



ARCHFORD

**2022 ST. LOUIS REGIONAL
BUSINESS OWNER STUDY**

FORWARD

Ever wonder how your business appears to a third party? Have you considered whether creditors, investors, key employees and candidates, vendors, or customers recognize your company's success and value? This report helps business owners like you gain these insights. The knowledge you gain from this report can help you think through how to maximize your life's work for yourself and your family. It can also help you maximize the support of your family through the journey, the inevitable joys, triumphs, sorrows, and pain along the path of entrepreneurship.

Maybe you had a similar early experience to mine and can reflect on becoming a young business owner. At the age of seven, I purchased a farm animal from my father. By the time I was in high school, that business had grown to several hundred thousand a year in revenue. However, I learned a very valuable lesson at an early age that planning for a constantly changing business world is key to long-term success. For this small business enterprise, it also happened, or should I say ended, in the early '80s, a time that opened my eyes to inflation and leverage that turned into debt and exited my business with nothing to show for all those years of work. As a result, I learned how Archford Capital could serve our clients differently! As entrepreneurs, we are unique. We are select. We have valuable insights. We are willing to take risks others avoid, and in doing so, we enjoy being part of the success.

Over the past 30 years, as an attorney, CPA, Certified Exit Plan Advisor, and wealth manager, I have worked with numerous entrepreneurs and owners of closely held businesses and their families. These experiences have deepened my understanding of the importance of cautious paranoia that drives us to protect, preserve and grow our life's mission. Owners and entrepreneurs who have built and invested in businesses are valuable to our region's growth, their employees' development, and the welfare of our communities. For these reasons, Archford invested in this study. We know you will find important insights in the report, and we are grateful to Dr. Gloria Sweida of SIUE and her research assistant. They diligently worked to ensure the statistical relevance and accuracy of this study. We distributed more than 5,000 surveys, and over 5% of the entrepreneurs and business owners responded. We are grateful for their investment of time and feedback. It is a testament to your commitment to the success of our region. The survey responses were then curated to ensure they were representative and reflective of this statistical study.

At Archford, our mission is to "Take Care of Families". We hope you find this study helpful in caring for yours.

Sincerely,

Jim Maher

James Maher
CEO and Founder
Archford®

ST. LOUIS REGIONAL BUSINESS OWNER STUDY

SURVEYED BY: Dr. Gloria L. Sweida
SPONSORED BY: Archford, Anders CPAs + Advisors CPA ,
and Goldenberg Heller & Antognoli PC
FOREWARD BY: Jim Maher
AUTHORED BY: Dr. Gloria L. Sweida

TABLE OF CONTENTS

Survey Overview	4
Section One: Census Data	6
Section Two: Demographic Data	7
Owners Demographic Data	7
Organizational Demographic Data	8
Section Three: Analysis and Observations	17
Transition Plans	17
Exit Strategies	21
Transition Teams and Other Advisors	25
Family Businesses	29
Additional Findings	32
Section Four: Recommended Actions	34
Advice to Owners	34
Advice to Advisors	35

SURVEY OVERVIEW

Warren Buffet states, “Risk comes from not knowing what you’re doing.” If 80% of a business owner’s wealth is their business, then it is imperative that they know how to monetize this asset. Successful monetizing of the company can not only fund their retirement; it can provide the confidence to face the “what ifs” life may throw their way without jeopardizing their long-term financial security.

Some business owners enter their business with the end in mind and recognize that their business is another asset in their portfolio of investments. The “end” of their business is seen as a success because they have achieved the goal of maximizing the value of this asset. Decisions about resources, risk, growth, innovation, and funding align with their exit strategy. The end of the business is a method for funding retirement. For many other business owners, their business is “their baby.” It is part of their lifestyle and their identity. They may see the “end” of their business as a failure. Rather than the transition of their business driving their retirement, their retirement drives the end of their business.

For most business owners transitioning a business will only happen once. Doing it right means doing it right the first time. Business owners must understand how to maximize the transferrable business value and position the business to harvest its wealth successfully. However, even if owners have no intention of selling in the near term, a strategic planning process should be in place to increase growth, thereby allowing owners to maximize long-term value.

In January of 2022, Archford, in conjunction with Goldenberg Heller Antognoli Law Firm and Anders CPAs + Advisors, sponsored the first study of business owners in the Greater Saint Louis region. The study captures the readiness of owners to transition their businesses. We had three goals: First, to create a baseline understanding of owners’ readiness to transition their business, and second, to compare businesses and business owners on three criteria: 1) the existence of a written transition plan, 2) the phase the business is in, and 3) for family businesses, the existence of a family readiness plan. We aimed to provide insights to business owners and their advisors. We also draw comparisons to nationwide data provided by the U.S. Census Bureau.

Archford hired Dr. Gloria L. Sweida of Southern Illinois University, Edwardsville, to create and administer the survey, analyze the data, and author the corresponding report. Before creating the survey, Dr. Sweida reviewed similar surveys done in other regions and research conducted on transition intentions, exit strategies, and owner characteristics. Additionally, Dr. Sweida guided a focus group with a corporate attorney, a certified public accountant, a business coach, an investment banker, and other professionals who advise business owners to gain insights about this region.

We divided the report into four sections. Section 1 compares this survey’s data to those reported by the U.S. Census Bureau. In Section 2, we report and provide observations about the demographics of the business owners and their businesses. Section 3 analyzes and observes business owners’ transition plans, strategic choices, relationships with top advisors, and family readiness plans. Lastly, in Section 4, we recommend actions business owners and advisors should take to improve the probability of a successful transition. We distributed 5,824 surveys to businesses within a 150-mile radius of Saint Louis and attained a 5% response rate. A final usable sample of 223 responses remained after deleting unusable responses, such as those completed by a nonbusiness owner and incomplete surveys.

The survey included 49 questions that covered the following topics:

- owner and company demographics (age, gender, revenue, industry, legal structure, business life cycle phase, etc.)
- current transition plans and thoughts about strategic planning
- relationships with trusted advisors
- owner and family readiness to transition

Owner and Company Demographics

Businesses in this region outpace the national average on at least five factors. First, they own more (3%) businesses that employ personnel. Second, 70% of the companies in this region, compared to 25% nationwide, have been in business for 15 years or more. Third, 4% more family businesses survive to the third generation than the national average. Fourth, there are 2% more women-owned businesses. Lastly, the business owner's average age is slightly older (3 years) than the national average.

Current Transition Plans and Thoughts about Strategic Planning

This study's results reveal that most (79%) business owners in the Greater Saint Louis area recognize the importance of a transition plan. However, even though 91% have at least thought about how they will transition their business, only about a quarter have a written plan in place. Four significant factors highlight the importance of these statistics.

1. Two-thirds of the business owners are quickly approaching or past the average retirement age
2. Only one-third of the businesses are in the growth phase of the business life cycle. Many of the rest are likely past the point that the business owner will optimally maximize the company's value upon transition.
3. Business owners without a written transition plan reported that their exit strategy (e.g., harvest, stewardship, voluntary cessation) guided their strategic decisions less often than those with a written transition plan.
4. Only 20% of the owners began thinking about their transition plan before starting the business or before the company was profitable.

Relationships With Trusted Advisors

Most businesses in the U.S are non-employer firms. These business owners are typically running a business that supports their lifestyle and serves to replace the wages they earned as an employee. Finding time to do much more than run the business for these business owners is challenging. They may need to be the "jack of all trades" but are likely only experts at managing their business operations. Therefore, trusted advisors provide crucial expertise and resources necessary for the business's success. Regardless of whether the owners had a written plan, they all saw their corporate attorneys and certified public accountants as their top two advisors. However, business owners also recognize that advisors, such as exit planning consultants, are valuable resources for understanding how to transition their business. Twice, the number of owners who identified exit planning consultants as part of their top advising team recognized them as valuable sources of knowledge.

Owner and Family Readiness to Transition

Family businesses accounted for almost half of the business owners in this study, and 84% were wholly owned by the families. Even though the longevity of family businesses in this area exceeds the national average, without further planning and innovation, many second-generation businesses may not survive to the third generation. Ninety-seven percent of the family businesses that reported declining sales and profits with consistent costs (i.e., declining phase) are in the second generation of leadership. Effective planning is critical to the success of a business. Regular family planning provides numerous benefits to family and non-family members. Forty-one percent of the family businesses miss opportunities to develop their leaders and managers by not having family planning meetings. Once again, a written plan provides guidance and can help strategic decisions. Family businesses with a family readiness plan were up to 30% more likely to engage in critical strategic discussions such as succession planning during family planning meetings than those without a family readiness plan.

The survey results reveal that many business owners are not adequately planning their business and personal transition. Business owners in this region do many things right and even outpace the national average on several fronts. However, there is a great need for business owners' education on how to transition their businesses successfully.

SECTION ONE: CENSUS DATA

Twenty percent of all businesses in Missouri and Illinois employ personnel. This is 3% higher than the national average. The growth and success of our small businesses (i.e., businesses with less than 500 employees) are vital to our economy when one considers that small businesses account for 47% of the private workforce. Unfortunately, 75% of businesses will not survive to 15 years, in large part, because of a lack of appropriate planning, funding, and flexibility. The owners of the 25% of businesses that survive beyond 15 years will likely transition their business by passing ownership to family or employees, selling part or all of the business, or simply disbanding completely.

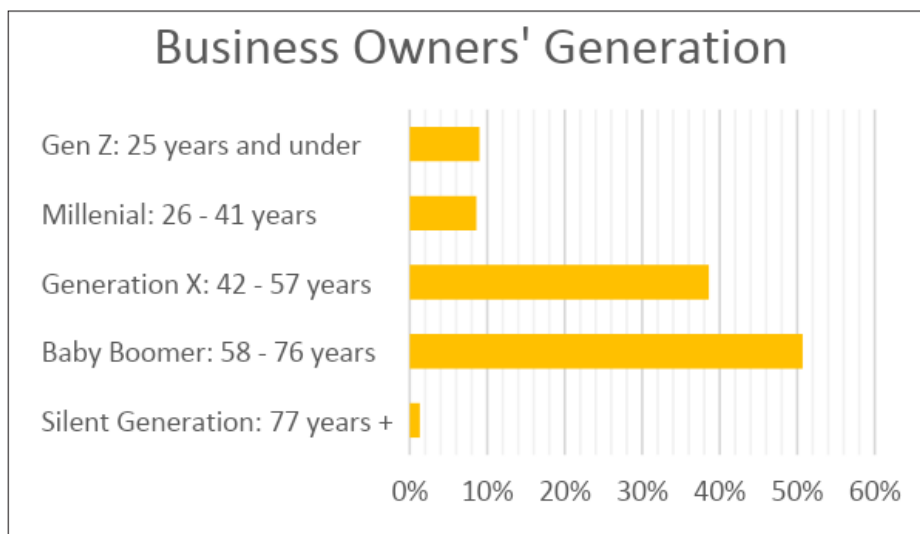
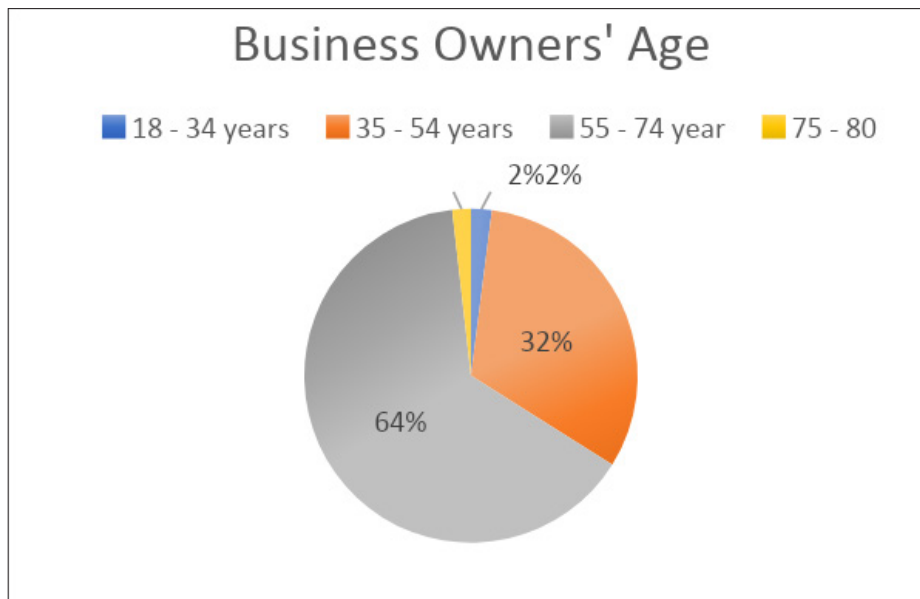
	MISSOURI	ILLINOIS	UNITED STATES
BUSINESSES			
Total employer businesses	107,306	245,126	5,771,292
Total non-employer businesses	427,000	997,000	26,490,000
All businesses	534,306	1,242,126	32,261,292
DEMOGRAPHICS OF ALL EMPLOYER AND NON-EMPLOYER BUSINESS			
Men-owned businesses	293,367	691,776	17,808,265
Women-owned businesses	194,913	459,773	12,068,407
Equally, men and women-owned businesses	46,026	90,577	2,384,620
Minority-owned businesses	68,842	343,843	9,738,319
Nonminority-owned businesses	448,020	851,726	21,464,007
Veteran-owned businesses	36,028	47,297	1,737,151
Nonveteran-owned businesses	477,376	1,146,198	29,390,916
RACE			
White alone	461,837	956,561	25,269,100
Black or African American alone	40,188	141,251	3,249,567
American Indian & Alaska Native alone	1,235	2,446	115,064
Asian alone	15,525	98,299	2,655,200
Native Hawaiian and Other Pacific Islander alone	≤ 15	668	47,331
Other	15,521	42,901	925,030
AGE			
Under 25 years old	-	-	544,769
25-34 years old	-	-	2,474,927
35-44 years old	-	-	4,228,685
45-54 years old	-	-	5,905,641
55-64 years old	-	-	5,665,142
65+ years old	-	-	3,470,646

<https://cdn.advocacy.sba.gov/wp-content/uploads/2020/06/04144224/2020-Small-Business-Economic-Profile-US.pdf>
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https://www.bls.gov/bdm/us_age_naics_00_table7.txt

SECTION TWO: DEMOGRAPHIC DATA

Owners Demographic Data

Owners' ages ranged from 18 to 80 years, with an average age of 57. This is just a bit older than the average age of business owners in the U.S.. According to a 2021 study by Gallup, the average retirement age is 62. The average business owners in the Greater Saint Louis area are only five years away from the average retirement age. However, the COVID-19 pandemic and the resulting economic crisis may make this timeframe unattainable for many business owners, including 42% of the Millennial and Gen-X generations. Forbes recently reported that the Millennial and Gen-X generations are more concerned about achieving financial security by retirement than the baby boomer and silent generation.

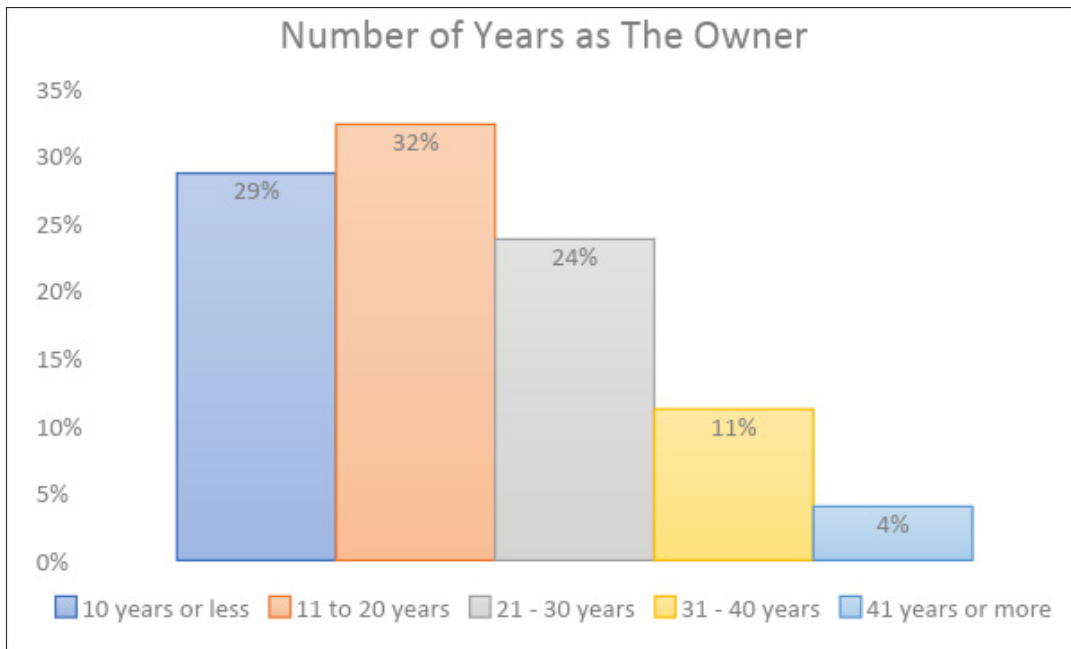


<https://www.census.gov/>

<https://news.gallup.com/poll/350048/retirees-experience-differs-nonretirees-outlook.aspx>

<https://www.forbes.com/sites/dandoonan/2021/07/30/high-retirement-anxiety-for-millennials-and-generation-x/?sh=4f9ad1e65350>

The business owners reported owning their current business from less than one year to over 50 years, with an average of 18 years of ownership. Only 29% of the owners have owned their businesses for 10 years or less.

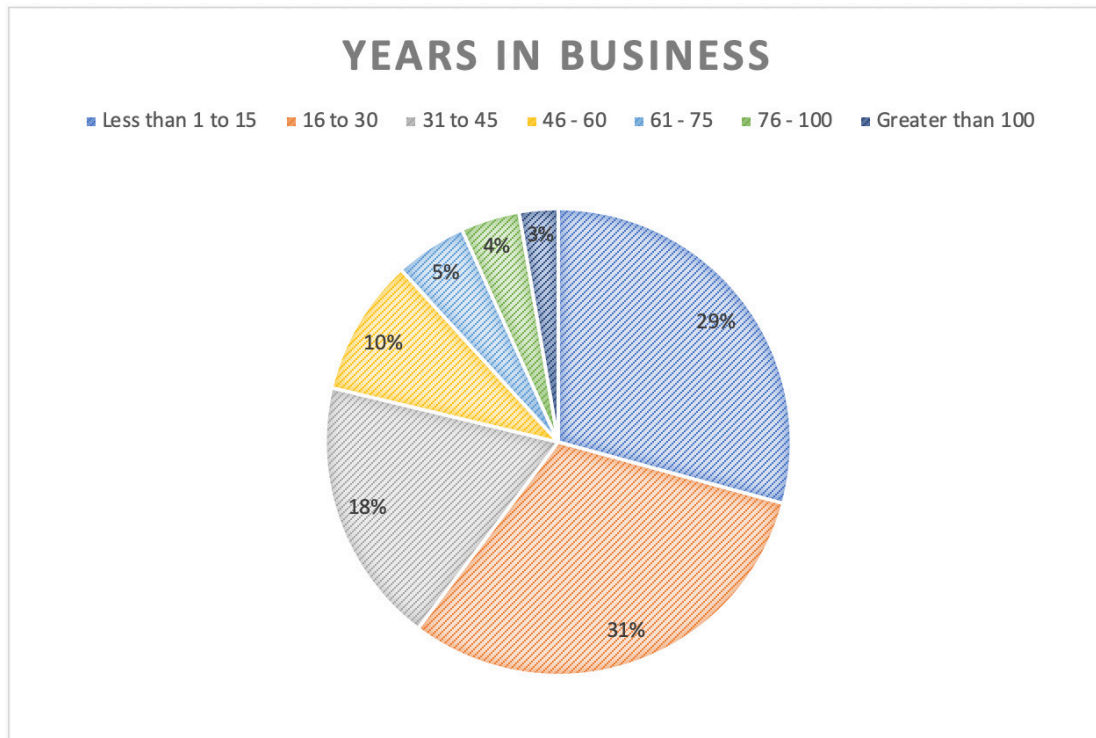


“Small and midsize businesses are the foundation of the U.S. Economy! According to Forbes, businesses employing under 1,000 employees comprises 90% of total U.S. businesses. While this is an impressive statistic, it is important to note that small and midsize businesses provide more jobs and create more long-term sustainable career opportunities overall! For community economic development, these businesses generate more local tax revenue and paychecks for local residents. This important municipal funding pays for police officers, firefighters, school teachers, nurses, and so many other critical community services. While large firms often receive the most attention, incentive funding, and tax breaks; it is the small business owners who are heroes in our towns and cities! It is for this reason, Archford is working hard to shine a light on these important firms and provide them with a larger voice at the table!”

- Dr. Ronda Sauget, MBA, Strategic Consultant, Archford Consulting

Organizational Demographic Data

Businesses in the Greater Saint Louis area stay in business to a greater degree than the national average. Just over 70% of the companies in this region have survived for over 15 years. This is 45% greater than the national average considering the Bureau of Labor Statistics reports only 25% of businesses make it to 15 years or more. Businesses in this area are also outlasting publicly traded companies. A study conducted in 2009 with 25,000 publicly traded companies revealed that publically traded companies last around 15 years.



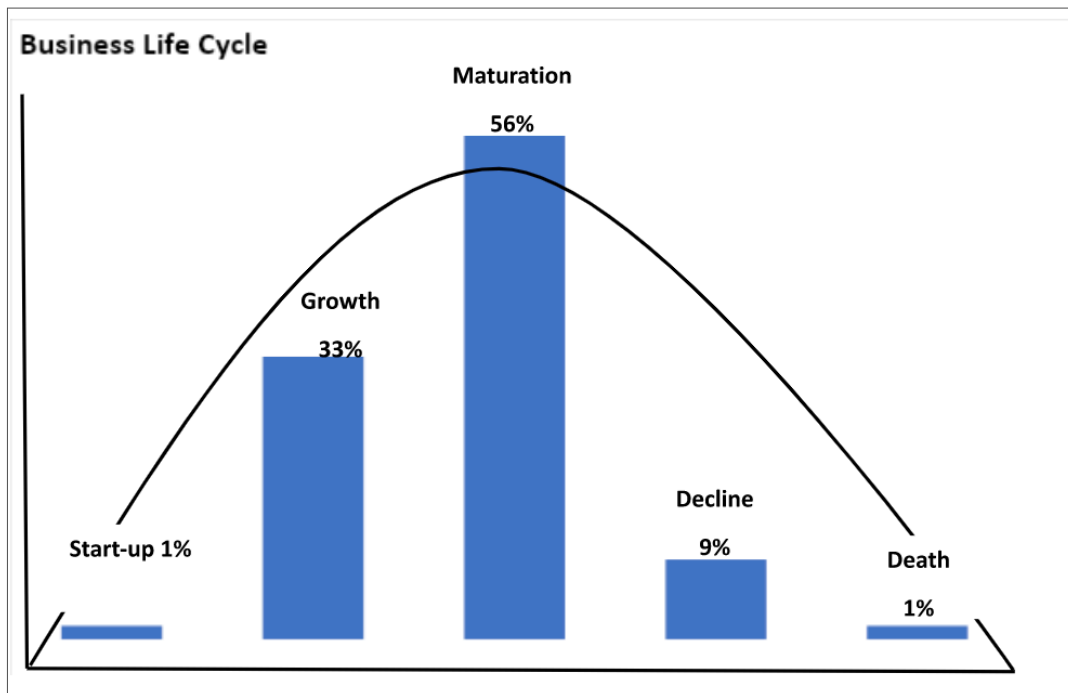
⁷ https://www.bls.gov/bdm/us_age_naics_00_table7.txt

⁸ <https://hbr.org/2021/07/do-most-family-businesses-really-fail-by-the-third-generation>

Most of the business owners are running established businesses. Only 1% reported being in the start-up phase, which means they are experiencing low sales, high costs, and little to no profit. However, 56% of business owners reported that their business was in the mature stage. In other words, the business has experienced consistent sales, reduced costs, and increased profits. In comparison, 33% of the business owners reported that their business was in the growth phase, such that they have been experiencing increased sales, reduced costs, and some profit. Only 9% said their business was declining. In other words, sales and profits are declining while costs remain constant.

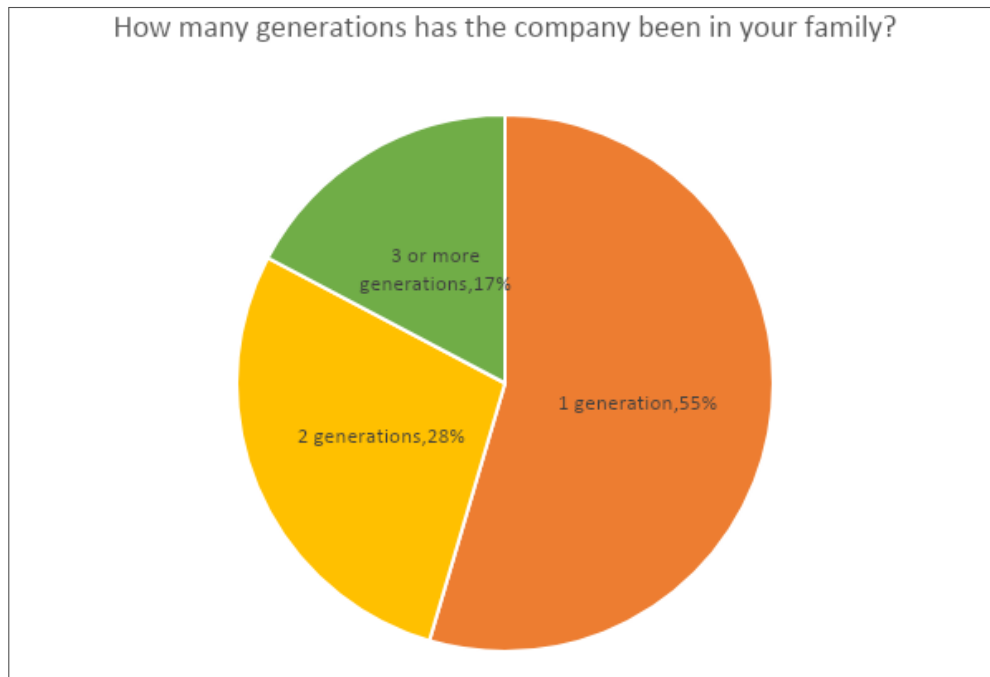
Business owners who intend to sell their business would be wise to consider doing it while in the growth phase. The increasing sales or higher profit margins in this phase will likely garner the highest multiple from a buyer. Even owners with no intention of selling in the near term can increase the longevity of the growth phase and maximize value over the long term with a strategic plan in place. Business owners in the Mature/Declining stage can consider entering new markets or launching new product lines to grow their business. However, discussions should also center around reducing risk, as the answers could be the difference between a buyer using a multiple at the high end of the range versus the low end.

When considering the business lifecycle, general economic conditions, and personal situations, there may never be a perfect time to transition the business. All owners must remember that strategic and exit planning go hand in hand and provide a map for achieving business goals.



According to the U.S. Census Bureau, family businesses represent 90% of American businesses. In our study, almost half are family businesses; of these, 84% are wholly owned by the family, and impressively, 17% have been in the family for three or more generations. Over half of the family businesses (55%) were started by the current owner.

There is a persistent myth that very few (> 5%) family businesses make it to the third generation. However, studies show that in the United States, 40% of family businesses continue onto the second generation, and 13% percent continue to the third generation. The family businesses in this area that survive to the third generation beat the national average by 4%.



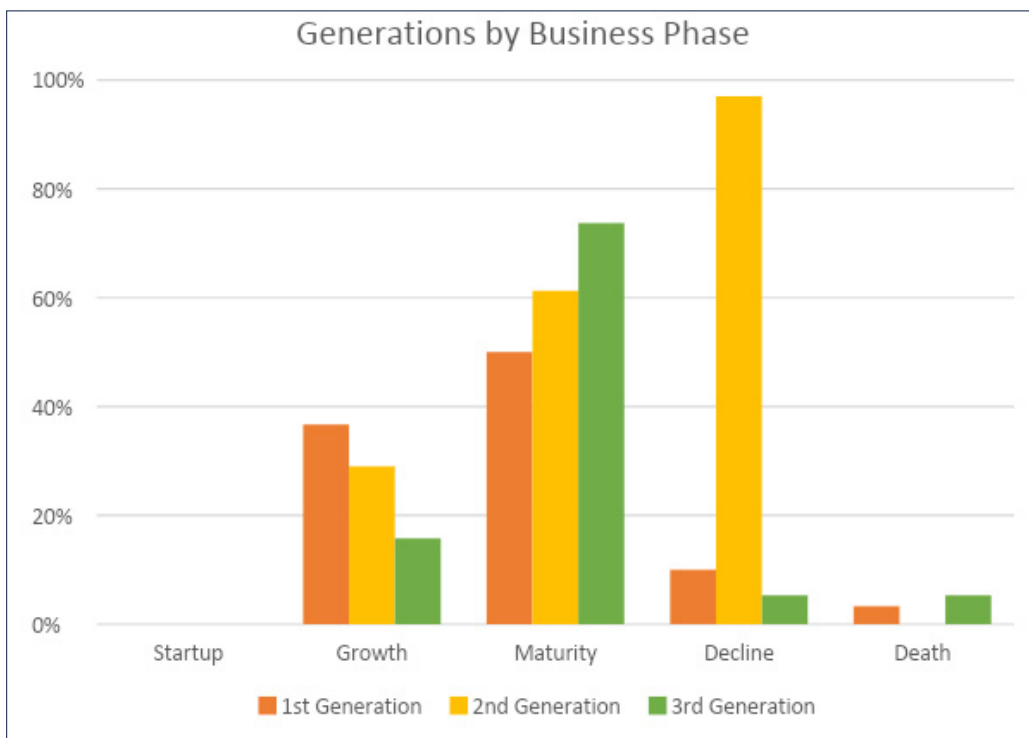
⁹ <https://hbr.org/2021/07/do-most-family-businesses-really-fail-by-the-third-generation>

¹⁰ <https://www.johnson.cornell.edu/smith-family-business-initiative-at-cornell/resources/family-business-facts/#:~:text=About%2040%25%20of%20U.S.%20family%2Downed%20businesses%20turn%20into%20second,Businessweek.com%2C%202010>

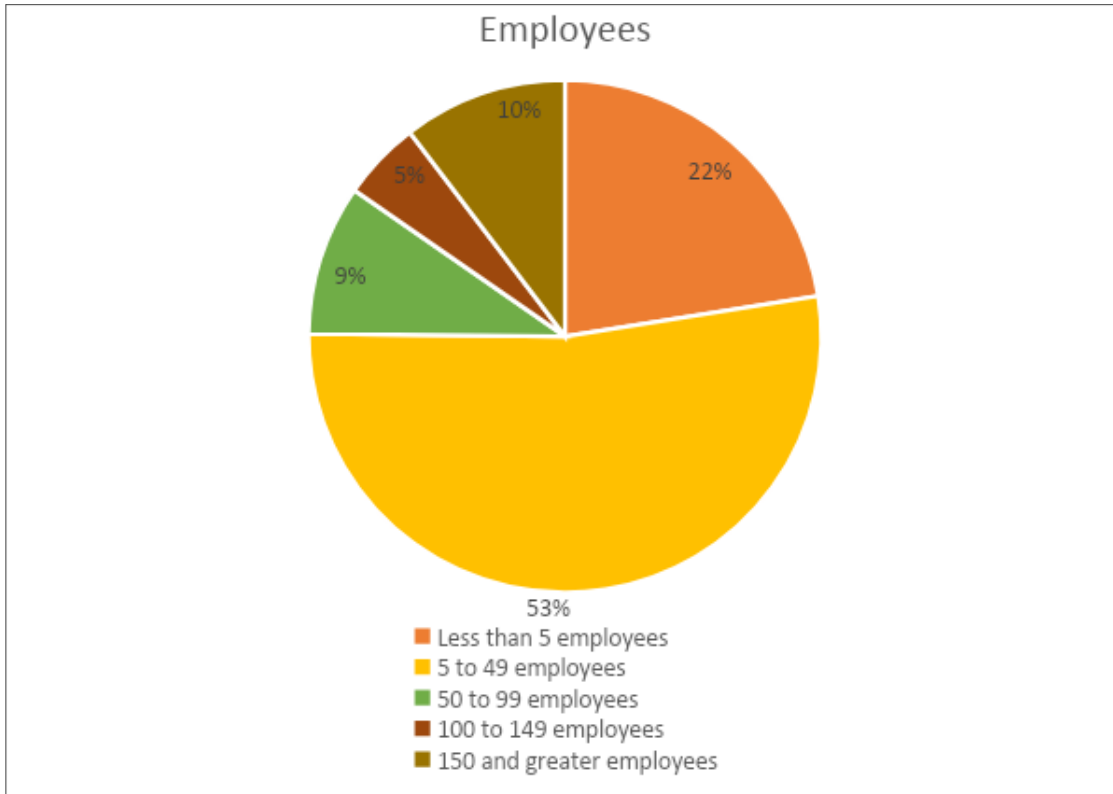
However, 97% of the 2nd generation business owners reported being in the decline phase of the business's life cycle. Without further planning, preparation, and innovation, this group of companies may not make it to the third generation. In contrast, 74% of the family businesses that have survived to the 3rd generation or more report being in the mature phase of the business life cycle.

“The research findings are not surprising because, at our law firm, we are commonly advising multi-generational businesses that are struggling and some that may not survive due to lack of preparation and planning. If these businesses only would have come to us earlier in the process, we could have assisted them in seeking strategic planning, financial guidance, and transitional support. I strongly believe most of these businesses would likely have been in a very different financial position with the right professional team at their side helping them through each stage of the business cycle.”

- **Mark Goldenberg, Founder and Managing Partner, Goldenberg Heller & Antognoli Law Firm**



Few women business owners in the U.S. are stopping their businesses, combined with their high entrance rates makes for a healthy outlook for U.S. women business owners. Women business owners in the greater Saint Louis area own more firms than the national average. According to nationwide data, women-owned firms that employ people account for 20% of the businesses in the United States. However, women-owned firms in this area represent 22% of the firms that employ people. They also account for 24% of our total sample. Most business owners (75%) employed less than 50 employees.



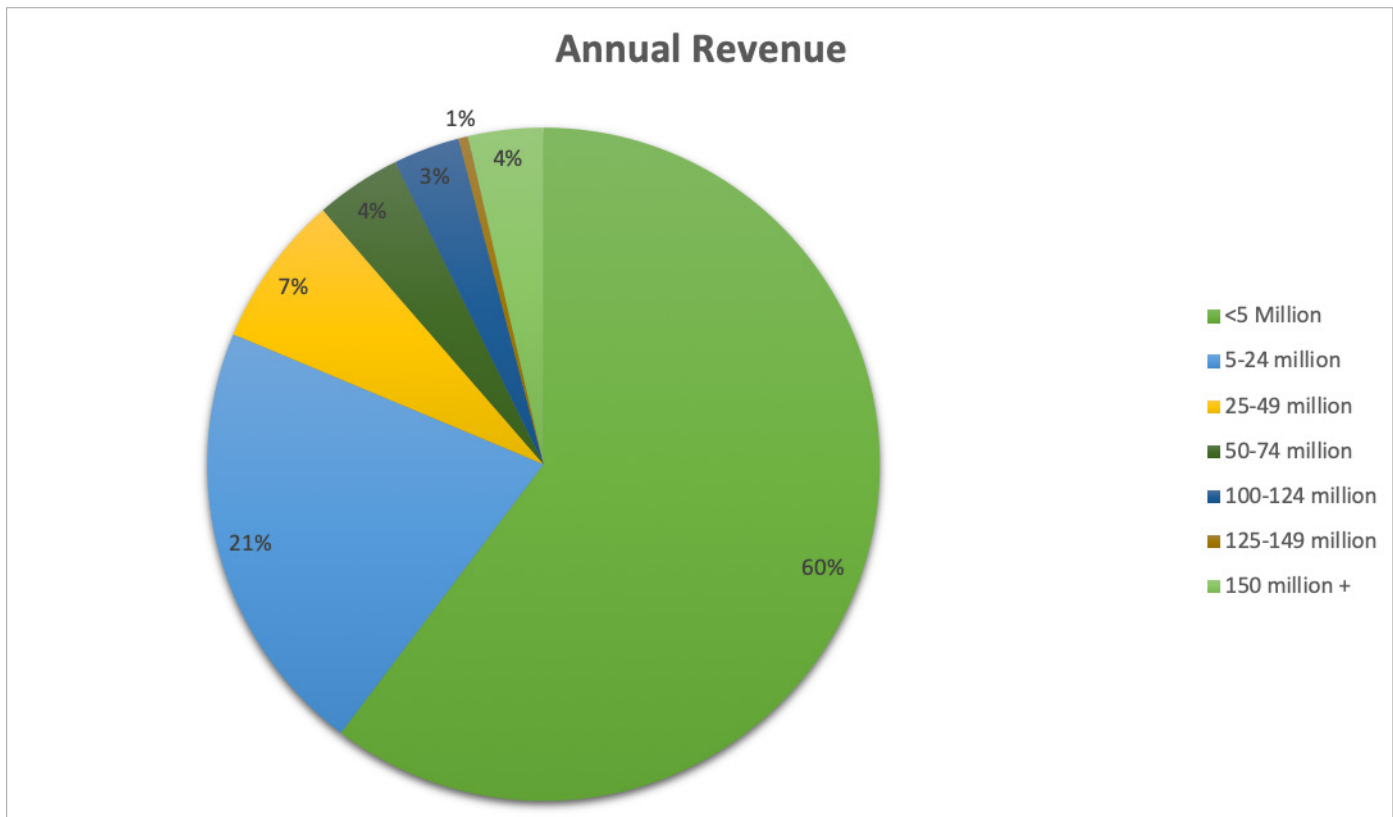
*Employees = full and part-time employees and exclusive contractors

¹¹ Kelley, D.J., C.G. Brush, P.G. Greene and Y. Litovsky (2013)

Businesses under \$40 million in revenue are considered small businesses. Almost 88% of the businesses in our study are considered small businesses. Recall that over 60% of business owners believe their business to be mature, and 60% of business owners also report less than \$5 million in revenue. This data suggests that further innovation and planning are needed if these business owners want to sell their businesses to fund their retirement.

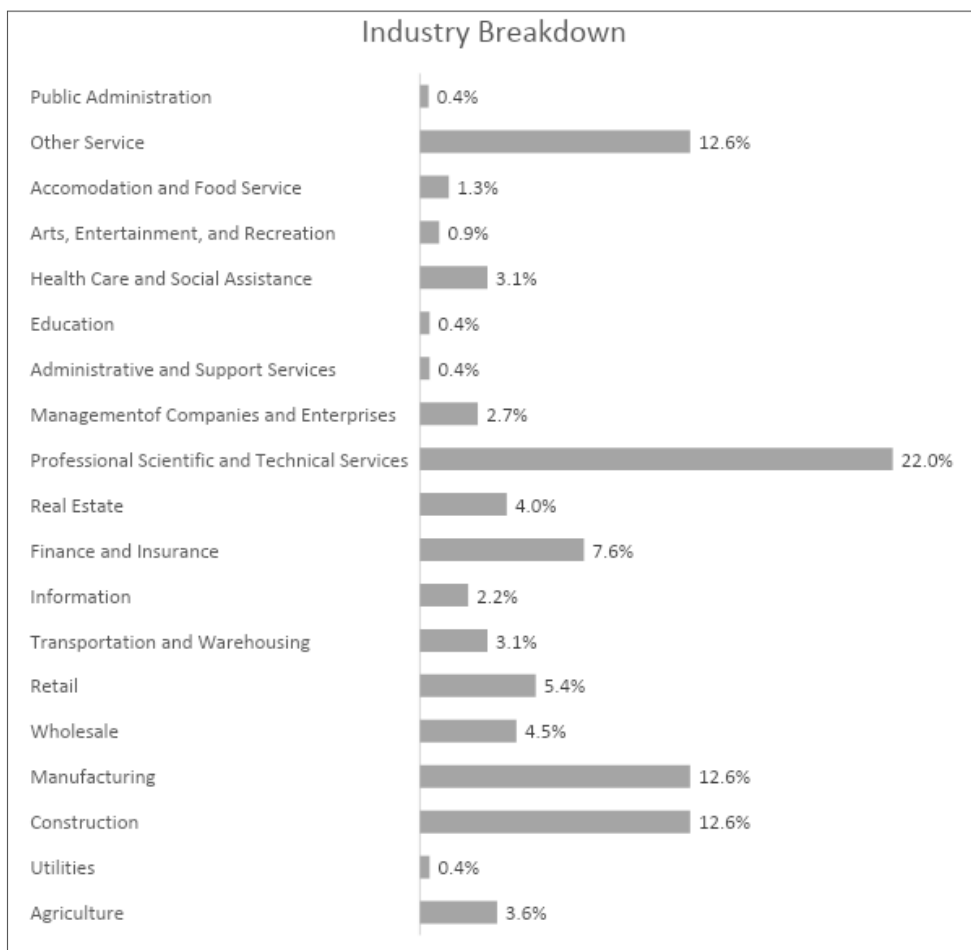
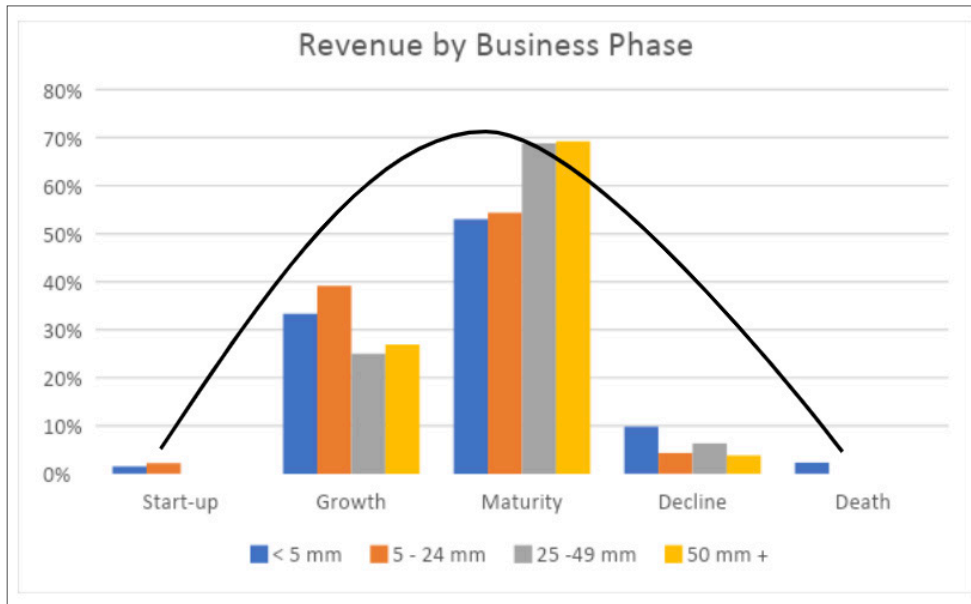
“The ultimate outcome for developing a successful business transition plan is to realize maximum value for your investment and hard work, either at retirement or for your next business venture. At Anders, we encourage clients to start that transition plan early to realize maximized potential. When developed and implemented with trusted advisors, a transition plan adds clarity and helps business owners develop strategies to achieve goals and monitor every step in the business life cycle. From formulating a vision to understanding the value and ways to enhance it, to reducing income and estate taxes, to taking care of family and favorite philanthropies, we work with our clients to develop a business transition roadmap to align business, personal and financial goals.”

- Brent E. McClure, CPA, MBA, CEPA, Partner + Tax and Leader of Business Transition Services, Anders CPAs + Advisors

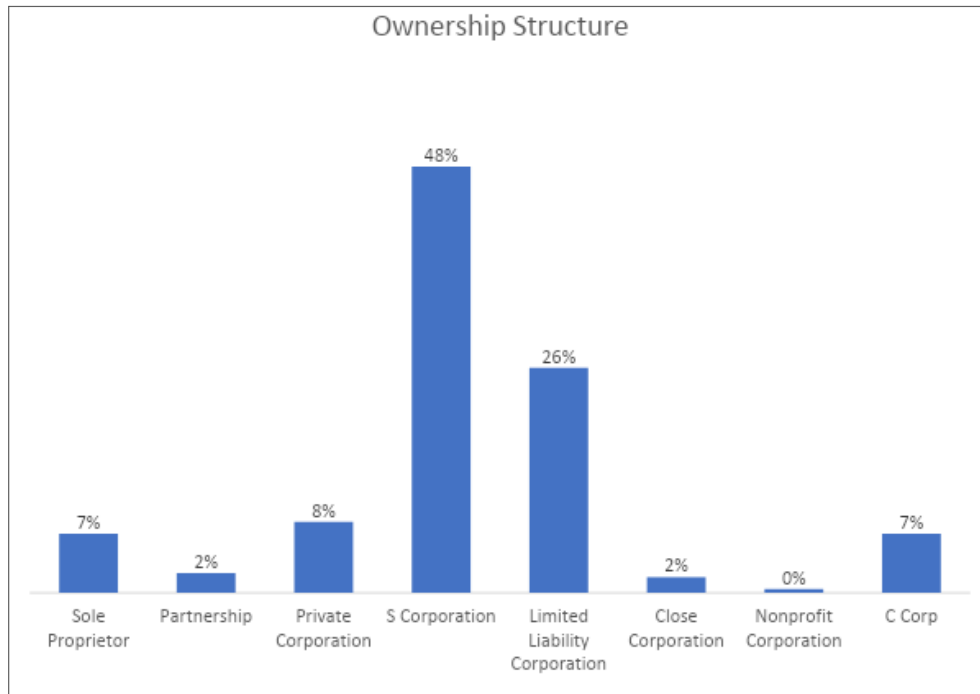


¹² <https://www.sba.gov/>

The businesses in this study represent a broad range of industry sectors. Almost 22% of the companies operated in the professional scientific and technical services sector.



Almost 83% of business owners adopted a flow-through structure. A flow-through structure passes all income to the owners or investors of the business and avoids double taxation on earnings. Most (48%) of these opt to structure the firm as an S-Corp, allowing the owners to take advantage of certain tax benefits that other structures do not.



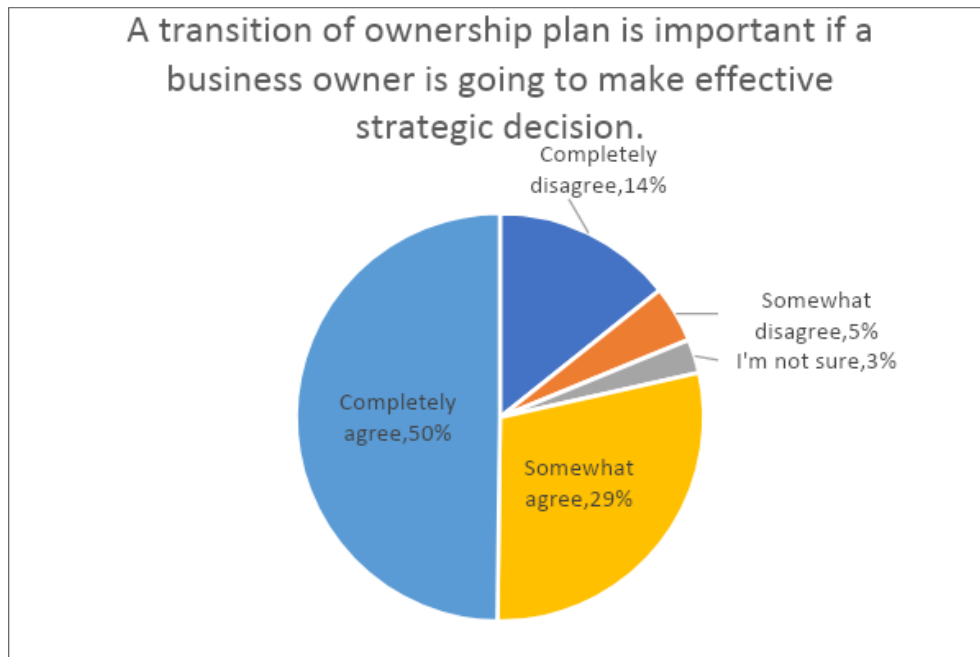
*Flow-through = Sole proprietor, Partnership, S Corporation, LLC

SECTION THREE: ANALYSIS AND OBSERVATIONS

Transition Plans

Although 79% of business owners agreed that a transition plan is important for effective strategic decisions, only 26% of owners reported having a written transition plan. However, 91% of those without a written plan have at least thought about how they will transition their business.

One of the strongest predictors of future behavior is the intention to engage in the behavior. Therefore, a successful transition begins with the intent to create an exit strategy. One way to successfully transition intentions to behaviors is through goal setting, as it aligns behavior to desires so you can ultimately attain your goals. Strong goals are specific, measurable, achievable, relevant, and time-bound (SMART) and have a better chance of success than “just do your best” goals. For example, “Sell my company for a minimum of \$5 million by the time I am 65.” is SMART versus “Sell my company when I’m ready to retire.” However, as a business owner, your environment changes in unforeseen ways. Unforeseen environmental changes can make it challenging to know precisely how to set the timeframe of your long-term goal. Research has long shown that setting short-term SMART goals is an excellent way to achieve your big goal while being agile enough to change when necessary.

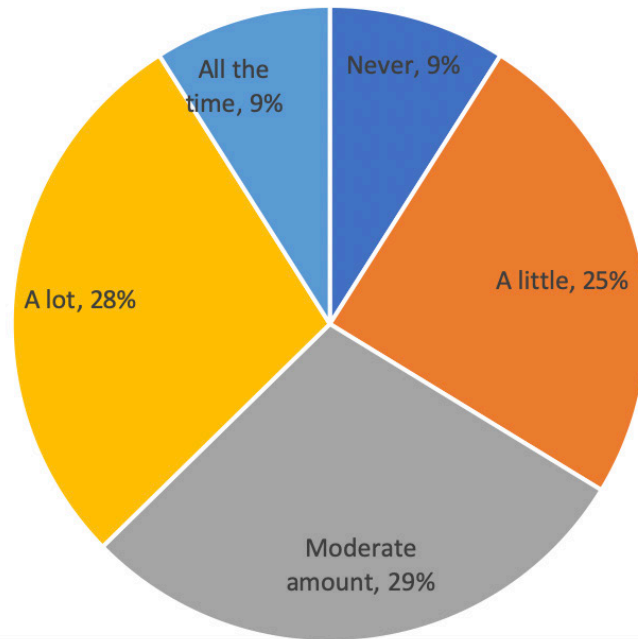


¹³ DeTienne, D. R., & Wennberg, K. (2013). Small business exit: Review of past research, theoretical considerations and suggestions for future research. Forthcoming chapter in "Small businesses in a global economy: Creating and managing successful organizations"(edited by S. Newbert). Westport, CT: Praeger.

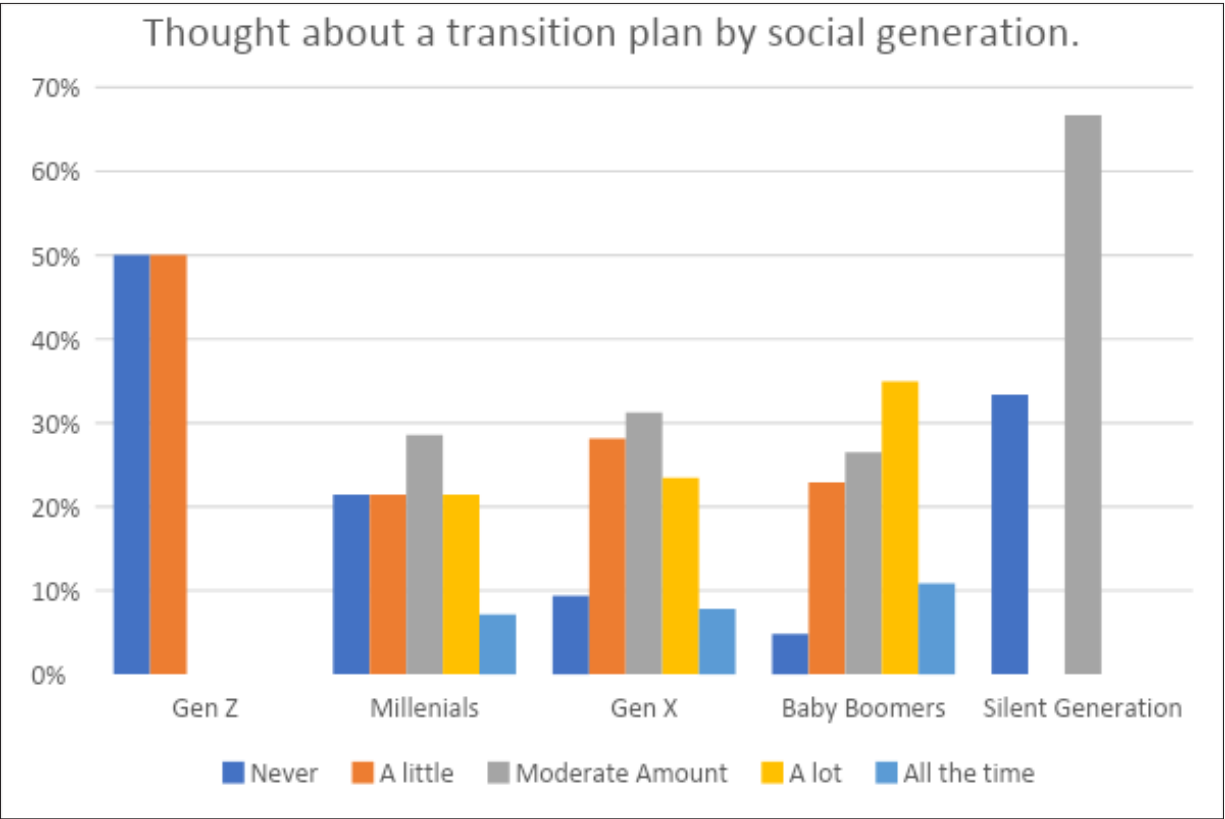
¹⁴ <https://www.forbes.com/sites/jeffboss/2017/01/19/5-reasons-why-goal-setting-will-improve-your-focus/?sh=fbc047f534a0>

¹⁵ Latham, G. P. (2001). The reciprocal effects of science on practice: Insights from the practice and science of goal setting. *Canadian Psychology/Psychologie Canadienne*, 42(1), 1.

How much have you thought about a transition plan?



It is reasonable to expect older generations to report thinking about a transition plan more often than younger generations. However, without turning these thoughts into actionable goals, 73% of Baby Boomers at least moderately thinking about how they will transition their business will likely transition their business less optimally.



Business owners with a written transition plan keep their plan updated with various crucial data. In the last two years, more than half (60%) of business owners with a written plan have engaged in some form of business valuation. However, over two-thirds (70%) do not have a “plan B” in an emergency.

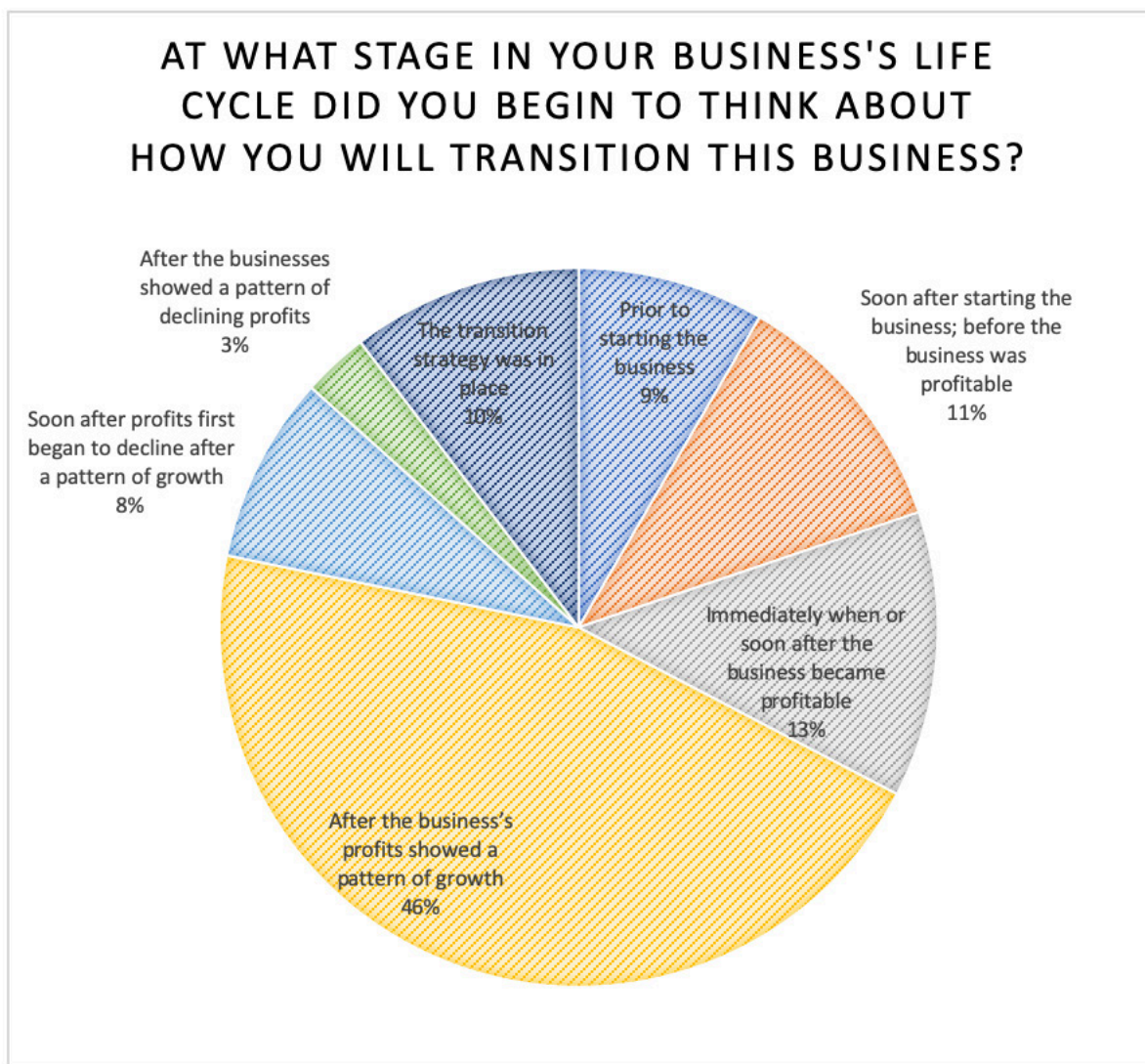
DOCUMENTS IN TRANSITION PLAN	PERCENTAGE
Buy/sell agreement	37%
Business plan	46%
Business valuation	60%
Competitive market analysis	14%
Contingency plan	30%
Family readiness plan*	7%
Operational analysis	28%
Personal financial plan	46%
Performance Improvement Plan	16%
Strategic Plan	40%
SWOT	32%
Tax Minimization Plan	19%
Trust	47%
Will	40%

* Data based on family businesses only

Even though most business owners are at least concerned with their transition plan, almost 50% did not start thinking about transitioning their business until after profits showed a growth pattern.

“All too often, small and midsize business owners are so involved in their firms’ day-to-day business operations and growth that thinking about retirement and ownership transition is not high in their current planning activities. Only about half of the business owners will be preparing and planning. At the same time, the other half will wait until the firm starts to generate significant revenue before they often consider retirement planning and the possibility of transitioning the firm. It is clear from this research that if the business owner would start with Steven Covey’s recommendation of “beginning with the end in mind,” the firm would have a stronger overall financial position.”

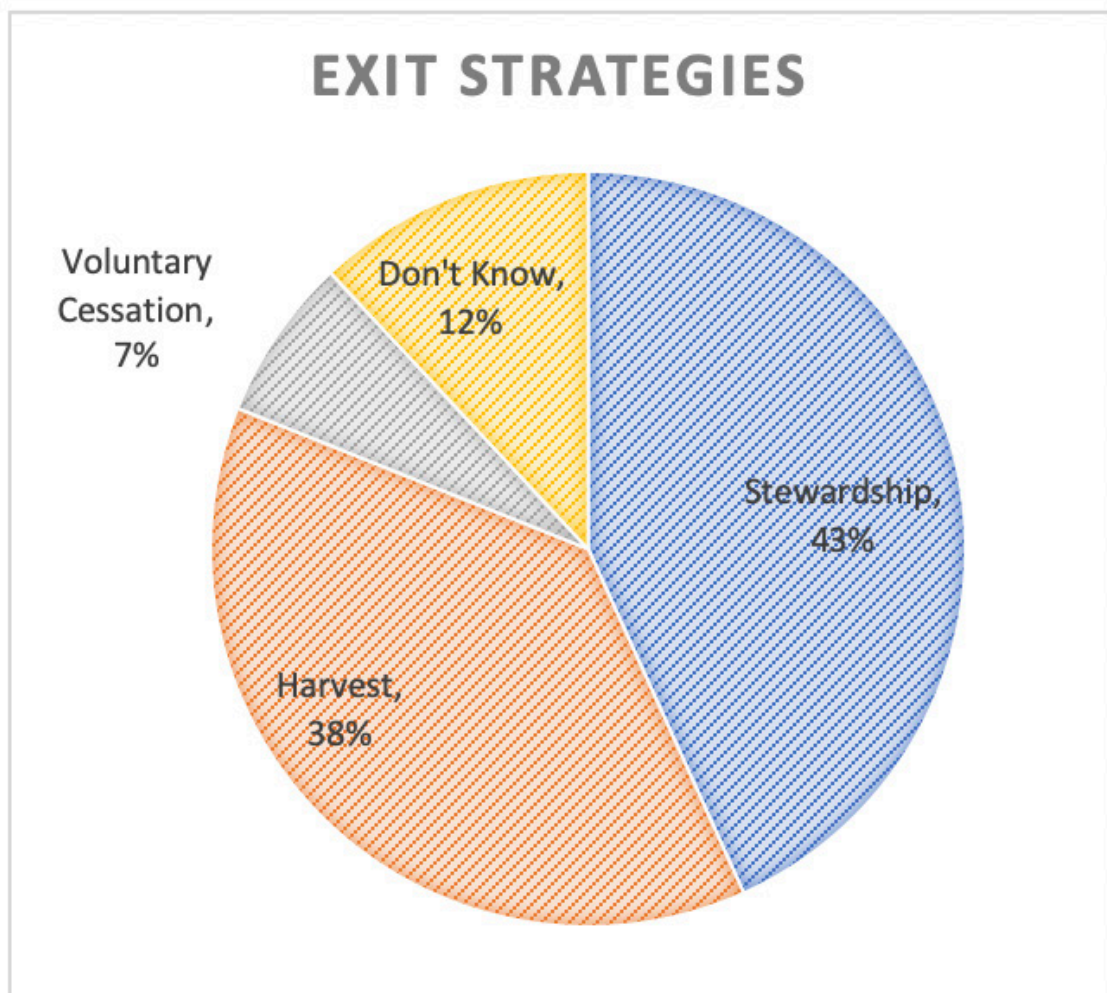
- *Jim Maher, President, and CEO, Archford Capital.*



Exit Strategies

Research suggests at least three overarching transition strategies: financial harvest, stewardship, and voluntary cessation. Financial harvest strategies represent significant shifts in the ownership structure, such as an IPO or a merger. These strategies are a means for raising capital and allowing owners to liquidate their assets and harvest the profit. Stewardship exit strategies have pro-social or pro-organizational motivations. Examples of stewardship strategies are employee stock ownership or a transfer of ownership within the family. Stewardship strategies allow owners to choose a successor that will “take care of their baby.” These strategies also allow the founders to influence the future and long-term viability of the firm. Voluntary cessation exit strategies are those in which the business owner voluntarily disbands the business. Discontinuance of the business or an intentional liquidation are examples of this strategy, unlike bankruptcy, in which the owner has little choice.

Taking care of others is a defining value in the Midwest and is represented in the exit strategy of many business owners. More business owners (43%) identified a stewardship exit strategy when asked what best described how they would transition their business than any other strategy.



*Stewardship: Employee stock ownership, Management buyout/in, Sale to existing partner, Transfer ownership within the family; Harvest: Independent sale to a third party, IPO, Merger or acquisition, Sale to another company, Recapitalization; Voluntary Cessation: Discontinuance of business, Intentional liquidation

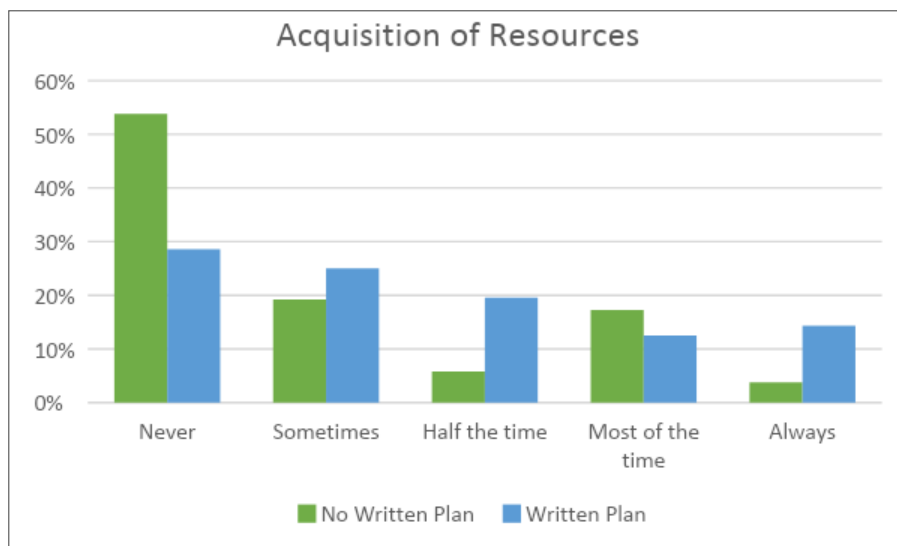
Strategic Decisions

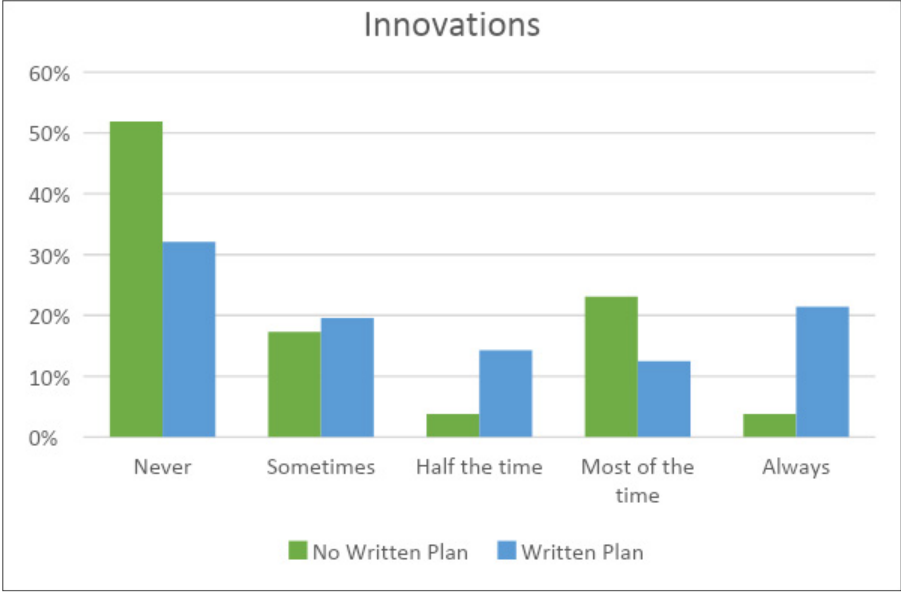
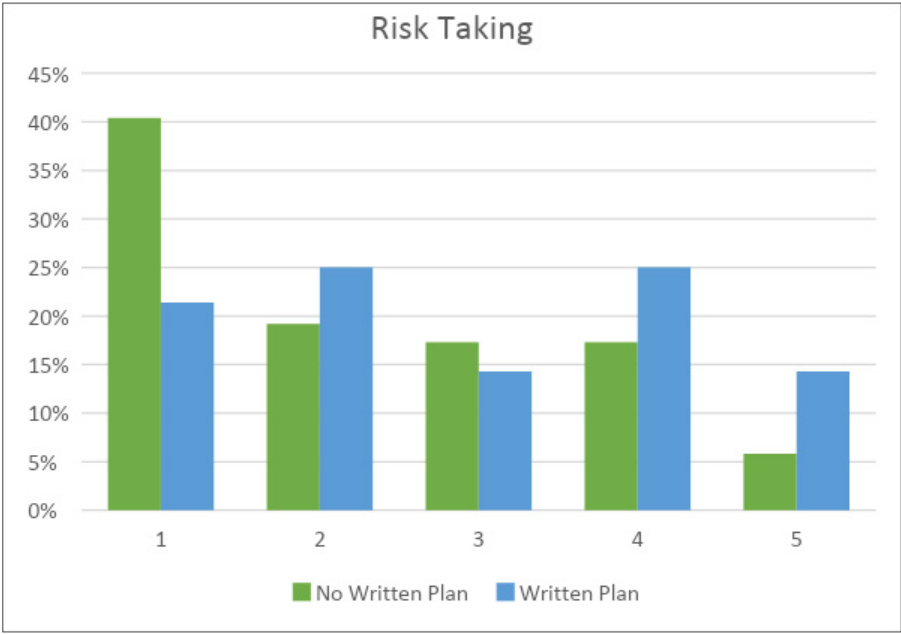
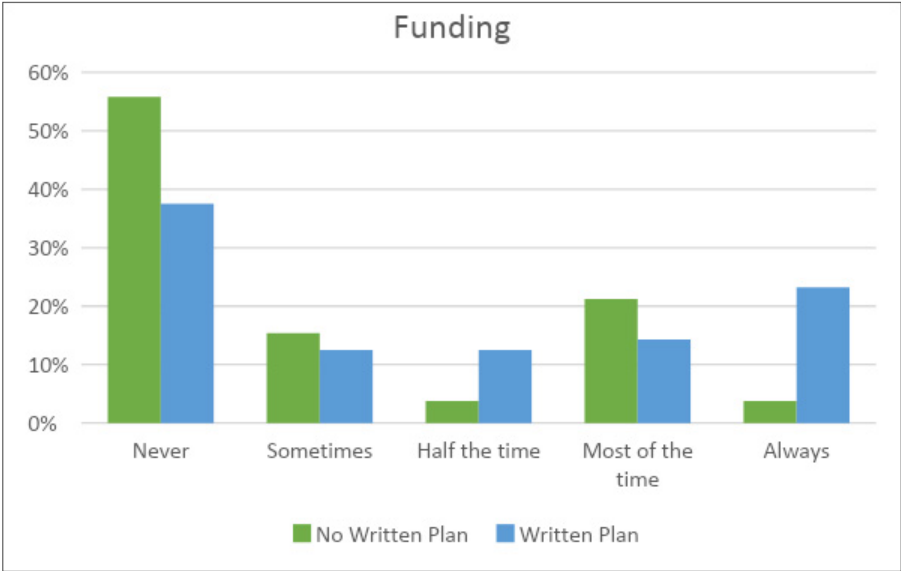
It was not surprising that almost 47% of business owners who disagreed that a transition plan is essential for making strategic decisions also reported that their exit strategy never influences critical choices. We compared the answers to a few questions of those with a written transition plan to an equal number of randomly selected participants who stated they did not have a written plan but had given it some thought. Those who did not have a written plan but have given it some thought may have an idea of their transition strategy but have not formalized or documented it.

We compared those with a written plan to those who do not have a written plan on the following issues.

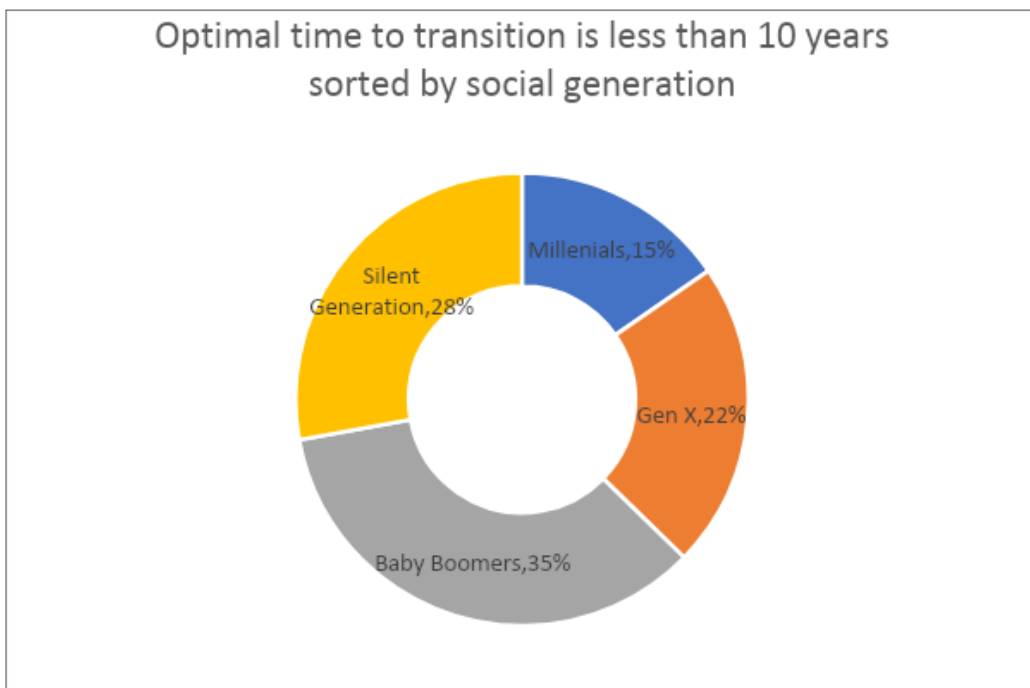
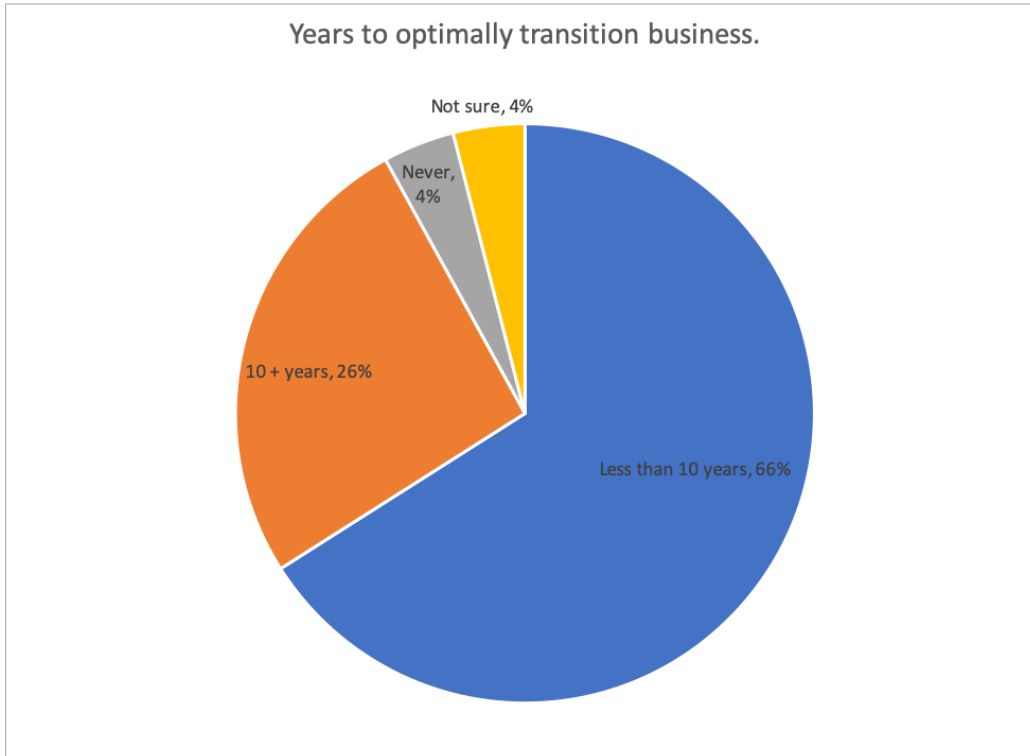
1. How important is a transition of ownership plan to making effective strategic decisions that guide the company's direction?
2. How often does the business owners' transition strategy influence decisions about
 - The acquisition of resources?
 - Funding?
 - Growth?
 - Risk-Taking?
3. Innovations?

In general, business owners with a written transition plan and those without expressed relatively the same agreement pattern that a transition of ownership plan is important for effective decision making. However, business owners with a written plan reported their exit strategy (i.e., stewardship, harvest, voluntary cessation) guided decisions on all five critical strategic decisions more often than business owners who do not have a written plan. For example, 71% of owners with a written transition plan reported that their exit strategy had influenced their decisions about acquiring resources, and 29% reported that their exit strategy had never affected these decisions. In comparison, less than half of those who do not have a written plan reported their exit strategy influenced their decision about acquiring resources, and 54% reported that their exit strategy never influenced these decisions.





When asked about the optimal time to voluntarily transition their business, just over 50% of owners reported that the optimal time is in ten years or less. Considering that just over 50% of business owners are at least 56 years old, this is a reasonable time frame. As noted in the social generation chart below, 63% of the respondents are in the silent or baby boomer generation. Thus, these groups are closer to retirement age.

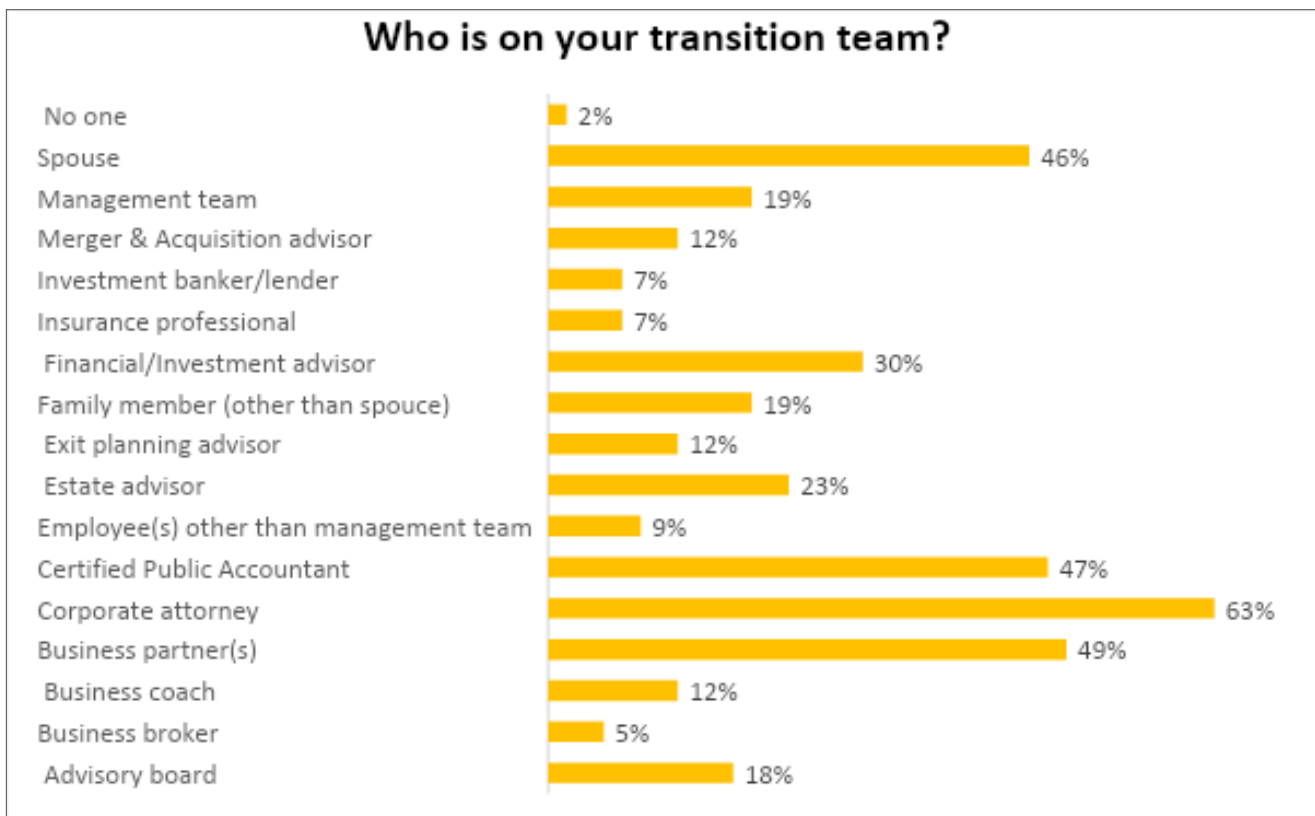


Transition Teams and Other Advisors

Business owners rely on various teams to assume specific roles. The role of the board of directors is to help the owner with the governance and strategic direction. Other groups, such as advisory boards, provide resources, such as the board members' capabilities, expertise, credibility, contacts, and other resources. Both types of teams help the firm's performance and strategic planning.

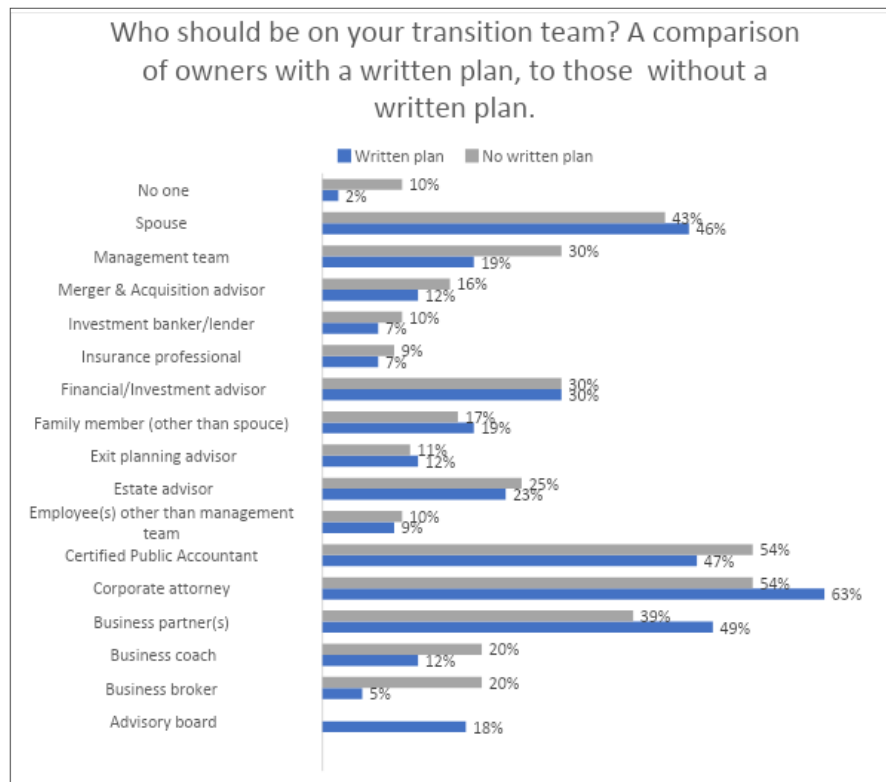
A business owner's transition team is a group of people who provide unique capabilities, expertise, and resources to help owners create and build higher-valued companies, develop more robust personal financial plans, and align their personal and professional goals. Transition teams can benefit the CEO and management from their experience, contacts, and credibility.

We asked business owners to identify all those on their transition team. The three most cited people business owners with a written transition plan consult about transitioning their business were their corporate attorney, business partner, and CPA.

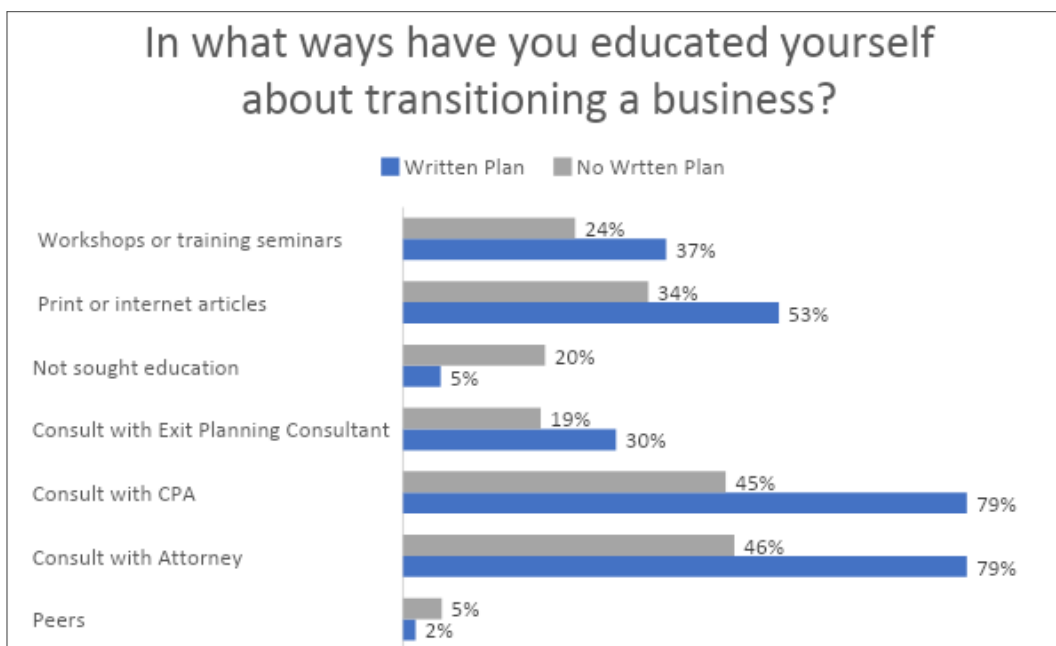


“Putting the right team of professionals together from the beginning can make the difference between a successful business transition and a failed business transition. A critical part of any transition is a well-thought-out business plan. We often tell our clients that preparation and planning are equal parts of a strong and consistent business strategy.”

- **Elizabeth Heller, Partner, Goldenberg Heller & Antognoli P.C.**



We also asked business owners to identify how they have educated themselves about transitioning their businesses. Recall that 63% of owners with a transition plan identified corporate attorneys as part of their transition team, and 54% identified certified public accountants. However, 79% identified using attorneys and certified public accountants to educate themselves about transitioning their business. This pattern was also evident with exit planning consultants. While only 12% of business owners with a written transition plan identified exit planning consultants as part of their transition team, more than double (30%) identified using exit planning consultants to educate themselves about transitioning their business. This shows that even though business owners may not categorize or identify all consultants they work with as part of their transition team, consultants are valuable advisors who provide owners with critical guidance.

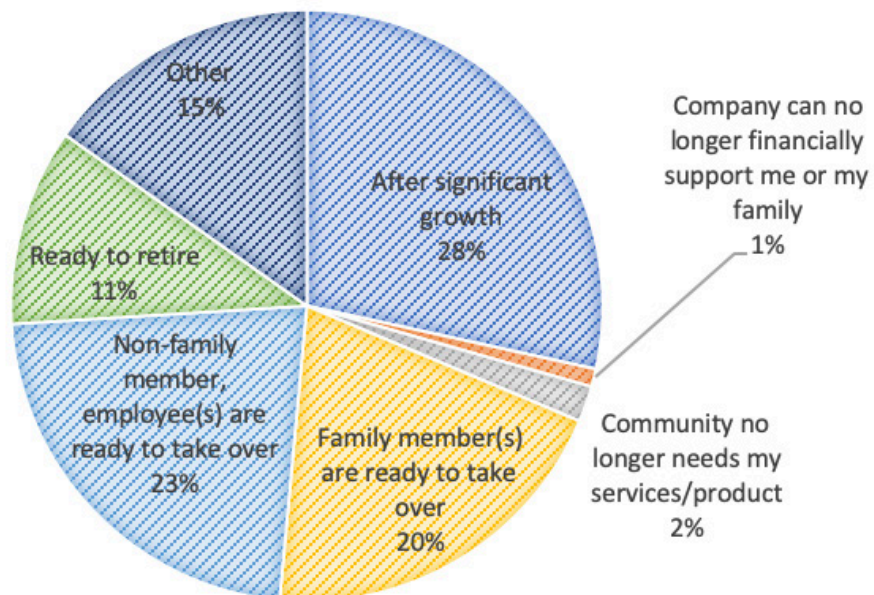


More often (28%), business owners recognized the need for significant growth to transition their business than anything else. However, it wasn't surprising that 43% reported that there had to be someone ready to take over since the same percentage of business owners identified a stewardship exit strategy. Eleven percent of business owners entered as an additional response that they had to be ready to retire to transition their business.

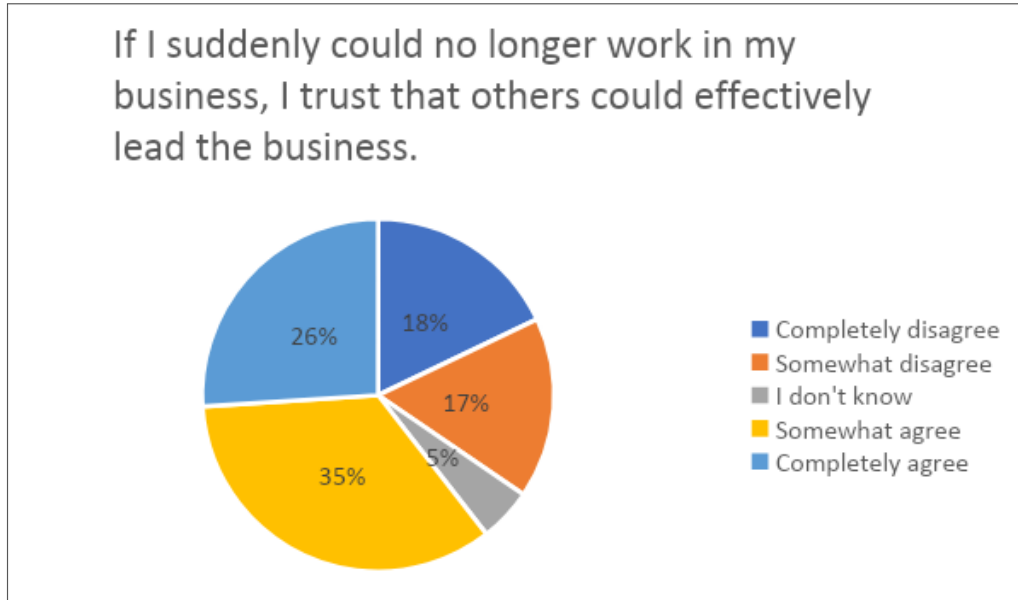
“Envisioning and preparing for the future at Anders is parallel to the business transition direction we provide to clients so they can achieve personal and professional goals. To ensure we are serving their best interests while maintaining a strong growth strategy for the firm, we are developing a team deep in bench strength through training, mentoring, and coaching; innovating and automating business operations and processes through advancing technologies and new talent; and aligning short- and long-term goals with our mission, vision, and core values. To stay ahead of the changing business environment, we encourage the development and implementation of a strategic plan and the adoption of a similar nimble management and leadership model.”

- Elizabeth Heller, Partner, Goldenberg Heller & Antognoli P.C.

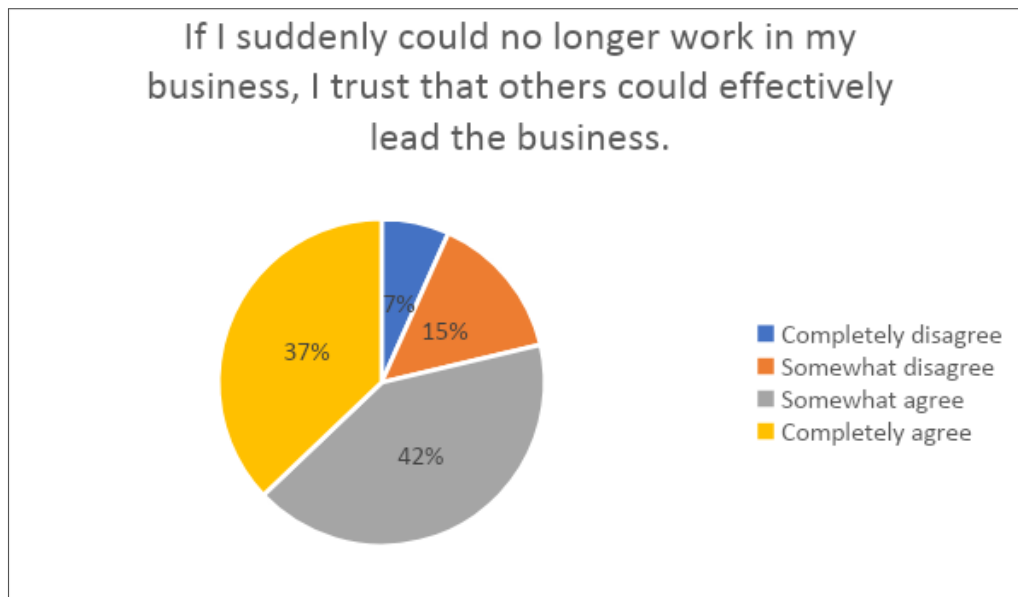
WHAT BEST DESCRIBES WHAT NEEDS TO OCCUR FOR YOU TO TRANSITION YOUR BUSINESS?



Business owners are optimistic about the readiness of others to take over their business if something unforeseen should happen. Forty-three percent of owners reported that a family member or employee had to be ready to take over the business. Sixty-one percent of all business owners reported that they at least somewhat agree that others could effectively run the company if something unforeseen happens. However, this may be an overly optimistic belief considering that 95% of all business owners do not have an up-to-date contingency plan.



It is not surprising that 73% of owners with a stewardship strategy reported that either a family member or employee had to be ready to take over the business for them to transition the business. Seventy-nine percent of these business owners are also optimistic and somewhat agree that others could step up and run the business effectively if something unforeseen should happen.

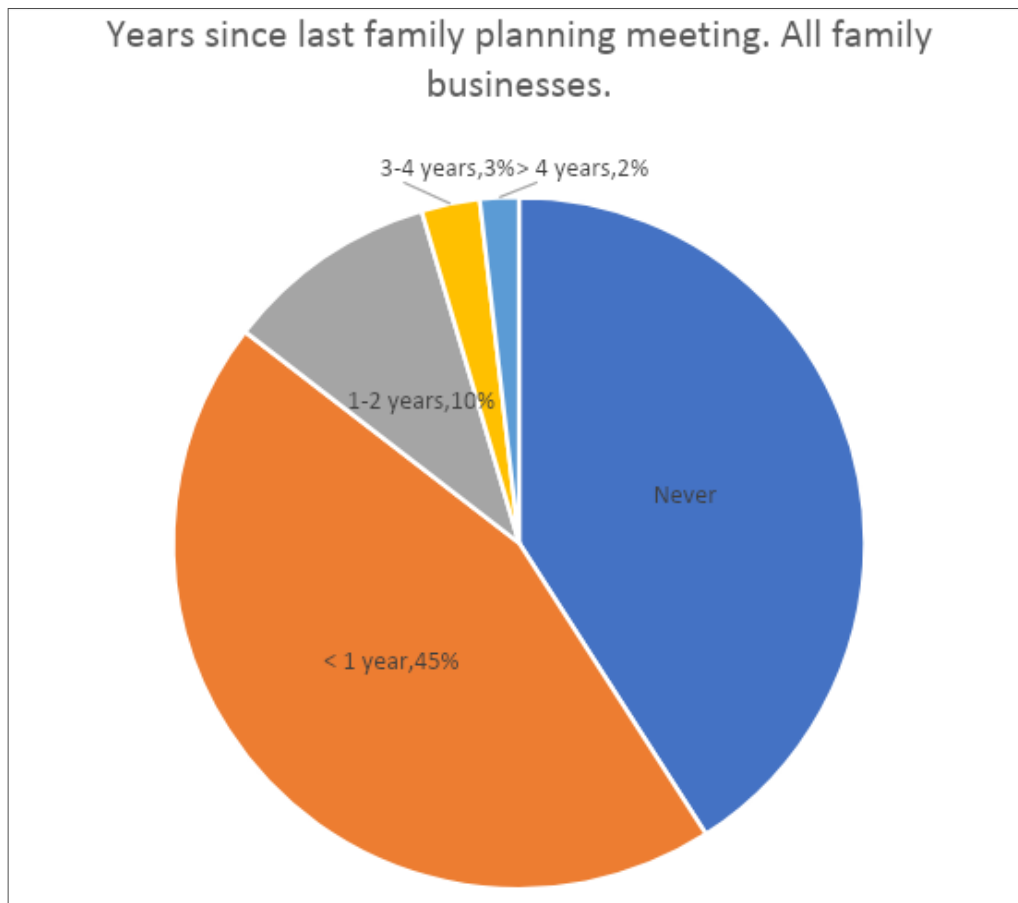


*Chart represents owners with a stewardship transition strategy

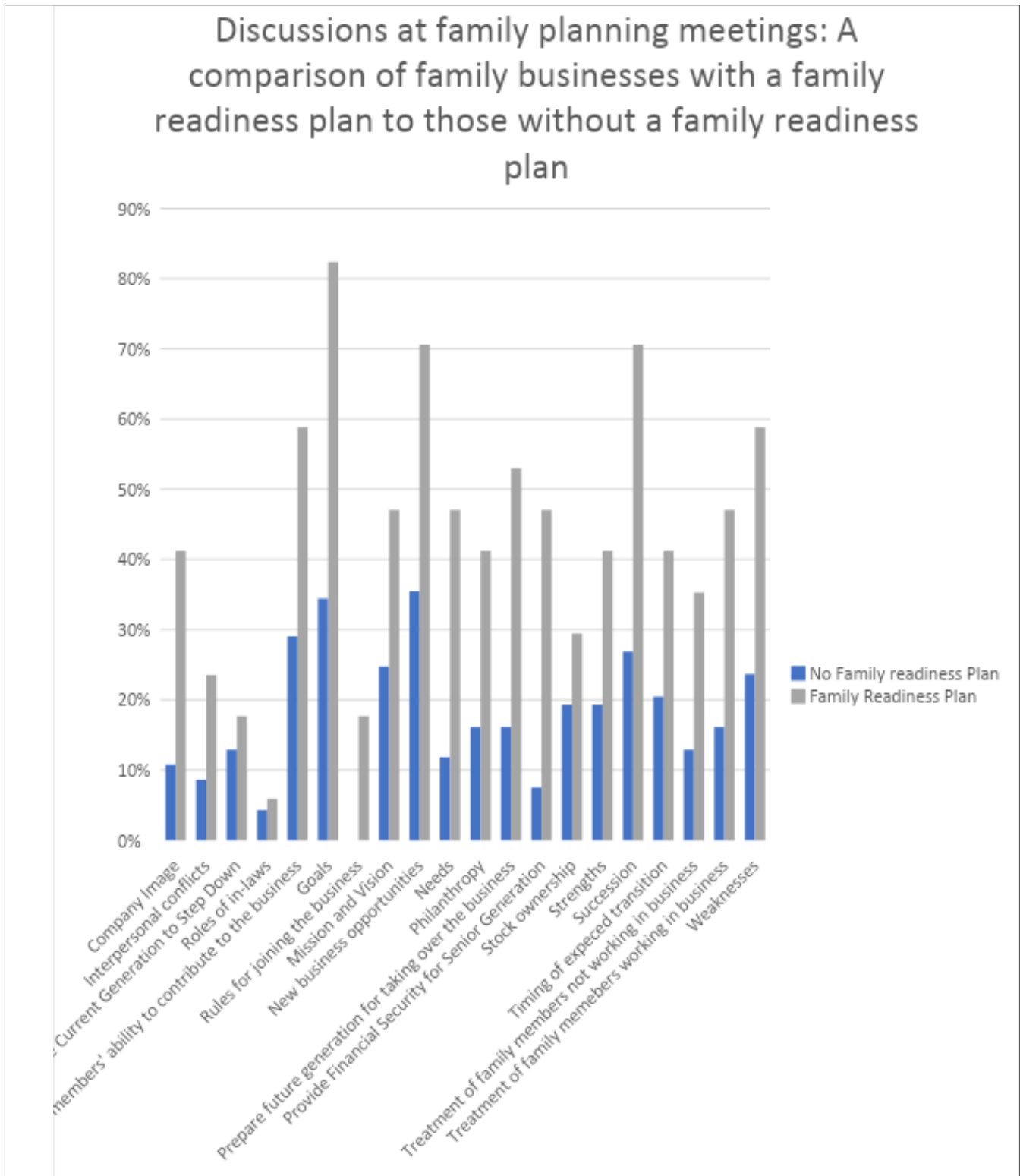
Family Businesses

Family planning meetings benefit family members and non-family member employees. Family meetings allow family members to develop leadership, management, conflict management, listening, and speaking skills. Family members can acquire knowledge of strategic, capital, estate, or transition planning. Employees can also benefit when family businesses have family planning meetings. The meetings let employees know the family's commitment to the business's future and to helping the employees be successful. Therefore, family members must discuss a variety of topics.

Fifty-nine percent of the family businesses conduct family planning meetings, and 41% report having had a family planning meeting in the last year. However, only 23% of the firms that conduct family planning meetings have an up-to-date family readiness plan. Exiting a business is challenging, and mixing family and business compounds the challenges. Communication and purposeful planning are essential to navigating the difficulties of mixing family and business.



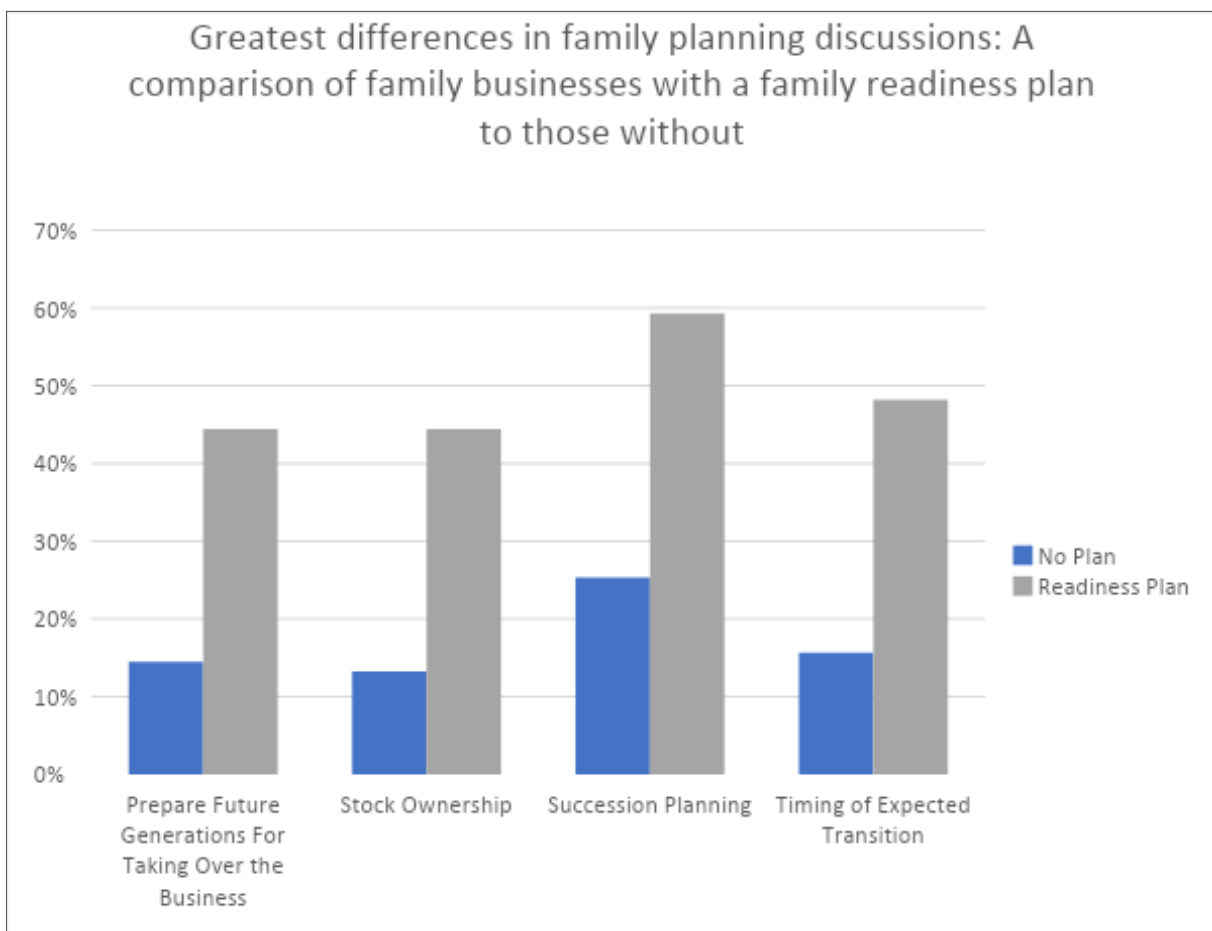
We compared family businesses with a family readiness plan to those without on 20 key topics and found that having a formal plan was related to more planning efforts. In general, across 18 of the 20 issues, a more significant percentage of family businesses with a family readiness plan reported having discussions on critical topics than family businesses without a plan.



Business owners with a family readiness plan differed by at least 30% compared to those without a plan on four key topics. Three of the four issues were directly related to transition planning: Preparing future generations to take over the business, succession planning, and timing of the expected transition.

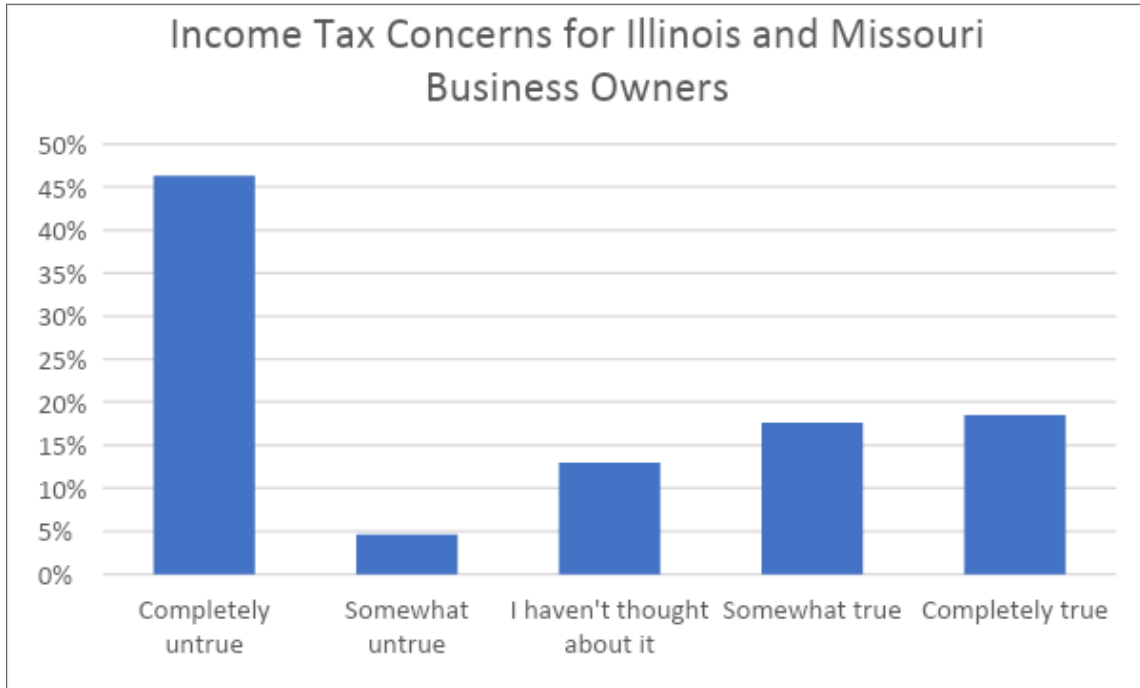
“I agree with the research findings that family businesses who invest in developing transition readiness plans are in far better shape than those businesses who don’t foster a plan. As noted below, preparing for a next-generation leadership transition through ongoing family coaching makes a significant difference in achieving a smooth, seamless ownership transition. Planning and coaching also enhance family harmony and productive communications before, during, and after the transition. In fact, family harmony is one of the more powerful outcomes of making the investment in planning and coaching that I have personally experienced during my time as an executive coach. At the end of the day, the real test is how well everyone in the family still enjoys each other’s company at family gatherings; without that, the money matters little.”

- **Charles Brueggemann, Chief of Staff and Transition Coach, Archford**

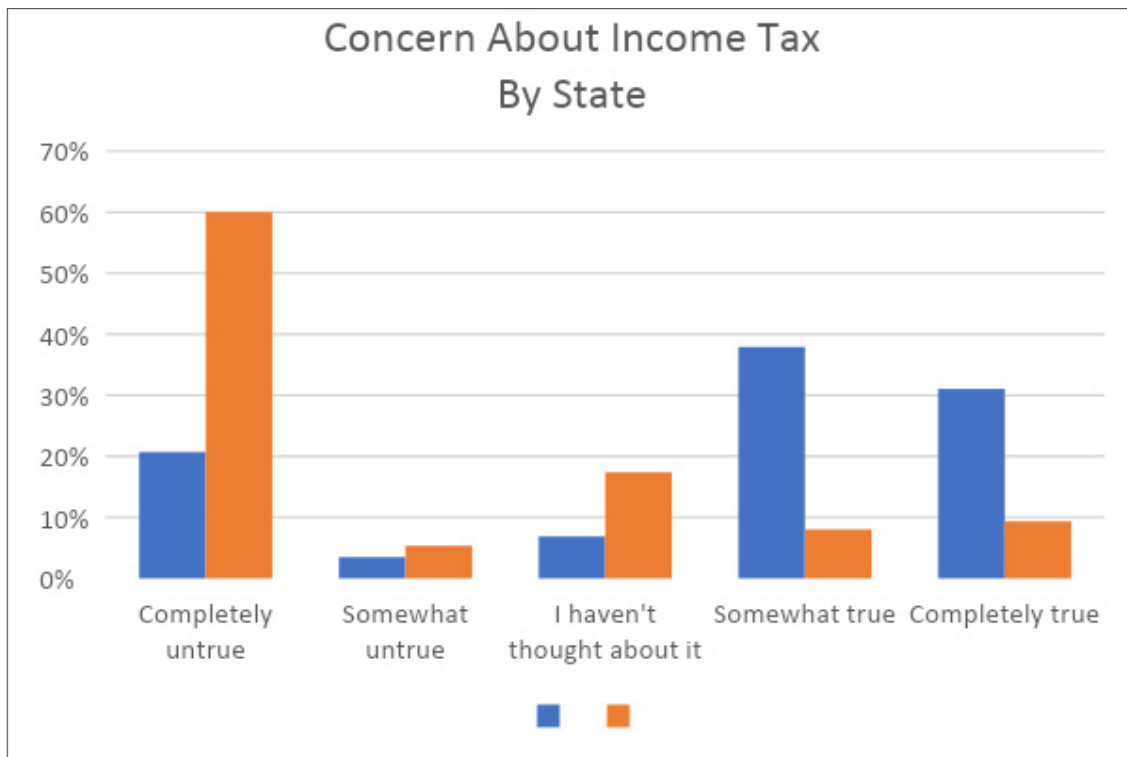


Additional Findings

Business owners are concerned about income and estate taxes. Thirty-seven percent of owners reported that concerns about state income tax have prompted thoughts about moving their residence out of state.



However, concerns about state income tax are much more an issue for Illinois business owners than those in Missouri. For 69% of Illinois business owners, tax concerns are causing them to consider moving their residence. In contrast, only 17% of Missouri business owners reported that tax concerns are causing them to consider moving their homes.



Estate taxes compound this issue for Illinois business owners: 76% of Illinois business owners reported that concerns about estate taxes cause them to think about moving their residence out of state.



SECTION FOUR: RECOMMENDED ACTIONS

Advice to Owners

Recognize that the advisors you start with are not necessarily the advisors you should end with. Many owners start with advisors who are college or family friends. Owners can keep these relationships even when they know they are not helpful or, worse, when it's detrimental. Business owners' focus, out of the gate, is typically on managing cash and doing things as cost-effectively as possible. They end up focused on tax strategies, wanting their estate to mirror their family values, hoping their family members thrive in society, understanding what a retirement distribution strategy looks like, and other concerns they never started with. Owners will also naturally progress through a new business or life phase that requires different expertise. It is possible to have the wonderful problem of outgrowing your advisor.

When it is time to consider a new advisor, look for someone with experience in the phase you are trying to get to; industry experience is usually less critical. Consider building a team of advisors and make sure they are open to different ideas from other professionals. Owners often do not include multiple professionals in their decision. Instead, they discuss the situation separately and then are left digesting each response individually. Find advisors you completely trust, then share all the same information, concerns, and goals across all your advisors. If you have shared the same information across all your advisors, your collective group of advisors should produce an exponential value.

Advice to Advisors

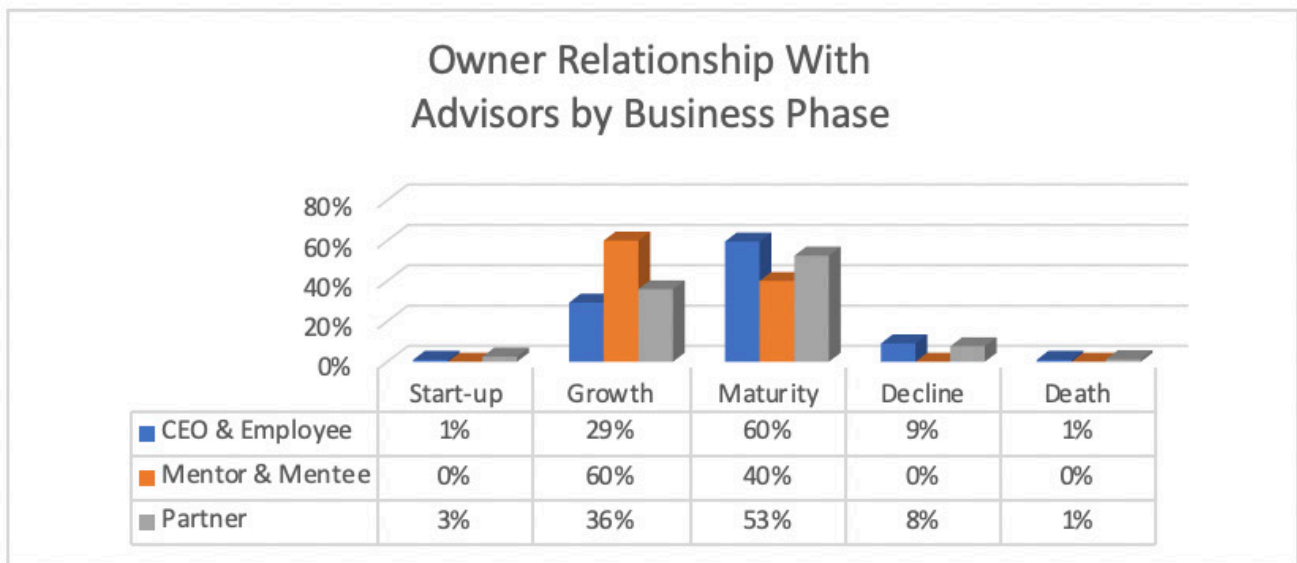
Evidence shows that the likelihood of exiting by dissolving the business is highest in the weeks and months following start-up. Evidence also suggests that, although the exit rate drops substantially after the first few years, organizations are still at risk of exiting over their entire life course. Therefore, advisors who can guide business owners in the early stages can help owners set goals to guide their strategic decisions.

Fifty-one percent of owners describe their relationships with their most trusted advisors as similar to a CEO and employee. In other words, when owners have critical business decisions, they may ask their advisors for information to help guide their decision; the owner then makes the decision and directs the advisors to help execute it.

Forty-one percent of owners see their relationship with their most trusted advisors as a partnership. In other words, the advisor or the owner initiates conversations about critical business decisions. The owner and advisor collaborate to make a decision; the advisor will also help execute the decision.

Eight percent of the owners see their most trusted advisors as mentors. Advisors are heavily involved when it's time for the owner to make critical business decisions. Their advisors will guide, challenge, and support them through the process. The majority (60%) of owners who see their relationship with their most trusted advisors as a mentoring relationship is in the growth phase of the business life cycle. In comparison, 60% of the owners who see these relationships as CEO and employees are in the maturity phase. Lastly, 53% who see the relationship more as partners are also in the maturity phase of the business life cycle.

This suggests that as owners grow their companies, they should look for advisors who can help educate, guide, support, and inspire them through crucial business decisions. During this phase, advisors' recommendations may span the gamut from a company's vision, mission, and goals to help implement and prioritize business growth strategies. As the business progresses to the mature phase, advisors should consider transitioning their relationship to that of CEO/employee or partner.



¹⁶ Aldrich, H. E. (2015)

THANK YOU TO THE FOLLOWING SPONSORS IN SUPPORT OF THIS RESEARCH STUDY!



A special thanks is extended to the Leadership Council of Southwestern Illinois Board of Directors Membership for participation in this survey.

About information (e.g., Archford)

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