within the marketing department. As we did that, we saw people's work capacity go up, thus getting more strategic and advancing priorities done. Why? Because we simply optimized everyone's time and were able to bring systems in to become more efficient.

By doing this, we created Structural and Human Capital, both major



contributions to the company's overall value. Undoubtedly, we want to share the results of our EVA annually with our core people so that they can make decisions that not only increase income year over year but also increase value longer term.

Now for the harder part: talking to your executive leadership team about value and exit options. I think the path to creating a business that is independent of you forces you to share these insights early and often. A team of executives who can think in terms of income generation *and* value generation is unique. How many times in your executive meetings do you talk about value created? Likely none, but maybe minimal. Your leadership meetings typically focus on lagging indicators of revenue generation and customer satisfaction, on optimizing people's time and lowering overhead, or on strategic and visionary items like expanding into new markets or developing new products. Though these are all needed conversations, these are all income-generation topics, not value-creation topics. If we want to live the Value Acceleration–centric lifestyle and have something of significance, we need our team bought in and a company that doesn't rely on us, the owner. It takes time, but with practice, you will have your entire team, and likely their teams, all thinking with an owner mindset and as Value Creators. I see it in my business daily.

## Do or Do Not

In his famous book *The 7 Habits of Highly Effective People*, one of my favorite books of all-time, Stephen Covey wrote proactivity is the intersection of knowledge, skills, and desire. Knowledge is knowing what to do and why. Skills are how to do it. Desire is whether you *want* to do it. In this book, you have gained the knowledge. If you put the leadership concepts and management tools of Value Acceleration to work, you will develop the skills to unlock the wealth your business has held for you and create the



future and legacy you deserve.

Would you not agree that the concept of the 4Cs alone could totally transform the way you view your business? Or how about the concept of attractiveness versus readiness and your real number versus your tax number? Would you not agree that applying these concepts could transform your business and your life? Or how about the concept of the Three Legs of the Stool? Isn't that something that could truly help you understand who you are and what you want? Is it possible performing a Triggering Event could create that aha moment to trigger a complete change of course in the direction of your business and personal life forever?

## Do You Have the Desire?

Recall that famous scene from the film *Star Wars: Episode V—The Empire Strikes Back*. Luke Skywalker is on Dagobah trying to learn to use the Force and become a Jedi with the help of Yoda. Luke has given up before he's even begun by doubting his own abilities and not entrusting himself into the Force and the guidance of his master. Yoda says to him, "Hear you nothing that I say? ... You must unlearn what you have learned."

Luke responds, "All right, I'll give it a try."

Yoda responds, "No. Try not. *Do or do not*. There is no try."

I can't change the way you have been doing business and running your personal life all these years. I can only provide you the knowledge and the tools to develop your skills to become a Value Creator and build and harvest those riches. The desire to change, to act, is a choice only you can make. My wish is that you stay true to that quest. The reward is well worth the journey. You deserve the riches your business holds for you. Secure your success alongside other Value Creators. Discover, Prepare, and Decide what your walk to destiny will ultimately be. Destiny is a choice. Choose to receive yours!

# BONUS CHAPTER FOR BUSINESS OWNERS

## Description of the Owner's Core and Secondary Teams

**ONE OF THE BIGGEST FRUSTRATIONS** I hear from business owners is "My advisors don't work as a team. My CPA says one thing, my attorney another, and my financial advisor another. I don't know who to believe. They all think they know better than me, and they can't seem to get on the same page. I find the whole thing extremely frustrating. All I see are big dollar signs for their services. If they can't get on the same page, how are they supposed to help me?" Does this sound familiar?

Most advisors, despite what you might think, genuinely want to help you. They take great pride and satisfaction doing well by their clients and seeing their clients succeed and happy. If you view advisors as "evil" in your mind, I'd argue they are a necessary evil. This is why, if possible, you



want to have as many CEPAs as possible on your team. I am not claiming all CEPAs are perfect. But I can tell you that CEPAs have been educated and credentialed on the importance of teams. A well-functioning team is a critical component of your Value Acceleration journey.

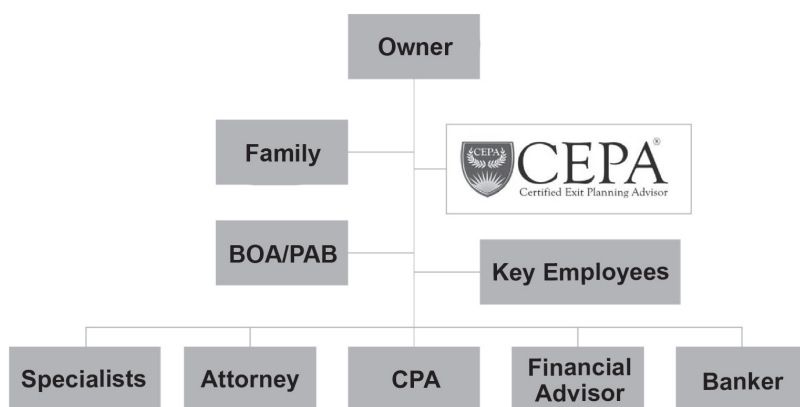
When you meet with an advisor who claims to be an expert in exit planning, please make sure they are credentialed. Plainly, there are *a lot of people out there* who claim to be exit planners. Literally ask them how long they have been working with business owners. Investigate their reputation. What credential do they hold? Are they experienced in dealing with the problems and challenges of business owners? Do they understand the conflicts that arise as a result of conflicting manager, family, and owner values? Can they speak in detail about the key drivers of value and embrace a focus on value *and* income? Do they take a holistic view of exit planning, not just a functional view? What methodology do they use? (Do they even have one?) Ask them to share stories and results from past engagements. Getting the right advisor sitting at your table will directly enhance your knowledge and acumen.

At the beginning of your value-growth effort, hold a team meeting with your core advisors after you complete the Triggering Event to review the results of the Personal, Financial, and Business Assessment and correlation to value to solicit input and ideas. Do the same thing with your Board of Advisors, or even better, bring them all in one night after operating hours and make the Triggering Event deliverable the focal point of your next Board of Advisors meeting. After all, it will become the basis for measurement of success going forward. Shouldn't all your primary stakeholders and key advisors be given the opportunity to understand where you are and where you intend to go? They are all there for the single purpose of helping you be successful. Plus, many of them depend on your success.

All advisors should be reviewed periodically to ensure their services are relevant and contributing to the increasing value of your business. Sometimes the business outgrows the advisors that were relevant in the

past. You may still have on your board the business attorney from when you started the business, and she may be still providing you solid business advice. But if you have decided to sell your business, you will need an attorney who understands mergers and acquisitions. Your best buddy from grade school might be managing your investment portfolio because you trust him, but is he best suited to guide you in harvesting the value of the business and managing that value, often five times your present net worth?

## The Owner's Core Team



*Exhibit AF: The Owner's Core Team*

Your core team should include your value advisor, attorney, CPA, financial advisor, and banker. Ideally, all of them should hold the CEPA credential. At minimum, one of these advisors should be a Certified Exit Planning Advisor. In addition, you should have a Board of Advisors and a Personal Advisory Board and should consider a Family Council and/or an Employee or Management Council as members of your core team. This is even more important if you are considering a family, management, or employee transition option. Beyond that, there are all kinds of different specialists



that may be required depending on which gate of Value Acceleration you are in.

Let's explore the roles of each of your key team players. Your **core team** will be with you all the way through the Value Acceleration Methodology.

## Financial Advisor

Your financial advisor is a critical pick. Yet this pick is often overlooked and underestimated. Pick your financial advisor carefully. You need to get a financial advisor involved right from the beginning for all the financial reasons noted in this book. You need to get busy building a portfolio outside your business and looking at getting the right tax, estate, and insurance planning in place. These strategies can take years, three to seven years, to fully implement, so you need to get started with them right away, especially if they are missing or weak today.

Beyond that, the financial advisor will help you define your Wealth Gap, which helps identify how big a challenge you have ahead. Are you in good shape financially outside the business? Do you need the income from the business? What would happen if you were to lose this income, die, or become disabled and unable to work? What if there were a divorce that would force you to split up your assets? What if there were a falling out with a business partner? What if you lost your largest customer or a key employee or faced a significant environmental, safety, or legal issue? What do you want to do after you exit your business? How much do you need to support your lifestyle? What are your spending habits like? Are there any special needs children to consider? Are there health issues you should plan for? Are there seniors in the family that may need support with assisted living, healthcare, or home healthcare? What are your children's educational requirements? Have they been planned for? What is your risk profile? And there are many more questions a financial advisor will help you answer.



The financial advisor will ask these questions and provide alternatives and assist in determining the answers. These answers are vital to the rest of the team. You may not want to increase investments in the business and take on more leverage and risk if you have not done the basic things necessary to protect what you already have, especially if there are special needs outside the business. Once this is all said and done and you exit the business, it's likely everyone else moves on except your financial advisor. Maybe the attorney hangs around for some estate planning or small legal matters you might still need, but you are going to rely on the financial advisor to manage your nest egg once you leave the business.

The financial services industry is the furthest along in providing exit planning services. They have invested heavily in getting their teams educated and have come a long way in the last ten years. Many of the largest financial services firms in the world recognize the CEPA credential only and actively promote it within their organizations.

## Attorney

The best attorneys are business advisors first, like mine. Your attorney is not just there to bail you out of problems and defend you. Your attorney is, hopefully, someone who has worked with dozens, if not hundreds, of family-owned businesses. Allow your attorney to really get under the hood with you and understand your core business operations and personal aspirations. A good attorney should be able to connect you with others who specialize in estate planning, litigation, pension planning, M&A, real estate, and other areas that you may need guidance on during this journey. When selecting an attorney, understand that there are attorneys who get things done and attorneys who seem to never allow you to get anything done. Find one who really understands business and all the risks that come with being a business owner. Take their advice. But make your own decisions.



## CPA

A CPA who is *not afraid to lose your business* is absolutely essential. I mention “not afraid to lose your business” for a reason. In my opinion, too many CPAs do not want you to exit, as they do not want to lose you as a customer who provides a very valuable recurring revenue stream to them. This is changing as more progressive firms realize that exit planning and Value Acceleration provide a new revenue stream for them and it is their duty to have *your* best interests at heart. The CPA industry is consolidating. One reason is that the CPA industry is facing what all owners are facing—aging baby boomers who are looking at retirement.

The CPA holds the gold medal for advisor status with business owners. According to most of our business-owner surveys, CPAs are the most trusted advisor. Your CPA will be involved in assessing and valuing your business. They will help you clean up, if needed, and maintain your financial records. They may help you project, plan, and execute. They are involved in every stage of Value Acceleration. Many firms today offer far more than just traditional CPA-type accounting work. Many have become services clearing houses with the ability to offer an array of services including financial planning, insurance, pension planning, HR, marketing, IT, and (you guessed it) *exit planning*. No doubt, they can be too technical sometimes, but they do have arguably the best grasp of the tax numbers combined with good background and training to help you succeed with exit planning.

## Value Advisor

A value advisor’s primary role is to help you grow value and unlock the wealth trapped in your business. This is a new type of advisor created when I introduced the Value Acceleration Methodology to the industry. They typically will have a background as a CPA, CFO, financial advisor,



or management consultant, and some are former business owners. They need to understand the game of business, its processes and functions, and the numbers.

Value advisors oversee the Five Stage of Value Maturity process focusing on the business side, versus personal and financial side, unlocking your business wealth by helping you identify, protect, build, harvest, and manage the value of your business. The value advisor will

- Assess your personal, financial, and business situation and correlate this to the value of your business.
- Develop a scorecard and be able to quantitatively and qualitatively measure the impact of the implementation of personal, financial, and business actions that drive the value of your business.
- Develop a plan with sequential steps and milestones and identify the critical path.
- Define the deliverables to be produced at each milestone and gate.
- Solicit the help and input of others on the team.
- Establish communication protocols.
- Facilitate communication, resolve issues, and hold people accountable for deliverables.
- Keep things on track and on budget.

In addition to project management skills, value advisors need to demonstrate empathetic understanding of business ownership. They need to be able to reach the owner personally. They need to be able to dissect and analyze financial statements and the financial, cultural, and personal consequences of both strategic direction and daily decisions. Skills in change management and collaboration are very important.



## Business or Commercial Banker

When my son started his first business (which he later successfully sold at the age of 24), my father gave him this advice: “As a businessman, your most important relationship is with your banker.”

Granted, one of my father’s roles was legal counsel for a large bank, so it’s fair he may have been a little biased. Regardless, no one can deny banking plays a key role in business operations, growth, and transition. Most owners don’t think about the banker when they think of exiting. Part of the problem is that many bankers do not develop a relationship with the owner outside of their banking needs. Banks are subject to heavy regulation, which can limit the types of services they can provide you. However, one of the questions we ask in our business assessment is “How strong is your relationship with your bank?”

Surprisingly, many owners rate this relationship low. They only go to the bank when they need money or when they must explain a variance to the covenants they agreed to when they borrowed money from the bank. This is really a missed opportunity. The owner and banker should talk regularly about the state of the business, good or bad, and the owner’s aspirations.

Your banker should be involved in your exit plan. For one, if you or your children, employees, management, partner, or outside buyer need money to finance your exit, your existing banker is likely to be the first one to step up, assuming you have kept them abreast of your plan. They know your business, or at least should, and its quirks, positive and negative. They don’t want to lose your business. They are after all, in the business of lending money. If they are kept apprised and are permitted to provide you with some advice to position the business and your successor to be in a better position to secure the financing you need to execute your succession plan, they are the most likely financial resource to back you.



## Family

Certain family members, such as your spouse and some of the children, should be part of your core team. I recommend owners set up a Family Council and/or Personal Advisory Board that acts similar to a business's Board of Advisors. A Family Council can help manage the collisions between the business and family dynamics.

As Richard Jackim and Peter Christman wrote in *The \$10 Trillion Opportunity*, “a Family Council protects the growth, development, and welfare of the family itself ... it provides family members with a regular structured forum to communicate, voice concerns, have input, and participate in determining how to deal with business issues ... with this structure, the family does not feel obliged to pack the corporate board with family members.” I recommend at least one family member act as a liaison to the Board of Advisors.

## Board of Advisors (and Personal Advisory Board)

Some companies, depending on their structure, are required to have a Board of Directors. The Board of Directors does not necessarily perform the same role as a Board of Advisors (BOA). If set up correctly, the BOA will provide the owner and the family members valuable advice and connections from individuals with years of experience of working with other businesses, both corporate and family. They can help you sort out and vet succession candidates, including possible family members, and recruit, motivate, retain, and evolve talent. They will help to provide oversight of your Master Plan and, most of all, hold you, the owner, accountable.

One common owner problem is that you are not accountable to anyone except perhaps your customers. You are at the very top. Inside employees and management are squeamish to tell you what you need to hear. Even longtime advisors like your CPA and attorney can awkwardly hesitate to



tell you what you need to hear, for fear of losing you as a client.

As a board member and mentor to many children who work in their parent's businesses, sometimes these family members need help communicating with and managing Mom and Dad. They fear saying what they want and need to say to their parents out of respect, and they would prefer to avoid dysfunction in the family. A solid BOA can provide a mechanism for brutal honesty and accountability.

There are many other roles an outside BOA can provide. Below is a sample list of these shared from *The \$10 Trillion Opportunity*:

- Reviewing financial statements and audits
- Reviewing corporate mission and strategy
- Reviewing and approving budgets
- Monitoring business performance
- Monitoring business goals
- Making recommendations regarding major capital expenditures
- Assessing organizational structure and policies
- Approving mergers and acquisitions
- Approving major debt transactions

Establishing or assessing the need for an outside BOA is usually one of the first things you should do in the first 90-day cycle of Value Acceleration (in the Prepare Gate, Gate Two).

I would also suggest you consider setting up a Personal Advisory Board (PAB). A PAB acts in a similar role as a BOA. However, the PAB will focus on providing guidance and holding you accountable for actions related to your *personal (and financial) path*, while your BOA focuses on your *business improvements path*. If you decide to have two advisory boards, one personal and one for business, make sure at least one member sits on both to ensure connectivity.



## Key Employees

Sometimes putting key employees on your core team is appropriate, *especially* if you have already designated a successor. Giving them the opportunity to interact with the rest of your core team is a great way to vet and teach them what it's like to be at the helm of the ship. It also allows them to express their points of view on strategic matters, contribute to the creation of strategic plans, and own the execution. It also reassures and builds confidence with all the other stakeholders.

## The Quarterback

Given there are so many people involved and the complexity of Value Acceleration, I recommend you seriously consider establishing a quarterback of your team. I believe this is vital to your success. A good quarterback will return ten times what you pay them, at least. Think about it, do you really want to or have time to manage all these resources and activities? Do you even understand what all these outside advisors do well enough to manage them? How many exits have you actually done? An experienced quarterback has likely been through dozens of them. The quarterback watches your back, connects you to the right people, and helps you manage these relationships, all of which are critical to your success. They have the knowledge of who to bring into the methodology and when and, how much it should cost.

Often, the success of the team is dependent on the strength of the quarterback. For example, look at the success of the teams led by Tom Brady, Peyton Manning, and Patrick Mahomes. Do you think their teams would have been as successful as they were/are without these quarterbacks leading them?

The quarterback of your stakeholder team is no different. You need someone with Value Acceleration experience, leading, guiding, and



coordinating your team. There's too much wealth at stake to put this quest in the hands of someone not qualified. Your quarterback takes on the heavy lifting of helping you understand the Value Acceleration playbook, preparing the game plan, and establishing a budget. They keep an eye on how things are going. Is the team meeting deliverables and targets? If not, why not? They make sure the advisors' services are being delivered properly and that the advisors and your internal teams are communicating properly. And they are there to counsel you when you are faced with significant life-changing choices.

## **Secondary Team Members and Stakeholders**

As if your core team members were not enough, many other specialists will need to interact with your core team throughout the process. You may need functional specialists such as customer service, marketing, manufacturing, operations, distribution, finance, legal, IT, HR, and accounting specialists. When considering options, you will need to interact with outside options specialists like investment bankers and M&A intermediaries, private equity, family offices, and inside-transition specialists including ESOP specialists, family-transition specialists, and attorneys who are experienced in management and partner buyouts. You may need to consult with specific lenders who provide capital funding and mezzanine lending. Also, don't neglect all your other stakeholders, including customers, suppliers, employees, and the local community—all of whom contribute to and depend on your success and the continuity of your business.

# BONUS CHAPTER FOR PROFESSIONAL ADVISORS

## Becoming the Owner's Most “Valued” Advisor

**ROMAN PHILOSOPHER SENECA SAID, “LUCK** is what happens when preparation meets opportunity.” As our market evolves and generations grow older, we are seeing more and more of this so-called exit wave come true. As a professional advisor, if you haven't been asked by an owner yet to help them with value creation and transition, you will be. My challenge to you is, when your client, the business owner, asks you the question—“Can you help me exit?”—are you going to be well prepared or just hope to get lucky?

As a professional advisor, you have an amazing opportunity to have a



personal and professional impact on a business owner, their family, and their company. What a fulfilling role to be in, and what fulfilling work to do!

As we as professional advisors will more immediately work with the transitioning baby boomer generation, we have an opportunity to help the next generation of business owners rethink the way they do business. In studying the next generations, we find that these younger owners are more in tune with the holistic approach in this book depicted through the Value Acceleration Methodology. Undoubtedly, exit strategy as business strategy is the new trend, and many owners need support in walking through the Five Stages of Value Maturity and positioning themselves and their companies for an eventual exit.

In preparation to further develop our relationships with business owners and become the business owners' most trusted and valued advisors, we must take these three steps.

1. Educate yourself and expand your skill set.
2. Build a team and adopt a common framework.
3. Change your conversation and create awareness.

## **1. Educate Yourself and Expand Your Skill Set**

Much like my advice to business owners, the process for professional advisors begins with education. You must educate yourself, expand your skill sets, deepen your knowledge, and better understand business owners and exit strategy so that you can be the change agent business owners need. The owner needs an advisor who can help direct them in creating something of significance—a significant company, one that is highly valuable, transferable, ready, and attractive and that aligns their business, personal, and financial goals.



For the professional advisor, it is all about training and practice. Just like for some of our star athletes and Olympians—they did not get to the top by not practicing, training, purposefully growing, and expanding their minds and approach. There are many opportunities for advisors to purposefully grow within this space, and unlike the business owner, it goes much further than just picking up some exit planning-oriented books and reading them.

EPI is the authority within this space, with thousands of certified professionals across the world, and they work with thousands of professional advisors each year throughout their community, programs, and platform. You can go deep, or you can stay high level. As the president of this organization and an exited owner, I would challenge any professional advisor, whether deep or high level, to become more advanced and educated within the exit planning process. Some of the options for advancement include the following:

1. Certification: Become a Certified Exit Planning Advisor® (CEPA)

I am not advocating that all professional advisors to business owners need to be credentialed. There are more options to deepen your knowledge than holding this credential. What I am saying is the best of the best do hold this designation and credential. They are fully immersed within the Value Acceleration Methodology and belong to a group of like-minded advisors who all help owners drive value and align their goals. In this program, the advisor moves through the methodology in depth, learning from a dozen or more experts within this field who are members of the CEPA faculty and complete 16 or more modules. They are tested, certified, and monitored by EPI. EPI also provides them with the continuing education, content, tools, and resources to place them in front of business owners as the best. Learn more at [www.earnCEPA.com](http://www.earnCEPA.com).



## 2. Learn the Methodology

Going beyond the writings in this book is an on-demand virtual course, which takes you through the critical components of the methodology at a deeper level. This course comes with practice questions and a workbook.

## 3. Attend The Exit Planning Summit

The Exit Planning Summit is the largest exit planning–centric event in the United States today and likely for the entire industry worldwide. This event brings together the best advisors and experts within the space and allows both CEPAs and non–CEPAs to integrate and expand their knowledge and relationships. This event allows the advisor a wide variety of education around the methodology and its ancillary components.

## 4. Get Involved with an EPI Chapter Network

EPI's Chapter Network is a network of all professional advisors across the United States, who come together typically monthly to drive awareness, education, business development opportunities, and research. It's a diverse and robust place where advisors can learn and grow at their own pace, without jumping all in. Learn more at [www.EPIchapters.com](http://www.EPIchapters.com).

## **2. Build a Team and Adopt a Common Framework**

Business owners usually lack a holistically minded team. Typically, the professional advisor community is excellent at coming to the business owner



with siloed expertise. For example, the CPA is an excellent accounting and tax expert, the attorney an excellent legal expert, and the financial advisor an excellent investment strategist. Where they lack is coming together around one common and proven framework or process, having common goals and objectives, and having one singular organizing principle.

As a professional advisor, your first step in this process of building out a team is understanding your individual and specific role. Who are you to the owner? Who do you want to be? And where is your place on the team? Do you want to “quarterback” or “project manage” this exit strategy for the owner? Or would you rather play a more functional role? Neither is better or worse, but going into building a team knowing this will be critical for the team’s success.

All business owners should at minimum have five key advisors on the transition advisory team.

1. CPA
2. Attorney
3. Value advisor
4. Financial advisor
5. Commercial or Business Banker

These advisors truly represent the three-legged stool of business, personal, and financial as well as representing the two concurrent paths any business owner should operate on, business and personal/financial. In addition to this team, there will be advisors who move in and out of the process as needed. These advisors could include estate planners, life coaches, investment bankers, brokers, family-business advisors, risk advisors, and some of the more specific functional business roles like marketing consultants, IT professionals, or leadership or executive coaches. The professional advisor should build a deep bench of people who fit these core and functional roles



so that when the owner asks or an issue arises, this most trusted and valued advisor to the owner has a connection.

Being the most trusted and valued advisor is not just about deep education and training but becoming a *connector* of people and resources for the business owner. Thus, having a deep network of individuals is critical for success. Even better, if this advisory table is full of people who all believe in common goals, common principles, and the same process and framework, they can all function at a high and more impactful level.

The organizing principle for any exit planning team should be the Three Legs of the Stool—the equal alignment of business, personal, and financial. The common goal of the team is to get the owner to the Triggering Event engagement. This will unlock all data, knowledge, action, and opportunities. Last, the team needs a proven framework. For us at EPI, that is the Value Acceleration Methodology.

### 3. Change Your Conversation and Create Awareness

Still today many business owners do not understand the full benefits of making exit strategy business strategy. There are millions of small- to lower-middle-market companies within the United States today, many of whom still fail at exit. To begin to drive awareness of how to approach exit strategy, the professional advisor can do something simple: change your conversation. To begin to change our conversations, we must know that we also need to change our approach.

The advisor must do critical things in their opening conversations with owners regarding exit strategy.

1. Ask the owners the right questions versus giving them the right answers.
2. Share insights early and often, regardless of whether the owner is a client yet.



Why? The State of Owner Readiness Survey tells us that 99% of business owners agree that having a transition strategy is important to their future personally and to the future of their company, though traditionally business owners are not really putting that into action, as some of the opening statistics show within this book. Why again? Because business owners understand that exit strategy is, in fact, important, but they feel that it is not urgent, and generally, they are misinformed about the benefits and when and where to begin the process.

Sharing insights and asking questions allows conversation to begin around all Three Legs of the Stool. It also begins to help the advisor identify, early and loosely, the gaps the owner may have and understand the pain points and desires of that business owner. If the professional advisor is interested in these empowering conversation starters, navigate to [www.EPIacademy.com](http://www.EPIacademy.com), and review the on-demand virtual course *Empowering Conversations*.

There are additional vocabulary and approach words and conversations the advisor can have. CPAs can begin to integrate the conversation about the real number versus the tax number. Meet with the owner more regularly throughout the year. The financial advisor can speak to the Wealth Gap and how it affects the Profit Gap and Value Gap and the owner's needs versus wants in the next act of their life. They can talk about the two concurrent paths: the first a business path, where we talk about more strategic and visionary items, and the second a personal path, where we talk about vision, goals, and purpose for the owner. The value advisor can change the conversation from an income-generation conversation to a value-creation conversation.

Simple tweaks in your approach with owners will go a long way, allowing the business owner to think more holistically and move them down the path of Value Acceleration.



# APPENDIX A

## Reflection Questions

### Chapter 1

- Review the characteristics of Lifestyle versus Value Creator business owners. Which one are you today?
- Owner independence is one of the first things I assess to get an initial sense of business value. How well could your business run without you at the helm today? How much of your present identity is tied to your business?
- Owning and exiting a business is a personal journey more than anything else. Research has shown, being in touch with who you are and what you want produces a better exit. Find a quiet place to do



some soul-searching. Ask yourself these three questions: Who am I? What do I want? And why? Write down your answers. Writing down your answers will help you commit them to memory.

- The benefits of using the Value Acceleration Methodology are enormous. Which benefits described in this chapter resonated the most with you?
- How would you explain the benefits of Value Acceleration to a peer?

## Chapter 2

- Have you considered the massive wealth locked in your business? For many business owners, it's 80% of their total net worth. What percentage of your total net worth is locked in your business today?
- EPI's State of Owner Readiness research discovered that 63% of owners say they would like to exit their business in ten years and nearly 41% in five years. What's your timeline?
- Visit [www.ownerreadiness.com](http://www.ownerreadiness.com). Review the data from the State of Owner Readiness studies. Download one of the reports. Informally review and answer the questions in the report. How did you do? What did you learn? How ready are you to transition your business and unlock its wealth?
- Did you realize before reading this chapter that historically, only 20% to 30% of exits are successful? The biggest reason for these poor success rates is poor preparation. How would you describe the attention you have given to your exit up to this point?
- 50% of owners in the State of Owner Readiness research said their ownership transition plans required their company to remain



profitable for their plan to be properly executed. Does yours? How are you addressing that?

- Consider what affect the trends in the marketplace will have on the value of your business and your ability to exit/transition your business on your terms and timeline?

### Chapter 3

- How much do you agree with the following statement: Having a transition strategy is important for my future as well as the future of my business? 99% of business owners at least somewhat agree with this statement. Over 60% strongly agree. Yet 78% have no formal transition team, 83% don't have a written plan, and almost half indicate they have not even thought about it.
- Go back and review the reasons why business owners don't do exit planning. Which of these reasons resonate with you, and what actions can you take in the next 90 days to address them?
- Considering the value of your financial assets outside your business today, would you be able to sustain your lifestyle without the income from your business?
- Does your management think like owners or employees? Do they demonstrate right-brain or left-brain tendencies?



## Chapter 4

- When thinking about your exit from your business, would you say it evokes emotions of fear or an embracing of the future?
- After reading this chapter, do you understand now why exit planning is present tense, simply good business strategy, and how exit planning and Value Acceleration can be used to rapidly grow business value and unlock the wealth trapped in it, increasing your net worth by 400% or more?
- Changing your outcome begins with shifting your paradigm about what exit planning is and is not. Go back and review the 11 actions to help you make this shift. Which of these actions really resonated with you? Pick three and establish a few actions you can take in the next 90 days to begin your paradigm shift.

## Chapter 5

- How well have you identified the value factors to protect what you already have and accelerate the value of your business? Identify one action you take personally, financially, and from a business standpoint to improve your business value in the next 90 days.
- What do the 5Ds (Death, Disability, Divorce, Distress, Disagreement) all have in common (other than they all begin with *D*)? The answer is they can all be planned for. Do you have a contingency plan in place if you were to no longer be able to operate your business or were affected by one of the 5Ds?
- Did the story of my friend resonate with you? Do you know



someone who had a similar circumstance? How did it go? The solution is to always be ready.

- Usually, when I teach the Five Stages of the Value Maturity Index to business owners, they acknowledge the value of moving through the stages sequentially, but often they see themselves in multiple stages at the same time. What stages of the Value Maturity Index are you in?
- Perform the exercise provided in the chapter. How did you score? What three actions can you take in the next 90 days to improve your score?

## Chapter 6

- Did you know prior to reading this chapter that 80% of a premium business's value is tied to its intellectual knowledge (intangible assets)? It's true. And yet most owners don't get any read on this number because it doesn't show on their balance sheet. What system, if any, do you use today to measure the value of your intangible assets? Go to [www.WTDDownloads.com](http://www.WTDDownloads.com) and download and complete the *Score Your Human Capital* exercise. What did you learn?
- Do you see how performing this exercise for each of your 4Cs would deliver a specific intentional list of value factors you could improve to drive your business value sky high? Does that sound like something worth doing? Perform that same exercise, scoring each of your 4Cs using the Common Sense Scoring scale. What was your overall score? What did you learn?
- Identifying the value factors that drive the strength of your



intangible capital is intuitive for most business owners. However, what most owners don't do is intentionally measure and manage them. Try naming three value factors for each of your 4Cs: Human, Customer, Structural, and Social.

## Chapter 7

- Which of the three legs do you give the least attention to today? Most likely it's personal and personal financial planning. What three actions can you take in the next 90 days to give equal attention to your personal and personal financial planning?
- Do you agree it would be tremendously valuable if you ran your life (personal and financial) with the same vigor that you run your business? If you are not spending equal time on personal and financial, why not? Identify the causes and develop a few actions you can implement in the next 90 days to change that.
- Knowing the size of your Wealth Gap can create a powerful aha moment. Go to [www.WTDDownloads.com](http://www.WTDDownloads.com) and download and complete the *Calculate Your Wealth Gap* exercise. What did you learn?
- Take a moment to consider the significance of that number. Would the value of your business close your Wealth Gap? What three actions could you take in the next 90 days to close your gap? Most likely, the only way you could do it would be to take actions to position you to be able to harvest the wealth locked in your business.



## Chapter 8

- How well does your company regularly produce expected results? What systematic approach are you using today to deal with setbacks, resistance, and constraints (physical, mental, and emotional), to overcome the hurdles to succeed? How well is it working?
- Did the Big Rocks story resonate with you? How can you adopt a prioritization process to ensure that your Big Rocks get put in the jar first?
- How does your organization deal with situations when team members miss goals? Does your organization view accountability as a learning process? What three changes could your organization make to improve accountability?
- How strong are your personal and business vision statements? Do some soul-searching. Do you really believe in them? Are you passionate about them? Have you defined them with enough detail to make them seem/feel real? Are they a source of inspiration that drives behavior in your family and in your business?
- Consider going to [www.WTDDownloads.com](http://www.WTDDownloads.com) to download the *S.T.E.P.* exercise and the *Four Words to Test the Strength of Your Vision* exercise. What did you learn? Did these exercises bring you clarity?
- Get together with your key staff. Can they articulate stories from the last 90 days that demonstrate your company's and your personal commitment to your core values? Do the same with your family.



## Chapter 9

- What is the one thing you can do to shift your and your team's focus to value first, such that, by doing it, everything else will be easier or unnecessary?
- Consider how well you could explain the following concepts presented in this chapter to one of your peers:
  - Strategic Value = Simple Math
  - Real Number versus Tax Number
  - Range of Value
  - Attractiveness versus Readiness
  - How the 4Cs affect the multiple assigned to your business
  - How Personal and Financial readiness affect business value
  - The Common Sense Scoring scale
- What are the consequences of trying to transition an attractive but not-ready business? Consider this from both third-party sale and family-transition options.
- Do you suffer from the Ugly Baby Syndrome? How would having a third party independently and unemotionally look at your business from the outside in add value?

## Chapter 10

- In addition to providing quantitative proof of your Business Attractiveness and Personal, Financial, and Business Readiness, do



you see how completing a Triggering Event could deliver the clarity to help you make better business and personal choices?

- Which step in the Triggering Event do you think would bring you the biggest aha moment?
- If you were to score your Business Attractiveness and Personal, Financial, and Business Readiness today, how do you think you would stack up and why? Can you prove your scores?
- How would knowing your Profit Gap and Value Gap and Real Number versus your Tax Number help you make better personal and business decisions?
- Do you think your business, as it stands today, could get through a third-party due diligence process without lowering your selling price or shifting risk back on you?

## Chapter 11

- How can you structure more meetings like workshops to be more efficient and decisive?
- Do you agree with the prioritization process in the chapter? Protect before strategy. Strategy before efficiency. Efficiency before growth. And do you agree culture is realized as you move through the process?
- How involved are your key employees and family members in establishing your personal, financial, and business priorities today? What three actions can you take in the next 90 days to improve their participation?
- Have you completed in the last two years, or do you have underway presently, a formal pre-transition value enhancement/preliminary



due diligence project to de-risk your business, maximize its value, and minimize taxes upon transition? If not, why not?

## Chapter 12

- How can you build better accountability and rhythm in your company and personal life today? Write down one personal and one business action you can take in the next 90 days to improve accountability and develop better rhythm.
- Do the workshops presented in this chapter resonate with you? Think about how you could carve out just four to six hours each month for personal and for business to help your teams deliver their 90-day Big Rocks.
- It has been said that interval training is the most effective means of training and improving health. You race your heart up and rest, then race your heart up and rest, over and over again. 90-Day Sprints are short bursts of Relentless Execution, like interval training for your two concurrent paths: business and personal. Do you agree that using these sprints would improve your ability to be fast and flexible in both your business and your personal life?
- Order a bottle of champagne, and put it in your wine cellar. When you hit the low point on your Wow Curve, 9 to 12 months after you start using the Value Acceleration Methodology, pop it open and share it with your teams to remind yourselves that you need to power through this tipping point.



## Chapter 13

- After completing two cycles of 90-Day Sprints, find a quiet place and ask yourself four questions: (1) Do I want to keep growing, or do I want to exit? (2) Am I ready for growth and transition? (3) Is my business ready for growth and transition? (4) Which exit option or hybrid options should I be considering? Consider including your CEPA advisor, key family members, partners, and key employees. See what they think as well.
- Consider the possibility of exiting over a longer time horizon versus making it a once-in-a-lifetime event. In doing so, could you open other exit options or hybrid options you had not considered previously?
- Are you aware of the pros and cons of *all* your exit options and hybrid options? If not, spend some time over the next couple of 90-Day Sprint cycles to get yourself more educated and explore all your options.

## Chapter 14

- Have you completed any formal education related to transitioning your business? Research shows that 71% of business owners have not. Using the suggestions in the chapter, create a plan to get yourself more educated. Consider reading one of the books recommended in the next 90 days.
- Do you have formal business and personal Value Acceleration teams defined? If not, create a list of who you might potentially name to



these teams. How qualified are they? Do they have experience with Value Acceleration and transition planning? For example, you may be very happy with your present CPA and business attorney. But do they have specific experience with growing and exiting a business?

- Consider contacting a friend who may be a member of one of the peer groups mentioned in this chapter. What benefits have they received from being a member of a peer group? If you are already a member of a peer group, consider sharing a copy of *Walking to Destiny* with your group.
- Look to see if there is an Owner Roundtable or another event hosted by a CEPA in your area. Ask a friend to attend one of these roundtables with you.
- Consider contacting a CEPA to get a business valuation completed. If you do decide to follow through and get an updated business valuation, what multiple was assigned to your business? What percentage of your total value is tied to intangible capital? How big is the difference between your net profit (tax number) and Recasted EBITDA (real number)?
- Compare your business value to your Wealth Gap. Does the value of your business close your Wealth Gap? What is your Profit Gap and Value Gap?
- How transparent are you with your personal and business leadership teams? What's holding you back from being more open and transparent?

# APPENDIX B

## Exhibits

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# ABOUT THE AUTHOR

**CHRISTOPHER M. SNIDER IS A** Certified Exit Planning Advisor (CEPA) and the CEO of the Exit Planning Institute, which he owns with his son Scott Snider. Chris is an award-winning author, professional keynote speaker, and content provider. His first edition of *Walking to Destiny:*



*11 Actions an Owner Must Take to Rapidly Grow Value & Unlock Wealth* in 2016 is a five-star rated book that has empowered owners with the path to effectively position their business for exit options down the road and rapid business growth today.

Snider and his son Scott bought the Exit Planning Institute in 2012. As one of EPI's first 100 CEPAs, he became aware of a void in the profession—business owners did not have a team that came together around one framework and process for holistic planning. This led to Snider's creation of



the Value Acceleration Methodology, an award-winning and proven process and framework that profoundly changed the exit planning industry. Many entrepreneurs and business leaders across the world run their companies utilizing the VAM process in part or whole, while thousands of advisers have become certified within it as Certified Exit Planning Advisors.

Early in Snider's career, he served as a system integrator, supply chain manager, and mergers and acquisitions specialist for public companies such as The Sherwin Williams Company, Price Waterhouse, FedEx Logistics, Nike, Dell Computer, Hewlett Packard, Freightliner, and many others. He hit a game-changing milestone when he helped a middle-market family-owned business grow 300% in revenue in under three years, resulting in a sale to a large multi-national strategic buyer.

For his written work and contributions to the industry, Snider has been awarded honors, including 2016 NACVA Industry Titan Architect and 2016 AM&AA Thought Leader of the Year.

Snider lives in Cleveland, Ohio, with his wife, Denice, and has two adult children, Scott and Ashley. He enjoys boating, golfing, hiking, and the outdoors. Find out more at <https://exit-planning-institute.org>.