



Successful Transitions

What You Don't Know About Your Future Business Transition May Hurt the Most

There is an art to successfully running a privately-held business which includes a balance of hard work, knowledge, common sense, experience and occasionally some luck. On the topic of knowledge and experience, it is true that everything that we learn about running a business was taught to us by someone else. At some point in time either you learned something about your business from someone else or from an experience that had taught you a lesson. So, given the truth of this statement and the importance of taking care of your most valuable asset (i.e. your privately-held business) it is also true that there is a lot that you don't know today about a successful transition. This statement is particularly true if you've never experienced a business sale or transition in the past. This newsletter is written to assist you with gaining a more clear understanding of how we learn as individuals and how this can, and likely will, impact your future plans to transition your company.

The Learning Process of Human Beings

Human beings learn things in a variety of ways – through the transfer of knowledge as well as through specific experiences. Every experience and / or interaction that a person has develops an association with that event. For example, if you learn something in a book, you may recognize that concept in

the real world and associate with it. Also, if you have an experience, such as falling down and getting injured, you'll have an association with the pain that occurred the last time that you had such an experience. Running a business, therefore, is a series of learnings and experiences and, depending upon the skill and disposition of each business owner to apply those lessons, the business grows, stagnates or dies. In fact, it has been estimated that successful business owners can make 10s of thousands of mistakes before achieving success.

So, when it comes time to attempt something such as a business transfer, the vast majority of owners have nothing to associate with these future events – they rarely have an experience or any 'learned knowledge'. Another way of putting this is that owners know very little (if anything) about future transitions or business sale transactions. More importantly, most owners who begin with a lack of an association about how to handle a future sale or transition also have no grounding or concepts (or associations) with how to prepare their companies for a future transaction.

The Four (4) Stages of Learning

There are four (4) stages that we all go through to gain command over a certain area of expertise.

The first stage is that of an unconscious incompetent. In layman's terms what this means is that one does not know what they do not know and therefore they have no way of acting in a competent manner regarding this topic. For example, before you started your business – at some point in time, you knew nothing about the company or industry, or about running a business for that matter. You were incompetent and unaware of what you did not know. Most business owners fall into the category of unconscious incompetents when it comes to any experiences or knowledge of how to handle a future transition of their business.

The next stage is conscious incompetent. Using the example again of running a business, you learned certain things about your company and industry but were not yet ready to act in a competent manner relating to what needed to be done. When contemplating a business transition, a prudent owner will seek knowledge and be told many things that they did not previously know about their future exit or transition of their company. For the most part, this is an educational process and not an experiential learning process. The reason that this is an educational process is because owners know enough (hopefully) to realize that they do not want to learn by experience, making all of the normal mistakes in the learning process with the transition of their company.

The third stage is conscious competent. When running a business, this means that you know what you need to know and you are able to take action in a competent manner. As it regards business transitions, at this point in the learning cycle, an owner understands the many things that he / she needs to know to have a successful exit and is able to get clarity and act in a competent and well-thought-out manner to advance forward in the direction in which they want to take their company. This is a very good stage to arrive at as an owner.

The final stage is unconscious competent. This is where many business owners live in the day to day running of their businesses. What this means is that they understand their subject matter and line of business so well that they act without thinking, in an unconscious manner and they perform at a high level of competency. When you have arrived at the level of an unconscious competent, you take accurate and true action without thinking. This is akin to breathing or to walking and talking at the same time. You do not need to think about what you are doing because you have done it so many times – it's become second nature.

How to Make Transition Planning Your Second Nature

It is unlikely that a business owner who started their own business and still runs it today will ever become an unconscious competent in the realm of business transitions. For most owners, there will be one transaction and, when one stops to think about the importance of this event, it becomes critical that the owner get it done right. In most cases there will likely not be a scenario where owner repeats this process over and over again. However, in the world of professional advisors, there are people who hold a level of both conscious and unconscious competency in business transitions, the same way that you hold that same level for the business that you run.

What is of paramount importance, once you accept the manner in which the learning process occurs and you decide that you want to reduce the likelihood of making mistakes with your transition, is to seek out a conscious or unconscious competent in the world of transition planning and have them serve as a guide to your future business transition.

Concluding Thoughts

Most business owners are fiercely independent and, as such, prefer a 'do it yourself' approach to things such as transitioning their business. This

newsletter is written with the intention of influencing such owners towards recruiting the assistance of experienced advisors who can assist with a future exit / transition of their privately-held business. By doing so, you will be bringing onto your 'transition team' the same level of expertise that your customers have come to rely upon when

they pay you to provide products and services to them. And, in so acting, you'll avoid the situation where what you do not know about your transition may hurt you the most.

About BST's Succession Planning Services

BST's succession planning services coordinates business valuation, business profitability planning and business transition planning with personal retirement planning. Our process provides education, timely information, document reviews, advisory team assessments, business transfer options analysis, and a series of recommendations that identify weaknesses and blind-spots that need to be addressed to maximize intrinsic value and successfully operate and transition your privately-held business and protect your personal wealth.

Visit bstco.com or contact Steve Ferraro, Partner, at (800) 724-6700 for more information.