

GETTING WHAT YOU EARNED:

CONVERTING BUSINESS VALUES TO PERSONAL NET WORTH & INCOME

by Jordan Stalker, IP Private Wealth
Photo: Getty Images



With boomers leaving the workforce and retiring in droves, recent stats show that less than 50% of business owners have a clear plan for leaving their business with money in their pocket.

Richard Kluska is working to get them back on track.

For the past 20+ years, the team at IP Private Wealth has been consistently focused on a common challenge for our business owner clients: How do you convert the value held by your business into personal income and net worth?

This seems like a simple goal, given that the successful business would logically deserve returns on their work—they are, after all, the significant shareholder.

Turns out, this is far from simple.

If I'm the business owner, why do I feel like I get nothing out of it?

"A lot of business owners seem reluctant to plan an exit, even when they're nearing a time where retirement or sale would make a lot of sense," explains Kluska.



Advice from Richard Kluska, CIM®, CEO and founder of IP Private Wealth-- a wealth management firm based in the nation's capital. IPPW is known for their 360° approach to client goals and action plans.

"BUSINESS OWNERS NEED CLEAR ADVICE FROM ADVISORS WHO WORK TOGETHER. IT'S THAT SIMPLE--AND THAT HARD."

CONVERTING BUSINESS VALUE TO PERSONAL WORTH: A PROBLEM OFTEN AVOIDED.

Business owners often know when it might be a wise time to exit, but Kluska and his team find that owners will say there just never seems to be enough profit to take that step.

The challenge is that the business owner is often touted as the star of the show, but in reality a business has many other “stakeholders” that call dibs on the corporate wealth:

- Employees
- Suppliers
- Clients
- Tax authorities
- Banks
- Surety bonding company
- and a host of others.

All of these “stakeholders” have an interest in the company *before* the shareholders.

Translation: the business owner doesn't get the first slice of the pie—in fact, s/he may get the last.

The IP360° Model is built for business owners

"When we founded IP Private Wealth, we saw business owners who were running between meetings with different advisors, getting fragmented instructions that did not move the needle," explains Kluska. "Accountants worried about accounting; lawyers worried about law; financial managers worried about gains; and no one was putting the pieces all together."

So Kluska and his team developed a trademarked strategy model called the IP360°™. This philosophy focuses on a business owner's goals, assets, and challenges with a 360° perspective on the client's entire life--business, personal, and assets.



Financial uncertainty during the pandemic means business owners need to be more prepared than ever. Photo: Getty Images



The IP360° model, designed by Richard Kluska and his team, ensures a client's entire sphere is taken into account--personal, professional, and financial.
image: IP Private Wealth



EXIT PLANNING DOESN'T HAVE TO BE FRIGHTENING: WITH GUIDANCE, IT'S A RELIEF.

"It's why IP Private Wealth developed a strategy model called the IP360°. This philosophy focuses on a business owner's goals, assets, and challenges from a 360° perspective," says Kluska.

THE GOALS OF THE IP360° MODEL ARE CRUCIAL YET SIMPLE:

I: Develop a clear strategic plan and agenda to answer a series of personalized questions.

II: Allow the business owner to visualize the timeline and key result activities required to achieve the desired goals.

III: Coordinate with all current key advisors and seek additional advisors to optimize the plan in a cost- and time-effective manner.

IV: Optimize shareholder value with the "board of advisors approach", including a comprehensive tax overlay based on the unique strategy developed by the "board".

V: Allow the owner to access the value of the business to your family.

Kluska explains, "Once we have developed the business plan, then it is equally important to create your personal benchmark that allows you to take your capital and income to grow it, enjoy it, spend it, and pass it forward."

This is how IP Private Wealth has leveraged the 'family office' model—the concept of a round table of advisors, all experts in their fields, providing coordinated advice on a full range of topics that contribute to your lifelong wealth.

This method reduces many of the fears and friction points that hold business owners back from exit strategy planning.

"Business owners are tired of the usual confusing and conflicting advice they get from their advisors. It makes it even more frightening to think of exiting. We can't make good decisions from a place of confusion and fear. Our family office gets all advisors aligned on a plan that suits the client."



Business owners are encouraged to embrace the tough questions, with the coordinated guidance of the IPPW team. *image: IP Private Wealth*

What is a Family Office?

A Family office is a customized approach to wealth management. Family offices provide a 'round table' of specialized advisors that understand specific financial pillars. Because the IP Private Wealth team works together, their advice and action plans are clear, coordinated, and cohesive. "It's a real step up from the mix-and-match approach to financial advice that most affluent entrepreneurs are used to," explains Kluska.

"If your advisors don't work like a team, their advice can be confusing and conflicting."

Learn more: ipprivatewealth.com

DERIVING VALUE FROM YOUR BUSINESS TAKES PLANNING

Most Canadian business owners do not have a plan on how to liberate wealth from their business and the majority of successful business owners are baby boomers between the age of 49 – 68, [according to a 2018 study by the Canadian Federation of Independent Business.](#)

This means that many owners are nearing their retirement age and still aren't sure how they'll leave their businesses with tangible wealth.

"Our experience show that most small- and medium-sized enterprise business owners in Canada still have most of their declared net worth locked into their business; and yet according to the CFIB, only 8% of business owners have a formal plan to convert this business value to personal net worth and income.

"Essentially, this means that we've got a whole generation of business owners whose wealth is heavily tied up in the inherent value of their company, where it is difficult to access."

How does a business owner start looking at how to leave their business with their wealth in hand?

Some of the basic questions asked in the IP360° approach provide clarity to the advisors and the business owner simultaneously.

"The important thing for business owners to know is that we don't expect them to have all these answers--that is why we have skilled advisors on our team, to find these answers."

MAJOR QUESTIONS AND DECISIONS CALL FOR MAJOR EXPERTS.

Over time, every business owner gathers a collection of advisors they trust; and while each advisor may be the best in the industry, the reality is that they do not work in tandem with each other. It's crucial that business owners find a way to bring those advisors together and align on a plan. This doesn't have to be done through a family office like IP Private Wealth—some owners may gather the troops on their own and have the time and knowledge to play quarterback themselves. But for most business owners, that outside expert who can direct the process makes all the difference.

TO LEARN MORE ABOUT IP PRIVATE WEALTH HEAD TO [IPPRIVATEWEALTH.COM](https://www.ipprivatewealth.com)

IP Family Office is a trade name under which the IP Group of Companies operate. Financial planning services and insurance solutions are offered through IP Financial Planning Inc. Investment planning is offered through IP Investment Counsel Inc., a Portfolio Manager and Exempt Market Dealer registered in the provinces of Ontario, Quebec, British Columbia and Alberta. The information provided herein is for general information purposes and is not intended to be a solicitation for investment management or other services or, advise relevant to the reader's specific situation. Readers are encouraged to contact IP Private Wealth for a private consultation.

Kluska shares the initial questions posed to business owners during the IP360° process:

- What is the true value of your business? Remember, there's a difference between personal and corporate goodwill.
- Have you conducted a "financial reverse engineering" of what do you need to be financially independent? Advisors then help you look at your expenses and determine what you need to fund your lifestyle.
- Who is going to buy your business? There's more than one way to sell a business: third party; merger; family members; or management team.
- When is the business to be sold? It's always best to sell the business in a growth phase, not a mature or declining business cycle.
- Are you selling the company as a share sale or an asset sale? These taxation questions are important. Does your company even qualify for the capital gains exemption? What is the after-tax value of your business?
- Is the business to be sold as cash, financing, vendor take-back, or combination thereof? What are your covenants in place in case the new owners fail?
- Do you have to stay on for a period of time?
- What are you going to do after the business? Do you have other interests and/or activities that will provide you an ongoing purpose? These lifestyle and purpose questions are important for the driven types of personalities that usually run businesses.

