



## **Ep 189 - Unlocking Business Value: The CEPA Approach to Growth and Exit Planning**

Patti

Hi everyone, Welcome to the Patti Brennan show. Whether you have \$20, 20 million or 200 million, this show is for those of you who want to protect, grow and use your assets to live your very best lives. Today, we're going to be talking about this idea of value acceleration methodology that we have learned through the CEPA program. Recently, three of us at Key Financial have obtained that designation! Eric, I see that you are wearing your pin. Welcome to the show! Eric Fuhrman is our Chief Planning Officer, and I will tell all of you that I really wanted to learn about this so that we could help our clients, the business owners, understand the value of their business, what it is and maybe what it isn't. Here are some interesting stats why it's important.

70 to 80% of businesses that go to market don't sell at all, and those that do sell for a lot less than the owner thought it would. That's really important, especially as we all think about our role in our client's lives. Unfortunately, all too often, we financial advisors tend to come in after the fact, after the business has sold. It's the big liquidity event. What we are doing is we're getting involved much sooner, so that we can help business owners through the value acceleration methodology to really get full value. There are prescribed, structural things that people can do, whether you're the owner or you're the employee, because let's face it, there are stakeholders in every business. It's not just the owner, and that's what I loved about this program. I've always felt that way, and stakeholders are also, not only within the organization, but in the community and in the industry. So what we learn, and what I've learned over the years is as a result of, you know, conferences and things of that nature that we've gone to in our industry, we learn from other people. Now, thanks to Chris Snyder and his book, there are 11 actions that you must take to rapidly grow value and unlock massive wealth.

Eric

Yeah, and I think what's so great about this program, Patti was something you highlighted, which is very real in practice, is that most of the time when people have a liquidity event, the financial advisor is engaged at that point in time or after it has already occurred. And what I really love about this methodology, which I think resonated with all of us here, is the idea of putting the financial advisor along with a team of professionals, you know, at the very beginning of that process, not only to help the owner maximize the value, but more importantly, to make sure that they have a personal plan, that there's alignment right of what they're going to do after the event, if they decide right that they want to, you know, eventually exit.

Patti

And that's the beauty of the gating system, because the last gate, the third gate, is to decide. So, just so that you guys know, the first gate is the Discover gate. That's where you discover the real value of the business. There's a scoring system and a methodology they walk you through. The second gate is basically where you implement the plan that you've come up with. You've got to come up with very



concrete plans, and you get your stakeholders involved through something called 90 day sprints. Let's decide what we're going to do for the next 90 days, do it and then report back.

Eric

And I think what's important for our listeners is to know that we eat the cooking. We're going through the process ourselves right now, to really apply the principles and techniques that we've learned, you know, throughout the program, you know, in Key Financial's business.

Patti

What I thought was so interesting that you brought up was the difference between option A and option B, and even option B and the value acceleration, just doing a few things, it's \$20 million difference. That's a lot of money, right? So wouldn't that be something that people would want to know? Because I sure found a lot of value in that, right?

Eric

Yeah, I think it's just amazing when you think about the potential, you know, the opportunity cost that can be lost by not kind of following this very structured process with how to create and unlock massive amounts, you know, of value.

Patti

And the thing about it is, it's not a theory, it has been proven over and over again. Chris Snyder started his career at Price Waterhouse. They applied it there. He has continued to do that in his own business. He is the CEO of the Exit Planning Institute. And for those of you who are watching and listening, this is not really about exit per se, it's really just setting you up for really engaging the whole team to unlock great value. It's a great momentum builder. Morale is skyrocketing even here at Key Financial and I didn't think it could be any better. And sure enough, it is.

Eric

And it keeps getting better and better. But I think, too, the, you know, the point that you highlighted, which is really important, because, you know, this is not just something for, say, the business owner or the entrepreneur, because, as you highlighted in the very beginning, any business has internal and external stakeholders. And if you think about the backbone of the American economy, it's driven by small businesses. I mean, they employ, you know, a major proportion of the working age population, and having a successful and thriving business is not just important for the business owner, it's important for the health and financial well-being of the employees, the vendors and the community with which that business resides in. So I think applying these methodologies unlocking value and enhancing the business impacts all stakeholders, you know, to their benefit,

Patti

it's so true, and what I think is so important is the statistic that said three out of four business owners who did sell their business profoundly regretted that decision just 12 months later. And we know people



who feel that way. They really wish they hadn't, because either the business wasn't ready, they were not financially ready. They didn't get the value that they had hoped, or they weren't personally ready. They weren't sure what their identity was after the sale.

Eric

Well, yeah, I mean, it's finding purpose. You know, what? You know, if you think about a business owner, I mean, think about your path from starting in the laundry room so many years ago to where Key Financial is today, you know, and to build a successful business, I mean, you become part of the community, you have all these relationships, visibility, responsibility, and then one day, depending on the nature of the exit, it just stops.

Patti

And what I learned through Chris Snyder's work is that, you know, I thought, wow, we've had explosive growth just 10 years ago. We had, you know, \$500 million AUM, and now we're at, you know, approaching \$2.7 billion, I should say \$2.7 billion that's, we have doubled twice in just 10 years. I thought that was increasing the value of the business. But what we've learned is that that's really, not really the true value.

Eric

I was going to say, that wasn't already drawn out 30 years ago in your business plan?!

Patti

My goodness, when I was struggling through and you experienced it. Also when, when I was trying to meet payroll, not sure how we were going to do it, pulling money from here and there. It was crazy, so many difficult times, but we did it. As you and I both know, during the financial crisis, I had a meeting with the team, and I just said, guys, this is a really difficult time. Please don't worry, because you shared with me that people were worried about their jobs, and I was shocked, because I wasn't thinking that anybody would be worried about that, because I had no intention of letting anybody go. I would find a way. And so the next morning, we pulled everybody together, I shared that information, and you could just feel the collective sigh of relief, oh, we're not going to lose our jobs. And that's when I said to everybody, guys, this is a really important time. We have to be there for our clients. They are scared to death, and you may be scared also, but the most important thing is that we are going to survive one way or another. This is the time where we are going to be there for our clients, and by doing so, because every other advisor out there was hiding. They didn't, they weren't taking the calls, they weren't proactively reaching out, and boy, did we gain market share after that. So you know, there are just certain things where you just, I just followed my gut. You were the guy who brought the math in that really added so much to what we already what we were doing.

Eric

Basically just possibilities, right? And that's, that's always what you're looking at. Well, I think too, you know, part of this because there's, there's so much content here. It's such, so rich with a lot of good



things. Yeah, but we only have so much time. So I think, you know, let's try and, you know, kind of pull this together for the listeners and just talk about, kind of the basics of valuation. But I think more importantly for anyone that's listening is, you know, what drives the value, and how do you really unlock the massive potential that's stored up in the business? And I think the the interesting part is the math here is not complicated. I mean, if you've got a third grade education you can do the math evaluation. So if you can add, subtract and multiply, you know, you can put a value on a company, but I think it's understanding what drives that value. So, you know, if you just look at it to your point, you pick some kind of profit metric, you know, and there's a lot of accounting parlance, terms like EBITDA and even so forth, that you might use. And then ultimately, the market, the competitive forces, will assign a range of multiples.

Patti

And that's where I think it's really important for us to bring up. The thing is, we have to look at this from the perspective of the buyer, not the seller. What is the person buying? Taking a look at what happened over the last 10 years is fine and dandy, but is that durable? Is that sustainable? And what we learned is that only 20% of the value has to do with EBITDA and profits. And what happened, 80% has to do with the intangibles, what they refer to as the four C's,

Eric

yeah. So I think you know, from an accountant's point of view, if you look at a business's balance sheet, the assets you know, that contributes to the value, but usually that is not where the majority of the value comes from. So the tangible assets, in most cases, is usually only a very small part of the business's value. About 20% is the estimate, but really the overwhelming element of value comes from the intangibles, you know? So this program really breaks it down into kind of four key components, what they refer to as the human capital, the structural capital, the customer capital and the social capital. But the intangibles are really where all of the value is, if that third party to your point is going to come in make an offer in the business, but you know, let's talk about human capital, because think about key financial Yeah, this is a knowledge business. Yes, we have things like computers, but we don't manufacture a tangible good that people buy. We are sharing ideas and knowledge and strategies. So a lot of the value for this enterprise is tied up in the human capital. So what, what gives that value?

Patti

Well, you know, first is, is the recruiting aspect hiring, right? And knock on wood, I've been very lucky at attracting great talent, people who were committed to our clients and willing to do whatever it takes to add value. Then my job as the CEO, Eric has always been retention. I believe my job is to make sure that this is the last job you have. It's the last job Evan has, and to create a culture that you feel, where you feel empowered, you feel appreciated, to give you the soil for you to become who you are capable of becoming. And I believe in the individuals here, people know that, and I'm willing to do whatever it takes for them to succeed. So to me sometimes, and I'm I don't know how to say this differently, I will tell you that sometimes people don't realize their own potential unless they're given the opportunity to take the risks. And I feel like everybody here knows that I've got their back, that they can go ahead and



take risks, call it, try something new. What have you, I've got their backs. It's okay to make mistakes. We're trying new things. As long as we're focused on our clients and what's important to our clients, then let's, let's try different stuff. We are launching different things as we speak. For example, even just what we're talking about today, there are a lot of people who are involved in small businesses that don't know this information. Don't even know that this exists, and we get to share it.

Eric

Yeah, so I think you know, to your point is being the CEO providing that vision, make sure that the soil has all the right ingredients so people can realize their potential and feel as though that their outcomes, you know, are self-determined.

Patti

And what we learned about was Jack Welch's vitality curve. You know, it's the old 80/20 rule. And what he shared was, 20% of your people produce, you know, 80% of their work. So you've got the 20% then you've got the 70% and he refers that to, you know, they're the vital 70! they're still really important. They show up, do their jobs and go home. They're still important to the success of the organization. The bottom 10, the way he approached it, is, they need to be replaced. And what I thought was really interesting that you and Vince, who is our other CEPA holder, is that the bottom 10, as you replace them, you hope that the people that are replacing those people become one of the top 20% right. And what's interesting is that process automatically lifts everyone right, because you're increasing the knowledge and experience and the value that people are bringing to our clients.

Eric

Yeah, and you know, what's so funny is that that kind of ratio seems to work out regardless of the size of the business, whether there's 500 employees or where there's 20. But also too, you know, those that inevitably will fall in kind of that lower 10% is that really to approach it with compassion, but actually realize that ultimately, we try and do our best to interview and make sure they're a good fit, but ultimately you're not helping anybody you know that might be in that position, and really helping them realize their potential, that it might be better served in a different business with a different set of responsibilities. And unfortunately, that's just life. We don't have a perfect way.

Patti

Sure, not every, not everybody's going to get a trophy and to be kind and compassionate and manage the process, manage them out so that they retain their dignity. I think that's the most important thing, is to remember we deal with people, and everyone you know wants to do a good job. They just don't realize sometimes that there may be something better for them out there in terms of skill and so forth. So, you know, that's kind of the first element of intangible. Next one is structural capital. And there, to me, that's really important, because that's really the proof. You know, if somebody is going to come in, they kind of want the proof that there is a well-designed system and process, something that is repeatable. Think about so many experiences we have out there with national brands, where, no matter where you go, wherever the franchise is, you have a very, you know, consistent experience. And I think that's really



where the how and why of each company's secret sauce. And as you know, it's probably because my nursing background, I've always been big on systems. We've got to have a system for everything, and it's got to be documented so we could so somebody else could plug and play. That's so important, because it really affects the client experience.

Eric

Absolutely. Consistency! and to, you know, to anyone that's going to buy a business, they want to be able to see defined processes in place. And the other one that's really important here is when we think about the customer, or, in our case, our clients. And it's more than just, I think, providing, you know, something that is desirable at a fair price, you know. So how would you kind of dive in to the depths here of customer capital?

Patti

I think it's all about the relationships. And as you well know, part of the coaching that I've tried to do with everybody here is, how do you develop those deep, trusting relationships with clients? And what I've been pleasantly surprised to learn is that that is absolutely transferable. You know, it's not it's never been about Patti Brennan. It's been about the team Key Financial and learning those soft skills is just so important, and deepening those relationships to understand what's really important to people.

Eric

So then, to kind of round out the intangibles, here, we've talked about human structure and customer but then there's social capital in this one, I feel like it's, it's hard to put your finger on, because what we're really talking about here is culture. And I think there's a great saying, which is, you know, it's, it's hard to define, but you know it when you see it. So how do you kind of look at culture?

Patti

It's so interesting because we had the experience of some organizational psychologists coming into Key Financial and what was interesting about that is when they left, I got a phone call the next morning, and one of the people called and said, Patti, I just want to tell you what happened after we left your office yesterday. I'm like, okay, great. Apparently, Eric, they spent about 15 minutes in our parking lot. And the leader of this group said, looked at everybody else and said, what just happened there? They had been in hundreds of offices throughout the country, and he said, there's something different there. We need to go back and study it and understand what their secret sauce is, because it's different. And it's to your point. You don't know what it is, but you know when you see it. And we get that from a lot of people. People love coming in here, whether they be, you know, vendors or clients and even members of the team. It's really a nice place. And that, to me, is what culture is all about. The place where people want to show up, they want to be here.

Eric

Yep, absolutely. So I think, you know, maybe to bring it all together here, when you think about these elements, I feel like an unlocking massive value here. There's often an overlooked element. So certainly,



a lot of business owners and entrepreneurs, and rightfully so, they focus on driving profitability, you know, increase the profits, increase the scale of the business. No doubt that certainly contributes to part of what the business is worth...

Patti

...But we both know that you could have two businesses side by side, and one business gets a multiple of eight and the other business gets a multiple of four. What is the underlying difference?

Eric

Yeah, and I think that's the great point, which is, ultimately the multiple is a reflection of the risk of the enterprise. And if you have, you know, an enterprise where those 4c are very strong, the intangibles are very strong, then ultimately that's going to be a lower risk investment for the new buyer, which will command a much higher price, whereas if you have another enterprise, same level of profitability. But if the structural capital is weak, the proof of the customer capital is weak, let's say a real concentration in customers, or one time versus reoccurring revenue, or one person who is responsible for most of the relationships, that's the human capital. That's risky, yeah, which is the case with a lot of business owners, where the business owner is really the driver of everything. So if those elements are in place, you know that signifies certainly a higher level of risk and uncertainty to the buyer, and it's going to result in a lower multiple. So I think you know where massive value can be unlocked, really through this process, which for me, I know is a real eye opener, is figuring out ways to de-risk the business, looking at your 4C and figuring out ways to de-risk it. That is what really is the big difference maker, and unlocking value. And again, it's not just for the business owner. It is for the stakeholders, the employees, the community. How do you add value to all stakeholders that would be impacted?

Eric

Because I think at the end of the day a lower risk enterprise is a durable enterprise, and a durable enterprise ultimately serves all of the stakeholders absolutely well.

Patti

Eric Furman, thank you so much. Thank you for going through the CEPA program with me, and thank you for having us go through it first so that we can experience it and understand it from the perspective of a stakeholder as well as the owner, because the owners have different motivations and different goals, and we want to make sure that it's all well aligned. So folks, that's just the intro. Let us know what you think. Go on to our website at [keyfinancialinc.com](http://keyfinancialinc.com) and ask us your questions. We are here to help. We are probably going to come back and do another show that's really going to get into some of the specifics as we are going through it on the value acceleration methodology. Again, it is not a theory, it is a proven system to unlock massive value. Thank you so much for joining me today. I hope you have a great day. Take care.