

Mary Vandennack provides the transcript from Legal Visionaries podcast on Navigating Business Transitions: A Comprehensive Guide to Business Continuity Planning.

TRANSCRIPT:

Mary: On today's episode, my guest is Abby Arcishevsky with Private Wealth Asset Management. I've known Abby for a while and have always enjoyed the fact that she has a passion for business owners. She has a profound fascination and respect the blood, sweat, and tears that it takes to grow a business are not wasted on her. She believes every client deserves to experience the joy of seeing their business transition on their terms. Knowing she can positively impact these individuals and the communities they serve is what drives her as a transition expert. Abby has over 15 years of experience, holds a certified exit planner designation, and is currently working on becoming a charter advisor in philanthropy. She works specifically with business owner clients. I asked Abby to join me today, we had a meeting recently and we're just chatting on business transition planning and realized that we had a lot in common in our views in that area, and we're going to just talk more specifically in that arena about business continuity planning. Thanks for joining me today, Abby.

Abby: Thank you so much for having me, Mary.

Mary: Well, let's just start with the basics. What is planning and why is it important for business owners?

Abby: Yeah, absolutely. So, I think that this is such a great question because advisors are always throwing around the term wealth planning, business transition planning, and sometimes we need to break that down for our clients to help them understand why we do the things that we do. And so for me, planning is addressing both the how and the why concerning a client's specific goals and objectives. And Mary, I'm sure you're familiar with the above and below the line planning and how we try to lead with a discernment style with our clients where we're the most trusted advisors. And when we're looking at above the line planning, we are spending a lot of time with our families, helping them navigate what their goals truly are and why those are the most important. And that happens over an extended discovery conversations that we continue to have with

the family, and it ultimately helps us uncover some really meaningful goals within that process.

Then we go to, let's call it below the line or the more tactical way that we help our families. We understand that as complexity and wealth grows, the need for planning becomes more and more important to help navigate the financial and non-financial aspects of our lives. So, what we do is take a team-based approach, and we bring together experienced specialists from multiple disciplines to provide this nuanced and proactive advice to our client. Some of these comprehensive wealth management services would include investment management, strategic estate and wealth planning, risk management, business transition planning, philanthropic services and more. You asked the question of why is this more important for business owners? Well, I don't know that it's more important for business owners, but they tend to have more complex balance sheets and more complex family dynamics. So, when we're looking at planning for a business owner, we're not only looking to help plan for themselves, but oftentimes their families, immediate and extended, their key employees within the businesses, and the communities that they serve. So, business owners just tend to have more illiquid portfolios and tax issues that need to be addressed well ahead of time. And sometimes these strategies can take years to implement and educate.

Mary: And so having worked with you in the past and knowing a little bit about you, I would kind of sum up some of that, and you can tell me if this is an accurate way to phrase this, is that one of the things that you focus on in working with clients is really figuring out who they are, what drives them, what their objectives are. And then working with them over the long term to develop a plan that suits them and takes into consideration the evolution of their needs because things change from year to year. Somebody gets divorced, somebody dies, a new child, a new grandchild's born or all of the different things that happen in life, and so you get to know who they are and what they want in all those aspects.

Abby: I think that's a great way to put it. It's so critical as advisors that we get to know the clients that we're serving and the why behind the decisions that they make. We do see a lot of advisors in our space come very quickly with strategic recommendations and then clients don't implement because there wasn't enough spent on the front end understanding what is driving these folks to do the things that they ultimately are saying they want to do.

Mary: I'd say another strength of your approach, in having observed you, is being a team player and putting together collaborative and strategic partners. So, when working with a business owner, what does a good strategic team look like?

Abby: So, at Private Wealth, we built our team on the foundation that we wanted to be this multifamily office for clients and their extended families. And in doing so, we wanted to have specialists in our team that could offer insight into the different assets that our clients held. So specifically, within private wealth asset management, we not only have wealth managers, investment professionals, portfolio managers, but we also have a business transition planning group, we have a philanthropic group, we have an oil and gas group, and farm and ranch. So, we definitely want to collaborate internally on behalf of our business owners because they typically have those types of assets on the balance sheet. But in addition to that, we believe in collaboration with the overall trusted advisory team, and those are going to be people that are not necessarily under the private wealth umbrella. And we want to be able to offer advice and implementation on certain parts of the plan, but there are certain parts of the plan that we can't do implementation and offer advice specifically in your field, Mary, as the attorney. I would say in my experience, the core team can vary, but typically we do see trusted advisors like the estate and corporate attorney, the CPA, an insurance specialist and others that could be critical to achieving the objectives that the client has set forth in the plan.

Mary: So, let's talk about business transition planning, which is a term that you use, and just explain what a typical scope of work for that might look like.

Abby: So when we go through a business transition planning engagement, we're helping business owners at various areas of their journey identify how to successfully transition. So, our best timeframe is a three to five year look ahead before something takes place. And what we do is we marry the personal wealth planning goals and the scope of work that falls within for that umbrella with the business transition planning scope of work because we understand that we need to understand the individual and family dynamic and the business dynamic to be able to put together a really successful plan. But oftentimes we're just helping them navigate what comes next, so modeling different transition options. We have a lot of families that want to transition to their family members. We have a lot of

business owners that want to transition to employees. We also help model out strategic buyouts and/or private equity scenarios, but really just providing a lot of education to the business owner on how they can get to the next chapter.

And within that transition planning period, we do look at a lot of pre-sale or pre-transition planning. And what we understand is that when buyers come to the table, they assess a variety of areas to get a clear picture on how this particular business is run. And they will review items like evaluating the company's management team, reviewing financials, looking at documentation or organizational risk. We call some of these areas non-financial KPIs. And so going through the process of a business health check, we find opportunities that can be addressed well before a transition, which can put the client in a much better position when they're sitting at the negotiation table. So, items that could be under that umbrella would be key employee planning, owner dependence review, auditing of the current financials for at least one year, reviewing their current business and strategy plan, and even as simple as do they have a CRM and the proper technology stack.

Mary: So, I'm just going to mention because what you packed into the answer to that one question is really loaded and is a whole lot of topics. So, I'm just going to point out to our listeners, you did a great job, don't get me wrong. I just want to make sure because that's such important stuff that you packed in that I'm going to point out to our listeners that this is part of a whole business exit series that we have on the podcast and some of the things like the review of the financial, we have a whole episode on that talking about getting the skeletons out of the closet.

Abby: Right.

Mary: So, we're doing an overview today of some of these topics, but we know that there's an interest in more expansion. So, I just wanted to mention that, Abby, as we proceeded. So, let's talk about business continuity planning and when is the right time for a business owner to start that process?

Abby: Well for business continuity planning, I would say yesterday if they haven't done it yet. We really look at a business continuity planning document as the communication plan for the family, for the key employees, the key clients and vendors. So, when we're taking a business owner

through continuity planning, we actually have a template that serves as the foundation of the document that we start building into. So, by the time that we're finished, it's a very strategic and well-thought-out continuity plan in case of the unforeseen. So, an emergency business continuity plan, but then also some of those long-term goals. And within that document we can do things like write customized letters to the family. We would list out their most trusted advisors and how they access those folks. We would help outline the current legal structure surrounding the business. We would write out the owner's desire for the disposition of the business in case something unforeseen happens.

We can get into first calls and contacts, and even write out who makes those calls and what does that script look like. We would identify their top key clients and scripts that need to take place with those calls and who makes them. Same with key vendors, listing out passwords and account access so the family can get the information that they need during a difficult time. So really what it does become is just a document that's there if you get hit by the proverbial bus tomorrow, what happens the next day? This document should address all those issues.

Mary: And so that's similar in concept to something that some listeners might understand, which is the concept of a professional will. And what a professional will does, let's say you're a mental health practitioner, it's a significant ethical issue that's gotten a lot of attention recently when a depressed guy killed himself when he couldn't contact his counselor who had died. And so that professional will does essentially the same thing is if I go down or some disaster hits, these are the steps that we take to make sure that customer needs continue to get served, et cetera. That's really the concept. Is that a fair analogy?

Abby: Absolutely. We want to be able to identify the process of next steps in case certain key people are unable to do their jobs. So as an example, we've worked with some business owners that run very lean operations, and so multiple key employees are doing lots of different things. So, we've gone as far as we don't only just need a business continuity plan for this owner, but we need business continuity plans for these three people too. So, if something happens to them, how does the team know where to get the information to keep business moving?

Mary: I made the analogy that I did just to kind of make it seem, it can be complex in some senses, but it can also be simple. What's most important

is that you start it, you can keep improving it. You have a pandemic hit and your continuity plan changes. So, let's go back to just for a minute, talking a little bit more about the business transitions that you spend a lot of time working with clients on. What is not uncommon is to see a business owner start the process of a business transition and then just stop. What are some of the reasons you see that happen?

Abby: Well, there are a variety of reasons that the process can pause, and that's okay. Business transition planning isn't always meant to be linear, things happen. But the most common, I would say, are personal reasons that take place. So, there could be a divorce or a death in the family that has placed the process on hold. We can address a lot of financial questions. So, getting into what am I going to do when I don't have this business cashflow or how much do I really need to be successful over the long-term if I was to exit? We also see incomplete teams. So, business owners started with maybe this advisor who was a buddy from college, and now their complexity has grown and grown, but the current advisor hasn't necessarily leveled up with them. So oftentimes we can see business owners pause because they don't have the right team in place to give them good recommendations to move forward. But then we also see some of those professional considerations like falling back in love with the business. I'm not ready to be done. I hear a lot of business owners say that they're on a rolling 10-year retirement timeline. We also see items around strategic considerations. So maybe they're getting double-digit returns or there's opportunities for an acquisition that can just change the trajectory of the plan and what's most important and as their team, we need to help them navigate some of those nuances.

Mary: I sometimes see what I call the market impacted business owner who sees the market go down a little bit and says, "Hey, I'm not ready to stop getting a paycheck yet".

Abby: Right.

Mary: And this may affect the value that I sell for. But there's a variety of reasons and I think advisors have to be ready to adjust and adapt and work with the owners with those.

Mary: My favorite topic, of course, is always tax law. And tax law can definitely have an impact in terms of the best timing or the worst timing for

a business owner to make a transition. What are some current considerations in that regard?

Abby: Yeah. So when we look at current tax laws and how that could impact timing for a business owner, I mean, Mary, you're the absolute best when it comes to this I'm not going to be telling you anything new, but a lot of the conversations that we're having with our business owners is the level of wealth transfer activity has been increasing and because of the changes that were made to the tax laws at that time in 2017. Speaking specifically on this, so since the end of 2017 the level of wealth transfer activity has been increasing because of the changes that were made to the tax laws at that time. And a lot of business owners are looking at the amounts that can be utilized for estate and gift planning. The current exemption amount, meaning the amount you can gift without incurring the 40% transfer tax is currently \$12.92 million per person, almost \$26 million for married couple. This represents a doubling of where the exemption would be absent in the 2017 tax law. So, this just represents a real opportunity for tax efficient legacy planning. And when we've got a potential sunset happening at the end of 2025, I do think that business owners are becoming more open to the conversation of strategic wealth transfer and how to do that effectively.

Mary: And one of the things that I always like to point out when that \$12.92 number comes up is, okay, well that's how much you can transfer, but there's a significant question that should be asked because those of us that do tax planning, we can get all excited about 'do this before it sunsets', but there's still an important question that is, should you actually transfer all that much? And the answer to that, it depends and beyond the scope of today, but I'd just like to mention that. Let's just take a minute and talk about the risks that you see that sometimes business owners might not be thinking about, might not have at the forefront of their mind that maybe should be thought of.

Abby: So, when you think about business transition planning, there can be some hesitancy to go through that process, but I would see that the reason that they would want to, or areas that might take more time to address would be first and foremost family dynamics. That tends to be where we spend a lot of time in conversation on how a business transition takes place. Those conversations evolve, and we oftentimes do family meetings to help get other individuals frame of mind around the plan, but that can take a lot of time and business owners might not be considering that. They

might not consider the length of time that these engagements take to put in some very strategic initiatives. So, when I said earlier, our timeline is really that two to five year before a transition, I mean we meet it, we want a long runway with these business owners to be able to navigate both the why and what they want to do, but be able to put some pretty specific and complex tactics in place. Those do take time.

I would also say business owners might not be considering the level of energy that they need to be willing to put into the plan. So that is also something that needs to be reciprocal. The team can help bring ideas to the table, but the owner has to be invested and kind of ready to go through that plan. Just some other potential risks might be the introduction of new advisors to the team. So, depending on what that business owner is trying to achieve, they might not have that current core team in place. And so we need to make some new introductions and we want to help the business owners build those relationships with new advisors.

Mary: Okay. Earlier on, you spoke about the business model of being a multifamily office, and that term gets thrown around a lot and it means different things based on the organization that you're talking to. So can you just take your role and not go too big but say to the extent that you have a role in an organization that kind of holds itself out as a multifamily office that we can help with that type of need. And your role is in that business transition. Describe exactly what that role looks like in terms of what you do to support a transition.

Abby: So, I would be considered a resource to the wealth advisors that are the primary relationship managers to these families. So, each of our advisors want to have a lower number of clients that they serve that have a higher amount of complexity, which they can then engage planning on. So, if we have an advisor that is working with a business owner that is thinking about transition, they would engage me as a specialist to come in and do some additional discovery along with our chief wealth planning officer and really help facilitate some ideas on how to get a plan moving. Once we do that initial discovery, what I would typically do is create a scope of work in a proposal to engage with that client and the advisor.

Mary: So, the concept of a multi-family office in general. I just wanted to clarify, so you're not part of the business organization. Some businesses are so large that they may have some of those resources internally already. There are still reasons to engage outside advisors, the multifamily offices

usually serving businesses who maybe don't have that entire team in place. Is that a fair way to describe that?

Abby: Yeah, I mean, absolutely. We have a lot of clients that have the full team, and we have a lot of clients that need to, their growth or their wealth has grown to such a place that they really need to be able to level up that current advisory team. And I think I had said earlier, when we look at this multifamily office delivery, we wanted to look at the balance sheet of the clients that we wanted to work with, our ideal client profile, and say, "okay, here are the assets that are typically held on these balance sheets. Do we have team members internally that can actually provide insight to those specific asset classes?" A lot of RIAs and other firms are leveraging the term multifamily office, but in reality, when you peek behind the curtain, it's really truly just a financial advisor and a wealth planning team. I think we take that next step by looking at more of these illiquid asset classes and being able to provide some real advice, because typically those are their most important pieces of their balance sheet.

Mary: Well, do you have any last tips for business owners today that maybe have like, here's the top three things that you can do to put yourself in a good position to transition your business?

Abby: I would say first and foremost, get the team together, right? Take a look at who your trusted advisory team is at this moment, and if you're missing people in that core team, ask your current trusted advisors who they would recommend to help facilitate these engagements. Because as you know, Mary, it is a collaboration between multiple advisors in different areas of specialization. I would also say business continuity plan is something like you mentioned is easy to do. You can eat that elephant one bite at a time by starting an introductory business continuity plan and then getting more advanced and layered as you go. That's just an easy exercise for you to do to provide some protection and risk mitigation. And lastly, I would say that if you are in a timeframe of a five-year transition, having these conversations sooner rather than later, will help put you in a better position when the time comes.

Mary: I think that's a great summary. Abby, thanks so much for joining me today. As we reach the end of our episode, I want to thank our sponsors, Interactive Legal, Foster Group, Veterans Victory Housing and Business

Centers, and Carson Private Client. That's all for now. Thanks for listening to today's episode and stay tuned for our weekly releases.