



September 2011

Transition Planning Case Study – Part I of III

This newsletter is designed to put many of the theoretical aspects of planning a transition into a more practical format for your review. Although every owner's transition is different and unique to the business and the person, Bill Brown's transition from his brewery business lends a helping hand to most owners, despite where they are in their transition planning. The complexities of Bill's transition are representative of many owners' situations. This case study is intended to gain the attention of your imagination as you envision a future transition from your business.

In this first of this three (3) part case study, Bill is confronted with the decision to begin planning for his business transition. Bill's advisor, Tom, is his guide on this new journey. We begin with an introduction to Bill.

Meet Bill Brown

Bill Brown is 58 years old and owns and runs Acme Brewing. Acme has 60 employees with \$12 million in annual sales and \$2 million in annual profits (or EBITDA). After 20 years of growing Acme, Bill is one of the most respected people in his industry. Despite all of the changes over the years, one constant has remained; Bill's commitment to quality and service for his customers.

Although the spirits business does better than most in a slow economy, it is nonetheless the case that profits have been steadily declining for Bill. Bill has only slowly reacted to foreign competition because he has been reluctant to commit the capital investment required to compete effectively. As such, Acme has held its

own, but the writing is on the wall for Bill's future.

Adding to these business concerns, are Bill's personal concerns which are driving his desire to plan for his transition. Bill is seeing many friends who are suffering in this economy and is beginning to focus more on the protection of his wealth and a healthy work-life balance than he is on the next \$1 million in additional earnings.

Acme is the largest investment that Bill owns. He is dependent upon the income from Acme for his lifestyle and Acme is equally dependent upon Bill's efforts in order to survive as a small business. Although Bill has a large amount of wealth, it is mostly illiquid.

Transitioning Begins with a Plan

Bill recognizes that his greatest strength is running his business. Over the years he has proven his ability to listen to his gut and trust his intuition. This has served him well as Acme grew and prospered. Now, however, he is on shaky ground. Bill is considering his prospects for transition but has no knowledge of how to handle such a task. Bill listens to his advisors when they suggest that a great place to start is with a discussion around his desires beyond the business.

A System is the Best Way to Get Started.

One of Bill's trusted advisors, Tom, has training in transition planning. As such, Tom wants to ask Bill a few questions to get started. Tom wants to know:

1. What does Bill truly want from his business transition?
2. Why has Bill chosen now to begin his planning?

3. What is Bill's best guess as to when he would like to transition?
4. How much of Bill's net worth is tied to his business?
5. Does Bill know the options that are available for his transition?
6. Does Bill have any sense as to the 'range of values' of his business?
7. What is the plan for all of the personal items related to his transition? This includes:
 - a. Tax planning
 - b. Financial / Investment planning
 - c. Life Planning – How will Bill spend his time after his transition?
 - d. Estate Planning – Will Bill's wealth go where he wants?
 - e. Estate Tax Planning – Will Bill's hard-earned wealth be subject to estate taxes?
 - f. Risk management – Does Bill have adequate insurance to cover the risks in his business and life?

Using this system, Tom intends to have an initial, deep level of conversation regarding Bill's transition. This comprehensive approach will help Bill think beyond the 'transaction' and business aspects of his transition, and to align his thinking with his true objectives. After all, Bill built his business to have financial freedom and to control his own destiny. However, in light of today's economy, Bill does not feel very 'free'. How can this change?

Goal Setting and Readiness

Tom impresses upon Bill that a comprehensive approach is optimal. Bill wants to eventually be somewhere else with his life but he cannot currently see his ability to leave the business behind. Tom explains that this lack of vision is the primary reason that most owners do not plan their transitions. It is very difficult, and against human nature, to plan for something that you cannot envision.

Tom begins to address the issue by walking Bill through a series of questions that help him define what his future life would look

like – the life that he would lead if a certain percentage of his time could be spent not only physically away from the business, but also 'away' from the worries of the business. Bill begins to define places that he would like to go and things that he would like to do. All along, Bill reminds Tom that he does not want to 'let go' of the business. He simply wants to plan for his transition.

Tom agrees, highlighting that Bill will not leave the business anytime soon, but will be prepared for the day when eventually he will.

Following the System for Business Transition

With the goal setting out of the way, Tom turns to the next topics, in the following order.

1. How much money does Bill need to extract from the business to have financial freedom?
2. What type of transitioning owner does Bill most resemble?
3. What transition options are most suitable to Bill's needs?
4. Will the transition option that Bill chooses give him the value that is needed to meet his goals?
5. What execution items are necessary for success in Bill's planning?

Bill and Tom have taken the most important step forward in their planning work together. Bill has made a commitment to the planning process and Tom has established a framework through which Bill's plan will be developed.

Bill returns to work with a certain peace of mind that he is taking definite steps in the direction of protecting his illiquid business wealth. In doing so, Bill can now devote a percentage of his time – when he is not completely focused on running his business – to the continued building of his transition plan and moving towards a new reality for himself when the execution of his transition plan is complete. In this regard, Bill has opened himself to the idea that making these changes is a necessary part of his overall business planning and that he and his business (and the employees and

everyone else who is dependent upon that business) will prosper in the long run.

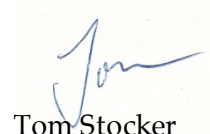
Post-script

The next two (2) editions of The Edge Transition Strategies Newsletter will further discuss important aspects of Bill's transition planning process. Again, this information will hopefully inspire you to further advance your plans for your own transition.

If you have found this newsletter has raised questions you would like to discuss or inspired you to find out how a comprehensive transition strategy can fit your situation, you are always welcome to come to one of our Executive Briefing to

learn how our process works, or contact Owner's Edge to discuss how transition planning will help you.

Regards,



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Our Commitment to our Customers

We help our owner/clients articulate and execute the strategies needed to make their profits sustainable and their business transferable. This creates true and meaningful value.

About Owner's Edge

Owner's Edge is a business advisory and consulting firm specializing in helping business owners work *on* their businesses by devising and implementing strategies to drive operational excellence every day. We are one of the few advisor firms that can provide a formal and comprehensive Transition Planning service for business owners. Call us for a no-obligation consultation today.

Executive Briefing: *Business Transition Strategy Planning*

Wednesday November 2, 8:00AM – 10:00AM
Hope Club, Providence

This educational breakfast briefing is tailored especially for business owners and their key advisors. Learn why it is important to plan your transition, where you should start, what your transition options are, who is involved in the process and when they need to enter into the process. A continental breakfast will be served. Reserve your seat today and feel free to invite members of your advisory team.

Host & Speaker: Tom Stocker, Managing Director, Owner's Edge

Investment \$25.00

Kindly RSVP by October 31, 2011
to Lauren McCarthy, Newberry PR & Marketing,
401-433-5965 or lauren@newberrypr.com.

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