

# Selected Excerpts

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## **SUCCESS(ION) 2020** **NEW BEGINNINGS**

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**Introducing a Unique Approach**  
**to**  
**Small to Medium Enterprise (SME)**  
**Succession/Sale/Exit**  
**Planning & Financing**

**Excerpts from *Success(ion) 2020 - NEW BEGINNINGS***

**Table of Contents**

	<b>Page</b>
<b>Why is Succession Important?</b>	<b>2</b>
<b>What is Success(ion)?</b>	<b>3</b>
<b>Not Ready? Think Again!</b>	<b>3</b>
<b>When Should You Start?</b>	<b>3</b>
<b>Why a New Approach?</b>	<b>4</b>
<b>The Cost of Denial</b>	<b>5</b>
<b>Why the Disconnect?</b>	<b>6</b>
<b>GP/Expert Role Clash</b>	<b>7</b>
<b>Silos of Expertise</b>	<b>7</b>
<b>Outdated Solutions</b>	<b>9</b>
<b>Challenges for Innovative Thinking</b>	<b>10</b>
<b>Derivanomics</b>	<b>12</b>

## Why is Succession Important?

**To suggest that success in SME business ownership transition and succession will be critically important to North American, UK and Australian economies would be a gross understatement!**

Globally small in GDP terms, but successful within diverse regional urban and rural cultures, Canada can serve as a microcosm for other free-market economies dominated by boomer populations.

Over 98% of all businesses in Canada are considered as Small Business (< 100 employees). Medium-sized businesses (100-499 employees) account for 1.7%.

***Together they constitute Small to Medium Enterprise (SME).*** Big business (500+ employees) accounts for just 0.2% of all businesses in this country.

Slightly less than 50% of 2.4 million Canadian SMEs have full-time employees. In 2012, they accounted for 10 million jobs (89.9% of total employment) and close to 50% of private sector GDP in the Canadian economy.

U.S., UK and Australian SME sectors have traditionally contributed to employment and GDP as indicated:

	<i>Employment</i>	<i>GDP</i>
<b>USA</b>	<b>50%</b>	<b>50%</b>
<b>UK</b>	<b>67%</b>	<b>50%</b>
<b>Australia</b>	<b>51%</b>	<b>23%</b>

How SME owners face up to the issues of their own business exit/succession will determine how their individual retirements unfold. The collective success or failure, however, within their respective SME sectors may have much deeper consequences. That will either allow our accepted socio-economic way of life to continue, or, dramatically re-shape entire economies and social structure.

While SME owner retirements will reflect their individual succession efforts, it's not just SME owner retirement outcomes with which we should be concerned. At risk, is the back-bone of every economy mentioned... the 65-75% of the 10 million companies they own that produce 100 million jobs. ***What if 30% - 50% of these businesses fail in their succession effort? What if they don't survive? The answers are incalculable!***

We are about to experience the largest and most concentrated business succession effort in human history. The outcomes, good or bad, will be determined by individual SME owner's actions. Denial, failing to plan, and failing to act, is planning to fail.



## What is Success(ion)?

Most of us have different versions of success, one for the present, another for the future. Success is an ever-illusive target: As one version is attained, another emerges. Success is not about money. We all know unhappy people with lots of money. Money is not what entrepreneurs live for! ***What they live for, are the challenges that create money, purpose, and accomplishment!***

The immediate challenges that will determine the rest of your life will be no different: ***1) monetizing your business equity, to help finance 20+ years of retirement, and 2) initiating your quest for a new sense of purpose in retirement. Succession planning must include both.***

However, before you can get either, you must first give. Succession is not just about you. You must find, develop, and most likely help finance a potential buyer. That will take time! However, you have what every aspiring entrepreneur wants... visible success in business. **You are not just selling a business, you are also selling a formula for success!** You can develop a ***Sale Equation*** matching sale offerings to buyer needs by framing your success formula around the next potential owner's vision of success. Then, you must provide the leadership to make success in succession, or ***Success(ion)***, a reality.

**So! Success(ion) is partially about money, but it must also inherently create personal success in both lifestyle and purpose for both incoming and departing owner(s).**

## Not Ready? Think Again!

Most Boomer SME owners appear to have exactly the same plan: ***To perfectly time their business exits into retirement, when they are ready.*** Being a Boomer complicates matters. **“When they, or you, are ready” may be totally irrelevant!**

In Canada, by 2020, some 60-70% of 1.1 million Boomer employers will be well past their mid-60s. Over 66% indicate a need to sell the business to finance retirement. So far, few have done so, but it appears that most will be trying to sell within the few years on either side of 2020. This will create a tidal wave of clamoring demand, and lengthy lineups, for business succession expertise.

% Canadian Employer SME Owners by Age					
Adapted from Industry Canada: Key Small Business Statistics Aug. 2013					
Age	2004	2007	2011	2015*	2021*
<39	18.2%	14.9%	12.2%	10.0%	9.1%
40-49	35.1%	28.0%	28.2%	20.2%	14.1%
50-64	37.0%	44.6%	48.4%	46.0%	40.5%
65+	9.6%	12.6%	11.3%	23.9%	36.4%
Businesses	Involved		*Estimated	1.1 Million	1.0 Million

## When Should You Start?

Early adopters and adapters to every major Boomer driven trend have benefited the most. Those last to join in benefited the least, if at all. Boomer driven SME succession will involve over **10 million SMEs**, and **100 million jobs** in Canada, the U.S., the UK, and Australia. Wherever you live, you need to be at the forefront of this particular Boomer driven trend. Even a simple succession plan can take 3-6 years to complete. With a 2020 deadline, **NOW** is not too soon!

***It's your future! Don't you really need to get control of it?***

## Why a New Approach?

Even though 100% of SME owners have multiple advisor relationships, a widely reported 90% have not yet initiated any formal succession planning effort.

In Canada, that's 90% of 1.1 million employer SMEs who are responsible for 10 million jobs, or 89.9% of the workforce. Another estimated 9 million SMEs, employing 90 million workers, share similar issues in the U.S., UK and Australia. By 2020, 60-70% of Boomer SME owners everywhere will be either approaching, at, or beyond 70 years of age.

With that many business owners facing near-term succession realities, the need for succession advice is more than apparent. That incredible depth of SME inaction translates as complete rejection of the current approach to succession planning.

**The current approach has completely failed to provide either leadership or appropriate solutions to this dilemma. There is an obvious disconnection between the real needs of SME owners and the solutions promoted by business support providers.**

This disconnection has resulted in an SME owner view of many support advisors as part of the problem... rather than the solution.

Unless this inter-generational ownership transfer is successful on a very wide scale, the very essence of our socio-economic system is in serious jeopardy. This can be prevented, but solutions will require a change in thinking.

Business support professionals cannot continue to pursue the traditional approach expecting different results. So far, the results speak volumes about the failure of that traditional approach.

We know there are many advisors who do care, and want to provide the best advice possible. The trustworthy must separate themselves from this stigma. Going forward, it will not help to be viewed as part of a solution that has already failed and has been rejected!

***Conclusion: A completely new approach is necessary!***

## The Cost of Denial

While many SME owners may look wealthy on paper, most are rightfully fearful that they have not saved enough for retirement. Successfully financing a meaningful retirement lifestyle will depend, at least partially, on how successfully the equity in the business can be converted into cash, or *monetized*, and by how much SME owners actually get to put in their pockets after all is said and done.

This becomes considerably more meaningful if we compare SME owner perceptions of business value with potential retirement funding requirements. It is widely accepted in business valuation circles that *SME owners believe the value of their business is worth double what it really is*.

Realistic expectation for 1-10 year interest rates should be between 0% and 2% for most of this decade, reducing retirement focused investment portfolio performance considerably. *The 10% annual return we have all come to expect, just like Freedom 55, is highly unlikely in the near future.*

**5:10:15** is a rule of thumb worth remembering:

If you realize a **5% overall return** on your retirement investment portfolio and **withdraw 10% of the original principle per year**, whatever principle you use, you will be **broke in the 15th year**. See Appendix A

A 10% annual income from a \$1,000,000 retirement nest-egg will last only a few months beyond 14 years. The same holds true of a \$200,000 income from a \$2,000,000 nest-egg: broke in exactly the same time frame! A 4% overall return will see you broke in 13 years. A 20+ year retirement suddenly takes on new perspective!

### Success(ion) 2020 - NEW BEGINNINGS

#### Chapter 7- Appendix A

Year	1	5	10	13	14	15
Investment Principle	\$1,000,000	\$745,211	\$365,031	\$98,450	\$2,388	
Income	4%	\$40,000	\$29,808	\$14,601	\$3,938	
W/D	10%	\$100,000	\$100,000	\$100,000	\$100,000	\$2,388
Balance		\$940,000	\$675,020	\$279,632	\$2,388	\$0

Investment Principle	\$1,000,000	\$784,493	\$448,671	\$204,142	\$114,349	\$20,067
Income	5%	\$50,000	\$39,225	\$22,434	\$10,207	\$5,717
W/D	10%	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Balance		\$950,000	\$723,717	\$371,104	\$114,349	\$20,067

Investment Principle	\$1,000,000	\$825,015	\$540,347	\$325,202	\$244,714	\$159,397
Income	6%	\$60,000	\$49,501	\$32,421	\$19,512	\$14,683
W/D	10%	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Balance		\$960,000	\$774,516	\$472,768	\$244,714	\$159,397

Investment Principle	\$2,000,000	\$1,568,988	\$897,344	\$408,287	\$228,702	\$40,137
Income	5%	\$100,000	\$78,449	\$44,867	\$20,414	\$11,435
W/D	10%	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
Balance		\$1,900,000				\$0

#### Portfolio Performance Matrix

Portfolio Concentration					
Fixed Income %	60%	55%	50%	45%	40%
Equities %	40%	45%	50%	55%	60%
Expected Return					
Fixed Income	2%	2%	2%	2%	2%
Equities	8%	8%	8%	8%	8%
Expected Portfolio Performance	4.4%	4.7%	5.0%	5.3%	5.6%

*If realized investment return is only 50% of original expectation, twice as much investment principle may be required. Where will that increased principle come from? If, additionally, the proceeds of your business sale are potentially 50% lower than you expect, just between these two items, you may have only 25% of what you may have hoped would be available to finance retirement! That's before tax! Is this problematic? You need to know! It's your future!*



## Nobody Gets It!

### Why the Disconnect?

Why is there such an obvious disconnect between SME owners and SME support providers? *Figure 8-1* offers a simplistic view of the five most common business support providers. SME owners will typically have a relationship with at least one representative from each.

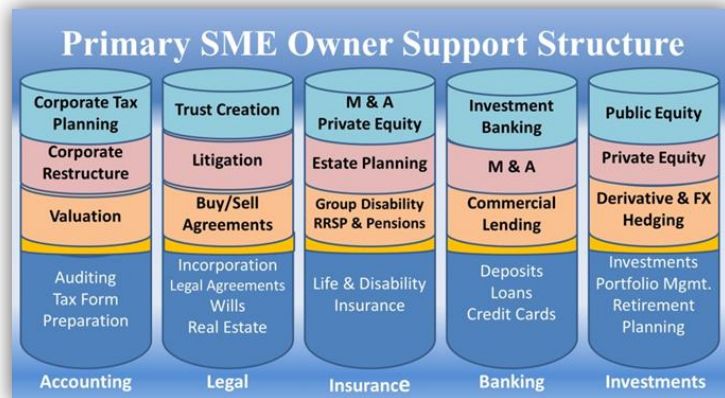


Figure 8-1

The darker blue sections, below the gold separator, represent basic SME related activities within each industry. These darker blue sections represent the **Generalist Platform** in each industry that *essentially offers pre-programmed solutions for predetermined problems*.

These pre-programmed solutions are typically generated from fairly basic information entered on a paper form, or computer screen. There is no big-picture thinking required at this level. Marketing of these solutions is largely by salesman-like promotion by the service providers themselves. This is most obvious within the various segments of the financial industry, but also applies to generalist platform accountants and lawyers seeking new clients.

The smaller colored sections, above the gold separator, represent specialists who generally work independently of each other, but can sometimes work together.

These specialists also have solutions for pre-determined problems. However, they frequently encounter unique situations that require further exploration and definition before finalizing recommendations. Potential solutions, therefore, require big-picture thinking to anticipate and consider potential outcomes. These situational value-added consulting experts are typically accessed by referral.

Each business support industry has two dominating modes of operation: the pre-programmed solutions at the **Generalist Platform** level and the very different consultative solution development process at the expert level. These experts, each typically support between 30 and 50 General Practitioners (GPs).

The GPs within each industry act as the primary contact for SME owner interaction. They have the responsibility to create and maintain the client relationship. However, with a never ending lineup of competitors constantly beating the bushes for new clients, the issue of “relationship” becomes the source of another different reality.

A turf war is quietly, but continually, engaged between competing support providers. Every relationship lost represents a new one that must be created, generally a much harder prospect than maintaining an existing client. As a result, the unspoken agenda of every representative, in

each business support industry, is to wrap a fence around every client to protect him/her from the influence of others, particularly the competition, or experts friendly to the competition.

I call this the **White Picket Fence Syndrome**. Industry participants may not know this term, but few will deny its existence. While the intent is to protect the client relationship, the unintended consequence is the prevention of client interaction with levels of expertise that could potentially provide a more thorough, and thus more valuable, service to the client.

## GP/Expert Role Clash

In previous chapters, two experts from the accounting industry explained how they interact with their industry's GPs. They revealed that their primary source of frustration is fixing the problems created by well-intentioned generalists operating beyond their scope of expertise.

The problems, associated with such activity, don't usually surface until much later, when future decisions come into play. Our expert specialists are often called in, too late, to repair a situation that may have been created with good intentions, but too little experience. This problem is not unique to the accounting profession, it exists everywhere.

This **accounting industry revelation** is noteworthy. The industry that has been designated as the "most trusted" in business succession planning has internal trust issues.

One should never be gratuitous with trust. **Trust has to be earned, through the combination of accreditation, knowledge and experience.** This is especially important in the area of long-range planning for business exit/succession. That requires not only the ability to see big pictures, but the experience to envision alternative scenarios.

One component of business succession planning involves money issues such as monetization, taxation, purchase financing, retirement funding, etc. Long-range planning efforts, therefore, require a working knowledge of many different money related issues.

However, not one business support industry can claim that more than 10% of its representatives, on either GP or expert levels, have any formal basic education in the relatively simple area of financial planning, let alone in the more complicated area of business exit/succession planning.

## Silos of Expertise

Every business owner contemplating a planned approach to business succession desires the highest level of knowledge and expertise available in every given area of business support. But, where does one start when confronted with the harsh realities of protectionism and mistrust?

Let's start with the situational experts in those five business support industries that openly promote their "holistic approach" to developing succession related solutions.



If you ask a representative from each of the five business support industries in Figure 8-1 “***What is the most important issue that an SME owner has to consider in regard to his/her eventual business exit and succession?***” you will get **FIVE** different answers.

Each answer would be framed by, and confined to, that particular industry’s mandated activity, service, or product set. Confusing? It should be! How could experts in each different field of business support think that their succession oriented solution was the most important? The answer is simple: ***That is all they have been trained to know.***

**Each business support industry has created its own separate Silo of Expertise.** While each expert has considerable expertise within his/her own particular industry mandate, very few have had sufficient exposure to the experts of other business support mandates to understand how they fit into the business succession planning equation.

Remember, the last small wave of business succession experience was over 25 years ago, creating a somewhat valid multi-industry excuse for lack of experience in these matters. Less excusable, is each separate mandate’s product driven focus to the successful application of its particular succession “product set.” When the “sale” has been completed, they are gone!

How many business owners have holding companies and trusts with absolutely no idea of why they have them, or more importantly, what they can do with them? Too many, far too many! Don’t just take my word for it. Ask around your circle of SME owner friends, you will be amazed.

***For those operating in separated Silos of Expertise, “holistic” is just another marketing buzz-word*** because it does not and cannot encompass all aspects of business owner needs from a single perspective.

The existing business support system has evolved to create professional jurisdiction protection. That prevents, for example, accountants from giving investment advice, and investment advisors from giving tax advice. Logically, one would think that given these obvious restrictions accountants and investment advisors would work together more than they do. While some do, most don’t. Distrust, on both sides is common.

That is where the White Picket Fence Syndrome comes into play. The vicious circle of protecting all clients from the influence of others gets in the way of developing a better solution for individual SME owner clients. It makes no sense, but is all too real!

Earlier, we indicated that there was a significant disconnect between SME owners and their business support providers. Now you can see why!

## Outdated Solutions

The major reason for this disconnect: *The primary existing business succession related solutions are totally outdated for some 70-80% of SME owners.* Is this an outlandish statement? Not at all, once you understand why the existing system was originally created and for whom it was created.

The current system was created over 60 years ago, for a then male-dominated family business structure. Back then ownership stayed within the family, with the transfer of business ownership and family wealth initiated by the death of the patriarch.

With longevity not expected much beyond the age of 70, the ageing patriarch typically moved to the sidelines upon reaching his late-60s, unless preceded by incapacity. The successor assumed full control of the business, supporting both generations for the few years preceding death.

Consequently, the *business succession solutions of that era were built around requirements to transfer ownership and wealth upon the death of the patriarch.* These solutions became the “product set” of business succession.

The concepts of a *trust, an estate freeze, and life insurance funding for wealth transfer*, are still widely promoted today as the major components of *The Solution* for business succession. *The focus is still Death!* These solutions may be valid for the 16-26% of SME owners planning to transfer the business within the family, but certainly not for the 66% planning to sell.

## Boomer Retirement Phase: Future Implications

In the last chapter, we saw that when the critical mass of the Boomers passed through the mid-point of each of its previous demographic phases the economy was affected dramatically. The last two phases forced related financial markets into extreme market bubbles and each created a deep and long-lasting economic recession as those bubbles burst.

The first three Boomer economic phases were constructive in nature, creating additional thrust to the velocity of money and dramatically increasing the economic impact. It was an exercise of building by borrowing and spending by the largest segment of a free-market economy, as it built its way up the mountain of economic prosperity.

**This next Boomer economic phase represents the other side of the mountain. It is not constructive in nature.** The challenge will be to find the positives as the *Boomer Retirement Phase* unfolds.

The looming realities of demographics will soon begin to distort a major component of economic progress, the *demand side of economics*. The *Boomer Retirement Phase*, can potentially create

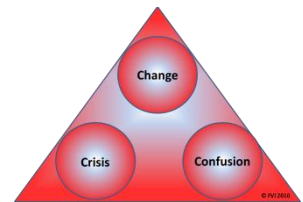
a backdrop that may inflict and extend new extremes on traditional economics, and economies, just as each of its preceding Boomer Phases has done.

Most importantly, for selling SME owners, these backdrops can potentially influence the desired outcome of a desired future sale. That future sale may not be as easy or as monetarily fruitful as most SME owners hope for, unless those failing to plan dramatically change their thinking.

The traditionally accepted shape of the Boomer wave is changing as it backs up against the wall of time, creating pressures never before experienced. That mounting pressure will inevitably concentrate, like a dam breaking, on the weakest link in the chain of human endeavor. This may have incalculable consequences for SME owners unless action is taken to avoid them. That weakest link comes with a deadline!

## Challenges for Innovative Thinking

At the top of the list of uncertain challenges facing SME owner business exit decisions is the Triple Mega-trend Threat outlined earlier. These forces of **Change** will bring **Confusion** to many and potential **Crisis** to those Boomers who stay too long in denial of a need to plan. Some of the above forces of change are not within anyone's control, but others can be avoided with proper planning and appropriate expert advice.



In considering a new approach to business succession we were confronted with harsh statistics that created many challenges. Some of these required alternative solutions, and others eliminated altogether. We were forced to consider the following:

### Challenges

**#1:** To gain acceptance by business support providers of the inadequacies of the existing framework of outdated business succession related solution sets.

**#2:** To bring together a largely dysfunctional array of expert business support providers into an unfamiliar mindset of willing collaboration in assessing and developing solutions for specifically identified SME owner issues or obstacles.

**#3:** To eliminate the predetermined product driven solution approach as the primary initiator to business succession planning.

**#4:** How to address the SME owner Identity Crisis, a primary factor in SME owner failure to begin the exit planning process?

**#5** How to address the transitional and transformational needs of departing SME owners while ensuring a successful and profitable continuation of the business?

**#6:** How to address the transitional and transformational needs of incoming SME successors.

**#7:** How to transfer SME owner values and entrepreneurial spirit to inexperienced owners, in tandem with management experience and market knowledge?

**#8:** To create not just one, but several financing alternatives that can work together to reduce, or entirely eliminate, reliance upon traditional lending sources.

**#9:** How to inspire and earn immediate trust between SME owners and those experts brought invited to address specific issues, and then, how to instill mutual trust between these experts.

**#10:** How to create a planning process that can act as an overlay to the existing General Practitioner support providers already in place, and eliminate turf protection issues?

**#11:** To create a planning process that normally takes many years, to work within a very compressed time frame.

*In view of the overall complexity of challenges presented, we developed several specific objectives that would contribute to meeting those challenges head on.*

## Specific Objectives

- To create a completely new approach to customized planning, for all aspects of SME business succession/sale/exit needs.
- To create a foundation of trust that client interests will always come first and foremost, with absolutely no hidden agendas.
- To separate and simplify the complex multi-dimensional series of tasks and decisions that must prepare both the departing owner and the business for a transition of ownership, the monetization of SME owner equity, and successful continuation under new ownership.
- To fill the obvious gaps in both leadership and coordination between the different disciplines of business support required at various points in the planning effort.
- To separate the various aspects of business succession into manageable structured components.



## Book II - Derivanomics

Part IV introduced the concept of Derivanomics as one the base components of the Triple Mega-trend Threat. This is a very important part of the economic world with which SME owners must contend, not just in running their businesses, but in planning their eventual exits and funding their eventual retirements. Therefore, in order to avoid some of its potential impacts SME owners should try to understand more about it. This is a complex subject.

Most SME owners have little interest in how economics are dictated, so it made sense not to interfere with the need to understand the multi-dimensionality of Business succession/sale/exit and retirement decisions that lie ahead. Hence this separate attachment.

If the elements in the following chapters do not directly affect your business, do not assume that you will not be impacted. On a personal level, the most significant influence may have already been on your retirement investments. Expect that to continue.

Intrinsic to the successful monetization of business equity will be the necessary redirection of money from a company focus to the investment world. Soon-to-be ex-owners will become a target for the superstar sales personalities of the financial industry whose success is the result of a relentless dial-for-dollars regimen that has no boundaries, or limits.

The world has changed dramatically in the past decade, and so too have the focus and product sets of the financial world. SME owners should try to understand more about the forces that can impact various investment alternatives negatively.

These next three chapters may be a difficult read and their message a hard pill to swallow, but knowing is better than not knowing. To be informed is to be forewarned. A hazy opaque world of pretense awaits investors, in the form of paper-based derivatives that are sold under many names, with little if any regulatory disclosure required as to the risks created by their formula construction.

SME owners will soon be moving from being in control of revenue and profits to a world where they must put complete trust in others. Many of the financial products promoted today *are designed to be sold, but should not be bought. Trust should not be placed blindly.*

*Success(ion) 2020 - NEW BEGINNINGS Book II should provide a better understanding of why.*