



White Paper

Critical Alignment: Business and Personal Objectives

Table of Contents

Overview	2
Section 1: Why are you a business owner?	3
Section 2: The planning myth	4
Section 3: Introduction to personal planning	4
Section 4: Translating to business planning	6
Section 5: How to get started	6

OVERVIEW

It is well known the market value of a middle market company is tied to how well it can stand on its own without the special talents and involvement of its owner. To that end, business experts provide critical counsel and proven processes to help owners build valuable companies capable of thriving without the owner. This is all true and appropriate. But routinely business experts miss one significant detail -- business priorities should not live in a vacuum outside of owners' personal goals and objectives.

Personal objectives
anchor business
planning

While there are common business principles across most companies, 50% or more of the business priorities equation is individual to each owner. For each owner, there are unique and evolving personal objectives driving them to painstakingly build a business. Whether it's to grow net worth above \$100 million, gain personal freedom, establish legacy, support charity or a combination of all of the above, owner objectives are as unique as each of the underlying businesses.

These unique personal objectives should provide the foundational bedrock of planning, serving as the navigational light for business priorities. Indeed, all successful owners (defined as those who achieve their personal goals) share one common thread - they align their business priorities with their personal objectives.

This white paper is intended to provide owners a path to begin the critical process of aligning personal and business priorities.

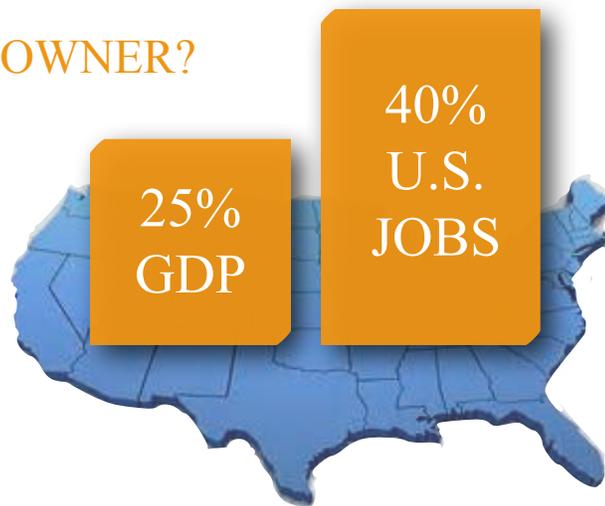
So, let's get started by asking a very basic question -- why are you a business owner?

- Section 1: Why are you a business owner?
- Section 2: The planning myth
- Section 3: Introduction to personal planning
- Section 4: Translating to business planning
- Section 5: How to get started



WHY ARE YOU A BUSINESS OWNER?

Business owners are a unique breed. Representing less than 1% of the U.S. labor force¹, middle market business owners collectively employ over 40% of the U.S. workforce and account for roughly 25% of the U.S. GDP. Indeed, they are the backbone of the U.S. economy. Culturally, business ownership is revered and considered the path to the quintessential “American Dream.”



¹ There are approximately 1.4 million U.S. companies with between \$2 - \$100 million in revenue which are assumed to be closely-held with one primary owner-operator. The U.S. civilian labor force is 156 million. Source: U.S. Census Bureau.

But, as a business owner, you know it is not for the faint-of-heart. Failure rate is astoundingly high and, perhaps even more dangerous (and less discussed), is the negative impact it can have on personal lives as the business crowds everything else out. Unlike employees of a company, an owner’s mind and energy is constantly pre-occupied with all of the critical business issues. From employee retention and customer satisfaction to new account wins and AR collections, the proverbial buck stops with you. No wonder owners feel the weight of the world on their collective shoulders.

The question is why? Why are owners driven to overcome the challenges of business ownership unlike 99% of the U.S. workforce? This is far more complex than it may initially appear. “Building personal wealth” does not answer the question. Owners must go deeper to examine what they want do with personal wealth. This process typically starts with a simple exercise.

1. List your personal goals with a dollar value for what it will take to accomplish each of them.
2. List the dates by which you hope to achieve your personal goals.

For many, this is not easy, often leading to considerable introspection. Indeed, the “Why” can be more challenging than the “How.” Once completed however, the results of this critical personal planning exercise become the lens by which successful owners develop and evaluate business priorities.



THE PLANNING MYTH

Popular business publications routinely disregard personal planning. Why? Because they treat the business as an entity separate from its shareholders. Technically, of course, they are right because normally the company is a distinct legal entity. For larger companies with a large and diverse shareholder base, they are also right to disregard personal planning. But, for middle market companies, they are incorrect to delink business and personal priorities as the two are interrelated and interdependent.



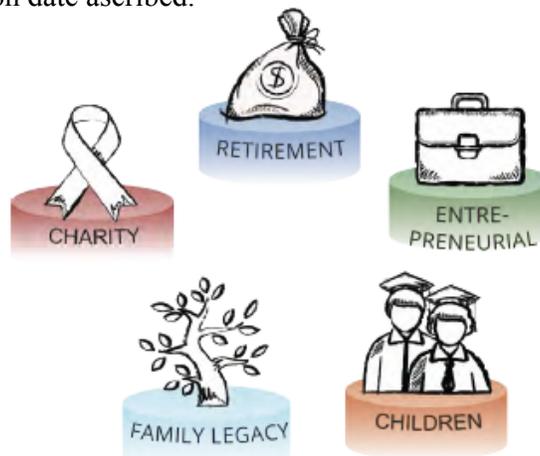
The primary objective of the business is to achieve the owner's personal goals

Middle market companies are different, typically possessing a single or primary shareholder / operator who frequently blurs the distinction between personal and business matters. Unlike larger companies, middle market business objectives are (or should be) to achieve the owner's personal goals. That may seem myopic but as the owner's personal goals are prioritized, business objectives will become far more strategic and, most times, aligned with employee interests involving business continuity, management bench, risk management and growth initiatives.

INTRODUCTION TO PERSONAL PLANNING

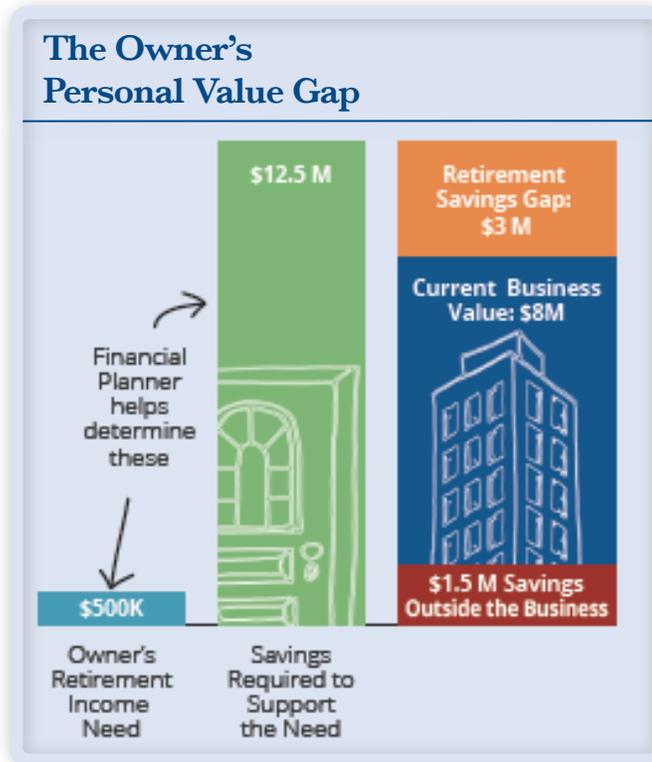
Purpose-based lifestyle planning is the foundation of personal planning for owners of middle market companies. As stated in Section 1, the planning process will result in a list of personal goals each with a dollar value and desired completion date ascribed.

Typically, personal objectives are organized into 5 categories that collectively establish the amount of resources required to achieve an owner's personal objectives. Scenario analysis should be conducted with different variables resulting in an 80%+ probability that an owner's financial plan will work.



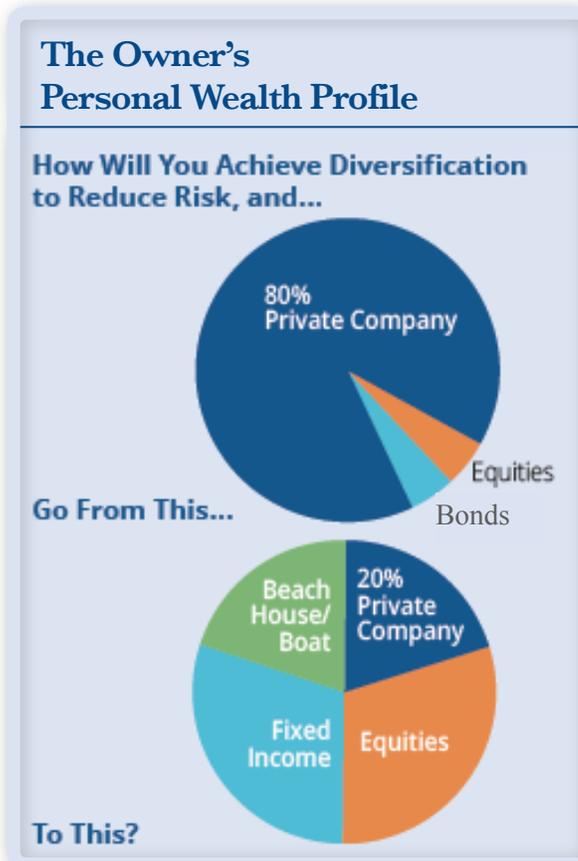
Often, an owner’s financial plan will reveal a Personal Value Gap -- the difference between assets needed to fund the owner’s financial plan and available assets. Once this is understood, business priorities and options may be developed accordingly.

The example on the right shows a \$3M Personal Value Gap due to the company’s current value. Under this scenario, the owner and advisory team may evaluate a number of business value enhancement strategies to close the Personal Value Gap. Such analysis may reveal a need for a more complex strategy or a broadening view of the business, using a range of experts.



Another common Personal Value Gap challenge involves diversification. Here, the company’s current value on paper meets the owner’s financial plan although the owner’s assets (concentrated and illiquid) are tied-up in the company. Under this scenario, the owner and advisory team will likely evaluate methods to generate liquidity for the owner without transferring control of the company.

By specifically and comprehensively identifying your personal objectives, you now have the insight necessary to identify objectives, set priorities and execute a plan. The next step is translating personal goals into business priorities.



TRANSLATING TO BUSINESS PLANNING

Fortunately, a large market of institutional investors for smaller companies has developed over the last 10 years. This institutional market provides great value to owners by creating a market-based blueprint to enterprise value creation.¹ Indeed, it has never been clearer how to grow business value to achieve an owner's personal objectives. Below provides a few examples of how personal objectives drive specific business value enhancement initiatives.

Personal Objective	Possible Business Value Enhancement Initiative
Receive distribution from company to fund personal financial plan	Evaluate leasing and / or mezzanine financing sources to provide leveraged dividend
Grow net worth	Assess and improve sales & marketing team and process
De-risk cash flow	Create Buy / Sell funded by dedicated insurance policy
Spend more time with family	Delegate responsibilities / add executive management to become non-essential

¹ To learn more about institutional investors' interest in smaller companies, download our whitepaper entitled *Why is private equity increasingly interested in smaller private companies?*

HOW TO GET STARTED

Given the complexity and diversity of personal and company factors, the best way to begin the process is to assemble an advisory team of experts collaborating to achieve *your* unique combination of personal and business objectives. There's no such thing as a standard plan or team, but there are processes you need to follow. To learn more about the "getting started" process, we have put together a separate resource entitled *Building the Right Advisory Team*.



ASSOCIATION FOR ENTERPRISE GROWTH

About the Association For Enterprise Growth:

The Association For Enterprise Growth is a non-profit organization dedicated to educating business owners about the unique interconnected and interdependent issues impacting the value of their business and personal wealth.

The organization is structured regionally into councils of approximately 30 independent professionals each with proficiency and experience in a wide range of financial, legal and management disciplines. These professionals operate as a cohesive group of specialists providing collaborative diagnostics, advice, planning and solutions to address complex growth, management and financial challenges to individual business owners.