PRIVATE CLIENT ADVISORY

MIND YOUR BUSINESS

Maximizing the Value of Your Company & Personal Wealth

Unlock the secrets to building wealth and securing your legacy with a realistic, straightforward, and proven approach to business transition and succession planning. The essential guide for busy business owners, *Mind Your Business* brings together the insights of nearly a dozen highly specialized tax, investment, and business professionals to break down the essential, actionable strategies you need to optimize your company, plan your exit, and shape your financial future with confidence.

Rehmann

INTRODUCTION

There's a long-held rule of thumb that says business owners should begin planning their exit strategy three to seven years before retirement.

I respectfully disagree.

After decades of guiding owners and co-owners of small- and mid-sized businesses through mergers, acquisitions, and sales — to internal or outside buyers, private equity investors, or the next generation of family or leadership — I've found that there's a better time to start planning your exit: the day after you open your business.

That's not entirely hyperbole. It's also a mathematical fact. The earlier you begin planning, the longer runway you'll give yourself — maximizing the time you have to impact the operations, upcoming leaders, culture, and value of your business; your personal wealth and retirement; and your estate plan and legacy.

Likewise, if the unthinkable happens, your family, your estate, your business, and your employees will be taken care of according to your wishes — not be left to the whims of an unprepared successor or a buyer who doesn't value the culture you built.

Business Continuity & Contingency Planning … or Collapse?

But suppose you didn't start planning your exit on Day 2 … or Day 2,002? Does that mean you're doomed?

Absolutely not. It only means you have no time to waste.

Whether you hope to exit your company in 10 years or 10 months, you need a realistic, uncomplicated, and proven approach to financial and business succession planning. One that's designed to educate and empower you — a business owner already knee-deep in the day-to-day demands of running a company — to begin working toward the future you envision now.

A herculean task? Not the way *Mind Your Business* approaches it.

Your Shortcut to Smarter Succession & Financial Planning

Mind Your Business isn't another theoretical guide filled with abstract concepts or lofty business jargon. It's a down-to-earth, actionable resource designed to simplify the business transition and succession planning process for you.

And it's written with one purpose in mind — to empower you to take control of your future without feeling bogged down by the details.

In the coming chapters, you'll get an in-depth introduction to 10 key facets of business transition and succession planning. Easy to understand and act on, each chapter brings you the no-nonsense insights of a diverse group of specialists, one that boasts decades of experience guiding independent and family business owners just like you in building their business, wealth, and next life chapter. Leveraging their professional knowledge and proven strategies, each chapter drills down to the critical information you need to start optimizing your company — and your options — now and ahead of your exit.

A Pathway Built for You

One of the most important truths that shapes this book is that no two journeys are alike. Your business is unique, and so are your aspirations, challenges, and circumstances. While I can't stress enough the benefits of beginning your exit planning process as early as possible, the order you approach each aspect of the process won't necessarily be linear.

Mind Your Business respects that. Although the book is designed to guide you through a progressive series of concepts that our specialists have deemed critical to a smooth and successful exit, its chapters should not be construed as a rigid sequence of steps you must take in the order they're presented.

After all, the process of planning your business transition isn't a rigid sequence of steps; it's a blend of strategy, timing, and personalization. That said, I recommend an initial read, cover to cover, then circling back to begin whatever part of the process makes most sense for your specific situation, timeline, needs, and goals.

You might begin working on a contingency plan this quarter, then pivot to estate planning and leadership development next. Or perhaps it makes more sense for you to focus on improving the accuracy and regularity of your financial statements before tackling operational efficiencies and an initial business valuation. The point is, there's no right or wrong way to start, as long as you're moving forward.

Take this book as an invitation to step back and think about the big picture, as illuminated by several expert guides. What do you want for yourself, your family, and your company in 5, 10, or 15 years? Rather than being swept up in the pressures of day-to-day operations, this resource will help you intentionally shape the future you desire.

Let's begin.

Gerald Wernette
May 2025

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CHAPTER 01

Fundamentals: Your Shortcut to a Smarter Exit Strategy

By Gerald Wernette, CPA, CEBS, AIFA, C(K)P, CEPA

As a business owner, you've invested countless hours, resources, and passion into building your enterprise. But have you ever considered what would happen to your company — as well as to your employees, your personal and family finances, your estate, you, and your lifestyle — when you exit your business?

What about the impact if you were forced to exit, because of an accident, illness, or other unforeseen event?

Maybe you've thought about when. Perhaps you've worried about what if. But chances are good you haven't planned the all-important how.

You're certainly not alone. According to PwC's 2023 U.S. Family Business Survey, only fifteen percent of family businesses owned by baby boomers today have a robust, documented, and communicated business succession plan.

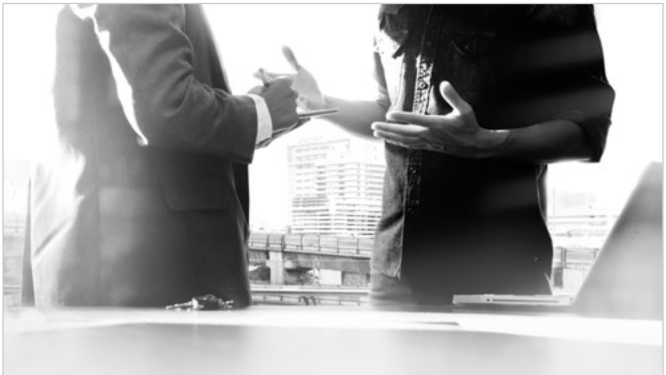
The Dangers of Not Having a Business Transition or Succession Plan

Unfortunately, however, research shows that lacking a well-thought-out business succession plan can be risky. Although 100 percent of all business owners will eventually exit their business, the Exit Planning Institute's most recent National State of Readiness Report finds:

- About 50 percent will exit unexpectedly, due to one of the "5 D's": death, disability, divorce, disagreement, or distress.
- Of the 200,000 small businesses listed for sale each year, only 20 to 30 percent successfully sell, leaving up to 80 percent of small businesses with a questionable future.
- Of those business owners who manage to sell, 75 percent reported they "profoundly regret" selling their company a year after selling it. Much of this regret can be tied to having not optimized the value of their business before they have transitioned from it.

By not planning, you risk too much, setting yourself up for financial instability, personal dissatisfaction, and not optimizing the value of the business you've worked so hard to build.

But those outcomes don't have to be your fate. And they won't — if you put a plan in place.



Sold … Down the River?

Of the 200,000 small businesses listed for sale each year, only 20 to 30 percent sell. Are they the lucky ones? Not according to 75 percent of those owners, who reported they "profoundly regret" selling their company one year after selling it.

Source: DealWare

Begin Your Business Transition/Succession Template

Before we begin stacking the building blocks of your strategy, let's lay out three fundamentals that will enable you to structure your business transition and succession plan on the strongest foundation possible.

Fundamental No. 1: You are not your business.

Remember that statistic about the small percentage of business owners actually able to successfully sell their business? And how 75 percent of those sellers reported "profound regret" within one year?

That's because the most successful business succession plans aren't only about business. They're a business succession-financial-estate-and-life plan in one. And the most successful encompass and integrate three aspects of planning:

1. **Personal:** Your personal goals and aspirations. What do you want to achieve post-exit? This could include lifestyle changes, new projects, or philanthropic endeavors. Understanding your personal desires will guide your financial and business decisions.
2. **Financial:** Your current financial situation, your projection of future needs and goals, and the creation of a strategy to meet those needs. Proper financial planning ensures you have the resources to support your desired lifestyle after exiting your business.
3. **Business:** Your business's health and sustainability. This includes succession planning, improving operational efficiencies, and enhancing your business' overall value. A robust business plan is essential not only to make your company more appealing to potential buyers but also to ensure a smoother transition for you and the next generation of leaders.

Fundamental No. 2: Don't go it alone

While this series of articles is intended to make the art and science of business succession and transition planning easier to understand and execute, I'd be remiss to suggest it's a process you'd want to undertake alone.

The reality is, business, financial, estate, and all other facets of planning that play into business succession and transition can be extraordinarily complex. For the sake of your time and effectiveness of your strategy development, I recommend you supplement what you learn in this series with the hands-on guidance of highly experienced, certified professionals.

Look for advisors like those who author the coming pages: seasoned professionals who demonstrate deep knowledge in their respective field, have a track record as proactive partners, and work as a holistic team.

Though by no means an exhaustive list, some key members of your succession team might include:

- A financial advisor for investment and retirement income planning
- A tax advisor to navigate tax implications and opportunities
- An estate planner to help implement your estate transition plans through your will and trust instruments, while minimizing any estate/gift tax implications
- A business consultant or fractional CFO to help identify and improve operational challenges, set goals to maximize the value of the business, and develop and manage strategies to reach them
- A human resource specialist to improve company culture, help identify and develop future leaders, manage transitions and employee relations

Fundamental No. 3: Your exit strategy IS a business strategy.

Don't think of business transition and succession planning as yet another task to tack on at the end of your long day, when you're done managing day-to-day operations. Exit planning is a vital tool you can and should integrate as part of your every day, one that primes you to think deliberately and intentionally about how the small choices you make today impact your tomorrow.

When done right — integrated with your ongoing processes — business transition and succession planning is a sound business strategy. It will help direct your decision-making, illuminating how and where to adjust current processes to align with future goals, and crystallizing your focus on what you can do now to drive profits and grow the value of your business. When you know where you're headed, it's far easier to know what the next right step will be.

A Business Buyer's Market

Baby boomers own 2.34 million small businesses in the United States, employing more than 25 million people.

Source: U.S. Census Bureau

CHAPTER 02

Unlocking Your Business's Potential: The Power of Cash Flow Statements

By Tom Shemanski

In three decades as a financial executive and business advisor, I've seen many businesses owners get by just fine for years relying on the information gleaned from their balance sheets and income statements.

The key words there, of course: "get by."

While you can learn a lot from both balance and income statements, I've seen time and again that you can learn far more — and do significantly better than "just fine" for your business — when you add one often-overlooked tool to your accounting and financial processes: cash flow statements.

Yet, fewer than half of small business owners in the United States review their cash flow statements, reports a 2021 survey conducted by eCommerce banker Viably.

I've also seen the risks business owners take when they don't get, understand, or properly utilize their cash flow statements, and the research backs me up: According to statistics cited by nonprofit organization SCORE, the nation's largest network of expert business mentors, poor understanding or management of cash flow is the reason 82 percent of small businesses fail.

Now, if you're reading this, or any other chapter in *Mind Your Business*, you're not thinking about failure. You're thinking about positioning your business, financial, and personal plans so that when you're ready to sell, pass it to the next generation, retire, start a new company — or whatever you envision for your next life stage — you have options.

Cash flow statements are key to optimizing your plans' potential and your options.

Essential for tracking — and ultimately improving — your company's financial health, performance, and cash position, cash flow statements play a critical role in your ability to improve profitability, increase your owner equity, and grow the value of your business.

And just like your company's balance sheets and income statements, your cash flow statements must check three crucial boxes: They must be consistent. They must be accurate. And they must be timely.

I'll explain why — and show you how to get there. Let's start with a few basics.

Consistency in financial statements is a non-negotiable. If you don't have consistency, you can't spot trends in the data. And if you can't spot trends, you can't quickly respond to them.

The Big 3: Balance Sheet, Income Statement, & Cash Flow Statement

Your business's balance sheet, income statement (aka, P & L sheet), and cash flow statement (aka, CFS) are three of the most important financial statements your accountant, controller, or CFO can and should prepare for you. Each one offers a unique and valuable perspective into your company:

1. Your balance sheet tallies up your business's assets against its liabilities and equity to give you a snapshot of your business's financial position at a specific point in time.
2. Your income statement tallies up your business's sales revenue and expenses to show you its profit (or loss) over a specified period of time.
3. The cash flow statement is a more technical report; it gives you a detailed analysis of how cash moves in and out of your business over that specified period of time.

What Does a CFS Show That Other Financial Statements Don't?

Whereas a balance sheet shows the financial balance of your company, and the income sheet indicates financial performance, the cash flow statement focuses entirely on liquidity. It indicates your cash position and shows you the amount of cash or cash equivalents coming into and going out of your company. It divides that cash movement among three categories:

1. **Operating Activities:** Shows cash generated or used for your core business operations. Think: profit-making activities and expenses like salaries and wages, sales revenue, payments to suppliers, and interest and income tax payments, as well as changes in working capital levels like inventory, accounts receivable, and accounts payable.
2. **Investing Activities:** Shows cash inflows and outflows from your business's investments in assets, like purchasing equipment or selling property, loans to vendors, or merger or acquisition payments.
3. **Financing Activities:** Shows cash inflows and outflows related to borrowing or repaying loans (debt principal) to or from investors or banks, issuing stock, or paying dividends to shareholders.

Why is Cash Flow Analysis so Important?

By drilling down into the details of how cash is used and generated in your business, and in which areas, you can see how the changes in the accounts on your balance sheet and in the profit or loss on your income statement affect your business's cash position. That enables you to interpret the "why" and "where" of your business's performance and financial results.

What do you stand to gain from this information? Provided it's consistent, accurate, and timely — a lot. For starters:

1. **Liquidity Certainty:** Each cash flow statement gives you a real-time view of your company's liquidity — whether you have enough cash available to handle short-term liabilities like payroll or loans coming due — and your business's ability to generate cash and meet obligations, clear indicators of its viability. Remember: Even a profitable business can run short on cash if its leaders don't properly manage cash flow. Without liquidity certainty, it's simply too easy to make missteps like overextending on capital expenditures or inventory purchases or allowing an extended delay in a key customer collection.
2. **Operational Insights:** Because the statement breaks down cash flows into three categories — operating activities, financing activities, and investment activities — you can more easily identify which areas are generating cash and which are draining it.

   This information is crucial for figuring out how and where to focus to improve profitability, operational efficiencies, or capital/debt structure. It empowers you to make more informed decisions, such as whether you should continue capitalizing on certain efforts or must pivot and make changes like reducing expenses, increasing prices, or fine-tuning inventory management to improve margins.
3. **Better Budgeting & Forecasting:** By analyzing past cash flows, you can also make more informed predictions about your business's cash availability and cash needs in the future, helping you build a plan that ensures you budget appropriately to manage your working capital, cover expenses, avoid a cash shortage, and properly estimate your taxes.

   (Trust me: It'll sting if your accountant hands you a 4/15 surprise — an April 15 revelation that he or she underestimated your quarterly payments. But it will *(and should)* downright burn if you learn that he or she overestimated those payments, diverting into government coffers cash you could have used to invest in and grow your business. Ouch.)

PRO TIP

Closing financials by the 10th of each month helps avoid costly errors.

4. **More Informed Investing & Finance Decisions:** Understanding how much cash your business is investing in assets (and generating in returns) can guide future investment decisions, ensuring they align with your company's strategic goals and, ideally, don't rely heavily on external financing. Likewise, that understanding will help you better balance and manage your debt and equity financing — both important for your business's financial stability, profitability, and your ability to drive smart, strategic growth.
5. **Investor Confidence:** Investors and lenders often scrutinize cash flow statements to assess a company's profitability and viability, as well as your ability to repay loans. Showing a consistent positive cash flow enhances your business's credibility, demonstrates how well you manage day-to-day operations, and indicates its potential to grow — all factors that can help your business secure funding or loans and position it as a business worth buying. Understanding and being able to articulate your statement of cash flow will build confidence with your investors and lenders.

The Essential 3 Financial Statements

Balance Sheet

A snapshot of your company's financial position.

Income Statement

A record of profit and loss over time.

Cash Flow Statement

Tracks the movement of cash for deeper operational insights.

> Remember: Even a profitable business can run short on cash if its leaders don't properly manage cash flow.

The Three Keys to Valuable Financial Statements

If you take anything away from this article, let it be this: Every insight and benefit you stand to gain from adding cash flow statements won't matter one whit — unless your balance sheet, your P&L, and your CFS all check three critical boxes.

Each statement must be:

TIMELY

Industry best practice recommends you close each month's financials by the 10th day of the next month and review them shortly after. A few days earlier or later won't render any statement worthless, but the longer you wait to receive or review them, the harder it becomes to spot issues or opportunities in enough time to correct or capitalize on them.

CONSISTENT

Consistency in financial statements is a non-negotiable. If you don't have consistency, you can't spot trends in the data. And if you can't spot trends, you can't quickly respond to them. So what does consistency in financial reporting look like? Focus on easy-to-understand formats and clear communication, and aim to compare data month-to-month, against prior year data, and against budget or forecasted estimates. Having standardized processes, thorough documentation, and a properly trained team in place will make achieving consistency possible, consistently.

ACCURATE

To help determine the level of accuracy in your bookkeeping and accounting processes, ask your accounting team the following:

Q: *How many adjusting journal entries are needed each month to get accurate numbers?*

Q: *When significant mistakes are made, are corrective action plans put in place to prevent them from happening again?*

Q: *Are you leveraging technology to minimize the number of manual processes happening?*

If more than a handful of adjustments are necessary each month, or process improvements aren't made after significant mistakes occur, that usually means there's a lack of attention to detail or inefficiencies (a common drawback of many manual processes) at work. Identify whether the issue is with the people or the processes, then adjust accordingly.

3 Questions to Ask Your Accounting Team

Are financial statements being delivered on time each month?

How many adjustments are needed to ensure accuracy?

What processes are in place to ensure consistency?

Take Action: Steps to Achieve Accurate, Timely, Consistent Financials

STEP ONE:

Create a Month-End Checklist

Ask your financial or accounting team to create a detailed checklist that outlines all tasks necessary for month-end close. Have them assign specific responsibilities to team members for each task. Set clear deadlines to ensure everything is completed by the 10th day of the following month. If certain tasks fall through the cracks or take longer than projected, ask the team to tweak the process to capture and assign (or re-assign) missing or late tasks. Developing a structured approach that works will give your team a clear roadmap for timely completion.

STEP TWO:

Implement a Robust Reconciliation & Review Process

Ensure your team conducts thorough reconciliations for bank accounts, credit cards, and other key accounts to validate that transactions are valid and accurate, and nothing is missing. Assign someone to regularly review reconciliations to catch discrepancies early and maintain the integrity of the data.

STEP THREE:

Perform Regular Financial and Trend Analysis

Ensure that you and your CFO are sitting down monthly to identify and analyze trends you're seeing in the data. By comparing month-over-month and year-over-year data, you'll be able to identify any patterns, inconsistencies, or significant variances, so you can investigate the reasons behind them. This regular, structured analysis will make it easier to pinpoint issues and opportunities and quickly respond with an informed decision.

Your Financial Future is in Your Hands

I know that not every independent business owner has a CFO, or even a fractional CFO. I understand that some don't even have a back-office team. Maybe it's just you and an accountant or controller right now. Whatever your situation, if you or your current staff lacks the time, bandwidth, experience, or expertise to deliver and analyze accurate, timely financial statements by the 10th of each month, please don't accept "getting by" as you've been.

You have choices to improve the situation: You could upskill your current back-office staff or update its technology. You could outsource all or just some of your current team's back-office responsibilities to a third-party — one whose contract depends on accuracy, timeliness, and consistency. You could bring on a fractional CFO to analyze and use the data your team delivers to drive your business forward. Whatever you determine you need to do, I recommend you do it as soon as you can.

Remember: You're reading this book to secure and optimize the financial future of your business, your staff, your family, and you.

Getting by with limited, late, or unreliable financial data — or not knowing how to use it to build a stronger business strategy — will cost you far more now and in the future than any change you could make to your people and processes today. Don't "get by." Making a few adjustments to get the information you need today is what makes it possible to see and take the necessary steps toward your ideal tomorrow.

CHAPTER 03

Business Valuations: Why, When & How

By Sladjana Vojcanin

Have you ever had a professional valuation of your current business or a prior one? Do you know another business owner who has?

If you answered yes to either question, I can probably guess why you or they requested one. In the last 25-plus years, I've performed hundreds of business valuations for both private companies and public sector organizations. Most business owners request a valuation for one of the following reasons:

They're considering merging with or acquiring another company — or getting ready to sell or pass down their business to a third party or the next generation.

They want to change their ownership structure to bring in a new partner, buy out an existing partner, or create an employee stock ownership plan (ESOP).

They or a co-owner are facing a divorce or other legal issue.

In each case, the business owner is making the right call. Getting an objective, third-party business valuation from a highly experienced valuation specialist enables a business owner (and, when the situation calls for it, other stakeholders) to get a clear, realistic picture of their company's current market value, and — importantly — its potential.

Which is why I want to share the following trade secret with you. It's one I wish I could tell every business owner the day they open their doors: A valuation of your business isn't only valuable when a triggering incident, like an impending merger or ownership change, prompts one. A business valuation is exceptionally valuable at any time in your business's lifecycle.

And — here's what few owners realize — if you do a business valuation early, and continue to do them regularly, they can be an absolute game-changer, not only in the trajectory of your business but also in the pace, ease, and effectiveness of your exit planning process and strategies.

Before we get into the whys of early and regular business valuations, let's clear up what a business valuation is — and isn't.

Valuation in Business: Definition, Myths & Misnomers

A business valuation, also known as a company valuation, is a process of assessing the current market value, or overall worth, of a business or company.

Contrary to popular assumption, "assessed current value" does not equate to selling price; it can, however, help you set a starting point for negotiations with buyers.

Also in the popular assumption category: the myth that anybody can calulate the valuation of a company simply by multiplying its annual EBITDA (aka earnings before interest, taxes depreciation, and amortization) by a specific multiple, usually a multiple of three.

But sometimes a multiple of two.

Or — depending on the size of your company, its industry, profit margins, and future performance potential — maybe a multiple of four. Or five. Or six.

(You can see where I'm going with this. Simple isn't so simple. And, as you'll learn in the "How is a Company Valuation Calculated" section below, it's definitely not a prescribed method for a valuation that could stand up in court.)

Finally, there's the common misperception that an appraisal is the same as a business valuation. Although some financial professionals and websites use the terms interchangeably, they are two different services, with distinct processes and results. I want to make sure you know the difference before anyone tries to sell you either.

What's the Difference Between a Valuation and an Appraisal?

Appraisals are useful when you need a loan or want to sell a specific asset, or for insurance or tax assessment purposes.

A valuation also results in an estimate, one that can be for regulatory requirements, legal purposes, and major financial transitions (like those triggering events mentioned at the top of this article).

But whereas an appraisal focuses on assessing the market value of specific assets within the business — think: real estate, equipment, inventory, etc. — a business valuation is much larger in scope. It aims to determine the overall (of which appraisals are one part).

How is a Company Valuation Calculated?

Getting to a determination of company's value is no small feat. A thorough business valuation considers and analyzes a litany of factors and complex interplays, the most important of which I'll share below.

Please note: I don't share the below list to astonish you with the level of effort and detail that goes into a proper valuation. I share it so you know what, at minimum, you should expect from a valuation — whether you'll use it to guide your business's growth, direct your business transition and succession planning, or need a reliable, supportable opinion of value strong enough to hold up in court. On with the list.

1. Financial Performance

Remember our previous article, *Unlocking Your Business's Potential: The Power of Cash Flow Statements*, where author Tom Shemanski explained the many benefits you gain from generating accurate, timely, and consistent financial statements each month?

Here's one more: Having a history of reliable balance sheets, income statements, and cash flow statements when you begin the valuation process will enable you to get a realistic valuation in the end. That's because those statements show key components of your company's financial performance over time — its revenue growth, profitability, cash flow stability, return on assets (ROA), return on equity (ROE), earnings consistency, and a multitude of other data critical to determining its value.

(A not-to-be underestimated bonus: Having reliable financial statements at the ready will drastically cut the time, effort, and expense you and your accounting team would otherwise spend trying to gather and organize all that information.)

2. Assets & Liabilities

A substantial part of assessing your company's financial position is, of course, digging into its liabilities (i.e., its debts and other financial obligations) and assets. While an appraisal focuses primarily on tangible assets, a valuation tackles two kinds of assets: tangible and intangible.

Tangible assets are physical things, like property, equipment, inventory, etc. Intangible assets aren't so cut and dry.

Intangible assets are essentially the non-physical resources your company owns. Things that fall into the intangible asset category are intellectual property (patents, trademarks, trade names, copyrights, trade secrets, etc.); digital assets (proprietary technology, databases, digital content); customer relationships; and contracts and agreements (licensing or franchise agreements and non-compete clauses), and goodwill (an inherent part of the enterprise value).

3. Key Positions, Processes & Customers

Financial statements, liabilities, assets, goodwill — even they don't tell the whole story. A comprehensive valuation will also dive deep inside your business to look at its people and processes, evaluating critical roles and inner workings like:

- the experience and effectiveness of your management team and operational processes.
- owner dependency — how heavily the various functions within your business rely on your involvement and presence.
- whether your company has a robust, diverse base of customers or is dependent on a few large customers. The latter poses a significant risk to your company, increasing uncertainty and impacting your valuation.

Checklist for a Comprehensive Valuation

- Consistent financial statements (balance sheets, income/cash flow statements)
- Assessment of tangible and intangible assets
- Analysis of liabilities and operational dependencies
- Market position and industry trends

4. Market Conditions & Growth Prospects

Because no company operates in a vacuum, evaluating the environment outside your business is equally important to a quality valuation.

A comprehensive valuation will assess many external factors that impact your business, including its forecasted earnings and its potential for future growth and expansion. Because these external factors can drive your valuation up or down, a thorough valuation process should also include an analysis of external factors like:

The Economic Environment
Stock market, capital availability, trade policies, investor confidence — the world's financial conditions matter in your backyard. For example, when higher interest rates make borrowing more expensive, the number of buyers shrinks and valuations go lower. When high inflation squeezes consumer spending, your revenue and profitability likely will go down, and so will your valuation. Lower rates and inflation, on the other hand … a much better situation.

Industry Trends
Industries with strong growth potential, such as tech, tend to see higher valuations, and vice versa. New or coming regulatory changes in your industry make it easier or harder to operate, positively or negatively impacting profitability and valuation.

Your Company's Market Position
High demand for products, services, and/or businesses in your sector can drive up valuations, but context matters. What's your company's position in the competitive landscape? How many competitors are in your space? How strong is their business compared to yours? An experienced valuation specialist is equipped not only to consider all of these factors in their analysis but also support their findings. Their ability to provide support and documentation for their estimate is especially crucial if your business is part of any litigation.

Valuation Methods
Discounted cash flow, capitalized cash flow, guideline public company, guideline M&A transactions, net asset value — there are many methods of business valuation. Each uses a unique mathematical formula and/or approach.

Rather than bore you with the details and distinctions of each method above, I'll tell you what's more important for you to know:

- No one valuation method is best.
- No two valuation methods are interchangeable.
- The data you have, the industry you're in, the size of your business, and the purpose of your valuation determine which method will get your business the most realistic, reliable, useful valuation possible.
- Your valuation specialist should not only have the experience to vet and select the right method, or methods, for you but also be able to provide relevant, reasonable rationale and documentation that supports their conclusion.

Even if you only scanned the list above, you likely have a sense of the depth of detail, research, and analysis that goes into the valuation process. Which is precisely why undertaking early and regular valuations can be such a game-changer for your business — and your transition and succession planning.

> If you do a business valuation early, and continue to do them regularly, they can be an absolute game-changer, not only in the trajectory of your business but also in the pace, ease, and effectiveness of your succession planning process and strategies.

... A valuation can give you something no other business tool can: clarity and context — past, present, and future.

The Benefits of Business Valuations

Because the valuation process goes deeper and broader as it considers the interplay of dozens of factors like market conditions, growth potential, intangible assets, a valuation can give you something no other business tool can: clarity and context — past, present, and future. When you're developing your business transition and succession plan, that level and scope of perspective is solid gold. Here's why.

A valuation:

1. **Identifies Strengths & Weaknesses:** A valuation shows you not only how much your business is worth but also why, which provides useful industry benchmarks that can help you determine the strengths you can leverage and the weak spots that need support.
2. **Helps Set Realistic Goals:** Knowing the current value of your business allows you to set achievable growth targets, allowing you to create a realistic roadmap for increasing your business's value over time. Although aiming for the stars works great for motivational posters, it's downright useless for business transition and succession planning; the discouragement that comes with falling short of impossible goals is far more likely to derail than motivate you.
3. **Benchmarks Performance:** The initial valuation provides a foundational benchmark against which you can measure your business's performance in the context of the market and the moment. Regular valuations thereafter enable you to track your business's progress, giving you vital information and time to adjust your strategy.
4. **Optimizes Estate & Tax Planning Strategies:** Knowing the value of your business early on and throughout your business's lifecycle can help prevent potential disputes among other co-owners or heirs and needless financial loss. Regularly updated valuations:
    - are integral to creating and updating a buy-sell agreement, which sets clear expectations for equity distribution among any partner(s) and/or wealth transfer to your heirs in case you or a partner unexpectedly dies or chooses to leave the business.
    - help you estimate (and potentially reduce and plan for) estate tax burdens that would affect your spouse and/or heirs upon your death.
    - guide you and your advisors in planning and leveraging strategic gifting — basically, how, when, and how much you'll give to loved ones and/or causes you care about during your lifetime to reduce the size of your taxable estate while minimizing gift taxes.

When and How Often to Conduct Valuations

By now, you've come to understand that a valuation is not a one-and-done item on your business's to-do list. Or necessary only when you're ready to sell your business. But if not then, you ask, when? The answer is actually quite simple:

1. **Initial Valuation:** Conduct an initial comprehensive valuation to establish a baseline as early in the life cycle of your business or, if you haven't yet, as early in your succession planning process as possible.
2. **Regular Updates:** To track progress and make necessary changes, follow up with additional valuations every 2-3 years. This frequency allows you to stay informed and prepared.
3. **Major Changes:** If there are significant changes in your business, say, an expansion, acquisition, or market shift, considering doing a valuation outside the regular cadence, so you're armed with information to help you navigate the change.
4. **Approaching Retirement:** As you get closer to exiting your business, increase the frequency of valuations to annually. This ensures you'll have the most up-to-date information for making final decisions and, ideally, can time your exit when it's most beneficial to your personal, business, and financial goals.

Your Takeaway

More than anything, I hope this chapter has shown you why a valuation isn't a simple or superfluous tool, or an end-of-the-road task you tackle only when you're ready to sell or pass down your business. When handled by an independent, experienced valuation specialist, a valuation is a vital tool to use throughout the lifecycle of your business. You can rely on it to help you understand, protect, strengthen, and guide your business through each next stage — your eventual transition and succession especially.

If you think of the business transition and succession planning process as a path you're plotting across a map, think of each valuation as your compass. You check it regularly to make sure you're heading in the right direction and hitting the planned milestones. You check it to make sure that where you are on the trail (read: in reality) reflects where you "thought" you were on the map.

Should unexpected obstacles or opportunities appear along the way — and they will, because this journey takes years, not months — you wouldn't ignore them and blindly plod along the path you'd mapped. You'd pause, consider your best options, and adjust your route accordingly. When conducted by an independent, experienced specialist, a valuation operates the same way. As you embark upon your path toward retirement, make sure you keep a valuation — regularly calibrated to ensure accuracy, of course — in your pocket.

CHAPTER 04

Protecting Your Assets: Identifying and Mitigating Risk as Your Business Grows

By David Ladomer, CPA, CFP, CIMA

Owning and running a business naturally involves risks — some you anticipate, others you don't. From legal challenges and regulatory changes to intellectual property and reputational threats, the risks are varied, emerging and evolving at different stages of a business's growth.

Newly established businesses, for instance, are likely focused on gaining market share and working toward profitability. In contrast, large, established corporations are geared toward delivering consistent growth for its shareholders while managing a wide range of assets. In both scenarios, each business's goals, priorities, and challenges are vastly different, and so are the financial, operational, strategic, and compliance risks each faces.

No matter where your business is in its life cycle, doing what you can to mitigate risk is essential for its long-term success — and yours. After years of working with business owners who lead companies of all sizes, I can tell you without a doubt that the strongest possible offense and defense for any business, at any stage, comes down to two essential keys: awareness and preparation.

With proper and consistent risk awareness and preparation, you can stay focused on what matters most: growing and protecting your business, your equity in it, and your personal assets to the best of your ability.

Risk Management & the Business Life Cycle

To help you identify the most significant risks to your business as it evolves, I'll walk you through the most common challenges you'll likely face at each stage of your business's life cycle — and explain where you most need to focus to protect your business and your personal assets.

Foundational Stage

Because small businesses create nearly half the jobs in the country, their success plays a key role in strengthening communities. They serve as a trusted neighbor that provides essential services, typically operating with close-knit teams in a single location, where each employee's role is critical to its function. As you well know from leading your own, these businesses are fueled by the owner's dedication and personal investment.

At no time, perhaps, is your dedication and personal investment more pivotal than at the foundational stage. If your business is just starting out, you'll encounter risks that can significantly impact your business simply because it's most vulnerable. These include:

- **Financial Mismanagement:** Many startups fail due to poor financial planning and management. Proper expense tracking, budgeting, and revenue projections are critical. Are you sure your financials are accurate and giving you the insights you need to budget effectively and forecast revenue? Ask yourself the questions (and find options for fixing issues) here.
- **Limited Team Size:** The risk of employee loss and your ability to attract talent can be a significant challenge at any time in your business, but especially early on. That's when you likely have the fewest employees. Every one is critical to operations and many perform more than one role (e.g., your office manager is also your bookkeeper; your inventory manager is also your sales rep). To keep your operations up and running with a concentrated group of employees, intentional efforts to attract them to your company and keep them engaged (more on that in the next chapter!) is your best bet.
- **No Line of Separation Between Personal and Business Assets:** Failing to separate your personal and business assets can jeopardize your finances in the event of a lawsuit or other business dispute. This problem is more likely to impact fresh entrepreneurs, small business owners, and the like; this group often uses personal funds to launch and operate their ventures, increasing their exposure to risk and potential liability.

Once your business generates sustainable revenue, it can fund itself, but until then, taking decisive action to protect your assets is key. Minimizing personal liability in this stage of your business's life cycle is about creating clear lines of delineation between your business and personal assets.

Efforts here can include establishing your business as a limited liability company (LLC), purchasing business insurance, and creating separate bank accounts for your personal and business assets. All of these can keep potential creditors and lawsuits at bay if they come for your livelihood.

Vulnerable Beginnings

According to the Bureau of Labor Statistics, **24.2% of new businesses fail within the first year**. It reports that roughly half of all companies survive more than five years, while only about a third reach the 10-year mark.

Growth Stage

Once your business has attained sustainable profitability, your next venture is to invest in its growth; offering your employees professional development and training, purchasing new machinery, or expanding the size of your team are all common ways to support and achieve growth.

Businesses that can do one or more of the above are no longer merely surviving – they are thriving.

However, this growth brings with it a set of new obstacles that can hinder your goals. These include:

- **Cyber and Physical Security Threats:** All businesses are a target for cybercriminals, but growing businesses are a particularly prime target due to their growing revenues and the chance that they have yet to invest in cybersecurity measures. Establishing cybersecurity protections and protocols can ensure your business's momentum isn't stalled due to a costly cyberattack. Click here for an easy-to-understand guide to cybersecurity essentials.
- **Policies, Procedures, and Internal Controls**: As businesses grow, so does the number of people touching each business process and the need for consistency. Along with consistent procedures, enacting internal controls like segregation of duties and ensuring proper checks and balances can do a lot to prevent fraud. (Find out where to focus and five steps you can take to improve internal controls, here.)
- **Spending to Grow**: While coined as "making investment in the company," having to spend valuable resources in the pursuit of growth is a decision that may be hard for some to make. But if you have a solid understanding of projected revenue, cash flow, and liquidity, you'll not only be able to make better informed decisions but also know you haven't left opportunity on the table.
- **Vendor-Related Risks**: Nearly every business relies on outside businesses for goods and services, and vendors can also pose risks for you. For example, if a vendor supplies you with a faulty product that harms your customers, your business can face legal ramifications for a mistake you weren't aware of or responsible for. Performing due diligence on prospective vendors can identify issues that could sway your decision to work with one vendor over another.

Top Priorities for Minimizing Risk:

1. **Regularly Assess Risks:**
   Conduct annual risk reviews to identify and address potential threats to your business, from financial mismanagement to cybersecurity vulnerabilities.

2. **Separate Personal and Business Assets:**
   Protect your finances by establishing clear boundaries, such as creating separate bank accounts, forming an LLC, and securing business insurance.

3. **Plan for the Future Early:**
   Develop a proactive succession and financial plan to maximize business value, ensure smooth transitions, and safeguard your legacy.

Enterprise Stage

If you're at the enterprise stage, your business is stable and has chiseled its position in the market. You have strong brand recognition and have carved out your market share, increasing revenue year over year. But even if your business has achieved this level of success, it isn't free from risks. Consider these enterprise-stage risks:

- **Reputational damage:** Damage in the public eye comes in many forms, especially for a big business. No doubt you've seen or heard news stories about an otherwise respectable business facing one of these nightmares: a poor customer experience going viral on social media, embezzlement or other inappropriate behavior from a high-ranking employee, or a cyberattack that compromised customer data.

  Ideally, you'll have measures in place to prevent events like these from happening in the first place. Nevertheless, put some proactive efforts in place just in case. Some ideas: Work to actively build a positive brand image in the marketplace. Monitor your business's online presence (and online chatter about it) for potential PR issues. And develop a crisis communications plan now.

  For example, how will you handle social channels and your website? Media inquiries? Who will be your spokesperson? Who will decide on the messaging to the media, the general public, and your customers? Plan for the worst now, so if the worst happens later, you can react quickly, as well as thoughtfully, to minimize reputational damage.

- **Intellectual property disputes:** These conflicts can lead to costly legal battles as others compete for your market share or work to erode your competitive advantage. When dealing with or working to prevent a dispute, having a seasoned legal team will help you navigate these conflicts more easily and, often, more successfully than you could alone.

- **Changes in regulatory environment:** New federal or state government regulations can require that your business make significant changes, reducing the resources you can allocate toward growth opportunities. Who is actively monitoring and communicating these changes, so your business can respond and remain compliant?

- **Cybersecurity threats:** Even well-protected companies are vulnerable. By this stage in your company, you've likely put in place protective measures, policies, and protocols. However, breaches can still occur due to employee errors, such as clicking on a malicious link in a phishing email. Frequent awareness training for employees, consistent review of your risk mitigation measures, and consideration of cyber insurance is crucial.

> As your business grows, so do the challenges of mitigating risk. Taking a proactive approach is key.

Planning for the future not only allows you to be ready WHEN unforeseen life events occur; it helps you maintain stability during unstable times — the critical difference that keeps a challenge from becoming a catastrophe.

Addressing Risk and Protecting Assets Within Your Business

As your business grows, so do the challenges of mitigating risk. Half of the battle to address risk is to minimize the chances of them impacting your business in the first place, which is why taking a proactive approach is key.

Regardless of the stage your business is in, there are several actions you can and should take.

What You Can Do to Reduce Risk for Your Business

1. **Annual Risk Review:** Regularly assessing potential risks allows you to have a fresh view of potential risks as your business evolves. It will also bring to light new risks that previously wouldn't have applied to your business.

2. **Seek Expert Guidance:** There are not many areas of your life where you DON'T rely on the advice of experts. Doctors, lawyers, and academics all possess deep, specific expertise and experience in specialized areas. We seek them out to get the right answers to the specific, most consequential questions in our personal lives. That same approach should apply to your business. Having an integrated team of business advisors — each of whom, like doctors, lawyers, and educators, specialize and have years of experience in a distinct area within their discipline — is the ideal way to get sound advice and solutions that meet your unique needs.

3. **Prepare for the Future ... Today:** After decades of helping hundreds of clients limit their exposure to risk, I know this to be true: The best time to create a plan is before it's needed. Planning for the future not only allows you to be ready WHEN unforeseen life events occur; it helps you maintain stability during unstable times — the critical difference that keeps a challenge from becoming a catastrophe.

As you begin developing your business transition and succession plan, I encourage you to devote time and thought to identifying and mitigating the risks you and your business face now and in the future. I hope this article gives you a solid foundation to start, as well as the motivation to continue. Your future self (and business) will thank you.

Quick Checklist: Protecting Your Business and Assets

- ☑ Separate personal and business assets to minimize liability.
- ☑ Implement cybersecurity measures and employee training.
- ☑ Establish clear policies, procedures, and internal controls.
- ☑ Conduct annual risk reviews to stay ahead of potential threats.
- ☑ Build a team of expert advisors for specialized guidance.
- ☑ Create a proactive plan to prepare for unforeseen challenges.

CHAPTER 05

Leadership Succession: HR Strategies for a Seamless Business Ownership Transition

By Elizabeth Williams, SPHR, SHRM-SCP

A worst-case scenario question for business owners: If you died today, who could step into your shoes to run your company tomorrow?

Less grim but equally important: If you plan to exit your business or retire in the next few years, or even the next decade, do you know who you'd want to take over?

Last one: If you're unsure who could lead your company next, do you have a documented plan that shows your as-yet-unidentified successor how?

Whether you're planning to exit your business years from now, or you want to ensure it survives losing you prematurely, having a leadership transition plan in place isn't only critical to your peace of mind. It's critical to business stability and continuity.

Why Does a Leadership Transition Plan Matter?

In the case of your untimely death or disability, a leadership transition plan offers clear direction and guidance in a time of crisis. It can help prevent the challenges that commonly arise on (and quickly sink) a captain-less ship.

Think: Power struggles among those vying for your empty seat. Or a too-hasty hire of an outside replacement. Valuable but panicked employees jumping ship. The loss of your vital institutional knowledge, customer relationships, strategic direction, and so on. Would your company survive such instability? If it doesn't, the effect of your loss on your employees and family wouldn't just be emotional; it could be financially devastating.

> A leadership transition plan isn't only critical to your peace of mind — it's critical to business stability and continuity.

> By proactively addressing leadership transitions, you're giving the new leader both a roadmap and the guidance of your experience.

Although a planned exit is hardly a crisis on par with an unforeseen one, it can still be chaotic — for other company executives, managers, board members, staff, and the incoming leader, as well as for you and your family. A game plan for a well-organized transfer of leadership can minimize that chaos. It offers direction and guidance to stakeholders before, during, and after the transition.

When is the Best Time to Build My Transition Plan?

Creating a leadership transition plan is a significant part of your overall business transition and succession planning process. And just like that process, you should begin developing yours as early as possible.

Why? One, because life (and death, disability, divorce, disagreement, or distress) happens. In fact, the Exit Planning Institute's most recent National State of Readiness Report finds roughly 50 percent of business owners exit unexpectedly, due to one of those "5 D's."

Two, if you're lucky enough to exit your business at a future date you select, starting your transition plan now maximizes the time you have to prepare your business for the next leader — and to prepare your successor.

What If I Don't Have a Successor In Mind?

In a recent study, 26 percent of respondents said their inability to name a successor was preventing them from creating a succession plan. Maybe, like them, you're hesitating because you don't know who is next. Maybe you don't have a family member waiting in the wings. Or maybe you have several options and don't know whom to choose. Maybe you hope to sell but are unsure whether to target an outside investor, a key employee, all employees through an ESOP plan, or a venture capital firm.

Rest assured, for all situations, there will be unknowns. Factors out of your control will arise. But by focusing on what you do know and giving attention to certain priorities — specifically in the human resources realm — answers will emerge.

Meanwhile, you can still develop the necessary framework to support a seamless leadership transition, whenever it happens, and whoever comes next. The foundation of that framework begins, naturally, in one of the most impactful areas for talent management that you already have: human resources. I'll show you how.

Internal vs. External Buyers

Approximately 30% of small business owners sell their businesses to internal employees or managers, while the majority of small business owners, around 70%, sell to external buyers. External sales can attract higher prices but may involve more complex negotiations and due diligence. Selling to internal buyers is often preferred for continuity and smoother transitions.

Source: BizBuySell

HR Strategies to Build a Leadership Transition Strategy

Before you can develop a leadership transition plan for anyone else, it's essential you first look closely at your own key role … or, let's be honest, your key roles.

If you're like most business owners I've guided through the leadership succession planning process, "owning" the business is the least of what you do. No matter how many employees and other senior leaders you've added over the years, you probably still wear multiple hats and shoulder dozens upon dozens of responsibilities.

Step 1: Define Your Responsibilities

Consider your day-to-day, weekly, monthly, and yearly tasks and obligations. Add in those you share with other team members. What about all the decisions you make? And those of which you're a part? How about those commitments that aren't required for operations but you take on anyway because you believe they're worthwhile?

Think beyond your official role and functions and include all that happens with some effort or input from you. Don't forget the significant relationships with valuable customers, vendors, and others in your network that you actively maintain.

To capture the most realistic assessment of your involvement, I don't recommend creating this list all at once or even over a few work sessions. Rather, carry a small notebook or create a list on your phone. Jot down the tasks, decisions, and other business-related obligations as you move through each workday.

Do this for at least a month or two before moving to Step 2. Continue to update your responsibilities list each quarter to ensure your developing transition plan remains current.

Step 2: Consider When, How, and Who

Once you're satisfied that you have a fairly faithful record of all you do, flesh out which tasks and obligations you could let go. Then, consider how, when, and to whom. Early on, it's likely no single member of your leadership or management team can carry your entire load overnight. Could you peg different managers or leaders for different tasks, in case an emergency exit occurs?

If you're unsure who would be capable, that's OK. The sheer practice of thinking through each item will prove eye-opening. It will not only illustrate each area you need to disentangle yourself from but also force you to consider what's needed before you can offload each responsibility to someone else. Think: instruction, introductions, training, shadowing, mentoring, etc.

Outlining what's needed will enable you to assess the time, resources, and effort required. It will also help you prioritize your responsibilities and, crucially, identify gaps — in resources, skills, or even personnel — that must be fulfilled before you can confidently offload anything.

Step 3: Document Your Contingency Plan

Your list of responsibilities and conclusions about who/what/when/how will serve as the foundation of your leadership transition strategy for your planned exit. And you will continue to build on that foundation as you, your business, and any potential successors evolve. (More on that in Step 4.)

These lists will also serve as the blueprint for a more urgent need: developing a formal contingency plan in case you exit prematurely. Using these lists as a starting point, meticulously document your role, responsibilities, and operational procedures. The documentation should include a detailed description of daily tasks, their how-to's (if no one but you knows), your decision-making processes, and key contacts in and outside your organization.

Additionally, outline your strategic vision and any short- and long-term goals for the company, providing clear guidance on the direction you believe your business should take. This comprehensive documentation will serve as a valuable resource for the successor or interim leader(s) you designate, ensuring they have the necessary information to immediately take over and maintain business continuity.

Your contingency exit plan should also include a clear chain of command, defining the roles and responsibilities for each key position within your company. Finally, as you communicate your intentions regarding the future of the business, include any plans for growth, potential challenges, and strategies for overcoming them.

By proactively addressing these aspects, you're giving the new leader both a roadmap and the guidance of your experience. You're also minimizing the potential for disruptions, critical to maintaining the confidence of your employees, customers, and stakeholders after you've gone.

Step 4: Develop and Train Your Successors

Whether you're still considering or have identified one or more potential successors, development and training will be your primary focus as you near your planned exit date. Once you've defined the hard and soft skills needed for your role, consider those a successor would need for other roles or areas of business operations — areas where first-hand experience and understanding could benefit how they would lead and manage in your role.

Your objective is to map out a plan that will strengthen their current skills and ensure they develop new ones. By taking into account each individual's life stage, availability, interests, etc., you'll be better able to create customized coaching and development plans that work both for them and in the best interest of your company. This could mean extra education or training, which might take a year or more.

As your potential successors grow and demonstrate success in each new role or challenge you've mapped, a promising leader may emerge. If you haven't already, begin shifting specific tasks and responsibilities from your plate to theirs.

Strengthen Your Talent Pipeline

Naturally, as your potential successor or successors advance and take on new responsibilities, they'll leave prior positions and responsibilities behind. This offers your business an excellent opportunity to expand its talent management efforts through the ranks, thereby increasing engagement throughout the company — a key factor in successful strategic planning.

Multiple studies have found that growth and development opportunities, or a lack thereof, are pivotal to employee engagement. In fact, Gallup Reports consistently show that improving engagement has far-reaching effects on the overall success of a business. It significantly reduces absenteeism and turnover, decreases the number of safety incidents, improves productivity and performance, increases customer loyalty, and even boosts profits.

When you give employees opportunities to grow, take over new responsibilities, advance their skills, and/or step into bigger, better roles, you're giving your employees the incentive to stay with and strengthen your company. This creates a stronger talent pipeline for your business overall. (Click here for a free how-to webinar on designing clear career paths within your company.)

Communicate Your Intentions

You and the incoming leader(s) are the nucleus of your leadership transition plan. But catalyzing a smooth transition doesn't rest on you and them alone. The feelings and perceptions of your workforce before, during, and after the leadership transition will impact its success.

As with any area of business where change is afoot, clear communication is essential. Am I recommending fully open, transparent, detail-rich communication at every stage of the planning and hand-off process? Never. Sharing too much information, too often, can be overwhelming and cause confusion and unnecessary worry.

Instead, think about which stakeholders — executive team members, board, senior leaders and/or managers, employees, family, etc. — would benefit from knowing what, when.

Then begin the conversation by listening. Ask your workforce to gauge their current state of readiness for change. Develop a communication plan that includes informing and involving your leadership team early in the process. This way, they'll feel included and ready for the transition.

When it comes to communicating with any group of stakeholders, timing and method are crucial. To avoid surprises and level set expectations, communicate to each group of stakeholders when and how you'll share changes and updates. Give all groups time to process changes and the opportunity to ask questions of you (or another leader) involved in the process. Make sure all stakeholders feel welcomed and valued. This will help ease worries and support a more positive transition experience.

Cultural Harmonization

Cultural harmonization is another important aspect of a smooth transition. This involves integrating new systems and operations while ensuring that the people side of the business is taken care of. Any new leader will bring some sort of change — in vision, perspective, approach, or even company direction.

Some changes will be more significant and immediately tangible. If the next owner brings your company into the fold of their company, for instance, it's not just a matter of your employees gaining a new leader with a new perspective. It's usually a merger — two different workforces with different approaches, operations, opportunities, and, likely, some overlap in roles and responsibilities.

In such cases, there will be bigger changes, like mandatory 401(k) adjustments or a different healthcare benefits provider. Address any mandatory or other known, impactful changes and identify opportunities for cultural harmonization. Once again, listening and maintaining clear and consistent communication throughout the process can reveal areas of concern for employees, enabling leadership to appropriately direct resources and attention and reduce uncertainty and anxiety

Keep the employees' needs and feelings in mind through each milestone. Clear and consistent communication is essential to maintaining a positive experience for everyone involved, your successor included.

Your Takeaway

If you plan to hand down your business to a family member or someone else close to you, the value of building a leadership transition plan is obvious: It creates stability, which increases the odds of the next generation's success and the continuity of your family business. It validates your life's work and furthers your family's legacy. It gives you and your successors more opportunity to positively impact your community, often for decades to come.

The potential benefits might be harder to see if you're hoping to sell to a total stranger or venture capital firm. But rest assured, your efforts to smoothly transition your business to the next leader will prove valuable, too.

Much like a turnkey home in a market flooded with fixer-uppers, a business that shows it's prepped and primed to exchange hands with minimal complications poses more promise, less risk, and fewer challenges than similar businesses.

That can attract the interest of more buyers, increasing your chances of selling and potentially strengthening your position in negotiating price and terms. In an age where 30 percent of businesses fail to find a buyer, increasing the odds of successfully selling your business can't be underestimated. You'll be more likely to walk away in a financial position that enables you to pursue your next chapter, while your employees and community continue to enjoy economic security and benefits a thriving local business affords. The sooner you start planning your exit, the more choices you'll have for your business's future and your own personal and financial well-being.

Quick Checklist: Leadership Transition Plan

- ☑ Document your responsibilities and key processes.
- ☑ Create a contingency plan for unexpected exits.
- ☑ Identify and train potential successors.
- ☑ Build a strong talent pipeline through employee development.
- ☑ Communicate plans clearly with stakeholders.
- ☑ Start planning early to ensure stability.

CHAPTER 06

Personal Financial Statements for Business Owners: Balance to Prevent a Fall

By Erin Welker & Roxanne Dudicz, CPA

> Balancing personal and business financial strategies doesn't need to feel overwhelming.

So far in this book, you've learned a lot about what goes into (and what you stand to gain) from developing your business transition and succession plans early on in the life of your business.

You understand the keys to tracking — and ultimately improving — your company's financial health, performance, cash position, and overall value.

You're identifying needs and setting goals to optimize growth, nurture future leadership, and support your business's continuity, so that whether you exit suddenly or as planned many years from now, you'll have laid a solid foundation for securing your business's future.

Now it's time to delve into an equally vital part of that foundation: securing your own future.

As a business owner, you should always have a bearing on where you stand regarding your personal and business finances. The two are inextricably linked and contribute to your understanding of your entire financial picture, which is crucial to achieving your short- and long-term financial goals.

Yet many business owners — whether they're laser-focused on launching or growing their business, or planning their exit from it — tend to focus heavily on their business and its finances, often to the detriment of their personal finances.

No judgment here. As finance and accounting specialists who've worked with hundreds of entrepreneurs and their families, we see how demanding every stage of business ownership is. We recognize the constant pressure to manage your business's cash flow, the temptation to invest — and then reinvest — everything you've got into growing, improving, and expanding your company.

Regular financial check-ins can help you identify growth opportunities and maximize value.

But we also see the other side: how vulnerable even the most savvy business owners can become if they neglect the personal side of financial planning.

Over the course of years, the lack of attention adds up: They've missed opportunities to reduce their tax exposure. They've failed to optimize their financial growth. They're unable to fully realize the legacy they'd hoped to one day leave behind.

Those that have tied the majority of their wealth into their business typically find themselves in a particularly risky position — relying solely on their business for financial security, which can be frightening at any time, but increasingly so with age and a nearing retirement.

How do you strike the right balance to ensure your personal and business finances are working in harmony? The key lies in treating personal finance management with the same level of care as your business finances.

By regularly evaluating and adjusting your personal and business financial strategies, you'll not only create a roadmap for sustainable business growth, effective succession planning, and financial security for yourself and future generations; you'll also empower yourself with the information necessary to choose the optimal path throughout your financial journey.

If you've got the business side of your financial house in order but could use some guidance on the personal side, you're in the right place. In this chapter, you'll learn what a personal financial statement is, how often you need to see one, and why it's such a crucial tool in guiding you toward your business and personal goals.

Quick Checklist: Personal Financial Management for Business Owners

- [x] Regularly update personal financial statements to track assets, liabilities, and net worth.
- [x] Align personal and business financial strategies for maximum impact.
- [x] Use financial statements to support estate planning and minimize disputes.
- [x] Conduct frequent financial check-ins (annually, quarterly, or monthly based on complexity).
- [x] Plan early for retirement and business transitions to increase options.
- [x] Involve trusted advisors to guide holistic financial planning.
- [x] Reassess estate plans regularly to reflect life changes.

PRO TIP

Treat your personal financial management with the same discipline as your business finances. Regularly updating personal financial statements ensures you're prepared for opportunities, challenges, and long-term goals like retirement or succession planning.

What is a Personal Financial Statement?

A personal financial statement offers a comprehensive picture of your personal financial health by reporting your personal assets, liabilities, and net worth at a given point in time. Much more than "just" a financial document, a personal financial statement is an indispensable tool for making informed decisions and creating effective financial strategies.

The more detailed and accurate your records are, the more insights your personal financial statement can offer. However, much like a photograph, your personal financial statement reveals only a singular point in time. That's why taking regular snapshots of your financial health (i.e., regularly generating personal financial statements) is so important; it enables you to identify and track significant actionable data points and trends over time, as well as take proactive measures.

Why Personal Financial Management is Critical

While your business and its profits are certainly a key driver in propelling you from your current financial position to where you aspire to be, your personal financial health plays a foundational role in supporting your business objectives. Here's why it's critical to manage your personal wealth with the same discipline as your business finances:

Accurate Estate Planning: Asset valuation is essential to determining the total value of an estate. By understanding the full scope of your personal wealth, you can make more informed decisions about asset distribution, tax strategies, and legacy planning.

- **Estate Plan Alignment:** Ensures all assets are accounted for (titles and beneficiaries) and can be distributed according to plan.
- **Minimizing disputes:** A clear record and transparency can help prevent misunderstandings and conflicts between heirs and stakeholders during succession planning and after.
- **Financial stability:** A robust financial picture shows your ability to secure and repay loans, mortgages, or other reinvestments.
- **Progress:** Regularly updated statements reveal trends and progress, helping you stay on course toward your financial milestones and identify areas for improvement.

How Often Should a Personal Financial Statement Be Prepared?

For many business owners, an annual financial overview is a good place to start; even annual updates can help uncover trends within your accounts.

But what if your financial picture is much, much more complex? We recommend having your statements updated on a quarterly (or even monthly) basis and include personal income and expense reporting.

It's common for business owners to have several personal and business bank accounts, a shifting investment portfolio, annuity payments, and even multiple businesses they may be involved with. Essentially, the greater the volume and complexity, the more critical it is to know your entire financial picture at all times.

Ultimately, the level of complexity in your finances will drive the frequency of your financial statement updates, but one rule is consistent: Tracking both personal and business finances together will maximize their potential impact. Read on to find out why.

The Long-Lasting Benefits of Updated Personal Financial Statements

Creating and maintaining a personal net worth summary in addition to your business's financial statements offers both immediate and enduring advantages.

Short-Term Gains

- Improved performance of your day-to-day cash flow management
- Enhanced clarity for day-to-day operational decisions
- Stronger alignment between personal spending habits and business profitability

Long-Term Gains

- A clearer roadmap for retirement, business transition, and succession planning
- Peace of mind and assurance that you've adequately prepared for retirement
- Insight into generational wealth transfer opportunities
- Structured asset protection for estate planning

A personal financial statement is an indispensable tool for making informed decisions and creating effective financial strategies.

By integrating personal financial summaries into regular financial check-ups, you can build a foundation for informed, forward-thinking strategies that actually benefit both you and your business.

Consider, for example, the practice of tracking expenses. By regularly evaluating your business and personal finances, you can identify which business-covered expenses, such as travel, will become personal costs once you retire.

Tracking both personal and business financials well before retirement also opens up options to increase your company's value. Whether your plan involves passing the business to your children, selling it through private equity, or evaluating all options before you decide, tracking personal and business financials from early on will maximize the amount of historical data you have available to inform your decision-making, as well as the strategic choices you make leading up to your exit.

Empower Your Financial Health

Balancing personal and business financial strategies doesn't need to feel overwhelming. With consistent updates, an informed approach, and the help of trusted advisors who have both the experience and knowledge to look at your personal and business financials holistically and help guide you accordingly, you can make meaningful progress toward your financial goals.

By focusing on the bigger picture and ensuring that every aspect of your wealth — personal and professional — is managed with purpose, you can turn your vision into a reality that benefits you, your business, and your loved ones.

Top 3 Takeaways from the Article:

1. **Regular Financial Updates Are Key:** Updating personal financial statements quarterly (or monthly for complex finances) provides actionable insights and helps align personal and business financial goals.
2. **Balance Personal and Business Finances:** Treat personal financial management with the same care as business finances to ensure sustainable growth, effective succession planning, and long-term security.
3. **Start Planning Early:** Early financial and estate planning allows you to maximize opportunities, protect assets, and secure your legacy for future generations.

CHAPTER 07

Succession Planning and Financial Goal Planning for Business Owners

By Adam K. Garvey, CPA, CFP, MST

If you're reading this book, I think it's safe to assume you've invested countless hours into building a successful company.

Thanks to years of sustaining that level of commitment, you've likely become exceptionally adept at responding to immediate needs, resolving day-to-day challenges, and setting and accomplishing short-term goals.

No doubt you've proven that you have what it takes to keep your business thriving, support your personal and professional financial needs, and, in your precious few non-working hours, enjoy the lifestyle you've created for you and your family.

But after years of long days demanding your unceasing focus on the here and now, have you found enough time to look farther ahead — beyond this month's payroll, next quarter's projected sales, and the specific, measurable goals you want your business to achieve next year?

To put it plainly, have you gone beyond your hopes and plans for your business and considered any plans and hopes for yourself, post-business? If you're like many successful business owners I've worked with, you've put your future self last.

I'm going to help you change that.

In this chapter, we're going to build on the groundwork laid in Chapter 6 — getting the personal side of your financial house in order — and begin thinking about goals for your personal financial future.

Because personal and business financial plans are most effective when aligned, we'll also take a look at how your business fits into your long-term personal financial plan, potential considerations for different business transition and succession options, and when (and with whom) to start.

PRO TIP

Collaborate with a financial advisor early to map out your business and personal finances. This proactive approach not only maximizes your business's value but also ensures a seamless transition and a secure financial future.

Understanding Financial Goal Planning

In a nutshell, personal financial goal planning empowers you to envision your financial future and plot its trajectory with actionable steps you'll take now through retirement or your next life chapter.

Ideally, you'll work with an experienced financial advisor — preferably one who is, or is willing to be, part of your integrated exit strategy team of wealth, tax, business, and other professionals — to analyze your personal and business finances, assets, liabilities, spending, and goals.

During the discovery process, your financial advisor's goal is to determine where you sit in terms of net worth. Among the pieces you'll discuss: your short- and long-term goals for yourself, your family, and your business; where you see your business in five to 10 years; and how this vision plays a role in your personal financial plans.

Everyone's situation is different, which means the steps, discussions, and calculations will vary from client to client. Despite any differences, the goal stays the same: creating a clear plan to guide you from where you are today toward the financial future you envision.

Your Business's Role in Your Personal Financial Plan

When we look at financial planning for business owners specifically, oftentimes, most of their money is tied up in their business. That can make it challenging to access funds needed for retirement or other post-business ventures. Among the reasons why:

1. Business assets, often illiquid, can't easily be converted into cash.
2. Market conditions, industry trends, and economic factors can cause the value of your business to fluctuate, and it's risky to bet your retirement or next life chapter on the chance that you'll time it just right. (What's more, would you rather exit at a date that you deem right for you, your business, and your successors — or let factors you can't control dictate your timing?)
3. Finally, as noted in Chapter 1, the grim reality is that not all businesses sell for the value expected, and many never sell at all.

Whether the bulk of your money is or isn't tied up in your business, I recommend meeting with a financial advisor as early as possible in the life of your business and your exit plan development. How and where your assets are invested will significantly impact nearly every decision you'll make throughout the financial goal-planning process.

Likewise, your personal financial goals will affect — and be affected by — the development of your exit plan. Which is why aligning your exit strategy with your personal financial goals is so important. Looking at them as key parts of the larger picture will help ensure that you'll have sufficient funds to support your desired lifestyle post-exit.

Your Exit Strategy's Role in Your Financial Future

When you exit and how much you'll draw from your business won't be determined by the value of your business alone; whom you ultimately pass the baton to, the structure of the deal, tax considerations, and of course, your financial position outside of your business will impact both.

For awareness only, here are some common business transition and succession scenarios:

1. Passing the Business to Heirs

If you have children actively involved in your business, and you and they have established they want to and will be ready to take over the business when you exit, you might consider options like:

- **Installment Payments:** Heirs can pay you over time, spreading the financial burden while providing you with a steady income.
- **Gift or Estate Transfer:** You can transfer ownership as a gift or through your estate plan, potentially using trusts to minimize taxes.
- **Buy-Sell Agreement:** If heirs are active in the business, they can buy your stake over time, often funded through business profits and protected by life insurance.

2. Selling via Merger or Acquisition

If you intend to and — more importantly — are *able* to sell your business through a merger or acquisition, some of the options available to you might be:

- **Lump-Sum Payment:** Receive the full sale price up front, providing immediate liquidity.
- **Earn-Out Agreement:** Part of the payment is tied to the business's future performance, ensuring you benefit from its continued success.
- **Equity in the Acquiring Company:** Instead of cash, you receive shares in the acquiring company, allowing you to benefit from its growth.
- **Seller Financing:** You act as the lender, receiving payments over time, with interest.

3. Selling Your Stake to Business Partners

If you own your business with partners, and they plan on sticking around for a while, you might consider selling your stake to them. In this case, you might have options like these:

- **Buyout Agreement:** Partners pay you a lump sum or installments based on a pre-agreed valuation.
- **Life Insurance Buyout:** If the buy-sell agreement is funded by life insurance, the policy payout can be used to buy your stake.
- **Deferred Compensation:** You receive payments over time, often structured to reduce tax liabilities.
- **Stock Redemption:** The business itself buys back your shares, distributing the cost among remaining partners.

Determining your best route and options requires honest discussions not only with your family, partners, and stakeholders but also with your financial advisor, business and tax advisors, and others specific to your circumstances.

Each option has pros and cons, and your advisors' professional insights and experience will be crucial in helping you tailor an approach that suits your specific situation and puts you in an advantageous position once you're ready to move forward.

PRO TIP

Having 10 to 20 years' worth of cash flow data provides the most accurate foundation for financial planning, while fewer than 5 years often requires more assumptions, increasing potential risks.

Quick Checklist: Financial & Succession Planning

- [x] Define financial goals and net worth.
- [x] Choose a succession plan (family, sale, or partner buyout).
- [x] Assess assets, expenses, and business impact.
- [x] Start planning early to maximize value and reduce risks.

Questions Business Owners Should Ask Themselves

Before diving into the discussions and details of exit and financial planning with your family, financial advisor, or other members of your advisory team, I want you to ask *yourself* some critical foundational questions. These include but are not limited to:

- How much do I expect to spend during my retirement?
- What are my long-term goals for my personal life and business?
- Do I want my family or children to play a role in my succession plan?
- Have I thoroughly assessed my current accounts, assets, and expenses?
- If I leave my business, how will that affect my employees, clients, and stakeholders?
- Does my business have a natural successor, and if so, will they require training and mentoring? And if so, does the timeline to fully train and mentor them align with the time I hope to exit?

While this list is not exhaustive, your answers will provide a starting point for some important conversations that you should have with your loved ones before meeting with your advisors.

You don't need all the answers, but bringing whatever answers you have to the table will give you and your advisors a better sense of where you're headed. This will enable you and your team to design a roadmap that supports your progress toward your personal financial goals while you run your business and ready it for your eventual exit.

Proactive Planning

As you've read multiple times throughout *Mind Your Business*, the key to success in all of this interrelated planning is time. The earlier you start including your personal financial strategy in your exit plan, the more opportunities you'll have to optimize your financial future. The sooner you know what you want to do with your business when you exit, the more time you and your advisory team have to execute efforts to mitigate risks, minimize tax liabilities, and maximize net proceeds.

Procrastinating not only limits the options and outcomes for you and your business but also the data points your financial advisor has to work with, impeding his or her ability to map out reasonable goals and determine the optimal route you can take to move toward them.

Being proactive is better in nearly every case. It gives you more time to plan, more opportunities to work on preparing your business for the transition, reduces risks, and can make your business transition and succession plan go much smoother.

> Looking at your exit strategy and personal financial goals as key parts of the larger picture will help ensure that you'll have sufficient funds to support your desired lifestyle post-exit.

Taking the First Step Towards Your Future

One of the hardest parts of any journey is taking the very first step. But by starting early in integrating personal financial planning with exit planning, you give yourself time to prepare your business for transition, optimize its value, and craft a deliberate strategy for your personal financial future.

Take the first step now. Reflect on your vision, engage with your family and stakeholders, and then leverage the expertise of trusted financial, tax, and business-transition professionals. By doing so, you're not just planning for the future of your business; you're designing a secure and fulfilling future for your employees, your successors, your family, and, finally, yourself.

Top 3 Takeaways for Financial Planning:

1. **Start Exit Planning Early:** Proactive planning gives you more time to optimize your business's value, prepare for transitions, and reduce risks, ensuring a smoother exit process.
2. **Understand Your Financial Picture:** Collaborate with a financial advisor to analyze your personal and business finances, assets, and goals, creating a clear roadmap for your financial future.
3. **Ask the Right Questions:** Reflect on critical questions about retirement spending, succession goals, and the impact on stakeholders to guide your financial and exit planning effectively.

CHAPTER 08

Retirement Planning: 6 Investment Moves Business Owners Must Make

By Luke D. Terry, MBA

You've spent the last couple chapters deepening your understanding of the alignment and interplay of your business and personal financial strategies.

You recognize the value of personal financial statements and — if you haven't already started tracking your personal assets, liabilities, and net worth — you've got a plan to do so regularly.

At this point in the book, you might not have decided whether you want to pass down or sell your business when you exit, but you have a solid grasp of the conversations, considerations, and actions you'll undertake with your family, stakeholders, and advisory team as your personal and business goals take shape.

Chief among those goals, I hope, is one you can (and should) act on now, well before you decide how, when, and to whom your business will transition when you exit: building wealth outside of your business.

In the last chapter, we highlighted several reasons why pouring all — or even the majority — of your financial resources into your company until you exit can jeopardize your future economic security.

(Quick recap in case you're skipping around: Industries change, competitors emerge, economic conditions fluctuate, and staking your financial future on the outcome of the sale or succession of your business is as risky as investing every dollar of your retirement savings into a single stock.)

Having established the whys and why nots, let's tackle the hows. In this chapter, I'll walk you through six key moves you can make to build wealth outside your business — none of which will hamper your ability to keep your business thriving.

By allocating a portion of your business income to personal investments, you're creating a safety net that grows over time.

Move No. 1:
Start Early and Pay Yourself First

One key to a successful financial future is to broaden your concentration on growing your business and dedicate some of your time and effort to growing your savings. One of the simplest ways to do that is to pay yourself first.

Here's why this works so well: By allocating a portion of your business income to personal investments, you're creating a safety net that grows over time. Thanks to the magic of compounding interest, the earlier you begin saving and investing, the more exponential your financial growth.

For example, say you begin investing $500 a month into a retirement account at age 35. With an average annual return of 8 percent, that $500 monthly investment could result in over $587,000 by age 65. Starting just 10 years earlier could nearly double those numbers.

As you continue to invest in your business, don't neglect investing in yourself. Your future self will thank you.

Move No. 2:
Leverage Tax-Advantaged Accounts

One of the smartest ways to plan for your financial future is by taking full advantage of tax-advantaged accounts. These tools can help you reduce your taxable income, save on taxes, and build savings for specific goals. Here are some top accounts every business owner should consider funneling money into:

- **Roth IRA:** Offers tax-free withdrawals on qualified distributions, meaning you can retire without worrying about taxes on your nest egg.
- **Employer Retirement Plans:** Your employees aren't the only ones who benefit when you offer a retirement plan option, such as a SIMPLE IRA, SEP IRA, 401k, Roth 401k, and/or cash balance plan. Maximizing your tax-deductible or tax-deferred contributions in one of these plans can not only boost your personal retirement savings but also reduce your taxable income, freeing up more capital for reinvestment in your business or other personal savings or investments.
- **HSA (Health Savings Account):** Provides triple tax advantages when saving for medical expenses (tax-deductible contributions, tax-free growth, and tax-free withdrawals for qualified expenses).
- **529 Accounts:** If passing your business to the next generation is part of your plan, a 529 account can help save for your heirs' education with tax benefits.

By allocating funds to these accounts, you can reduce your taxable income while securing your financial future.

Quick Checklist for Business Owners

- ☑ Start Early – Invest consistently to grow your savings.
- ☑ Maximize Tax Benefits – Use accounts like IRAs, 401(k)s, and HSAs.
- ☑ Diversify – Invest in stocks, bonds, real estate, and more.
- ☑ Learn Basics – Understand financial markets and strategies.
- ☑ Hire Experts – Work with financial advisors for guidance.
- ☑ Plan Long-Term – Approach succession planning step by step.

Move No. 3:
Diversify Your Investments

Diversification is one of the cardinal rules of investing. While your business may be your most significant asset, it shouldn't be your only one. Here's why:

A diversified portfolio ensures that if one asset underperforms, your overall investments remain stable. This doesn't just apply to stocks either. Diversify across various vehicles such as real estate, bonds, and even private investments if appropriate.

For example:

- Invest in an **index fund** to gain exposure to the stock market with minimal effort.
- Consider **real estate investments** for rental income and long-term appreciation.
- Explore government or corporate **bonds** for steady, low-risk income.

Creating a portfolio that aligns with your risk tolerance and financial goals is essential for long-term success.

Nearly two-thirds of family-owned businesses in the U.S. don't have a documented or communicated succession plan, and only 30% of small businesses successfully find a buyer.

Source: https://www.teamshares.com/resources/succession-planning-statistics/

Exiting a business successfully doesn't happen overnight—it's the result of years of preparation and strategic decision-making.

Move No. 4:
Educate Yourself on Financial Markets

Understanding where and how to invest is exceptionally beneficial for business owners; it will prove especially useful when you experience a liquidity event such as … selling or passing down your business. Whether it's private markets, ETFs, or managed accounts, knowing the basics ahead of this event will enable you to not only ask good questions but also make more informed decisions with your money when the times comes.

Here are practical steps to get started:

- Learn about the benefits of diversifying your capital in the public equity markets — i.e., stock markets.
- Explore how private markets, like venture capital or private equity, might fit into your strategy.
- Work with a financial advisor to understand tax implications, retirement planning, and risk management.

When the time comes to sell your business or hand it over to the next generation, a well-rounded financial education will help you evaluate options like reinvesting the proceeds or diversifying further.

Move No. 5:
Get Professional Help

Even with a solid understanding of financial markets, working with a professional financial advisor can significantly enhance your decision-making processes and provide additional clarity and confidence as you navigate complex financial decisions in the short and long term.

As with each advisor you decide to make part of your business transition and succession planning team, an experienced financial advisor brings specialized knowledge and experience, which can help you assess personal financial opportunities and risks from an objective perspective. Additionally, he or she will stay updated on market trends and regulatory changes, ensuring your plans remain optimized and compliant throughout your financial life, relieving you of the pressure to keep abreast of the many day-to-day and year-to-year changes.

Ideally, you'll find one able and willing to work closely with the rest of your advisory team — rather than independently. Insisting on such a structure is a simple way to ensure that no single advisor on your team is looking at opportunities or risk as they pertain to a singular area of focus only.

By bringing their individual perspectives and areas of specialty to your big personal, financial, and business picture, an integrated team will be better able to help you identify opportunities and risks as they relate to and impact different areas of your business transition and succession planning journey as a whole.

> Succession planning isn't just about finding the right buyer; it's about ensuring your financial future.

Move No. 6:
Remember Exit Planning Is a Marathon, Not a Sprint

Much like building a business, exiting one successfully — that is, in a way and at a time you desire — doesn't happen overnight. The same goes for crafting your business transition and succession plan. It's the result of years of preparation, financial discipline, and strategic decision-making. By combining business growth with smart investment strategies, you can ensure that both your company and your financial future are secure.

If you're new to investing or feeling overwhelmed by the number of options available, start small. Build a strong foundation with tax-advantaged accounts and diversified investments. Over time, you can expand and refine your investment strategy to meet your unique needs.

And when the time comes to step away from your business, you won't only be able to hand over the reins with confidence; you'll also walk away with peace of mind.

Top 3 Takeaways for Business Owners:

Diversify Your Wealth - Don't rely solely on your business as an asset. Invest in stocks, bonds, real estate, and other vehicles to secure your financial future.

Maximize Tax-Advantaged Accounts - Utilize tools like Roth IRAs, 401(k)s, and HSAs to reduce taxes and grow savings efficiently.

Prepare Long-Term - Succession planning is a gradual process. Combine financial discipline with strategic investments to ensure stability when exiting your business.

CHAPTER 09

From Ownership to Legacy: Estate, Gift & Trust Strategies in Business Succession

By Cathy Shoemaker, CPA, MBA, MST

The biggest and most persistent question business owners typically face when laying the groundwork for their planned exit strategy is this: “Should I sell my business or hand it down to the next generation?”

Those of you that have already determined — after much consideration with your team of professional advisors and affected family members, of course — that you’ll transfer your business to your heirs, this chapter is for you.

> The best succession strategy is to start planning as early as you can.

It’s an introduction to some of the tools and strategies you and your advisor could use in succession planning to minimize tax burdens, optimize your financial future, and support the continuity of your business and the success of the next generation who will lead it.

(Leaning toward selling? Stay tuned; we’ll cover that in the final chapter.)

The Best Succession Strategy: Start Planning as Early as You Can

Whether your business is a small family-owned operation or a large-scale enterprise, successful succession planning takes careful preparation. Delaying these conversations can leave your business exposed to legal disputes, tax inefficiencies, and operational uncertainty. You can also miss out on taking advantage of unique opportunities that arise.

The 2017 Tax Cuts and Jobs Act (TCJA) is a prime example of the valuable opportunities that can arise, albeit sometimes temporarily. This act provides an exceptional chance to significantly reduce estate taxes. Under the TCJA, you can transfer twice the amount you could (before TCJA) to the next generation without incurring federal estate or gift taxes: in 2025, that's a lifetime estate and gift tax exemption of $13.99 million for individuals and $27.98 million for couples, adjusted for inflation.

Although that provision was originally set to expire on December 31, 2025, it was increased to $15 million per person for 2026 and made permanent through the Trump administration’s "One Big Beautiful Bill Act," turning what was initially seen as a fleeting opportunity into an ongoing one — at least until a new administration or legislation seeks to change it again.

The Best Succession Rule: Plan, Don't Predict

Regardless of what your ultimate exemption amount is, the legislative ping-ponging of the TCJA isn't only a good example of why talking about your plans with your advisory team and family needs to happen many years before your exit process begins but also shows why those conversations must continue regularly. The wisest way to optimize your financial future: plan, don't predict.

Opportunities like the TCJA can and do arise, but they are impossible to predict and can change (or not) based on factors well outside your control. For that reason, banking on what might happen with future tax law is a risky approach. Just like with gambling, when things don't go as predicted, you can be left with far less than you started with. Instead, begin planning for your financial future early, and plan based on what you know now — current laws, your family's financial circumstances and needs, etc.

Acting proactively rather than reactively can help limit your exposure to uncertainty. And when beneficial opportunities like the TCJA do arise, you'll be poised to take advantage, however long they stick around.

That said, let's explore some estate, gift, and tax strategies that are available now and can have a profound impact on your succession planning process and its outcome.

Establishing Trusts for Gifting and More

Trusts are powerful tools that can minimize estate taxes and maximize wealth transfer to the next generation. They also provide a structured approach to managing the transfer of business ownership, ensuring control over how and when heirs receive their inheritance. Additionally, trusts offer protection from creditors and potential legal disputes, helping your business remain intact and operate smoothly during the transition period.

Quick Succession Planning Checklist:

1. **Start Early:** Begin planning years in advance to maximize opportunities and minimize risks.
2. **Leverage Tax Benefits:** Take advantage of current laws like the TCJA before they sunset.
3. **Establish Trusts:** Use tools like GRATs or IDGTs to protect assets and reduce tax burdens.
4. **Utilize Gifting Strategies:** Gradually transfer ownership through annual exclusion gifts or family limited partnerships.
5. **Apply Valuation Discounts:** Reduce taxable value with discounts for lack of marketability or control.
6. **Consult Advisors:** Work with a team of experts to tailor strategies to your unique needs.

Gifting Strategies

Gifting is an effective method to reduce the size of your taxable estate, potentially lowering estate taxes upon your passing. By gradually gifting portions of your business to your heirs, you can utilize the lifetime gift tax exemption, which is currently more favorable due to the Tax Cuts and Jobs Act (TCJA). This approach also freezes the business's value for your heirs, providing significant tax benefits.

For instance, if you gift $1 million of your business to your son today, and the business grows to $10 million in ten years, you have effectively removed $9 million of appreciation from your taxable estate. Gradual gifting can also facilitate a smoother transition of responsibilities and leadership, aligning your heir's involvement with their increasing ownership stake.

Examples of Gifting Strategies

Annual Exclusion Gifts: These allow you to gift up to the annual exclusion amount ($19,000 in 2025) per recipient per year without incurring gift tax. This strategy can transfer significant value over time without using your lifetime estate and gift tax exemption. However, consider the associated costs, as multiple small gifts may not always be cost-effective.

Family Limited Partnerships (FLPs): FLPs help manage and protect wealth while ensuring smooth generational transitions. By transferring business interests into an FLP and gifting partnership shares to heirs, you can leverage valuation discounts, reducing the taxable value of the gifted shares and minimizing gift tax liability. It's crucial to work with knowledgeable advisors due to IRS scrutiny.

> Opportunities like the Tax Cuts and Jobs Act are impossible to predict and rarely permanent.

Trust Strategies to Consider

Grantor Retained Annuity Trusts (GRATs): GRATs allow you to transfer business interests to your heirs while retaining annuity payments for a specified term. The value of the gift is reduced by the present value of the annuity payments, potentially resulting in significant tax savings if the business appreciates. A zeroed-out GRAT can minimize risk, as it uses minimal or none of your exemptions at the time of transfer.

Intentionally Defective Grantor Trusts (IDGTs): An IDGT enables you to sell your business interest to a trust in exchange for a promissory note, without using any of your exemption. Any appreciation in the business value occurs outside of your taxable estate, providing tax-efficient asset transfer while maintaining cash flow for you, the grantor. The "defective" nature of the trust for income tax purposes means there is no immediate taxable gain on the sale.

Valuation Discounts

A valuation discount is essentially a reduction that's applied to the value of an asset or business interest when determining its fair market value for gift and estate tax purposes. By reducing the taxable value of transferred assets, which ultimately lowers estate and gift taxes and preserves more of your wealth for your heirs, these discounts can be particularly beneficial when transferring ownership interests in family-owned businesses. Three most common:

- **Discount for Lack of Marketability (DLOM):** Applied to assets that aren't easily sold or traded in the open market, this discount accounts for the challenges and costs that come with trying to sell interest in privately owned businesses.
- **Discount for Lack of Control.** Used for minority interests where the holder doesn't have decision-making power, this discount reflects the lower value of shares that don't confer ownership control.
- **Minority Interest Discount**: Used for ownership interests that represent a minority stake in the business, this discount accounts for the limited power and influence of minority shareholders.

Build Your Legacy with Confidence

The process of transferring your business to the next generation is both complex and rewarding. With the right planning, you can create a sustainable future for your business while minimizing tax burdens and ensuring family harmony. Although there are many paths, finding the right one for you and your family will be far less complex and more rewarding if you follow these time-tested recommendations:

Thoughtfully plan and avoid relying on predictions. Tax laws, life events, and your wishes are subject to change — sometimes outside of your control.

Recognize that the tools and strategies included here are just some of the options available to you in succession planning. Each has its own pros and cons, and whether you use some, several together, or others not highlighted here, building the best plan for you, your family, and your business requires careful consideration of multiple factors: your circumstances, risk tolerance, how simple or complicated a structure you're willing to undertake, family dynamics, the weighing of fairness and equalization of your estate (if, say, you have multiple heirs but only one will own or actively run the business), and more.

As such, I don't recommend planning alone or even with the aid of a single advisor. Rely instead on an experienced team of advisors who will work together to understand you, your family, and your business, as well as your personal, financial, and business goals. Ultimately, you'll want an integrated team of specialists so you can fully explore strategies that align with your vision and can help your family business thrive for generations to come.

Tip: Look for advisory teams that offer sophisticated modeling to help you identify the most efficient way to maximize tax exemptions, plan your estate, and preserve your legacy.

Finally, act early to ensure you receive personal attention and allow time for thoughtful conversation and consideration in curating the right plan for you, your business, your family, and your future.

Under the Tax Cuts and Jobs Act (TCJA), in 2025 the lifetime estate and gift tax exemption is $13.99 million for individuals and $27.98 million for couples. Unless Congress takes action to extend this provision, it's set to decrease to approximately $7 million and $14 million, respectively, starting in 2026.

Trusts are powerful tools that can minimize estate taxes and maximize wealth transfer to the next generation.

Top 3 Takeaways of Chapter 9:

1. **Start Succession Planning Early:** Delaying succession planning can lead to legal disputes, tax inefficiencies, and missed opportunities, such as leveraging the current Tax Cuts and Jobs Act (TCJA) exemptions before they sunset in 2026.
2. **Utilize Trusts and Gifting Strategies:** Tools like Grantor Retained Annuity Trusts (GRATs), Intentionally Defective Grantor Trusts (IDGTs), and annual exclusion gifts can minimize estate taxes, protect assets, and ensure a smooth transfer of business ownership.
3. **Leverage Valuation Discounts:** Discounts for lack of marketability, lack of control, and minority interest can significantly reduce the taxable value of transferred business interests, preserving more wealth for heirs.

CHAPTER 10

The Selling Price Isn't Your Payout: Preparing for the Tax Implications of Selling Your Business

By Lisa Newland, CPA, CFE

Congratulations. You've made it to the long-awaited final chapter of the *Mind Your Business* series, where we we finally tackle the topic that propels most business owners to read up on business transition and succession planning in the first place: selling your business.

Curious why we've elected to save our advice and insights about this alluring milestone for last? If you've read each of the preceding chapters carefully, you probably have an inkling. (And if you've flipped ahead, we'll tell you anyway — if only to compel you to click back and check out what you've missed.)

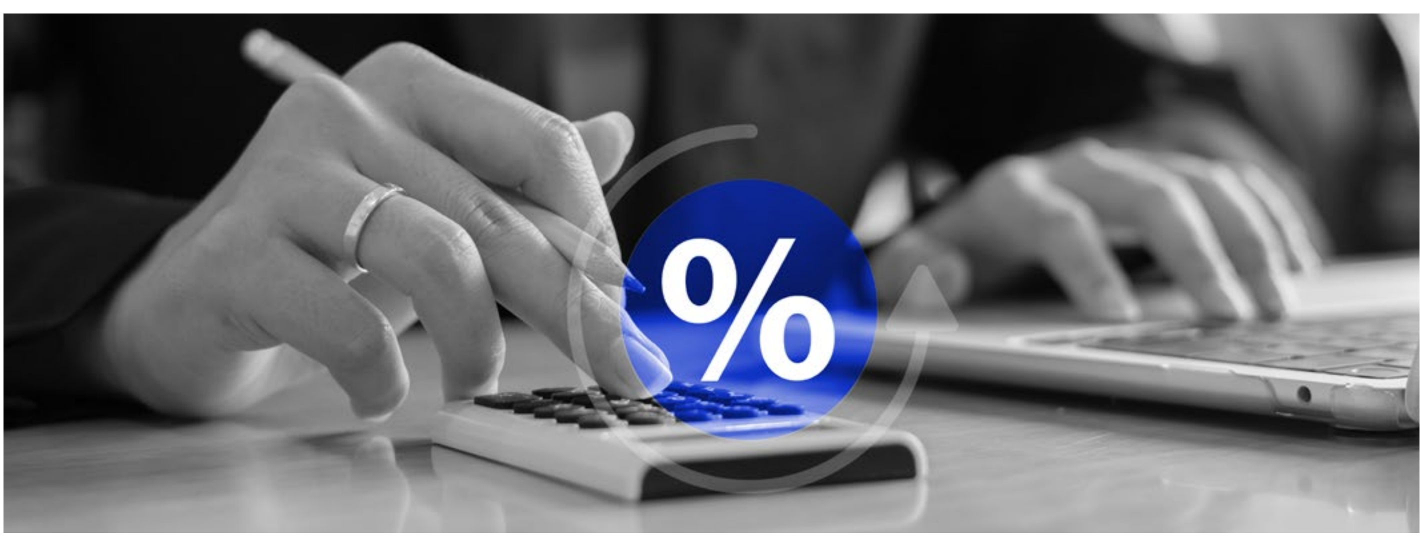
We've saved the subject of selling for last because even if it was your first and foremost goal when you began this book, by now you've learned enough about the multiple interconnected parts of exit planning to know that selling is neither a simple nor even the final milestone in your financial journey.

Like passing your business on to your heirs, selling it is the culmination of years of your hard work, dedication, and thoughtful, strategic planning with the expert guidance of an integrated advisory team. But it is also something else: the beginning of the next chapter in your life — be that retirement, a new career, the launch of your next business venture, or other personal goal.

Nevertheless, most business owners looking to sell tend to look at the selling price of their business as the end-all, be-all. That view, however, fails to account for a crucial factor that can mean the difference between a lucrative and disappointing financial outcome: taxes.

Taxes play an enormous role in determining how much of your sale proceeds you actually get to keep. Understanding the tax obligations associated with selling your business — and planning accordingly — is crucial to your ability to minimize liabilities and maximize proceeds from the sale of your business.

In this chapter, I'll provide you with an overview of the key tax considerations you'll need to make informed decisions and ensure you're prepared when the time comes to sell.



Taxes play an enormous role in determining how much of your sale proceeds you actually get to keep. Understanding the tax obligations associated with selling your business — and planning accordingly — is crucial to your ability to minimize liabilities and maximize proceeds.

Why Taxes Matter in a Business Sale

While a high sale price may feel like a win, taxes can significantly eat into your proceeds if not carefully planned for. Various factors, including capital gains taxes, the structure of the sale, and the type of sale all have a direct impact on your final financial outcome. Understanding these factors and working with experienced advisors can help you protect your earnings and minimize potential surprises.

Below, we'll take a closer look at some of the major tax-related considerations every business owner should understand.

1. Capital Gains Taxes

When you sell your business, the profits you earn may be subject to capital gains taxes. These taxes are typically levied on the difference between the price you sell your business for and your original investment or "basis" in the business.

There are two types of capital gains taxes to consider:

Short-Term vs. Long-Term Capital Gains

Short-Term Capital Gains: If you've owned your business for less than a year and sell it, the profits are taxed as short-term capital gains. These gains are taxed at your ordinary income tax rate, which can be significantly higher.

Long-Term Capital Gains: If you've owned your business for more than a year, profits are subject to long-term capital gains tax rates, which are generally lower and more favorable.

Federal and State Implications

In addition to federal taxes, there may be state and local taxes applicable to sale transactions, which can vary widely by location. It is essential to understand both federal and state tax rates to accurately estimate your tax obligations. Having a financial advisor and tax professional as part of your team early in your business transition and succession planning process will enable you to explore and implement strategies for minimizing your overall tax liability.

2. Asset Allocation

As you know from Chapter 3, regular valuations help you understand the value of your business assets as your company evolves and help you make informed decisions about when and how to sell your business.

When the time comes to sell your business, the way you allocate the sale price across your business assets can significantly impact the taxes you owe. Once again, you'll want to work closely with your tax advisor to ensure an optimal allocation strategy, but for now, it's worthwhile to understand that the purchase price is typically divided into categories such as equipment, real estate, intellectual property, and goodwill. Each category is taxed differently.

Asset Categories and Their Tax Implications

- *Tangible Assets (e.g., equipment, furniture):* These are typically taxed as ordinary income, which can result in a higher tax rate compared to long-term capital gains.
- *Real Estate:* If your business owns real estate, the sale of these assets may be treated differently and could benefit from long-term capital gains tax rates. ***If real estate has been depreciated, the seller may need to pay depreciation recapture tax.***
- *Intangible Assets (e.g., intellectual property, goodwill):* Goodwill, which represents the value of your brand or reputation, is often taxed at long-term capital gains rates, making it more favorable.

3. Types of Sale Structures

The structure of your sale will also significantly influence your tax obligations. There are several common types of business sales, each with unique tax implications.

Asset Sale

What It Is: Under this structure, the buyer purchases specific assets of your business, rather than the entire entity.

Tax Implications: Proceeds from the sale are taxed based on the asset categories discussed earlier. Personal goodwill may also be taxed at the long-term capital gains rate.

Why Choose This Structure: Buyers often prefer asset sales because they can "step up" the tax basis of the acquired assets, potentially enabling increased depreciation and amortization deductions for future tax savings. Additionally, buyers can avoid inheriting certain liabilities associated with the business entity. The drawback? Although the ability to pick and choose specific assets and liabilities makes asset sales more flexible, it can also make them more complex, requiring renegotiation of contracts, retitling of assets, rewriting of employment agreements, etc.

Stock Sale

What It Is: This involves selling your ownership stake (shares) in the business to the buyer.

Tax Implications: Stock sales are typically taxed at the more favorable long-term capital gains rate, as opposed to ordinary income.

Why Choose This Structure: Sellers often prefer stock sales because they simplify the transaction by transferring the entire business entity, including all assets and liabilities, to the buyer. Because the gain on the sale is typically taxed as a long-term capital gain, this structure can reduce the seller's tax burden.

Employee Stock Ownership Plan (ESOP)

What It Is: An ESOP allows the business owner to sell shares of their company to a trust that holds shares on behalf of the employees. Over time, employees can gain ownership shares of the company through the trust and enjoy tax-deferred growth. The ESOP trust is considered a tax-exempt entity under IRC Section 501(a), and a qualified retirement plan similar to a 401(k) plan.

Tax Implications: Depending on the tax structure of the company being sold to the ESOP, owners may defer or potentially eliminate capital gains taxes by rolling proceeds into qualified replacement property. Additionally, the business itself may gain tax advantages, such as tax-deductible contributions to the ESOP and no income tax on the earnings generated by the company on the portion of the stock owned by the ESOP.

Why Choose This Structure: This option is ideal for owners looking to reward employees, preserve the company's legacy and culture, and/or transition partial or full ownership to their employees without selling to an external buyer. The process is often gradual, allowing for smooth ownership transitions and ongoing involvement for the existing owner if they desire. Additionally, shares are sold based on a fair market valuation, ensuring a competitive price for your business.

F Reorganization

What It Is: An F reorganization is a corporate restructuring process often used to facilitate the sale of an S-Corporation. It involves creating a new entity that allows shareholders to reorganize ownership while maintaining certain tax benefits for both buyers and sellers.

Tax Implications: Sellers can have the transaction taxed as a stock sale, while buyers may treat it as an asset purchase for tax purposes.

Why Choose This Structure: This flexible option can help mitigate tax burdens and is often used when a business is merging, undergoing private equity investment, or preparing for other strategic transactions. It allows for seamless ownership transitions while preserving tax advantages.

Each type of sale has unique benefits and challenges, and the right approach depends on your business's structure, the buyer's preference, and your long-term financial goals. As always, proper planning and the guidance of your advisory team will make the difference in selecting the best option and outcome for you.

> Selling your business is one of the most important financial decisions you'll make. Success hinges on maximizing your options and outcomes through a well-developed plan and the time to properly implement it.

Treat it Like You Own it

A study by The National Center for Employee Ownership found that productivity improves by an average of 4 to 5 percent in the first year an ESOP is adopted.

4. Terms of Sale

Yet another factor to consider is how the payment terms will influence your tax bill.

Different payment terms can significantly affect your tax liability because they determine when you receive the cash. Here's how timing plays a role:

- *Cash at Closing:* Receiving the full payment at closing means you'll owe capital gains tax on the total amount in the same tax year. This can result in a hefty, immediate tax bill depending on your tax bracket.
- *Seller's Note:* Payments spread over time allow you to pay taxes on each installment as you receive it, potentially keeping you in a lower tax bracket and reducing your overall liability. However, this carries the risk of the buyer not following through.
- *Earn-Out:* Used to bridge the gap between the seller's valuation of the business and the buyer's willingness to pay up front, an earn-out helps align the interests of both parties, especially in situations where the buyer is uncertain about future profitability or growth. With an earn-out, part of the payment is immediate and taxed that year, while future payments are tied to performance milestones, spreading out tax obligations. This arrangement reduces the immediate financial risk for the buyer while allowing the seller to maximize their payout if the business performs well under its new ownership.
- *Equity Rollover:* Selling part of the business now incurs immediate taxes on that portion, while deferring taxes on retained equity until you sell it later. While this delays some liability, future taxes could be higher if the business value increases.

Understanding how timing impacts your tax obligations is key to choosing the right payment structure. Likewise, keeping your advisory team apprised of the payment structure isn't useful only in planning for your tax obligations; your financial and/or estate planning specialists can help you weigh how, when, and where to invest the payment(s) you receive based on your goals.

Preparing for the Sale

While understanding the above considerations is important, I can't stress enough that effective planning is the key to minimizing taxes in a successful business sale. To ensure a smooth and tax-efficient transition, here are the most essential parts to incorporate in your tax planning :

1. ***Consult with Experts:*** Work with financial advisors, tax professionals, and attorneys to understand your tax situation and explore strategies to minimize your risk and liabilities.
2. ***Consider Your Timing:*** Timing the sale of your business can also help minimize tax liabilities. For instance, strategically planning the sale during a lower-income year or spreading proceeds over multiple years can help reduce tax burdens by keeping you in a favorable tax bracket. Timing the sale early in the year also allows for additional tax planning strategies like offsetting gains with investment losses.
3. ***Involve Personal Planning Early:*** Integrating your plans to sell your business with your financial and estate planning can further enhance tax efficiency and long-term security. Transferring ownership shares to family members or trusts before a sale can minimize estate and gift taxes, while options like charitable remainder trusts (CRTs) can provide income during your lifetime and reduce estate taxes.
4. ***Be Real With Cash Flow:*** Likewise, aligning the sale with your expected cash flow needs in your post-ownership life is key to maintaining financial stability while maximizing retained wealth. Structured options, such as installment payments or earn-outs, create steady income streams and minimize tax hits from lump sum payouts. Involving advisors who specialize in personal financial planning and estate planning well before you begin the process of selling your business will help ensure a holistic strategy that not only helps you ready the business for its eventual sale but also balances short- and long-term goals while safeguarding your financial future and legacy.
5. ***Understand Your Valuation:*** Knowing your business's worth will help you negotiate a fair price and plan for potential taxes on your proceeds. (Learn more about what to expect in and from a business valuation here.)
6. ***Get Organized for Due Diligence:*** During the due diligence process, the buyer closely examines your business, which can be extensive. Buyers typically focus on:
    - Financial Review: Buyers will look at your financial records, including profit and loss statements, balance sheets, tax returns, and cash flow records, to assess the financial health of your business.
    - Legal Review: This may involve reviewing contracts, leases, employee agreements, intellectual property, and regulatory compliance to ensure there are no hidden liabilities or disputes that might harm the value of the business.
    - Operational Review: Buyers will analyze your day-to-day operations, such as customer relationships, supplier agreements, employee turnover, and the overall efficiency of your business processes.

    By organizing and updating all necessary documents in advance, you build trust with potential buyers, reduce delays, and make the transaction smoother. This preparation can also help you justify your asking price.

    Without proper planning, however, the due diligence process can expose inconsistencies or unmet obligations, which might lead buyers to request price reductions or walk away entirely. By investing time up front to streamline your documentation and address potential concerns, you increase the likelihood of securing a fair and successful sale.

Maximize Your Proceeds — and Your Future — by Planning Ahead

Selling your business is one of the most important financial decisions you'll make. As each previous chapter has sought to show, getting to the point where you not only have the option to sell (or pass down) your business but also can — at a time and arrangement you're confident is right for you — is a complex and, ideally, lengthy process.

I say ideally because if you take away anything from *Mind Your Business*, I hope it's the principle shared and repeated by every contributing author throughout these chapters.

Successful business transition and succession planning hinges on maximizing your options and outcomes — for your business and your personal and financial future. Achieving success on all three fronts boils down, always, to two things: a well-developed plan and the time to properly implement it.

By starting early, you give yourself the gift of opportunity. Time allows you to influence your business's operations, nurture future leaders, preserve its culture, and grow its value. It also gives you space to plan for your own wealth, secure your future, and solidify your legacy. In short, the decisions you make today will shape what you can achieve tomorrow.

So, start now. Take the lessons you've learned from *Mind Your Business* and begin preparing for what's next.

With time on your side, you'll be ready to create a transition that reflects everything you've built and ensures the brightest future for you, your business, and those who follow in your footsteps.

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Private Client Advisory

The insights and strategies shared throughout *Mind Your Business* come courtesy of the Private Client Advisory team at Rehmann, a business advisory and consulting firm with more than 80 years of experience helping individuals, families, and business owners move confidently toward their unique personal, financial, and/or business goals.

Partnering with Rehmann's Private Client Advisory team gives you access to nearly two dozen offices in three states, plus over 1,000 Rehmann advisors and associates with deep expertise in niche areas of tax, wealth, business leadership and operations, private equity, estate planning, and much more.

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MIND YOUR BUSINESS

Maximizing the Value of
Your Company & Personal Wealth

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