Exit Planning: Rational or Emotional?

One of my best clients ever almost fired me after our first two hours of working together. She sat across the table beginning to get agitated that we were wasting time and not getting into the good stuff. She finally asked: "When are we going to start talking about how much I can sell my business for. You seem more concerned about what I am going to do in my retirement than I am?" She was correct. After I explained the method to my madness, she apologized for her temporary irritation and thanked me for my guidance, which by the way, in this case became very valuable as she ultimately realized that she would like to continue to be involved in her business, but in a much-reduced capacity…Dan Paxton, Principal, ExitSmarts

The title of this article certainly causes the reader to ask: "What does rational or emotional thinking have to do with exit or transition planning?" The answer is loud and clear – EVERYTHING.

Studies reveal that a staggering 75% - 80% of Business Owners who have exited their businesses are unhappy with their decision just one year later…and it is not about the money. It is about being unhappy and unfulfilled – emotional stuff. Perhaps the adage that money does not buy happiness is true. These studies would certainly suggest this to be the case.

Being in a state of happiness is about emotions, not rationality.

An unhappy exited Business Owner does not equate to a successful exit or transition…and the Advisor has to assume shared responsibility for the failed transition.

As it relates to exit planning, the questions become: "How did we get here? What happened to cause so many Business Owners to be unhappy after they got the money they wanted? What happened, or didn't happen in the exit process to cause these results? What can we do to change this?"

The root of the problem could be the prevalent societal thinking that being "rational" is assumed to be good, whereas being "irrational" or "emotional" is assumed to be bad, or weak, and can lead to error. A review of the common exit planning process helps shed light on whether this common notion is present.

When most Business Owners and Advisors begin to discuss a business exit, the absolute first point of discussion is how much the business can sell for – rational, left brain thinking. To be fair, the Business Owner probably came to the discussion with some previous fantasy thoughts about golfing, fishing, gardening, shopping, travel, and volunteering. But those thoughts fade to background as the discussion moves to focus on the sales price and doing whatever needs to be done to "get the money." And there it is: the trap is being set right out of the gate – the prevailing preconceived notion takes over - that the transition planning process should be as rational as possible – not allowing emotions to get involved – no right brain stuff. The focus on the money overshadows planning on what the Business Owner is going to do with his/her newfound time and money to create a fulfilled life thereafter.

So, what exactly is wrong with focusing on money. We don't want to make the case that having money leads to unhappiness (a different topic), so what does lead to happiness. Typically, happiness is an emotional state characterized by feelings of joy, satisfaction, contentment, and fulfillment. Let's look at some top reasons why Business Owners with newfound money and time would not have these feelings of happiness. Here are some reasons excerpted from a Smart Business article entitled *"How to ensure you aren't unhappy with your decision to leave your company:"*

- The exiting owner did not realize how much his/her day-to-day identity was tied to the ownership and operation of the business and losing this identity leads to unhappiness.
- Many times, they are disappointed because they don't plan well enough. They go from being the go-to person while running the company to feeling irrelevant after they exit.

- Often business owners receive canned advice about what retirement should look like — options like joining boards, playing golf, or traveling. This might be good for a while, but then what happens when you realize:

  There really is such a thing as playing too much golf; that you really cannot spend 40-50 hours/week in your garden; that after two building projects, you could lose the drive to build more stuff; that you could run out of places to travel (safe places, at least); that the new hobby is not all that it was hyped to be; that volunteering has its limitations; that after a lot of fishing one starts to smell like the fish; and that the grandkids have their own lives (iPads) and they do not need you as much.

- Business owners don't get help imagining how their life can have as much meaning, or more, than when they were running their business.
- Business owners also may experience seller's remorse and lament that they didn't get the correct value for their company; perhaps looking back they didn't take the opportunity to increase the value of their company when they were still in control because they weren't motivated and not advised to.
- Business owners, and their advisers, may fail to consider the far-reaching impact of the business's legacy. For example, a business owner sells his/her company, not anticipating that employees will lose their jobs, or the firm will be relocated. That business owner's legacy in that community has now dissolved.
- Also, sometimes the buy-out agreement that the business owner signs up for does not play out as planned. A business owner might create an agreement with a buyer to stay on as a consultant, but the relationship he or she intends is less than expected, and the former owner finds himself or herself with less influence than anticipated.

What should these results teach the Advisor? The lesson should be that money – the selling price - should not dominate the transition planning process. There needs to be balanced thinking/planning about money, and how money and time will be spent to make for a happy, fulfilled life…balanced planning. Helping the owner find that balance may be the most important responsibility of the Advisor. *When a client is part of the 75-80% crowd, the Advisor has failed the client*.

What Do You Want Out of Your Life?

What went wrong in the above examples is that the Advisor asked the Business Owner the wrong question right out of the gate that would guide the transition planning process: "How much do you want for the business?" The focus of transition planning should actually center around the question: "What do you want out of your **life**?" This is perhaps the most important question the transition planning Advisor can ask a Business Owner. When the focus is what the Business Owner wants out of life, deep(er) emotions kick in as few Business Owners ever really stop to ask themselves this. Rather, they operate on the traditional thinking that you work until you can retire and then you simply retire and figure out what retirement means. Business Owners often display a real sense of release when asked to answer this question without any filters or qualifications. It is as if this thinking is a new freedom that they had not granted themselves previously. Thinking changes when all options are on the table. We simply then have to balance them with economics – which sometimes means some restrictions, and sometimes means working an extra year or two to get to a place that they really (with deep introspection) want to be.

What does this look like?

When looking a Business Owner directly in the eyes and asking, with total sincerity - *What do you want out of life* – the Business Owner usually responds with – *You mean, what do I want out of my business, don't you?* The Advisor follow-up should be: "*No, I really mean your life, not just your business.*" This evokes a shifting in the seat as the Business Owner anticipates a question, he/she never really thought about, or never thought they had the right to think about.

When the Advisor asking the questions shows authenticity and conviction in his/her questions, the room can become emotional as the Business Owner has a flood of thoughts – including thoughts about leaving the “baby” that has occupied most of his/her waking time for potentially decades, about the fact that this is a really major passage in life, that this often means that the Business Owner is getting older, and there are some negative connotations with getting older – emotional stuff. The Advisor has done his/her job when they can get the Business Owner to this state of thinking – an emotional state. Only when the Business Owner gives himself/herself permission to think outside of the box does the real progress take place – deep thinking about what will make the Business Owner truly happy post-exit.

The previous paragraph should not be a downer about exiting one’s business, because we are talking about positive changes.

The point of this paper is that the Advisor has a responsibility to get the Business Owner thinking at the deepest and untethered level. Many exit planners come from the financial world – a rational, left-brain world – where evoking deep emotions, and then talking about them is not natural discussion. In fact, it can become an awkward discussion. If the discussion is awkward in any manner, the Business Owner will likely not get to the place that he/she needs to get in order to do their best thinking.

When we reflect on the opening study of 75-80% unhappiness post-exit, we should recognize that much of this unhappiness is on the shoulders of the Advisor who did not have enough right brain sensitivity to “force” the Business Owner into deeper thinking about post-exit life…and that would qualify as the Advisor not doing his/her real job.

At ExitSmarts, our approach is to get our clients into this deep and emotional thinking at the outset, and then asking them <u>EVERY</u> time we start a new meeting: “What do you want out of your life?” (Then we use the Five Whys method of drilling down to discover the real answer.) Business Owners come to appreciate this care and concern, and it is surprising how much Business Owner objectives can change over time due to thoughtful right-brained discussions. And by the way, this level of discourse between Business Owner and Advisor is the foundation of building the Most Trusted Advisor status that Advisors seek.