SETTING GOALS

WHITE PAPER

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All business owners will exit their businesses, either by choice or as circumstances dictate (e.g., death, incapacity). Ideally, owners want to exit on their terms: leaving their businesses in the hands of successors they choose, on a date they pick, and for the money they need and want.

The three universal goals every owner must set are deciding when, to whom, and for how much owners leave their businesses. Understanding and quantifying these three goals—as well as their other aspirational goals—are the first indispensable steps of the Exit Planning Process. Your goals are indispensable because they establish your Exit Plan: the road map that sets the route from where you are today to where you'd like to be at the end of your ownership journey.

This white paper is about defining your destination. Specifically, we'll discuss how to create actionable goals that include defining when, for how much, and to whom you eventually want to leave your business, as well as the aspirational and values-based goals that many owners have. Finally, we'll show you how best to achieve the goals you set.

SMART GOALS

Setting goals for the future of your ownership isn't difficult per se. You likely have general, or perhaps specific, ideas about when you would like to exit, how much money you need or want, and who your preferred successor is. You may have additional aspirations, or values-based goals, such as maintaining your company's culture, creating a legacy, or rewarding employees. Whatever your goals are, they must be SMART:

Specific

Measurable

Attainable

Relevant

Time-bound

For each action aimed at achieving a goal, there must be a deadline and responsible person. To make that deadline useful and hold the person(s) responsible for it accountable, you must make those goals specific and write those goals down.

The act of putting specific goals in writing forces you to think about what you want to do and why. Additionally, if you work with your advisors (specifically, an Exit Planning Advisor) to define your goals, you will be prompted to consider more types of goals, collect more information when setting them, and think more deeply about them.

It's crucial that you work with your advisors on setting your exit goals. Achieving your goals will undoubtedly require their involvement. While you focus on running your business and what you'll do after you leave it, your advisors will present options and strategies to reach your goals. They will do that most efficiently if you put your goals in writing, thus giving everyone a single point of reference: your successful exit as you define it. Without that focus, you open the Process (and your wallet) to costly inefficiencies.

ONE OWNER TAKES HIS FIRST EXIT PLANNING ACTIONS

To explain the importance of creating a written set of specific goals, we'll look at a case study involving business owner Dominic Sforzo and his Exit Planning Advisor, Ellen Rothsberger.

It had taken months of persistent effort for Ellen Rothsberger, an Exit Planning Advisor, to arrange a meeting with her new client, Dominic Sforzo. At their first meeting, Ellen planned to discuss the first steps Dominic needed to take to exit his business on his terms.

After exchanging pleasantries, Ellen began: "Did you have a chance to think about the three questions I asked you to consider: When do you want to exit your business? How much income would you like after you exit? And who you want your successor to be?"

"I have," Dominic replied as he opened his laptop.

"Great!" Ellen responded. "Let's begin with the first question: When would you like to exit, and what does that mean to you? But before you tell me, I think I can guess. I've written that date on this card."

Dominic hadn't expected a magic show and doubted that an advisor he'd never met could read his mind, but he answered honestly.

"I don't have an exact date, but I'd say five years."

Ellen showed Dominic the card: It said "FIVE YEARS."

"Come on! How did you know?" Dominic asked. "I'm not sure I even knew!"

"Easy," Ellen explained. "If I'd asked you the same question last year, or next year, your answer would probably be the same. Most owners pick 'five years' because it's comfortable. Five years is soon enough to indicate they are serious about exiting but far enough away to avoid taking any immediate action to plan their exits. Am I close?"

Dominic, a bit sheepishly, nodded his head.

Ellen continued, "I can probably also predict your answer to the second question: How much income would you like each year after you exit? I'm going to guess you'll tell me that the income you will need equals what you are spending today."

"Right again," answered Dominic. "About $250,000. But let's see if you can guess my answer to your third question about my successor."

"That is the one answer I cannot predict," Ellen admitted.

"Then I guess you are correct again because even I don't know the answer," Dominic admitted. "I'm not sure who I want to own the company after me. But let me ask you a question. Why is it so important to set these three goals right now?"

"I'm so glad you asked," Ellen responded. She knew she was going to accomplish what she'd set out to do: use the meeting to discuss the terms of Dominic's future business ownership.

Most business owners ask the same question Dominic asked: "If I don't plan to do anything with my ownership for at least five years, why do I need to even think about my goals right now?" The reason is simple: Most business owners have an Asset Gap. An Asset Gap is the difference between the resources business owners currently have and the resources they must have to achieve their financial goals.

Dominic was no different than most owners. Because Dominic hadn't given her any verifiable details about the resources he had and what his business was worth, Ellen suspected that he had an Asset Gap. She also knew from experience that, depending on the size and growth rate of Dominic's company, it could take years to bridge that gap. So, she began by explaining what the Asset Gap was and how they could bridge it.

First, Ellen explained to Dominic the simple calculation she used to determine whether there was a gap to bridge.

GIVEN: The value of financial resources needed at Dominic's exit to achieve his post-exit income goal of $250,000 per year.

MINUS: The value of his current financial resources (including net proceeds from sale of business).

EQUALS: Dominic's gap that must be bridged before his exit.

Ellen then showed Dominic that while his rolling five-year plan was typical of owners just starting the Process, it did not serve him well. If, as she suspected, there was a sizeable gap between the resources Dominic had today and those he would need to support the post-exit lifestyle he desired, they had to figure out how to bridge that gap within Dominic's five-year time frame. Moving his exit date back by five years might work once or twice, but did Dominic want to be working in his business at age 65?

If you are to achieve each of your goals, they must be broken down into manageable baby steps. Each baby step must be measurable, attainable, relevant, timely, and have someone accountable for its attainment. The Exit Planning Process positions you to check each of those boxes.

Exit Planning Advisors who use this Process generate a written road map based on your unique and specific goals. This road map is driven by your timeline and holds you, your advisors, and your management team accountable for completing the actions required to achieve your goals. Because it is based entirely on your goals, we call this planning process *owner-centric*.

Putting your goals in writing is essential to your success because it may take 5–10 years to fully execute your strategy. We know that from experience, but researchers have found that the impact of commitment, accountability, and written goals increases simple, short-term goal achievement by 50% or more.[1]

Let's turn to the types of goals owners must quantify and set.

THREE TYPES OF GOALS

An owner's goals for future ownership fall into one of three categories.

1. **Foundational:** The need for financial security or financial independence is a foundational condition of a successful exit. Unless your exit achieves your financial goals, it is, by definition, unsuccessful.
2. **Universal:** When, for how much, and to whom you'll leave your business are the goals that we introduced earlier. You likely want to enjoy a certain level of income post-exit, depart when you wish, and transfer the business to the successor you choose. These three goals are universal because almost all owners seek to achieve them.
3. **Values-based:** These goals relate to your personal values (e.g., maintaining your company's culture, creating a legacy, or rewarding employees). You may not set any initially, but as you move through the Process, you may find that there are important values you wish to maintain or achieve as you exit.

Let's examine each type of goal and begin the process of considering, quantifying, and prioritizing what it is you want to accomplish. This is the first step of the Process. The decisions you make in establishing your goals set the direction for your Exit Plan.

Foundational Goal: Financial Independence/ Security

Financial independence is not so much a goal as it is a need. Independence means you no longer depend on your business for financial security.

If you leave your business without financial independence, you set yourself up for disasters. The acid test for any Exit Plan is *whether owners achieve financial independence no later than the date they give up control of their companies*. Only owners who have financial independence when they leave their companies have *successfully* exited their businesses.

To define your financial independence need, you must answer two questions:

Question 1: What amount of cash must I have to exit successfully?

It helps to express this number as a pre-tax, annual amount of income, adjusted for inflation, needed on the day you leave your business. This is a need, not a want. As the inimitable Mick Jagger once sang, "You can't always get what you want. But if you try sometimes, you might find, you get what you need."

Question 2: How do I determine, with precision, what I need?

This is the most important financial analysis of your life, and it calls for the involvement of an experienced financial planner. Most trained Exit Planning Advisors will insist that you engage a financial planner for this analysis (and most can help you find one, if necessary).

It can be a challenge to maintain the income stream you enjoy today after you no longer own the company. Without planning and execution, few owners can accomplish it.

Universal Goals

Recall the three universal goals:

Financial: After you leave the business, how much money do you want annually for the rest of your life and your spouse's life?

Departure Date: When do you want to leave your business? And what does "leave" mean?

Successor: Whom do you want to be the new owner of your company?

Universal Goal 1: Getting what you want.

While we view financial security as a requirement for a successful exit, a second, related financial goal is the amount of annual income you *want,* which allows you to enjoy the post-exit lifestyle you envision. This second financial goal may be discretionary, but for many owners, it is important enough that they will postpone their exits until they can achieve it. As is true of all decisions in planning for the future of your ownership, the choice is yours.

We've already recommended that you work with at least a financial planner to determine what your financial goal is. We'll continue to argue for the benefits of working with best-in-class advisors from several disciplines. But to quantify what it will take to live your dream, we must repeat: Rely on an experienced financial planner to establish your financial security want and your financial security need. As your planning moves forward, they will also help you bridge any gaps by providing investment advice.

Universal Goal 2: Leaving when you want.

Establishing a specific departure date gives you and your advisors a time frame to plan and take the action necessary to prepare your business for your exit. This does not mean you must exit on the first day you choose. You may decide to stay in the business longer than anticipated by choice. The choice is yours, but only if your business is ready for you to exit it.

Universal Goal 3: Transferring ownership to whomever you want.

The third and last universal goal that we ask owners to establish at the outset of the Exit Planning Process relates to a successor. Whom do you want to succeed you: a child, a partner, or a third party? Which type of successor will best help you reach your other goals?

At the outset of this planning process, you may not have a successor preference. You can postpone that decision until after you quantify your Asset Gap and begin to bridge it.

Modifying Your Goals

When owners work with advisors to plan their exits, they think more deeply and clearly about what they ultimately want to accomplish for themselves, their families, and their businesses. It is not unusual for owners, as they gain clarity, to modify their goals. Making changes early in the Process is more time- and cost-efficient than changing course once a plan is finalized and implementation is underway.

Values-Based Goals

The three universal exit goals are common to all owners. These may be the only goals you seek in exiting your business, but many owners have additional goals based on sentiment, attitudes, or feelings. Values-based goals tend to be non-monetary. They also tend to be less tangible and more heartfelt. But they are no less important to owners than the goals we can measure objectively.

The following list of common values-based goals is by no means exclusive or all encompassing. You may wish to add your own.

- Family Harmony
- Owner Legacy
- Acknowledging Employees
- Taking the Business to the Next Level

- Minimizing Taxes
- Maintaining Culture
- Community Involvement
- Quality Retirement
- Charitable Impulses

To uncover your values-based goals, ask yourself:

1. What is my vision for my company without me?
2. What is my vision for myself without my company?
3. Is this particular values-based goal important to either vision?

What you may discover as you think about these questions is that you do have values-based goals that dictate or influence your planning choices. Consider how one business owner, Don, came to realize the importance of his values-based goals.

Don was well on the way to selling his business to a third party when the buyer revealed that it would merge Don's location with its main facility in another state to consolidate operations. Unless he called off the deal, Don realized that his employees would lose their jobs, the community would lose a vibrant business, and his legacy would evaporate.

Even though the buyer's offer had exceeded Don's financial security requirement and even his financial want, Don's previously unacknowledged values-based goals took control, and he decided not to sell.

Only after Don was confronted with the consequences that the sale would have on people he cared about was he aware of an important values-based goal.

A question you may wish to ponder is, "What are the likely consequences to others of transferring my ownership as I intend?" Discussing this topic with your spouse, advisors, or perhaps an owner who has already exited can provide insights into what will happen to your business, and to you, after you leave.

CONCLUSION

Setting goals is the most important step you can take in the entire Exit Planning Process. We believe it is the most important action you will take in the rest of your business-owning career.

Once you set your goals and quantify your existing resources, you complete the first phase of the Exit Planning Process. At that point, you will know how close you are to attaining your goals, how far you have to go, and how long it might be before you cross the finish line.

TAKEAWAYS

- You must set concrete goals. Unless you do, you will float aimlessly along instead of pulling with all your strength and cunning toward your home port.
- Goals drive action. Coordinated, focused action requires specific goals.

- Financial independence is the acid test of all successful Exit Plans. Unless your Plan delivers financial security, it's not a successful exit.
- Base your three universal goals on facts, not assumptions.
- Business exits take time. To determine how long it will take you to exit, you must start with a clear understanding of where you want to end up. The sooner you start to plan your exit, the more time and options you have to harmonize goals, avoid obstacles, minimize risk, maintain control, and increase business value.
- You don't need to reinvent the wheel. You may not know how to create a successful Exit Plan based on what you want to accomplish, but we do. We invite you to contact us to learn more.

[1] Dr. Gail Matthews, "Goals Research Summary," 2007, accessed March 13, 2019, https://www.dominican.edu/academics/lae/undergraduate-programs/psych/fac...