Tax & Wealth Advisor Alert:
FINANCIAL ADVISOR SUCCESSION–PART ONE: GOAL CLARITY

Given my combination of experience (13 years in the home office of a national life insurance company) and expertise (working with clients on the creation and execution of succession strategies), a growing part of my practice is in leading financial advisors in the creation of a succession plan that ultimately leads to the sale of a practice. It only takes a glance at the demographics of the advisory world to understand what is at stake. The average age of an American financial adviser goes up materially every year as the recruiting and retention statistics in the industry continue to get more dire. In the next few blog posts, I wish to explore some issues that must be dealt with in the transition of an advisory practice:

1. Goal clarity of both the selling and buying advisor.
2. Valuation of the practice.
3. Transition of client relationships.
4. Managing the risks to the buyer.
5. Taxation of the transaction to the seller.

FINANCIAL ADVISOR SUCCESSION–PART ONE: GOAL CLARITY

I think it might have been A. A. Milne in the book "Winnie the Pooh" that first coined the saying: "If you don't know where you are going, any path will get you there." With something as intellectually and emotionally challenging as financial advisor succession, it is critical for both the buyer and seller to be very clear and precise about what they want and need from the transition.

In my experience working with advisors, the set goals are rarely clear; however, the seller wants to get as much purchase price as possible while the buyer wants to pay as little as possible. Certainly price is a factor. The goal of the business owner in developing a succession plan is to maximize value and take care of the people the business owner cares about. But, the successful advisors I have worked with share a common attribute, their financial success is due to their selflessness. Their systems, structures, practices, values and beliefs all center on the achievement of their clients' wishes, hopes, dreams and desires.

With this cultural mindset, it is not uncommon for the number one goal of the seller to be ensuring his or her clients are taken care of. I am working with a seller right now whose top transition goal is "making sure my clients are taken care of as well or better than I promised. In fact, I want the top goal of this transition to be just that; the buyer must be committed to delivering the promises I made to my clients." Powerful, right? But also, clarifying. That goal has had immense impact on client transition strategy, staff retention, and even price and terms.

So, as I reflect on the numerous financial advisor transitions I have quarterbacked, here is a representative list of seller goals:

- Client satisfaction
- Providing an advisor who is young enough to “be around when my clients most need the advice”
- Staff retention
- Strong “fit” with referral sources and advisory team members (including other advisors, attorneys, accountants, bankers and investment bankers)
- Values align
- Personality consistency

Again, maximizing price to the seller, particularly on an after tax basis, is always on the list. But, again in my experience, it gets little focus compared to other goals, probably due to the fact that these advisors built attractive businesses by concerning themselves with doing the right thing rather than the proceeds of any particular transaction.

On the buyer’s side, the goals tend to surround client retention. We will talk in a later blog post about typical pricing in these transactions, but, to put it in the simplest terms, the “typical” price of an advisory practice is very enticing to the buyer if the buyer can retain a high percentage of the client relationships and their resulting revenue. With that in mind, the buyer’s goals tend to focus on the transition period:

- The seller’s advocacy of the buyer as the right person for the client
- The successful transition of client relationships
- The successful transition of referral relationships
- An in depth understanding of the seller’s systems and processes and how those impact the client experience
- Oftentimes, a desire to be mentored by the seller on business, relationship building and substance

As to where the most common goal conflicts exist, the top one is the contingency of the purchase price. As I stated above, simply put, in my opinion, if retention is high, when a market common purchase price of 1.5 to 2x recurring revenue is used in the sale of an advisory practice, the buyer is getting a great deal. Given that, most of the time, the seller is not willing to make the purchase price contingent upon retention. But, again given the critical importance of retention, it is as common for the buyer to want a purchase price contingent on retention. The buyer’s strategy is twofold: one, obviously, is to shift the risk of retention to the seller. The other is to financially motivate the seller to economically own retention and to take all possible steps to insure the client stays with the buyer. One place where we have sometimes bridged this gap is to use a contingent purchase price wherein the seller gets the full purchase price with average retention and gets a material increase in purchase price with high retention.

The other common area of goal conflict is staff. This conflict is natural and understandable.

The seller believes strongly in the staff he or she put together and sees it as the most obvious way to keep the clients and their revenue intact. The seller believes the client has bought "the team" and thinks the buyer would be crazy to change it in any way. The buyer, on the other hand, often has a different style with different strengths. These differences might mean that the buyer's best team has different strengths and skills than the seller's perfect team. Also, the buyer might have a team already and want to use that team to service the seller's clients. These conflicts can often be resolved with creativity, but, in my experience, lack of agreement on the post-transaction team is the issue that craters the transaction.

So that is the first step to a successful advisory transition. Capture each party's goals and see if they are consistent. If so, then the transaction can move forward. If not, the parties need to determine if they can creatively compromise. If they figure out a workable solution, it is on to the next topic- valuation or, stated another way, an agreement on price.

Tax & Wealth Advisor Alert:
Creating a Successful Succession Plan: Value

A successful succession plan maximizes the value of the business in order to take care of the people the owner cares about. Of course, that raises an important question: "What factors maximize the value of a business in transition?" That question leads to another important question: "Why does a buyer want a particular business?" The answer to this question is of course that the buyer wants a business that will produce sufficient post-transfer cash flows to provide the buyer with (1) sufficient cash to service the debt or equity raised to facilitate the purchase, and (2) earn a rate of return commensurate with the risk of the purchase. Essentially, a buyer wants a business where post-transaction cash flows are projected to grow. With that in mind, here are some of the factors the buyer will find important:

1. A large, diverse customer base – the more customers that are producing the revenue that leads to cash flow, the safer the cash flow will be to the buyer. Contrarily, if the revenue comes from fewer customers, the riskier the replication and retention of the cash flow, and the less the buyer will be willing to pay.
2. Available capacity – the more the business's revenue can grow from the current capital and people, the more the buyer will be willing to pay. The reason, of course, is that any growth in revenue should lead to a commensurate growth in profit. On the other hand, if revenue growth will require substantial investments in people and capital, the less the buyer will be willing to pay.
3. Innovative product or service – the more unique and valuable the business's product, the more the buyer will be willing to pay. If the product or service is easily replicable by competitors – or worse, is viewed by the marketplace as a commodity – the less the buyer will be willing to pay.

4. Is the owner Michelangelo? – The question I often ask my succession planning clients is, “how much would you pay for Michelangelo’s sculpture studio?” The answer, of course, depends on whether Michelangelo will continue to sculpt. If so, you would pay top dollar (presuming Michelangelo will not demand all of the profits in compensation for his unique skills). If not, you would pay nothing. Likewise, if the cash flow depends on the skills or relationships of the seller, the buyer will pay less. If, on the other hand, the revenues depend on the talents and relationships of the team the seller has built, the buyer would be willing to pay full value presuming that team is willing to stay.
5. Age of the capital and/or team – if the revenue-producing equipment and/or people are getting too old to be counted on for the long term, and as a result the revenue generation capabilities of the business depend on finding and investing in new equipment and/or people, the buyer will be willing to pay less than if the equipment and team have a long useful life.
6. Do the financials tell the true story? – Again, the buyer is purchasing future cash flows, and certainly the best indicator of those cash flows is the business’s historic revenues and profits. Oftentimes, the seller has used the business checkbook to pay for personal items, and when that has happened, the seller will seek to add back expenses to cash flows to “normalize” expenses; in other words, to show the buyer what the business is expected to produce when run as a business, not as part business, part personal checkbook. The problem is, the more add-backs the seller applies, the less credible the books become to a sophisticated buyer (not to mention the greater the perceived business risks for a company that was not run compliantly).

With these value drivers in mind, for a seller looking to transition his or her business, it is important to audit these factors and, if possible, remedy the weaknesses. If the owner can better empower the team, report expenses accurately, and focus more on customer diversity, the seller can potentially add 20-25% to the purchase price. And, of course, the time to start addressing these concerns is 3-5 years before the business is to be sold. Any time later than that has a much lower probability of success.

Tax & Wealth Advisor Alert:
Buy-Sell Planning: Three Mistakes to Avoid

One of the critical planning tools a closely held business plan should have is a buy-sell plan. A plan that addresses what happens to ownership of the company upon certain “triggering events,” such as the death, disability, or termination of an owner. A buy-sell plan is a common document for a closely held business, and these plans often contain the same design flaws.

1. **It provides for a fixed price.** At its heart, a buy-sell plan frequently requires someone (an owner) to purchase the stock of someone else (another owner) upon a specific event (the owner’s death). Therefore, the agreement needs to establish the price and terms of the stock sale. Price

can be established in one of three ways: (a) an agreement between the parties, (b) a formula, or (c) an independent third party appraisal. It is not uncommon for the business owners to agree between themselves on the value of the business and use that value in the buy-sell agreement. There is nothing inherently wrong with that strategy; if no one knows whether they will be the buyer or seller when a triggering event happens, both parties should negotiate a fair value. The problem comes when the owners fail to update their buy-sell plan and the so called "stipulated value" becomes stale over time. The solution is not to avoid a stipulated value; rather, it is to put a provision in the agreement that when the stipulation is too old (18 months is common), the business must be valued in an alternate fashion (such as by appraisal).

2. **It is inconsistent with the succession plan.** I work with a second generation company that has done a very good job of bringing the third generation into the business. The new generation had to work elsewhere first, come in on the ground floor, and now are in a position to take the company to the next level. If you asked the second generation, upon a "triggering event," they planned to bring in the third generation as owners. Indeed, most of the long term strategic planning was centered around making the third generation owners. All of that is awesome and well done. The problem? The buy-sell plan had the second generation owner-siblings buying each other's stock. If things played out the way they actuarially should, the youngest second generation sibling would end up owning 100% of the stock. Another problem? A second generation sibling has children in the business, and one of the main ownership transition strategies of using family gifting does not work under the plan.
3. **It is not funded.** Generally, the purchase terms of a buy-sell plan require the purchasing party to use cash or a promissory note to buy the equity. Consider a $5,000,000 business with two owners. If death is a triggering event, and one of the owners passes away, generally the other owner will not have $2,500,000 in cash lying around to purchase the deceased partner's equity. So, under most buy-sell agreements, this purchase would have to be made with a large long-term promissory note.

But let's take a quick look at that transaction post-death. Presuming both partners were critical to the business's success, the business is likely to suffer some economic loss following the death of a partner. If that partner had a large role in revenue generation, the loss could be dramatic. The surviving partner will be in a situation where a weakened company needs to support his household income and service a sizeable promissory note. On the other hand, the financial future of the deceased partner's family is dependent on a weakened company's ability to service the note. Not to mention the fact that there will be little or no capital available to invest in company growth.

It is largely for this reason that I insist my clients fund their buy-sell plans with life insurance. A $2,500,000 life insurance policy gives the survivor exactly what he needs (cash to purchase the decedent's equity), the decedent's family what it needs (risk free cash), and the business what it needs (full access to all of its capital to weather the storm and grow). While life insurance is not free, at least it can be paid for while both partners are alive and the business is not in a post-death weakened condition.

So, for closely held business owners, first make sure you have a plan of ownership and leadership succession. Then make sure the buy-sell plan effectively implements the succession strategy, provides for a fair price at transition, and is appropriately funded.

For more information on buy-sell planning contact Joe Maier at 414-276-5000 or joe.maier@wilaw.com

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Tax & Wealth Advisor Alert: Choosing a Trustee: It Is All About Trust Part 1—Discretion vs. Direction

Virtually all of my clients leave property to the next generation through trusts. Generally, these trusts last for the lifetimes of their children and oftentimes for further generations, as well. We setup trusts this way to protect those children from creditors, predators, and divorcing spouses, and previous blog posts have fully described how and why this works. This blog post covers a different issue—the amount of specific direction the trustee should receive regarding management of trust property.

At one extreme, the client can give the trustee very little guidance and allow the trustee to make all of the decisions over the trust. For example, the trust document can allow the trustee to decide what to invest in, who to retain for advice and counsel to the trust, and when (and for what reasons) to make distributions to the beneficiaries. At the other extreme, the trust document can give very specific direction. For example, the trust document can require that the trustee invest only in ETFs or dividend paying stock, maintain a 60/40 equity to debt allocation, and name specific advisers. The trust document can limit distributions of principal except in times of hardship, require the trustee to distribute an amount equal to five percent of the trust property each year or an amount equal to the beneficiary's W-2 income, or limit distributions for education unless the beneficiary maintains a 3.0 GPA. But, which method is better—discretion or direction?

Clients ask me this question often. I respond by reminding them that their estate plan needs to implement their own strategy to take care of the people they care about. Their strategy needs to be an extension of their parenting beliefs and values; at its best, it should mimic what they would do if they were alive and had no personal economic need for the trust property. With that context in mind, we begin to consider certain scenarios that test those beliefs. The answers to those "what if" questions provide guidance as to the right framework.

An example might be helpful. One of the fears of leaving large sums of money to children is a fear of laziness. To avoid their children becoming "trust fund babies," parents might put a provision in the trust that the trust shall make a distribution to the child each year equal to the child's W-2 income. On one hand, that is a perfect solution; the child is incentivized to be very productive and double his or her income. But, then we start scenario testing. What if your child was a doctor making $500,000 per year and wanted for nothing? If you were alive and had the money available, would you transfer another $500,000 to the child? The answer is consistently, no. What if your child was a teacher making $30,000 and, based on child care needs and the like, needed $50,000 to “make ends meet”? If you had it, would you give $50,000 to that child? Often the answer is, yes. What about a stay-at-home parent without W-2 income? Would you give that child nothing if you had plenty to give?

These discussions often lead to the client envisioning ever more complicated structures. For example, we could solve the doctor problem with a maximum distribution, the teacher problem with a “teacher (or other respected but underpaid profession) multiple,” and the stay-at-home problem by creating a “stay-at-home-parent compensation equivalent.” But, of course, for every solution, there is another question—what if the teacher is married to a well-paid CEO?

The point of this exercise is to point out the value of being able to solve each of these problems given their unique facts. I might still decide to provide money to the hard-charging doctor who is investing everything into her practice and her retirement to give her family some “fun money” to take a well-deserved vacation. I might decide not to give the teacher anything because he blows his paycheck at the bars and the casino. Simply put, if the test is what the parent would do if he or she were alive, the answer almost always is “we would make each decision as it comes and not constrain ourselves in any way.” So, with that in mind, isn’t the best trust design to provide the trustee the same full discretion to consider all of the circumstances and make a real-time decision?

The answer is yes, with one huge caveat. Is there a trustee the parents trust? And “trust” is not simply a matter of having a true-north moral compass; trust means the parents have to choose a person who can execute on the parents’ values and beliefs. In other words, in the same situation, a trustee that would do what Mom and Dad would have done if they were alive. Perhaps surprisingly, in a vast majority of situations that I deal with, that person exists, and we have the perfect structure: A parental stand on whom we place no restriction. But what if that person does not exist? While some practitioners and clients then want to shift back to specific rules, in my opinion, there is a better way. We should still provide strong discretion to the trustee, but incorporate specific values and beliefs rather than hard or fast inflexible rules. For example, instead of matching the W-2 income, incorporate the parents’ value of hard work, disdain for sloth, and respect for a stay-at-home parent. Instead of a hard and fast 3.0 GPA cut off for education expenses, we can provide a values statement that education expenses are an investment in a productive future wherein the child’s coordinating investment needs to be hard work and academic rigor. The trustee can then determine whether a 2.5 GPA is the result of a hard-working child overstretching his abilities or a kid on the “Malt Monday, Tequila Tuesday, Wine Wednesday” education plan.

So, my advice: make the trust flexible enough to deal with every changing circumstance and ever-evolving people. Do not restrict the trustee, but rather choose a parenting clone, and if that perfect parent clone does not exist, pick a trustworthy, smart, thoughtful decision maker and have the parents put their values and beliefs in the trust document as a decision-making GPS for the trustee. This is the structure that will best take care of the people the client cares about.

Tax & Wealth Advisor Alert: Creditors, predators and divorcing spouses are why having a trust may be better than a will

As I have stated before, when people find out what I do, the most common "cocktail party" question I get is "do I need a will?" Over time, my answer to that question has evolved. I used to respond by asking a couple of questions: Do you have minor children? Who do you want to get your property when you die? Now, my answer is "you don't need a will or an estate plan, but let me tell you why you want one: to protect your loved ones from creditors, predators, and divorcing spouses."

As I have mentioned in previous blog articles, virtually all of the plans I have created in the last three years, leave Mom and Dad's assets not to the children, but to lifetime trusts for their children's benefit. As I tell my clients, the reason I recommend this structure is simple—if you could control your property and still keep it protected from creditors, you would. Unfortunately, under the laws of most states, the clients cannot do that. In general, they have a choice; own the property and expose it, or give away the property—along with control and enjoyment of the property—and protect it. Generally, clients are appropriately reluctant to give away the property they worked hard for and are left accepting creditor risk.

But, those same rules do not apply if Mom and Dad leave property in trust for the children. In that case, those children can control the property as trustees and enjoy the property as beneficiaries. However, because those children did not create the trust (Mom and Dad did), if the children engage in dumb behavior and get sued, unlike property left to children under a will which would be exposed to creditors, the property left in trust is not exposed. Or, if the children make poor investments in a business and sign personal guarantees, the property in trust cannot be seized by the bank, whereas property left outright to those children can be seized. And, perhaps most important, given the statistical likelihood that a child's marriage will end in divorce, property left to the child in trust, will stay with that child, and not go to the person that broke the heart of Mom and Dad's baby.

So, do you need a will? Maybe not. Do you want an estate plan that protects your family from creditors, predators, and divorcing spouses? Absolutely.

Tax & Wealth Advisor Alert:
Building a Great Plan… Step Four: Results, Behaviors, and Beliefs

My last blog post focused on how to build the plan to get from where you are to where you want to go. The plan, to bridge the gap to our most awesome future, requires us to figure out what we need to stop, start, and continue doing to get from where we are to where we want to be. Of course, it is not nearly that simple.

Think of all of the situations in which we profess to want change. Maybe we want to have greater sales success. Maybe we want to lose 30 pounds. We might want to cut spending, so that we can save more. Oftentimes what we need to start, stop, and continue doing is obvious or even simple. Yet we consistently fail to do what needs to be done. Why?

I do a lot of performance, executive, and life coaching. This question is the crux of 95% of what people need help with: “I know what I need to do, but I am consistently failing to do it. What is wrong with me?” Answering this question requires us to step back and be a bit analytical about how results are achieved and think about the vision. The vision is a collection of results that will make us feel a certain way, for example, one of my current clients would like to increase his business profits by 30% because that is what is needed to allow his spouse to stay at home with their children. Another client would like to increase his commission income by 20% so that he can purchase his first BMW. As I stated, the “why” is critical, but so is the “what.”

Again, going back to the science, the 30% profit growth or the 20% commission growth is the desired result. The first question, then, is “what behaviors do I need to engage in to achieve the result?” Stated another way, the results driving the vision are the natural results of certain behaviors one chooses to start, stop, and continue doing. In both of these cases, with both of these clients, those behaviors are pretty obvious. In other words, each knew what he had to do differently to achieve his vision.

But each month, the focus of our coaching seems to be what he did not do and why. The reason they are not doing what they need to do is both simple and complex. Let’s start with the simple. The reason they are not reaching their goal is that the necessary behaviors to do so violate a belief. For example, take the person who wants to lose 30 pounds. After doing a start, stop, and continue analysis, it is determined that the vision can be attained by no longer eating a bowl of Ben and Jerry’s ice cream every night. So the behavior is to cut out the nightly Ben and Jerry's. Most people will stop eating the ice cream, for a while. But then they will have a tough day, or a great day, or see a commercial with ice cream, and have a bowl. Once they have one, they might quit again for a day (and beat themselves up for being weak), but then have another bowl a day or two later. Eventually, the plan is broken, as the necessary behavior of avoiding ice cream is regularly violated. This is just one example of a perceived "inability" to change necessary behaviors in the long-term. We see this all the time, where people spend rather than save, do not pick up the phone to make introductory sales calls, or do not terminate a culturally cancerous employee. They know the behavior that will lead to the result over the long-term, but they choose not to do what needs to be done.

So why, in our example, did the person eat the ice cream? At first blush, it seems simple; he likes ice cream, but there are a lot of things that we like, that we avoid, so why give in? And that question requires the deep introspection necessary for long-term change. This is when the complexity of the plan starts to take form. What belief do I have that causes me to eat ice cream I should not eat? That is a question that is rarely answered easily, but is critical to achieve the vision. Maybe the answer is that Ben and Jerry's makes me happy, and I believe that it is necessary to eat ice cream to make me happy when I am sad. Or, maybe it is that I have always associated ice cream with celebrations, so to me, a win is not a win without Chunky Monkey. Or, maybe it's that my vision is wrong. Maybe, while I would like to be 30 pounds lighter, it is not important enough for me to give up ice cream.

The ice cream example is a good one because it is relatable, but in my coaching, I see this frequently in the professional world. Let's go back to the advisor who needed to grow commissions by 20% to buy the BMW. He knew that he needs to make 90 calls a day to meet the goal, but was only making 40 calls every other day. He knew what needed to be done, but was not doing it. So we had to dig down to figure out why. What did he believe that caused him to not pick up the phone as much as he should have? With him, after a lot of discussion, he admitted that those calls made him feel like a "cheesy salesperson" rather than a professional advisor. Digging even deeper, we discovered he is an introvert and hates "forced conversations" with strangers. Also, as a millennial, he knew he lacked phone skills and was more comfortable with email and texting. If I would have stopped where most coaches do, by simply telling him to make more calls, the vision would have never been achieved. The vision is only achievable by first addressing the belief that is getting in the way—"phone conversations make me uncomfortable." You then have to figure out a way to be true to that belief, while still achieving the vision (i.e., email and texting as a way of communication). Building a team to delegate those activities (i.e., hire a phoning assistant) could also achieve the vision. Or perhaps, coming to the personal conclusion, that while phoning is an unpleasant task, it is worth it to achieve the vision.

So, to accomplish true change, the process needs to be:

- What behaviors accomplish the vision?
- What do I need to start, stop, and continue doing to achieve those behaviors?

- Then go to the “third why.” Why am I not currently engaging in those behaviors?

For example, to meet my retirement goal, I need to save 10% of my income, but I am currently only saving 2%—why?

- Under my budget, I can only afford to save 2%—why?
- My budget takes into account my large lease payment on my car—why do I have a large lease payment and an expensive car?
- I believe people will see me as more successful if I drive a nice car, and I believe successful people will only do business with someone successful—why do you believe that? What evidence exists that shows that belief is true? Wouldn’t a successful person be able to save 10% of their income for retirement? Is this really about what I want and am I projecting my beliefs onto others?

As a mentor once told me, all the power is in the third “why.” I believe that—and the reason is the third “why” is not the reason or the assumption, but rather the emotion, be it fear, insecurity, arrogance, or whatever that is really at the core of the behavior, that is preventing you from getting where you want to go.

So as you now build the plan, the steps are:

- Paint the vision (where am I going and why?)
- Determine, using empathetic honesty where I am right now
- Figure out the behaviors necessary to get from where I am to where I am going
- Determine what I need to start, stop, and continue doing
- Figure out what beliefs are getting in the way by going to the third “why”
- Either change the belief, change the behaviors, or change the vision
- Measure the results and recalibrate if necessary

At the end of the day, the truth is, if the vision is important enough, you will achieve.

Tax & Wealth Advisor Alert:
Building a Great Plan…Step Three: Bridging the Gap

The last two posts to this blog have focused on how to build a great plan. First, you need to create a compelling vision; one that describes, in detail, where you are going and why. Then, you need to define where you currently are with empathetic honesty. The third step, and the focus of this post, is bridging the gap between the two. In other words, how do you get from where you are to where you want to go?

The first step to building a strong plan is to do the math. For example, if we are building a financial plan, and for my client to achieve his vision he needs $1,000,000 at age 65, and he is currently 45 and with a savings of $200,000, the math tells us we need to obtain an additional $800,000 over the next 20 years. If we are building a succession plan under which the company needs to fill three key vacancies to meet its five year vision, the math tells us we need to find three more bodies with the required skill sets. If we are building an estate plan and the client's vision is to leave her $20,000,000 illiquid assets (maybe a closely held business) to her children, the math tells us we need about $4,000,000 in cash to pay the estate tax when she dies to successfully achieve that vision.

The problem I see in a lot of plans and with some of the planners I work with is that this is where the plan ends: with the math. For example, the plan might be "you need $800,000 in the next twenty years, so based on an x% rate of return, you need to save $_____ every year." My response to those plans are twofold: the immature teenager living inside me wants to say "duh.," and my more thoughtful response is, if that is all planning is, simply replace the planner with a computer: it can do the math faster and better.

The math is critical. It is where we need to start. But the math is only the surface. Great planners never stay on the surface; they get deep. So, the next step in a great plan is to go one layer down and analyze why we are where we are and what needs to change to get where we want to go. For example, go back to our succession plan that requires hiring three key people over the next five years. Digging one layer deeper from the math, we might want to know why those people are not already part of the organization. There could be any number of answers to that question. Maybe three people will be leaving the organization over the next five years. Perhaps the company's growth strategy requires new talent. Maybe the company burns and churns its talent. Or, let's take our financial plan. It is critical to know we need to save a certain amount of money every year, but it is just as important to know why our client has $200,000 saved right now. Is our client on track or off track?

All of this leads up to the critical issue we have to help our client work through in creating the plan: change. A great quote by Albert Einstein tells us that insanity is doing the same thing over and over again and expecting different results. The problem with change is that science has proved that human beings are neurologically wired to resist change. Our brains are actually screaming at us to continue to do things in the same comfortable old way we always have. We have to override that voice in our heads to build a successful change plan. It requires choice and discipline.

When working with clients, if the plan requires a change in behavior– and it almost always does– I always start with the tried and true consulting change tool: a start, stop and continue analysis.

I ask, if I want to achieve my vision:

What do I need to start doing that I am not currently doing?

Examples:

- I need to save more.
- I need to create a budget and stick to it diligently.
- I need to have savings removed from my paycheck.
- I need to implement a mentorship program in my company.
- Our company needs to train people for their next job as they are doing their current one.
- I need to invest less money back in my business and invest those funds in life insurance to pay the estate tax.
- I need to delegate more decision making responsibility to future leadership.

What do I need to stop doing?

Examples:

- I need to stop impulse shopping.
- I need to stop going to the mall for entertainment.
- I need to stop going to Starbucks every day.
- I need to stop requiring my people to work so many hours at their job so they have time in their day to focus on professional development.
- I need to stop investing every dollar my business makes back in my business and growing the value of an illiquid asset without first building up my liquid assets (even if the reinvestment is getting a better rate of return).
- I need to stop doing all of the duties of my business and delegate responsibility to others so they can grow.

What do I need to continue doing?

Examples:

- I am saving enough every month to meet my retirement goals. I need to continue doing so.
- We are doing a great job in attracting talented people. We need to keep recruiting the way we have.

This stop, start, and continue analysis– combined with a compelling vision and an empathetically honest assessment of the current state of things– should result in a strong execution plan. We will know how we have to change in order to get where we want to go. We will have a handle on the new behaviors we need to develop and the old habits we need to break. But will we actually change? That question is the focus of my next blog article.

Tax & Wealth Advisor Alert:
Building a Great Plan…Step Two: Empathetic Honesty

My last blog post talked about the critical role vision plays in building an effective plan.

Today's post focuses on the other end of the planning spectrum: if vision is where the plan is going, the plan must start with an objective, intelligent analysis of where we are. This part of the planning process is described in many ways, commonly as, "self-discovery" or "facing the facts." I describe it as "empathetic honesty."

No plan is built on a foundation of self-deceit.I do a fair amount of executive coaching, and I tell all of my clients that my role is two-fold: root out self-deceit and solve problems. Self-deceit is the insidious cancer that destroys all plans it touches. How many financial plans fail because an embarrassed client does not provide all of the critical financial facts and bad habits to the CFP? How many estate plans fail because parents are too ashamed to discuss the personal failings and weaknesses of their adult children? How many succession plans fail because the owner is unwilling to admit to the planner that the wrong talent is on the bus? How many strategic plans fail because the executives cannot face organizational missteps, mistakes, and weaknesses?

If self-deceit is the fatal flaw that brings down a plan, truth is the iron spine of a great plan. So it is critical that the planner helps the client understand the need to put ego aside, report all of the facts — good and bad — and start building for the future in the honesty of the here and now. For the plan to succeed, that honesty needs to be empathetic. I use the term "empathetic" mainly as an antonym to brutal. How many people do you know that pride themselves on being the messengers of "brutal honesty"? In my world, a lot of them (of course, it should be noted I work with lawyers). My take has always been that if you show me a room full of people that pride themselves on delivering brutal honesty, I will show you a room full of arrogant bullies. But, more important to this post, if the planner's gig is brutal honesty, for most clients, the plan will suffer from the shaded truth at best, or creative facts at worst. Simply put, no one wants to be brutalized.

Instead, a plan thrives when the planner is focused on empathetic honesty.Remember, empathy is not sympathy. It is not a fact gathering pity party where the planner offers platitudes, excuses, and assurances of false hope. Instead, empathy is focused on understanding. In other words, great planners focus on not just gathering the facts but understanding why those are the facts. So the financial planner does not tell the client who has saved woefully little for retirement that (1) he or she has no chance to retire with anything other than a macaroni and cheese subsistence (brutal honesty), or that (2) everything will be alright (no honesty) but instead takes the time to understand why the person is in that situation, be it poor spending habits or bad luck. Either way, the planner can then build the best plan for the client to avoid a repeat of the choices that led to the current state. Or, if the client's current leadership team is not up to par, the succession planner does not (1) ask the client "why do you hire idiots?" (brutal honesty), or (2) tell the client that the team will get better (no honesty), but instead focuses on why these people were hired and how they were developed so that the succession plan can fix the client's talent acquisition process, talent development process or both.

Empathetic honesty is the foundation of a great plan: a focus of where the client is, how they got there, and what the client needs to start, stop, and continue doing to achieve the vision.

Tax & Wealth Advisor Alert:
Building a Great Plan: It All Starts With Vision

Building any successful plan, whether a strategic plan, estate plan, or succession plan, requires capturing a specific vision. The question is, "what exactly is vision?" It is not some weird, new age concept that finds its way into the movie *Office Space*. While the term "goal" is a good analogue, "goal" is not quite right—because it lacks the emotional heft of vision. In my world, vision is a present tense narrative of a future state that focuses on the author's **why** and **how** he or she feels having achieved those results. Let's break that down:

- The vision is a description of future state. The reason for that, in the planning context, is obvious and straightforward—it is where we want to go. Stated another way, it is the very reason for the plan.
- The vision is written in the present rather than future tense. The power of present tense is that the vision becomes commitment rather than aspiration. To show how this works, read the following two visions and ask yourself which one is more compelling:
  1. "By December 31, 2019, the Company's annual revenue will be $10,000,000."
  2. "It is December 31, 2019, and the Company is celebrating a year with $10,000,000 of revenue."

Sure, some words are added like "celebrating," but that is the point. The present tense narrative of the future state picks you up and places you in the winner's circle, allowing you to describe the emotions of the victory. It is reflecting on how victory feels, that makes the sacrifice of preparing for the game worth it. It is why world class athletes "play the game in their minds" over and over again before they get on the field.

Visualizing the victory is the essence of a compelling vision. It focuses on the **why**. If you think about **what** you do every day, there is usually nothing that gets the blood pumping. If you think about **how** you do what you do, it is like reading the owner's manual for your car; boring. But, if you focus on **why** you are doing it, that is where the motivational power lies.

- For example, if the vision is "The company will have $10,000,000 of revenue," that is the **what**; no juice. If it is "We will be at $10,000,000 of revenue by growing our sales force by 10 people and increasing our customer base by 20% per year," that is the **how**; a little more specific, but no more exciting. But, if the vision is "We will be at $10,000,000 of revenue, which will allow us to be the

> predominant consulting company in Southeastern Wisconsin, and we will have owners and employees who get the first call when a client needs a problem solved," now that sounds like a great place to be. You can literally feel how much you would want to work there. That is the **why**. THAT IS VISION.

But vision is not limited to businesses or owners. Vision is critical in all types of planning. For example, a great retirement plan starts with a compelling vision; a vision so clear and concise I can smell the grass on the golf course and can see the blue ocean off the Tuscan coast. Or, a phenomenal estate plan begins with visualizing the happiness the great grandchildren will derive upon their graduation from Harvard. I know I have assisted my clients with an awesome succession plan when they tear up discussing the impact their business is having generations later; when they begin to clearly see the impact their plan will have on countless families, not just theirs.

And why is vision critical? We will dig into that in the next few blog posts, but it comes down to this: planning is fun, execution is hard. But a plan with no execution is just a daydream. Execution is hard work, sacrifice, preparation, perspiration. Without a compelling vision, without knowing what we are fighting for, the sacrifice and hard work known as "execution" never gets done.

Why do we have a retirement savings crisis in this country? Why do only 30% of Americans have an estate plan? Why do so many closely held businesses fail to survive their founders? No one sat down and thought about, cared about, and documented the amazing future that was the inevitable result of that sacrifice. No one created a compelling vision.

Tax & Wealth Advisor Alert:
A TOOL TO SOLVE THE FIRST SIN: The Visionary Org Chart

For those of you who have read this blog, you know that the first of the seven deadly sins of succession planning is not putting leadership first. You cannot have a successful succession planning without answering a critical, threshold question: "if not you, then who?"

Sometimes that answer is simple, oftentimes it is not. Frequently the current owner or owners need guidance and direction in answering that question. In those situations, one of the most helpful tools I use in working with my clients is a visionary org chart. The way a visionary org chart works is that we pick a time in the future—maybe three years out, maybe five. The discussion focuses on what the vision is for the company at that time—what markets will the business be in, what will the revenues be, who will be the competitors, etc. Then, the focus shifts to what roles need to be filled for the company to achieve that vision.

Those roles are mapped out on the company's visionary org chart. In other words, what does the company's org chart need to look like on ____, 2019 for the company to achieve the vision?

Once we have the visionary org chart created, we begin to fill in the roles with the company's current talent. As part of that process, a few critical issues almost always come to a head:

- We almost always have critical roles that have no current talent to fill them
- We almost always have talent without a role
- Sometimes we have a great discussion about a currently poor fit between company talent and current roles, and the potential to reemploy that talent into a better role for company success
- Because people will be three years (or whatever period of time in the future we use) older, transition of talent becomes a stark reality
- This process almost always results in a change in the company's current org chart. In other words, pulling the leadership team out of the day-to-day and having them think about the future success of the business, causes them to recognize issues that need to be addressed immediately

So what does your visionary org chart look like? What weaknesses does it reveal? What opportunities does it highlight? Addressing these challenges will inevitably help maximize the value of your business and best take care of the people you care about.