

# STATE OF OWNER READINESS REPORT

MINNESOTA  
AUGUST 2023



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# A NOTE FROM BRENT ENGELBREKT

The Boy Scouts of America have a simple motto that has served them well since 1908: Be Prepared. Preparation is a key ingredient in success and nowhere is that truer than when the time comes for a business owner to exit their business.

Like the Boy Scouts, The Exit Planning Institute® (EPI) also has a simple motto: To Produce Better Outcomes for Business Owners when the Time Comes to Exit their Business. To that end, EPI, in conjunction with our local EPI Twin Cities Metro Area Chapter, is pleased to present the results of our 2023 Minnesota State of Owner Readiness Survey.

We last did this survey in 2017 and many things have changed over the last six years. While business owners still have work to do, the results in this survey are optimistic as 60% of owners indicated they had spent time and attention on their exit and are more prepared to exit on their terms.

As a business intermediary, I've seen the results of good planning and I've seen the results of little or no planning: the difference can be stark. My firm often advises potential clients that they are not prepared to go to market and explains what they can do to become better prepared. Sometimes there is enough time and determination to do what needs to be done and sometimes there is not –an unfortunate, but preventable outcome.

The 2023 Minnesota State of Owner Readiness Survey is filled with eye-opening data and statistics. More importantly, it sets forth several actionable initiatives that a business owner can implement now to ensure a successful exit, regardless of when that time comes or the circumstances under which it is triggered.

I want to thank the generous sponsors who helped make this publication possible. This would include True North Mergers & Acquisitions, Sunbelt Business Advisors, Olsen Theilen and Company CPAs, and Dayta Marketing.

Thank you also to the Exit Planning Institute and all the members of our local EPI Twin Cities Metro Area Chapter for their support. I would encourage everyone to pay attention to the work that these organizations are doing and their dedication to their mission, which is to produce better outcomes for business owners when the time comes to exit their business.

A big thank you to Julie Keyes from KeyeStrategies, who organized the 2017 Twin Cities State of Owner Readiness Survey and who was exceedingly helpful in assisting me with this 2023 edition. I would encourage you to tune into Julie's *Poised for Exit* weekly podcast to hear some interesting guests and learn more about Best Practices in the field of exit planning.

Finally, thank you to our survey participants for taking the time to complete the survey. This is important research, and your input was critical.

All business owners will eventually exit their business. The quality of that exit is in direct proportion to the quality of preparations made. I sincerely hope that you find this publication valuable as you think about the future of your business and how best to maximize that future.

Sincerely,

**Brent Engelbrekt, CBI, M&AMI, CM&AP, CEPA**

Senior M&A Advisor

True North Mergers & Acquisitions

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# INTRODUCTION

The Exit Planning Institute® (EPI), Dayta, Olsen Thielen CPAs and Advisors, True North Mergers & Acquisitions, Sunbelt Business Advisors, and the EPI Twin Cities Metro Area Chapter conducted a survey of business owners in Minnesota to determine their state of readiness to transition their businesses and unlock the wealth accumulated within them. We compared the Minnesota results to national and regional surveys EPI has conducted in the previous ten years. We noted specific trends of both successful and unsuccessful business owners and offered suggestions to business owners and business advisors to improve the probability of a successful transition.

Unlocking wealth should be of paramount importance to all business owners as **most owners have 80–90 percent of their financial wealth locked in their businesses**. Given the significance of this asset in an owner's wealth portfolio, the ability to monetize this wealth will have a significant impact on an owner's financial security and lifestyle once they exit their business.

The significance of the business asset transition is of great importance beyond the owners and their family. Failure to provide for the continuity of the business impacts not only an owner's personal wealth, and that of their family, but also the future of all other stakeholders who depend on the business's successful transition. "The business owner is the giver of life," wrote Dr. Leon Danco, a legendary expert on family businesses, in his book *Beyond Survival, a Guide for Business Owners and Their Families*. The continuity of an owner's business affects their employees, vendors, customers, charities, and the surrounding communities, for whom the owner provides jobs and social well-being.

What happens if the business does not successfully transition? The alternative is a business shut down. People lose their jobs. Families suffer. Communities suffer. In addition, in many cases, the owner's life work is liquidated for pennies on the dollar.

Previous surveys conducted by the Exit Planning Institute®, PriceWaterhouseCoopers (PwC), the Alliance of Mergers and Acquisitions Advisors, Business Broker Press, and the Family Firm Institute suggest that **historical transition success rates are in the range of only 20–30 percent nationally**.

Even though boomers hold onto their business longer than other generations, they must face the reality that preparing for a business transition is an urgent imperative, that transitioning a business is a high-stakes endeavor, and for many, a once-in-a-lifetime process that requires significant focus, action, time, and money to do properly. Unlike baby boomers, business owners in Generation X may have the opportunity to build and exit multiple companies over their entrepreneurial career path. Around 37 percent of business owners surveyed for this report are in Generation X. 52 percent of respondents indicated they wanted to transition their current

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company in 5 years and 30 percent said they would consult with business owners in the next phase of their life.

Transition planning and value acceleration address several problems that prevent owners from achieving better transition succession rates and sustaining business growth. The typical issues we see include the following:

- First, when owners do decide to exit, they realize they have not allowed themselves enough time to position their businesses for transition, minimize taxes, and maximize net proceeds. Thus, they achieve significantly lower net proceeds than expected.
- Second, they are unprepared when an unplanned event affects them and forces them into an exit that is not on their terms or timeline. Alternatively, they are fortunate to receive an unsolicited offer from a buyer. However, their lack of readiness prevents them from harvesting the value of their business in either situation.
- Third, they are unable to complete a sale of the business to a third party because the business is unable to pass the test of due diligence to complete the sale—even a partial sale—to a third party. Private equity and strategic buyers are very seasoned and selective.
- Fourth, owners may also be unaware that they have eliminated their inside options, such as a transition to a family member or to employees, because their business cannot operate without them and is potentially undercapitalized, has insufficient cash flow or too much risk to succeed with an inside option.

To successfully transition, a business owner must address three things: maximizing transferable business value, preparing financially for a lifestyle without the income from the business, and planning personally for what they will do in their next act after exiting this business.

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## The State of Owner Readiness™ research.

The Exit Planning Institute® has been conducting research and surveying business owners with the help of its many strategic partners since 2013. This report has been preceded by two national surveys in 2013 and 2014 and 11 regional surveys released between 2017-2022. These include the metro areas Phoenix, Nashville, San Diego, Atlanta, Long Island, North Texas, Southern Wisconsin, Nebraska, and most recently, Colorado.

The reader should note that **the survey answers reflect the owner's perceptions**. Although the owner's answers may be factual, they are not based on proven fact. The only way this can be accomplished is to complete a thorough personal, financial, and business assessment conducted by an independent credentialed advisor such as a Certified Exit Planning Advisor® (CEPA).

Nevertheless, the data points are useful for assessing a given owner's state of mind and state of education, as it relates to their readiness to transition from a business, personal, and financial standpoint.

Owners would be wise to consider obtaining a personal, financial, and business assessment to support their current perceptions and their business valuation to avoid surprises when the time comes to complete a business transition. This is also necessary for proper estate, tax, charitable intent, and personal financial planning.

There were over 300 responses to the Minnesota State of Owner Readiness Survey. The survey included 56 questions, organized as follows:

- Demographic information (age, gender, annual revenue, legal structure, industry, most trusted advisor, etc.)
- Current transition plans and thoughts
- Owner, shareholder, family, and company readiness to transition

A high-angle photograph of four business professionals (two men and two women) sitting around a white conference table in a modern office setting. They are engaged in a discussion, with one woman smiling. A large, semi-transparent blue rectangle is overlaid on the center of the image, containing white text. The background shows a large window with a view of a brick building.

# SECTION ONE

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## RESPONDENT DEMOGRAPHIC DATA

# SECTION 1

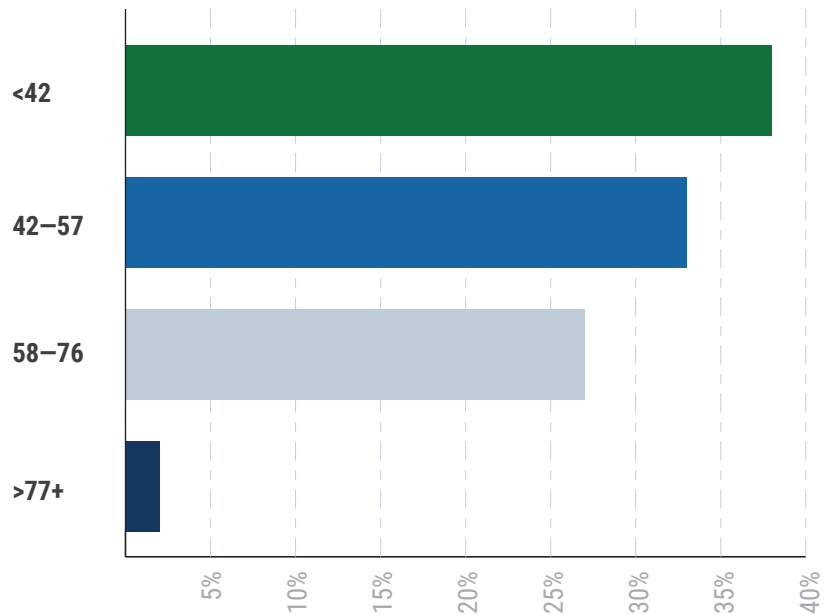
## RESPONDENT DEMOGRAPHIC DATA

### WHAT IS YOUR AGE?

**Owner Age:** The response group was split amongst four generations but 98% were representative of the major three generations we see active in the market today: millennials, Generation X, and baby boomers. 38% of respondents under the age of 42, 33% between the ages of 42 and 57 representing Generation X, and 27% representing baby boomers between the ages of 58 and 76. The remaining 2% were 77 years old or older.

Regarding the respondents of the Minnesota State of Owner Readiness Survey, 66% identified as male, while 32% identified as female business owners. In contrast, according to the census data, the state's population is split with 49% male, 50% female, and 1% non-responding.

Compared to the 2017 Minnesota State of Owner Readiness Survey, significant transformations are evident in the business owner segment, possibly indicating a notable shift in business ownership dynamics within the state. In 2017, merely 9% of the surveyed business owners reported being 42 years old or younger. Worth mentioning is that the oldest individuals within this age bracket would have been 36 years old at the time. The largest group, constituting 49% of all business owner respondents, stated they were between the ages of 42 and 57, while 42% indicated they were 58 years old or older.



The response group diverges from the Minnesota Census data, which reveals that the population of the State of Minnesota is approximately 5.6 million people. Upon further examination of this data, according to the Minnesota Employment and Economic Development Generation's Report, 48% of the population falls under the age of 42. Among them, 23% belong to Generation Z and are less likely to have started their own businesses yet, while 25% belong to the millennial generation. Furthermore, 20% of the population is aged between 42 and 57, representing Generation X, and 23% fall within the age range of 58 and 76, belonging to the baby boomer generation. The median age in Minnesota is reported to be 38 years old.



# SECTION 1

## RESPONDENT DEMOGRAPHIC DATA

### WHAT IS YOUR COMPANY'S ANNUAL REVENUE?

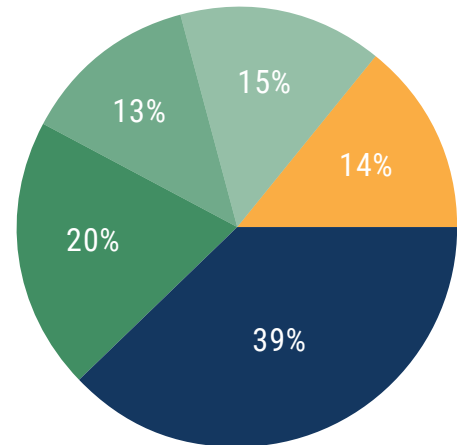
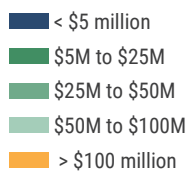
**Business Size:** In terms of business size, the survey revealed that 39% of the respondents reported revenue below \$5 million, while 20% fell within the \$5 to \$25 million range. Additionally, 13% indicated revenue between \$25 to \$50 million, and the remaining 28% had revenue exceeding \$50 million. Notably, 14% of the respondents stated their annual revenue was over \$100 million. These findings reflect a thriving small business market that has grown by 5% since the 2017 State of Owner Readiness Survey conducted within the state.

Presently, Minnesota is home to 533,334 reported small businesses, collectively employing 1.3 million people within the state, which is equivalent to nearly 25% of the overall population. These statistics are derived from the Small Business Profile of Minnesota.

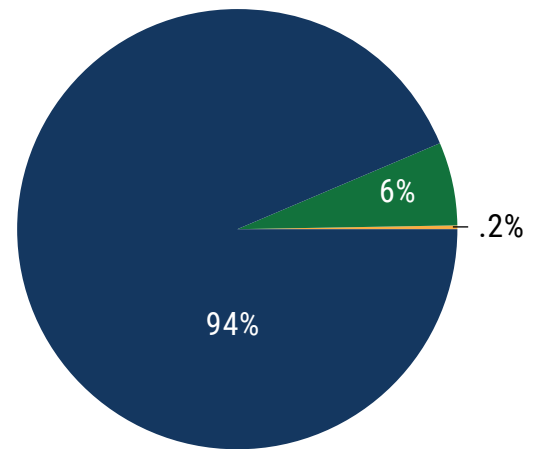
In comparison, data from the US Census shows that 94% of all privately held operating companies achieve \$5 million in sales or less, while nearly 6% achieve revenue between \$5 million and \$100 million, and only 0.2% reach revenue levels exceeding \$100 million. The response group in this survey presents a unique and potentially robust set of privately held companies generating \$100 million or more in revenue, given that past State of Owner Readiness Surveys indicated less than 6% falling into this category.

Percentage of Businesses by Size of Revenue

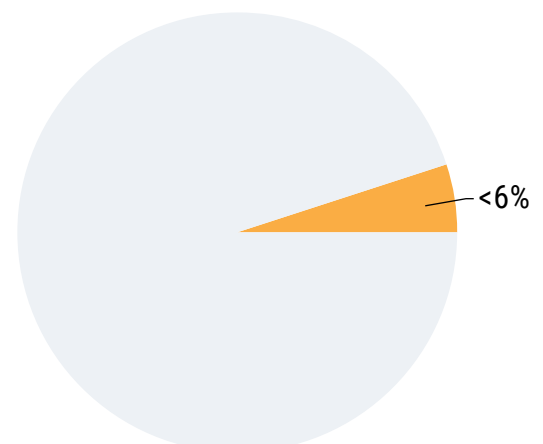
#### 2023 MINNESOTA EPI SURVEY



#### US CENSUS



#### PREVIOUS SOOR SURVEYS



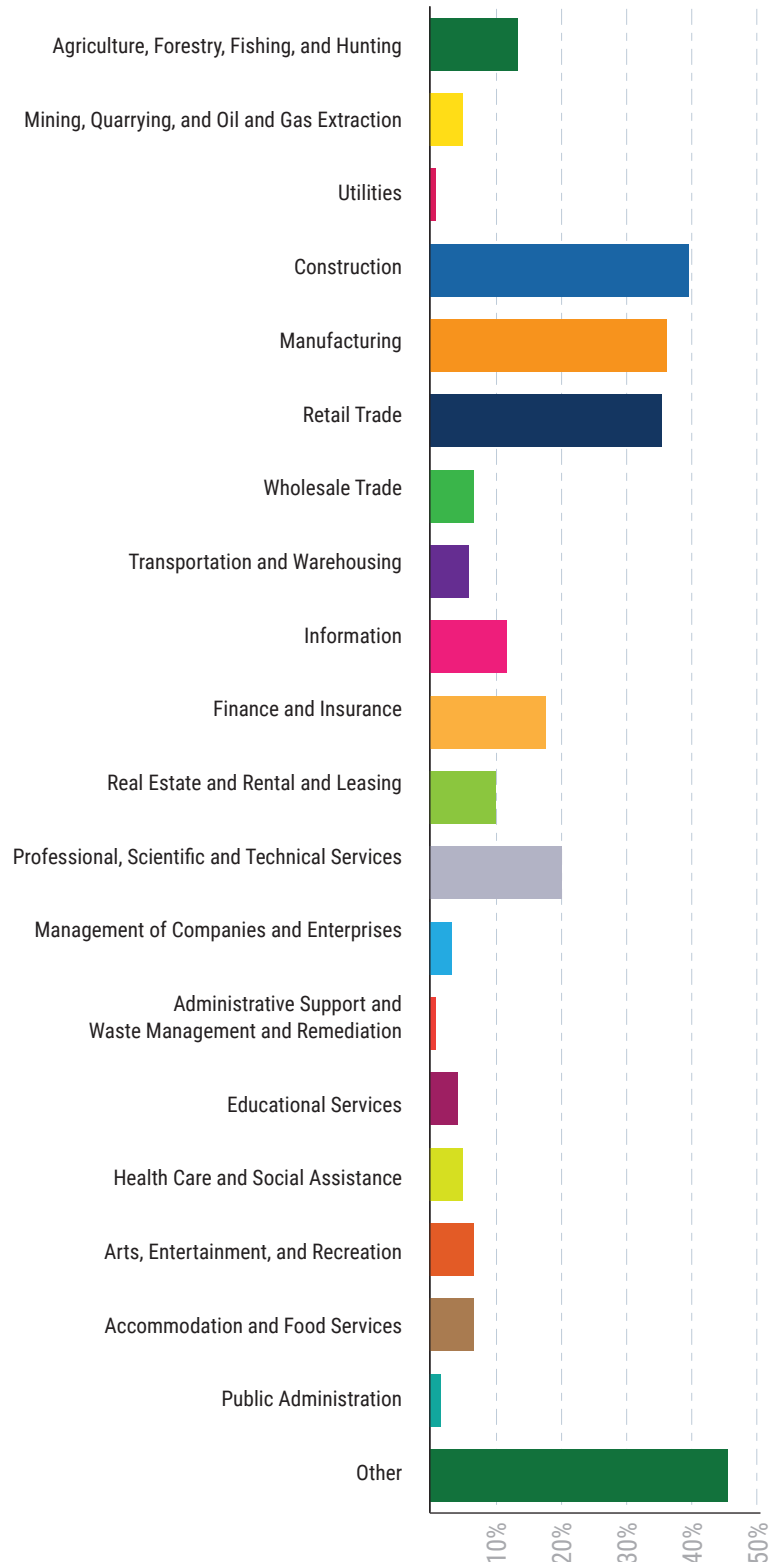
# SECTION 1

## RESPONDENT DEMOGRAPHIC DATA

### WHAT INDUSTRY ARE YOU IN?

The 309 business owners who responded to this Minnesota survey represented 21 different industries. The top three industries reported are: Construction at 16%, Manufacturing at 14%, and Retail Trade at 14%.

According to Minnesota's Small Business Profile, among the 533,334 small businesses within the state, the leading industry is Professional, Scientific, and Technical Services accounting for 15% of businesses. However, nearly 80% of those companies within this industry report having no employees other than the owner themselves. The second and third most popular industries are Construction, making up 11%, and Retail Trade, nearly 10%. Interestingly, Manufacturing, which ranked second in the State of Owner Readiness Survey, holds the thirteenth position in the Small Business Profile of the State of Minnesota.



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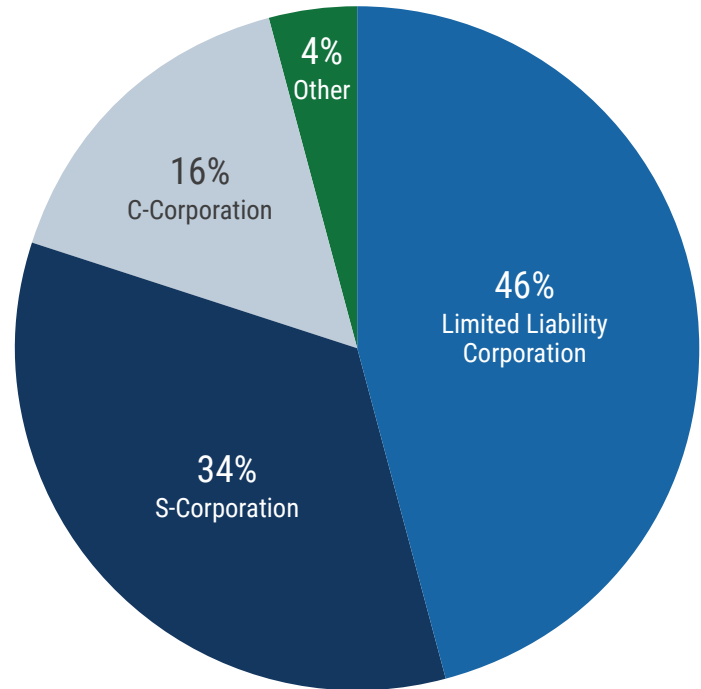
## SECTION 1

### RESPONDENT DEMOGRAPHIC DATA

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#### HOW IS YOUR BUSINESS ORGANIZED?

Business Organization: Out of the respondents, 46% identified their companies as LLCs, 34% as S-Corps, and 16% as C-Corps. The remaining 4% indicated they had another form of company organization.



A clear majority of the companies in this Minnesota respondent group, nearly 67%, reported being 100% Family Owned. This is identical to the 2017 respondent group who also came in at 67% Family Owned, and nearly identical to the National State of Owner Readiness Survey in 2013 with 66% of respondents indicating 100% family ownership.

In comparison to the US Census Bureau data, which indicates that 90% of small businesses in the US are family-owned, Minnesota shows a decrease of 23%. However, when accounting for categories like “Family Owned with Outside Ownership” and “Outside

Ownership Controlled,” the statistics rise to 89%, indicating they are owned in part or whole by family. Among the respondents, 17% indicated their companies were family-controlled with outside ownership, and 5% reported being family-owned but controlled by outsiders.

Examining the family companies further, 52% were in the 1st generation, 34% in the 2nd generation, and nearly 13% in the 3rd generation. Furthermore, 64% of these companies were started from scratch rather than being gifted or purchased from family members or third parties.

A photograph of a business meeting. In the foreground, a wooden table is covered with various business documents, including bar charts, pie charts, and spreadsheets. Several colorful sticky notes (pink, green, yellow) and paper clips are scattered across the papers. In the background, a person in a white button-down shirt stands with their arms crossed, looking towards the camera. To the left, another person's arm and hand with a watch are visible. A laptop is partially visible on the right side of the table. The overall scene is brightly lit, suggesting an office environment.

## SECTION TWO

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# ANALYSIS AND RELEVANT OBSERVATIONS

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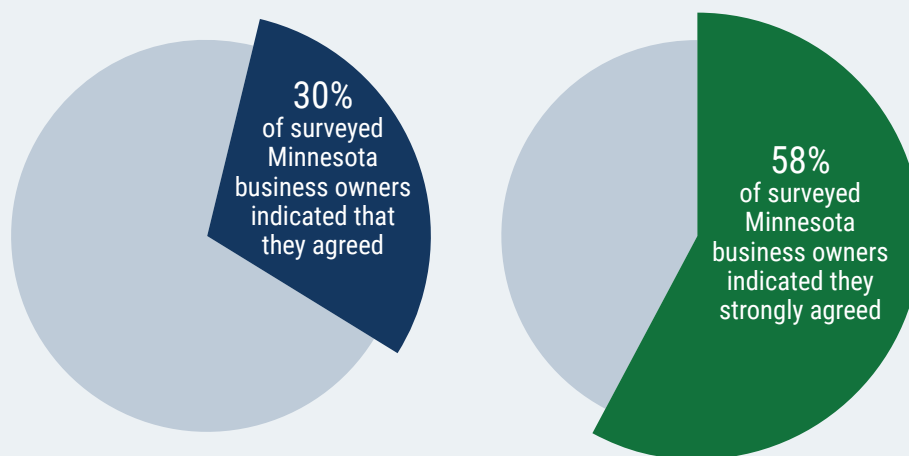
## SECTION 2

### ANALYSIS AND RELEVANT OBSERVATIONS

Throughout the United States, a significant number of small to lower middle market business owners and their companies find themselves ill-prepared for the exit process. This lack of preparedness is evident in various M&A studies, research, and State of Owner Readiness Surveys conducted nationwide, revealing that around 70% of business sales transactions ultimately fail. Even for the fortunate 30% who manage to successfully sell their companies, a startling 75% of owners experience profound regret just a year after the sale, as reported by PricewaterhouseCoopers (PwC).

As you read through this State of Owner Readiness Report from Minnesota bear in mind, this statement:

*“Having a transition strategy is important both for my future and the future of the business”.*



However, even before reaching the eventual exit, approximately 50% of business owners are forced into involuntary exits due to factors such as partner disagreements, company stress, unforeseen circumstances like death or disability.

As we delve into the State of Owner Readiness Report from Minnesota, let us keep in mind the significance of having a well-thought-out transition strategy, which not only impacts the owner's future but also shapes the future of the business itself.

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## SECTION 2

### ANALYSIS AND RELEVANT OBSERVATIONS

Throughout the 10-year history of the State of Owner Readiness Survey, all research projects have consistently shown this disconnect between the agreement on the importance of transition planning and the actual actions taken by business owners to prepare for an exit.

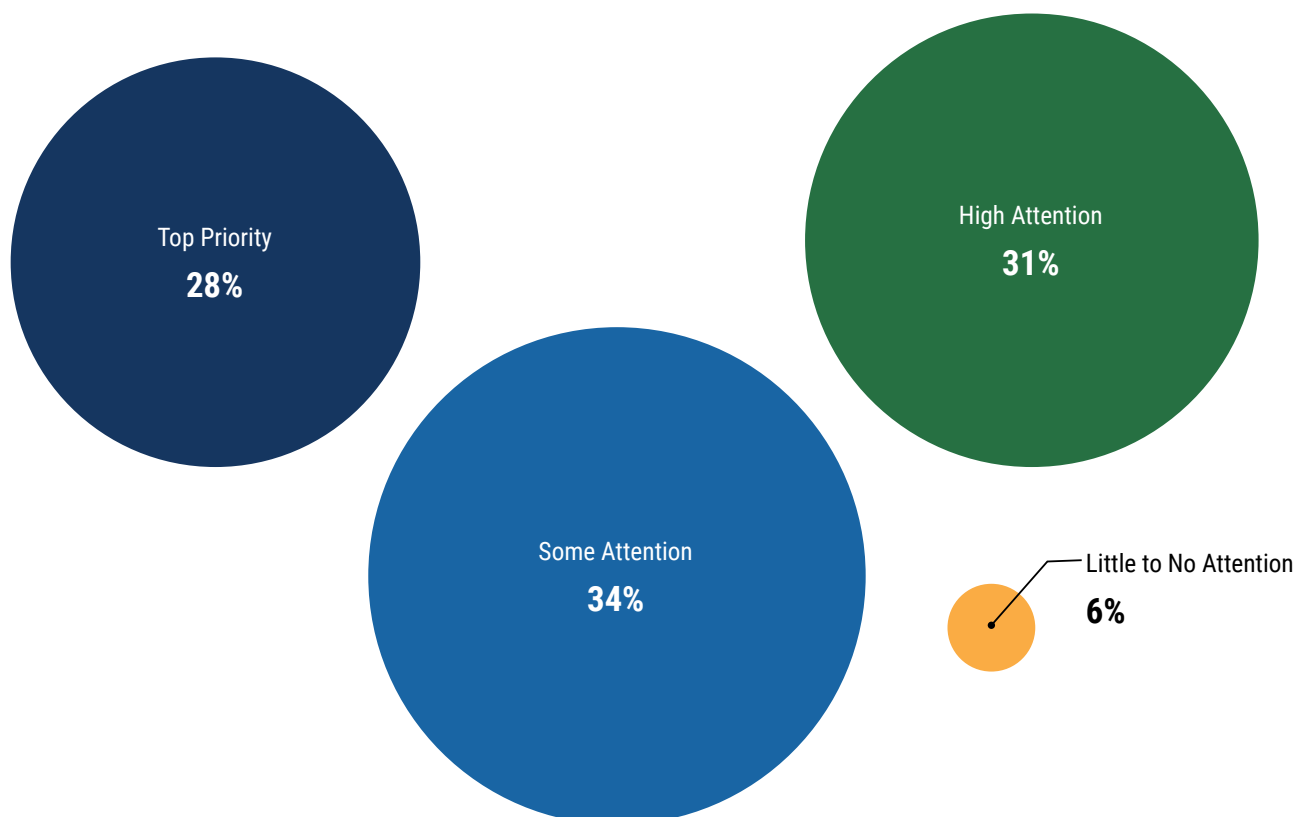
However, in the State of Minnesota, the business owner respondents to this survey indicate that their awareness and readiness regarding exit planning are showing growth and heading in a favorable direction.

In 2017 the business owner community within Minnesota was surveyed utilizing the same State of Owner Readiness Survey. These owners in 2017

indicated the following: though 98% of respondents indicated they agreed in some form to this statement, "Having a transition strategy is important for my future as well as the future of the business," only 6% of the owners indicated exit strategy was a top priority and nearly 25% of the owners had given exit strategy no attention. In addition, the 2017 research indicated that 43% of respondents had no plans for transition, 65% of respondents had completed no formal education related to exit strategy and value acceleration, 73% had formed no formal exit advisory team, and 65% were unfamiliar with their exit options.

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#### HOW WOULD YOU DESCRIBE THE ATTENTION YOU HAVE GIVEN TO YOUR EXIT UP TO THIS POINT?

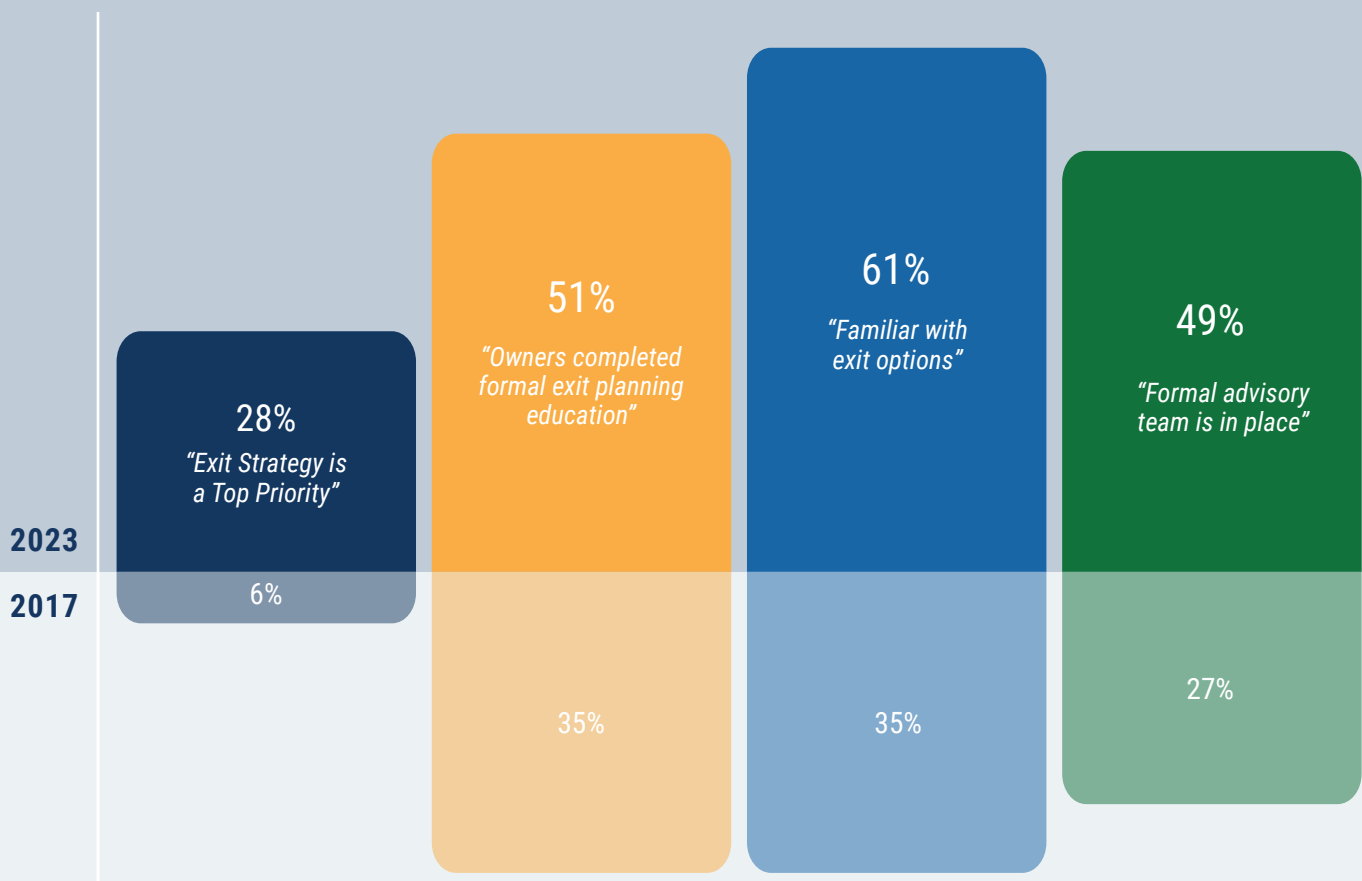


## SECTION 2

### ANALYSIS AND RELEVANT OBSERVATIONS

This 2023 Minnesota State of Owner Readiness Survey tells a different story, and much has changed over the last six years within the state. Today, business owner respondents indicated they still agree that having an exit strategy is important to success and they are putting action behind this statement. 28% of respondents said exit strategy was their top priority and 65% said they have given this some or high attention. 51% of respondents have completed exit strategy and

value acceleration education, up nearly 20% from 2017. 66% of business owner respondents indicated that they have sought outside advice on exit strategy and 61% indicated they were familiar with their exit options. This exit option awareness is an increase of nearly 30% from 2017. While 49% of business owner respondents indicated they have formed an exit advisory team, only 27% of respondents in 2017 had formally put this team in place.



Perhaps one of the most significant aspects of the 2023 business owner respondents is that a remarkable **94% of them claimed to have some form of an exit strategy in place**. Notably, 30% of respondents reported having their strategy formally written and documented. This represents a substantial increase of 37% compared to the 2017 business owner respondents.

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## SECTION 2

### ANALYSIS AND RELEVANT OBSERVATIONS

**Why are there such favorable exit strategy statistics within Minnesota?**

**Three theories come from a reflection into this data and the history of exit planning awareness:**

- 1) Market changes**
- 2) Statewide growth of the exit planning community**
- 3) National exit planning awareness**

First, the market has changed both nationally and regionally. In 2017, nearly 60% of the small to lower middle market privately held companies in the United States of America were owned by baby boomers. In the 2017 State of Owner Readiness Survey conducted within Minnesota, 43% of the respondents indicated they were baby boomers. Today, nationally that statistic has dropped to 51% and in the Minnesota State of Owner Readiness Survey it has dropped to 27% of respondents indicated they were 58 to 76 years old.

#### **Why is this relevant?**

In 2023, 71% of survey respondents were 57 years old or younger which places this group of people in the Millennial or Gen X generations. Studying the generational characteristics of these groups helps to provide insights into their exit readiness.

According to the WMFC Generational Differences Study, the Gen X generation tends to prioritize work-life balance, leverage technology for efficient work, and adopt a conservative approach to saving and investing. They are also more likely to have multiple exits along their entrepreneurial journey. These characteristics suggest that they may have a stronger

and more holistic approach to exit strategies, focusing on a balance between business, personal, and financial goals.

Furthermore, over the past two years in the United States, many baby boomer owners have transitioned their companies, motivated by factors such as high valuations and a favorable market for selling, health considerations, age, and economic outlook. Considering the age range of the baby boomers within the respondents, exit strategy is likely top of mind, especially since the youngest among them will reach 63 years old within the next five years. This is the exact age, according to the Ernst & Young Family Business Study, that the average baby boomer business owner begins to think about their transition. 27% of the baby boomers represented in this study will be 63 in five years, this may explain, in part, why 66% of respondents expressed their intention to exit their companies within the next five years. Most of the owners surveyed were under the age of 57. Those owners in Generation X are more likely to have multiple business exits in their lifetime. These multiple exits create a boomerang effect as the owners have more intention to build and leave their businesses than older generations



## SECTION 2

### ANALYSIS AND RELEVANT OBSERVATIONS

The second reason for the improved exit readiness among Minnesota business owners is the strong presence of the exit planning community, comprising skilled professionals, and heightened awareness of exit planning within the state. Within the Exit Planning Institute® (EPI) community, there are over 1,100 active advisors dedicated to assisting business owners within Minnesota. Impressively, 100 of these advisors hold the Certified Exit Planning Advisor® (CEPA) credential, signifying their expertise in guiding business owners through successful exits.

The Twin Cities Metro Area Chapter of the Exit Planning Institute has been active for seven years, consistently organizing annual educational events specifically for business owners and their teams. These events include the highly impactful Business Owners Forums held annually for the last five years. Moreover, prominent organizations such as the Financial Planning Association of Minnesota, the Small Business Development Center of Minnesota, the Association of Corporate Growth Minnesota, Upsize Magazine Minnesota, and the University of St. Thomas Family Business Center in Minneapolis have all made notable and impactful contributions to the exit planning space since the 2017 release of the State of Owner Readiness Survey.

Lastly, the knowledge and recognition of exit planning and the exit planning profession have witnessed remarkable growth both nationally in the United States and worldwide since the 2017 State of Owner Readiness Survey. This surge has made exit planning a commonly discussed topic, with all major advisory brands incorporating exit planning language and services into their practices. Moreover, the top 10 accounting firms in the United States have fully embraced exit, transition, and succession services for business owners, while numerous leading financial services firms have invested substantial resources in developing this particular segment.

Significantly, since 2017 UBS Financial Services, Inc., Bank of America, Merrill Lynch, Edward Jones, Morgan Stanley, Raymond James, JPMorgan Chase & Co., Wells Fargo Bank, Truist Financial Organization, and PNC Financial Services, among others, have officially endorsed the Certified Exit Planning Advisor (CEPA) credential offered by the Exit Planning Institute. The CEPA community has also witnessed substantial growth, with the number of CEPAs rising from 540 in 2017 to an impressive 5,000 in 2023. This remarkable tenfold increase in the CEPA community may be attributed to the extensive contribution of experts over the past six years through the creation of books, podcasts, and whitepapers on the subject. Lastly, it is worth noting that the search results for “exit planning” on major search engines like Google have surpassed 1 billion.

### CEPAS IN THE MARKETPLACE

2017



One person = 100 CEPA@s

2023



## SECTION 2

### ANALYSIS AND RELEVANT OBSERVATIONS

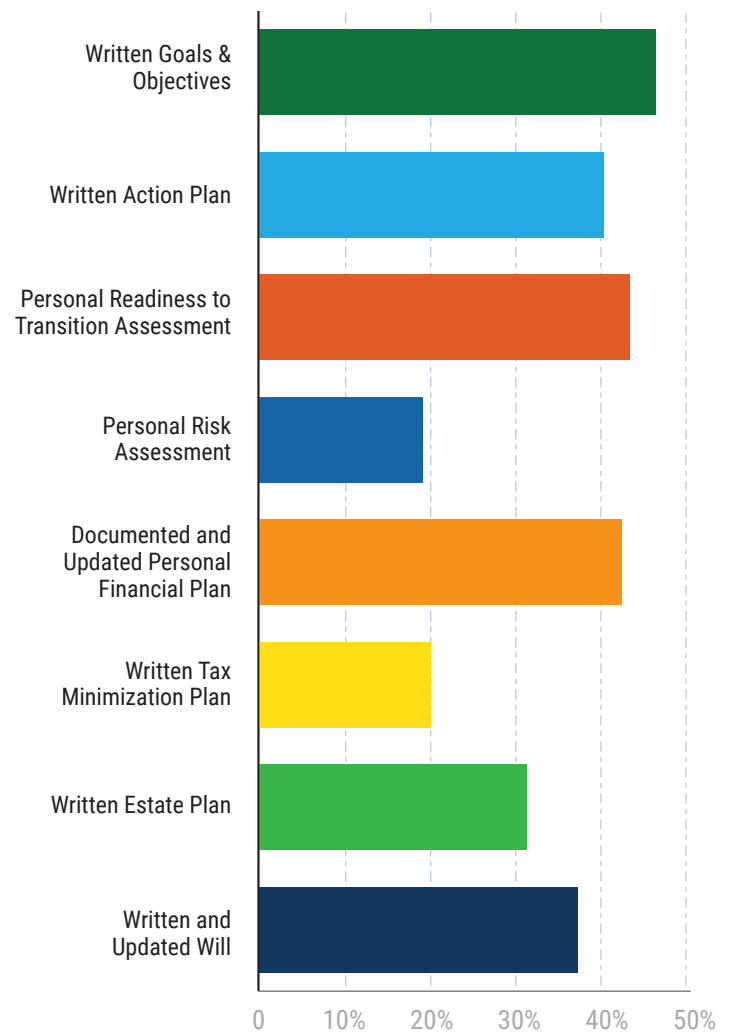
The community-based approach to education and awareness in helping business owners prepare for their eventual exit from their companies has undoubtedly influenced the readiness statistics in a more favorable and positive direction. Studying the business owner respondents, it appears that they have come to recognize that an exit strategy involves holistic planning encompassing three critical elements: business, personal, and financial aspects in order to have not only a successful, but a significant exit. These elements are broken into two concurrent paths: the personal path, which embraces the personal and personal financial planning, and the business path.

#### The Personal Path

A PricewaterhouseCoopers study reveals that many business owners in the US find themselves unhappy post-transition after selling their companies, with 75% of them experiencing profound regret just a year after the sale. However, in the 2023 Minnesota State of Owner Readiness Survey, nearly 94% of business owner respondents stated that they had at least thought through and had an idea of what their next phase of life would look like after selling and transitioning their companies. Additionally, 30% of respondents indicated that they had a formal, written plan for their life post-exit.

These statistics show a significant improvement compared to the 2017 Minnesota State of Owner Readiness Survey, where only 5% of respondents had a formal, written plan, and nearly 25% had not done any planning at all. Furthermore, compared to the national averages from all regional State of Owner Readiness Surveys, 75% of business owners stated they had at least thought through and had an idea of what comes next. Out of that percentage, 9% had a formal, written plan, and 25% had no plans at all for their post-exit life.

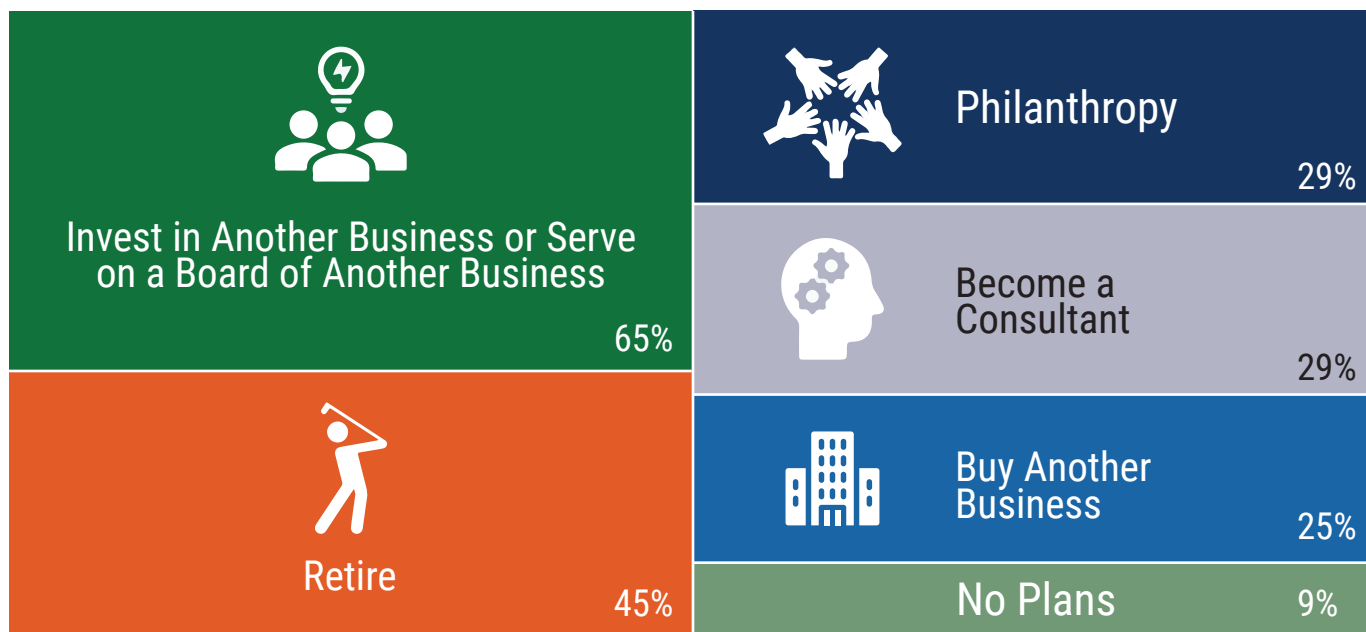
Among the 30% of respondents who indicated having formal, written plans in the 2023 Minnesota State of Owner Readiness Survey, they highlighted eight crucial areas included in their plans. The top three most important areas considered by business owners in their written personal plans were written goals and objectives for their next phase of life, a formal personal readiness assessment, and an active and updated personal financial plan. Additionally, a written will and a written estate plan were also deemed important by these owner respondents.



## SECTION 2

### ANALYSIS AND RELEVANT OBSERVATIONS

#### What are they planning to do once they exit their businesses?



When these respondents were asked what they would do personally in their post-transition life the number one answer was retirement which can be tied back to the generational characteristics. In a post-pandemic world, baby boomers have indicated that slowing down would be attractive while Generation X has natural characteristics that lead us to believe they would also slow down and balance out their life. Though 91% of respondents indicated they would be interested in getting involved with a company in some way, indicating they were interested in buying another business, investing in another business, serving on a board of advisors for a business, or starting a consulting practice.

Regarding personal readiness for transitioning away from their businesses, 69% of the 2023 survey respondents considered themselves above average

in preparedness. An additional 18% felt “completely ready.” Conversely, 16% acknowledged being at risk and felt unprepared for the personal aspect of transitioning away from their businesses.

Family plays a vital role in personal readiness for many business owners, whether their company is family-owned or non-family-owned. The research uncovered that 55% of owners surveyed reported that their families were aware of their transition plans and engaged in regular family meetings. Of the respondents, 53% met with their families more than once per year, while a significant 83% held what they considered “regular meetings” with their families to discuss the transition process.

## SECTION 2

### ANALYSIS AND RELEVANT OBSERVATIONS

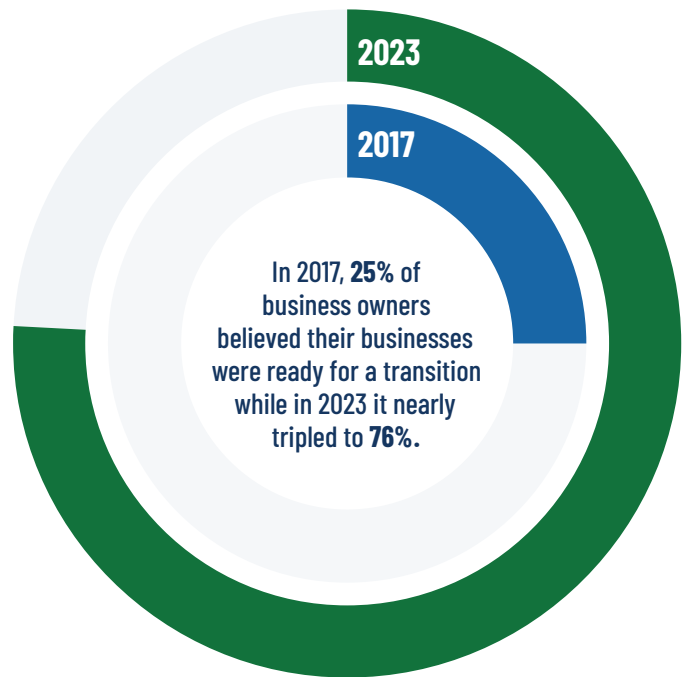
#### The Business Path

Harvesting the value from the owner's company is critical for their overall master plan. The business typically equates to nearly 80% of the owner's total net worth. When the business owners were asked "how ready do they think their company is to transfer to a new owner?" 76% of the respondents indicated that the company was ready in some form for this transfer, while only 5% said their company was not ready at all.

In the 2017 Minnesota State of Owner Readiness Survey, only 25% of business owner respondents believed their businesses were ready for an eventual transition. However, over the past six years, this statistic has undergone a remarkable transformation, nearly tripling to 76% in 2023. This significant increase is not surprising, given the earlier statistics regarding business owners' knowledge of and active participation in exit strategy.

Furthermore, 51% of respondents had completed formal education in exit strategy, and close to 70% sought outside advice from their advisors on exit planning. This represents a substantial shift compared to the 2017 survey, where 23% of respondents indicated a score of "1," signifying that their companies were entirely unprepared for a transfer. In contrast, only 5% in the 2023 survey expressed similar unpreparedness.

When comparing business readiness to the national average, Minnesota business owner respondents surpassed the norm. 14% of business owners nationwide believed their companies were above average in readiness for transfer to a new owner, while the national average for the score "1" (completely unprepared for transfer) was 28%.

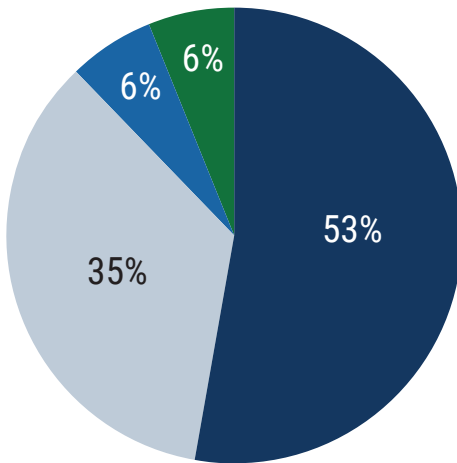


**Notably, 28% of respondents in the 2023 survey identified exit strategy as their top priority, while an impressive 93% had given considerable attention to exit planning.**

## SECTION 2

### ANALYSIS AND RELEVANT OBSERVATIONS

#### DOES YOUR TRANSITION PLAN REQUIRE THE COMPANY REMAIN PROFITABLE FOR YOUR PLAN TO BE PROPERLY EXECUTED?

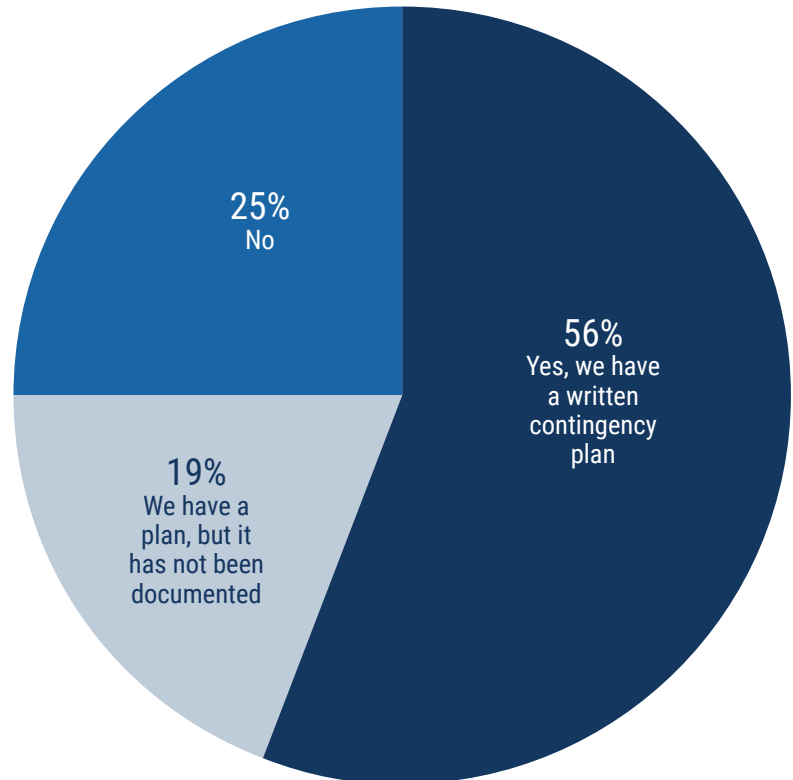


- Yes, critical for the company to be successful for the ownership transition
- Yes, it helps if the company is successful for the ownership transition
- No, ownership transition is not really affected by success of company
- I do not have a transition plan

Recognizing the critical importance of protecting value, 88% of Minnesota business owner respondents in the survey stated that their companies needed to remain profitable for their plans to be successfully executed. Of that group, 53% considered profitability to be a critical factor for success.

American business owners have roughly 80% of their wealth trapped inside of their company. In part, how do business owners protect their short-term growth and profits and long-term value? The owner should have appropriate contingency plans in place. Perhaps lower than expected given the assumed general readiness

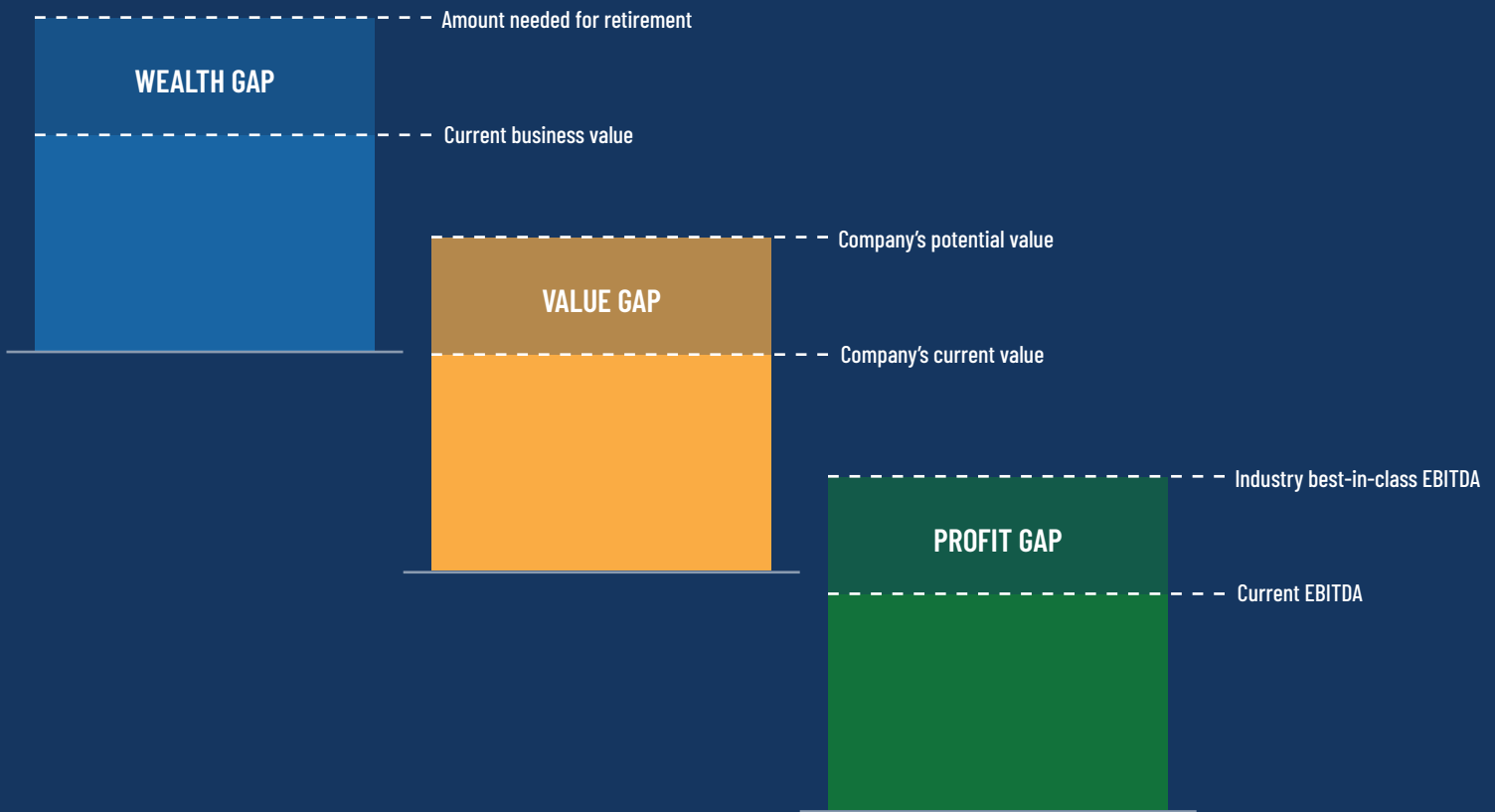
#### DO YOU HAVE A DOCUMENTED CONTINGENCY PLAN IN PLACE FOR THE BUSINESS WHICH ADDRESSES THE POSSIBILITY OF A FORCED TRANSITION CAUSED BY DEATH, DIVORCE, OR DISABILITY?



of the 2023 survey respondents and their assumed exit planning knowledge, only 56% of respondents indicated they had a formal, written, and documented contingency plan. However, this is 16% better than the national average, where 40% of business owners surveyed indicated their contingency plan was formal, written, and documented. As determined in the 2017 Minnesota State of Owner Readiness Survey, 14% of owners had formal, written, and documented contingency plans.

## SECTION 2

### ANALYSIS AND RELEVANT OBSERVATIONS



Apart from the Wealth Gap, business owners also face two other significant gaps specific to their companies: the Value Gap and Profit Gap. The Value Gap is the difference between the company's current value and its potential value, whereas the Profit Gap signifies the difference between the company's current EBITDA (earnings before interest, taxes, depreciation, and amortization) and the best-in-class EBITDA within their industry.

Understanding these gaps and the overall value of the company is crucial for shaping an effective exit strategy. It not only leads to short-term benefits like higher profits year-over-year, employee retention, and customer diversification but also holds strategic long-

term value for the company. In the survey, business owners were asked how well they understood the current value of their company. Impressively, 58% of respondents indicated they had a formal business valuation within the last two years, a significant improvement compared to the national average, where only 10% of business owner respondents reported having had a formal valuation done within the same timeframe. However, considering the higher level of exit planning awareness among these respondents (nearly 95% of whom have given exit strategy some level of attention, and nearly 70% have sought outside advice), the number of owners with formal business valuations seems slightly lower than expected.

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## SECTION 2

### ANALYSIS AND RELEVANT OBSERVATIONS

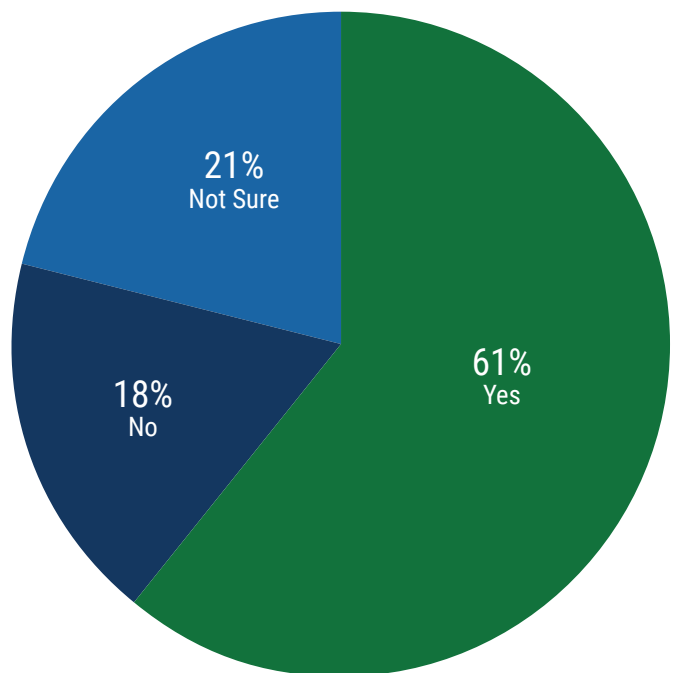
A focus on growth and value are key elements to overall success. Christopher Snider, CEO of Exit Planning Institute, author of *Walking to Destiny*, and creator of the Value Acceleration Methodology, said, “a company that is not ready to grow, is not ready to exit.”

The 2023 Minnesota State of Owner Readiness Survey respondents seem to comprehend this concept. 52% of them shared they had a formal value growth project implemented within the last two years, while 54% indicated that their management team was actively focused on growing the value of the business by regularly measuring and formally keeping track of its value. Additionally, 39% stated that their management team was aware of the current value of the company, and 42% had incentives tied specifically to value growth. Only 9% of respondents said that growing the value of the business was not a goal or plan for their management team. When asked about their comfort level with their management team’s ability to succeed under new ownership, 58% of respondents specified they were “very comfortable,” while 31% expressed some concerns.

The blended focus on business, personal, and financial aspects, coupled with the focus on value growth by both business owners and their management teams, positions these businesses for multiple potential exit options. A positive path given 61% of the surveyed business owners said they were familiar with their exit options. A statistic that has nearly doubled since the 2017 State of Owner Readiness Survey within the state where 35% voiced they were familiar with their exit options. As compared to the national average where 38% of business owners shared that they were familiar with the available exit options.

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#### ARE YOU FAMILIAR WITH ALL OF YOUR TRANSITION OPTIONS?



## SECTION 2

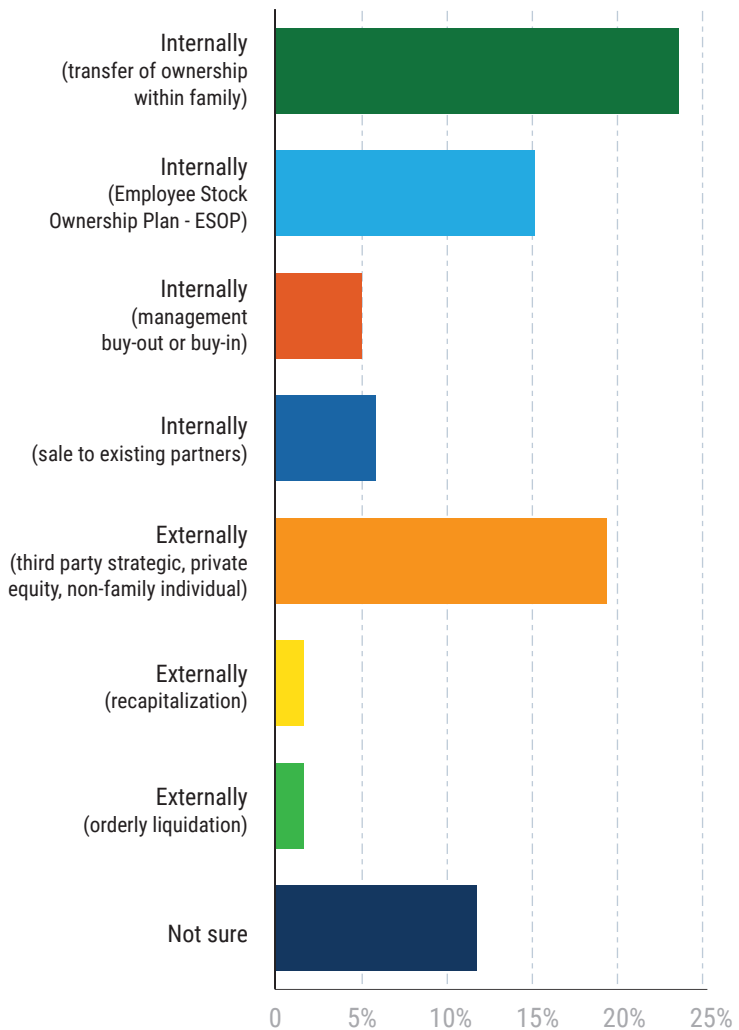
### ANALYSIS AND RELEVANT OBSERVATIONS

When the 2023 Minnesota State of Owner Readiness Survey respondents were asked to dive deeper into those exit options, 57% expressed a preference for an internal exit, indicating their intention to transition the business to someone within their company. 27% preferred an external exit, meaning they were open to selling the business to an outside buyer. Additionally, 16% acknowledged being familiar with their options but were unsure about the best choice for their company. The impact of exit planning awareness campaigns and education for business owners is evident in the increased familiarity with exit options. In the 2017 State of Owner Readiness Survey in Minnesota, 32% of business owners stated uncertainty about the right option.

The preference for internal transitions stands out as unique in this survey. The national average for the internal exit option preference is 32%, whereas in 2023, the statistics heavily leaned toward family business transitions, accounting for nearly 50% of the total internal preference respondent group. It's not surprising, as 66% of these respondents stated they were 100% family-owned, with an additional 17% having a blend of family and outside ownership but family-controlled. Furthermore, 24% of internal option respondents favored an Employee Stock Ownership Plan (ESOP) as their preferred choice.

Given the heavy focus on family transition, the family should approach the transition of their company with the same vigor as they would if they were planning to sell it to a third party. Statistics collected by the Family Firm Institute find that only 30% of companies are successfully transferred into the second generation and only 12% into the third generation. 52% of 2023 surveyed business owners stated their company was still in the first generation.

#### What best describes how you are planning to transition?





## SECTION 2

### ANALYSIS AND RELEVANT OBSERVATIONS

Surprisingly, given the strong family presence that seems to exist in this surveyed group, 25% of respondents indicated that no family members would fill any key positions going forward post-exit, though 66% shared they were 100% family owned and 50% preferred a family transition. This may show that though family owned, operational management may be filled by non-family executives.

Exiting a company is one of the biggest and most challenging things a business owner will do in their life. Effective exit planning is accomplished through a set of outside resources including a board of advisors and a professional advisory team. This team is focused on value growth and the alignment of the business, personal, and financial goals of the owner. Improving the use of outside resources would likely result in an increase in significant companies which in turn results in more impactful exits and higher valuations.

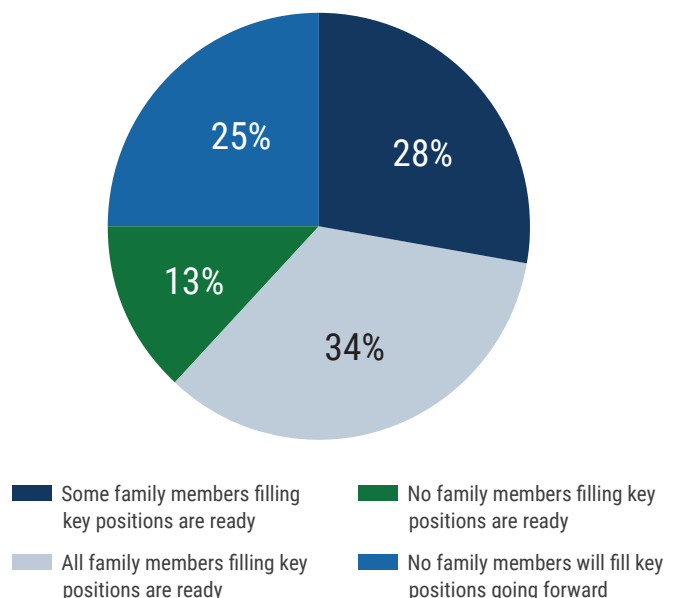
From the State of Owner Readiness Surveys, it has been observed that utilizing outside resources and having an active board of advisors correlates with better planning and preparation, with a greater focus on maximizing business value. Although the business owner respondents in the 2023 Minnesota State of Owner Readiness Survey show unique awareness of exit strategy and its components, and their personal and business readiness is above the national average, they have not yet taken the formal steps to assemble an exit planning team. However, they do indicate that they are utilizing outside advisors.

In the survey, 51% of the respondents shared that they had not formed an exit planning advisory team, and 52% said they had no board of advisors. Nevertheless, this is an improvement from 2017, where 72% of business owner respondents had not formed an exit planning advisory team. Moreover, the Minnesota respondents fare better than the national average, which shows that 70% of business owners have not formed a team to focus on exit strategy.

Among the 2023 respondents, 17% of the business owners did mention that their board of advisors served as their exit planning advisory team. While the board of advisors plays a crucial role and often leads to higher valuation and better company performance, requires a different set of skills and insights than those needed for the exit planning process. Both teams, the board advisors and the formal exit planning advisory team, are important because they have distinct roles in supporting the business owner. For the business owners in the State of Minnesota, this area represents an opportunity for focus and improvement.

Analyzing the 33% of business owner respondents who stated they had formed a formal exit planning advisory team, it was found that the business owner's attorney was the most common member of this team, with 67% of respondents including them. This was followed by Financial Advisors at 58% and the business owner's CPA at 45%.

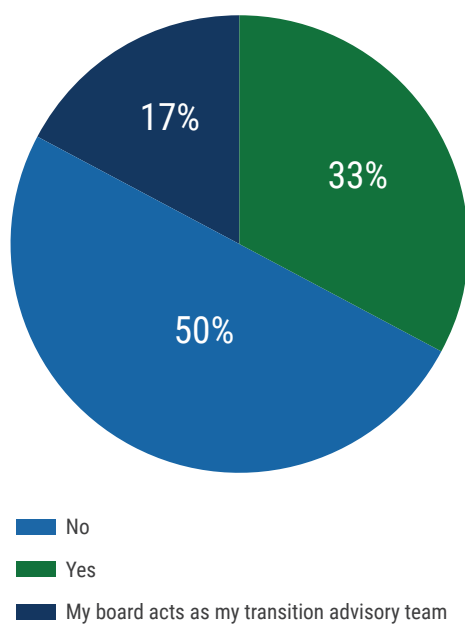
#### IF MANAGERIAL PLANS INCLUDE KEY POSITIONS BEING FILLED BY FAMILY MEMBERS, HOW WOULD YOU ASSESS THEIR LEVEL OF READINESS FOR THIS RESPONSIBILITY?



## SECTION 2

### ANALYSIS AND RELEVANT OBSERVATIONS

#### HAVE YOU ESTABLISHED A FORMAL TRANSITION ADVISORY TEAM?



The survey then asked the Minnesota business owners, regardless of if you have formed an exit planning advisory team or not, “Who is your most trusted advisor?” Though 67% of the respondents indicated their business attorney had a place on the exit planning team, only 19% of the respondents said the attorney was their most trusted advisor. In fact, the most trusted advisor to the surveyed owners was the financial advisor, with 24% of owners selecting this advisor. This was followed by the attorney and then the business owner’s peer group of fellow business owners coming in third with 14% of the respondents. In summary the top three most trusted advisors to the business owner are the financial advisor, the attorney, and the business owner’s peer group.

The preference for the most trusted advisor has undergone a dramatic shift since the 2017 Minnesota State of Owner Readiness Survey. In that survey, 36% of the business owners surveyed said their CPA was the most trusted advisor. Whereas, in 2023 the owners that selected the CPA had dropped to only 12%. The national average also states that 33% of business owners said their CPA is the most trusted advisor though this statistic is dropping when compared to recent regional research. In the 2021 New York City State of Owner Readiness Survey only 9% of business respondents selected the CPA as their most trusted advisor and in the 2022 Colorado State of Owner Readiness Survey 18% of owners shared the same.

While the business owner’s attorney has maintained a consistent position in both national and regional research, the financial advisor has moved towards the top of the most trusted list. In the 2017 Minnesota State of Owner Readiness Survey, only 10% of owners considered their financial advisor as the most trusted, which was the same as the national average. However, in the 2013 National State of Owner Readiness Survey, the first of its kind, this figure was at a mere 4% of owner respondents who selected their financial advisor as their most trusted. As highlighted earlier, in the 2023 Minnesota survey, the financial advisor has now become the most trusted advisor among these business owner respondents.

Two possible theories may explain this shift. First, across the United States the financial services profession has made significant and impactful strides into the exit planning space over the past eight years, engaging in research, producing educational content, hosting owner-focused events, and investing resources to prepare financial advisors in the field. Their efforts have aided business owners in aligning their company’s value with personal financial plans, addressing their Wealth Gap, and becoming better prepared for a transition from business ownership.

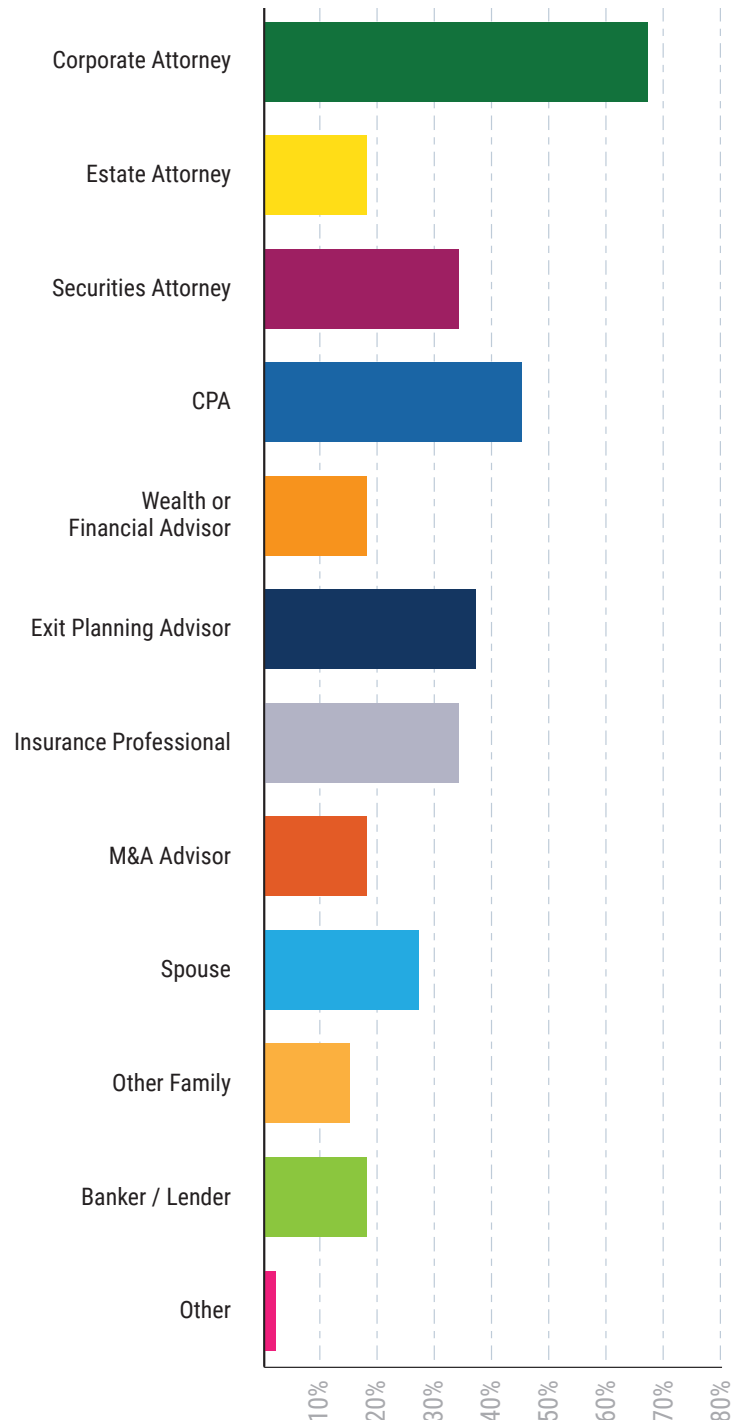
Secondly, studying the business owner respondents to this 2023 survey, we find that 33% of respondents would fall into Generation X, between the ages of 42 and 57. When studying general characteristics of people who fall within Generation X, we find that they are careful and steady with their investing while believing in a work-life balance.

## SECTION 2

### ANALYSIS AND RELEVANT OBSERVATIONS

In an Investopedia study, 80% of Generation X respondents indicated they had an intermediate or advanced knowledge of personal finance fundamentals. In a recent AARP study, the same Gen Xers indicated they are pessimistic about their financial future. Another impactful group to study is the 27% of respondents to the 2023 Minnesota State of Owner Readiness Survey who indicated they were ages 58-76. Here, in this baby boomer generation, you can find views of financial planning that are conservative and confident. According to a study conducted by Investopedia, 83% of boomers indicated they were at least somewhat confident in managing their finances. Remember the note from earlier in this report from the Ernst & Young study which stated that the average baby boomer business owner starts to think about their transition from the company at 63. The combination of the generational characteristics of the Gen Xers with the age range of the baby boomer from this specific 2023 Minnesota State of Owner Readiness Survey could naturally sway the respondents to lean towards the financial advisor being their most trusted advisor. First, Gen Xers naturally would want to have a personal financial plan to balance their lives knowing that their largest asset is their business. Second, baby boomers would be a prime and traditional “retirement” age and are perhaps more focused on their Wealth Gap and life after business simply given their age range.

#### If you have sought outside advice, who have you sought outside advice from?

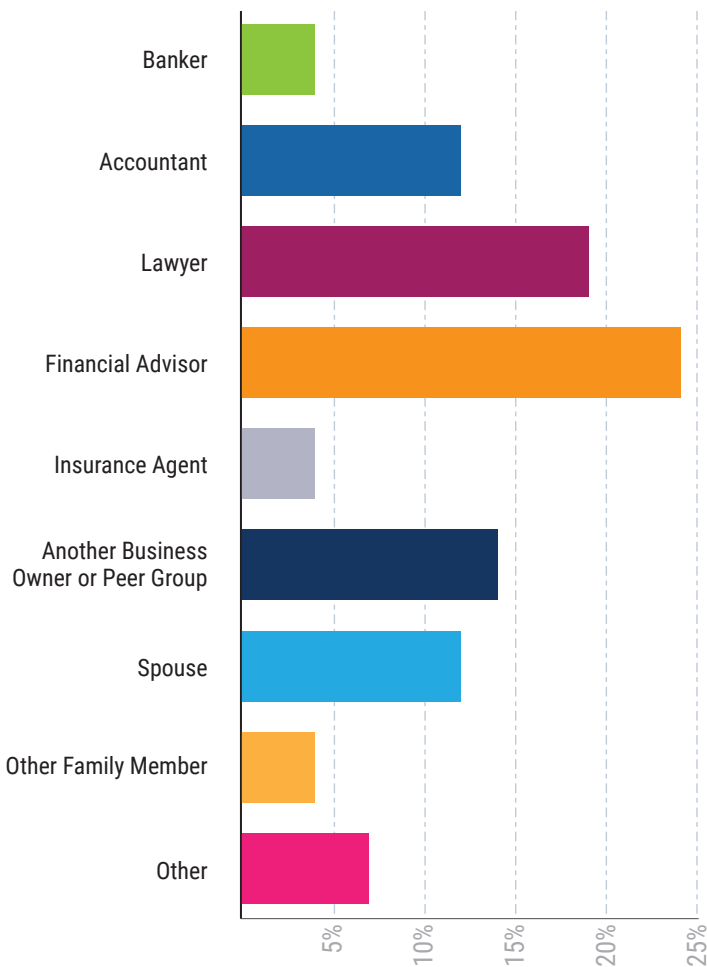


## SECTION 2

### ANALYSIS AND RELEVANT OBSERVATIONS

Coming in third on the owner respondents' most trusted advisor list was the business owners' peer groups. These are organizations where business owners can solicit advice and mingle with fellow entrepreneurs like their local chamber of commerce, Chief Executive Boards International (CEBI), Vistage, or the Entrepreneurs Organization (EO). These groups are critical resources to business owners and their teams, but just like the board of advisors, are not the business owners' transition advisory team. It is likely that the business owners inside of these owner-facing groups have similar shortfalls when it comes to exit and transition.

#### Who do you see as your most trusted advisor?



Lastly, there are two notable and unique statistics from this Minnesota group of business owners. First, 17% of owner respondents indicated the category of "other" when asked who their most trusted advisor was. The following advisor types were listed as "trusted advisors" to Minnesota business owners:

#### 1. **Themselves:**

The business owner felt that they themselves were their most trusted advisor.

#### 2. **Leadership Team:**

The business owner felt that their most trusted advisor was their CFO, the President or General Manager, or other internal team members they trusted for daily advice.

#### 3. **M&A Advisor or Investment Banker:**

The business owner felt that their most trusted advisor was their M&A Advisor or Investment Banker.

The core transition advisory team for a business owner should contain, at minimum, an attorney, CPA, financial advisor, and growth consultant. Additionally, one of these core advisors to the owner should hold an exit planning credential that trains them within a framework, process, and system such as the Certified Exit Planning Advisor® (CEPA) credential. This team should be extended with functional specialists that assist the owner when needed. These advisors can include an M&A advisor, an estate planning attorney, insurance or risk advisor, commercial banker, and family business advisors, amongst others.

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## SECTION 2

### ANALYSIS AND RELEVANT OBSERVATIONS

The 2023 Minnesota State of Owner Readiness Survey has revealed a remarkable understanding of exit strategy and a higher-than-average readiness level among business owners and their companies.

This theme emerges consistently throughout the survey results. In conclusion, we studied these business owner respondents and what their overall plans entailed. According to Harvard University, there is a direct correlation between having written plans and goals for the future and the likelihood of achieving them, with results tied directly back to the financial key performance indicators. Therefore, having written plans is crucial for success.

When examining the personal plans of the 2023 Minnesota respondents, we discovered that the top three elements included in their personal plans were:

1. Written goals and objectives
2. A personal readiness assessment
3. A documented and updated personal financial plan

Among the respondents, 52% reported that their personal financial plan was prepared by a professional financial planner. This aspect was complemented by five other crucial elements in their personal plans. Notably, 70% of owners had calculated the precise amount they needed, not merely wanted, to net after taxes from their transition to support their retirement lifestyle and goals.

From a business perspective, 33% of the respondents had a formal, written company exit plan. The top three elements of these plans were:

1. Written goals and objectives
2. Written 1-year strategy
3. A formal business valuation

These elements were supported by eight other critical components in the company's exit plan. Interestingly, 57% of respondents expressed that they required the proceeds from a successful business transition to support their personal financial plan and lifestyle post-transition.

Additionally, it is also notable that while a formal business valuation was considered vital in their plan, only 58% of respondents stated they had a formal understanding of their business's value, as indicated by having a business valuation done within the last two years. Strikingly, only 19% of respondents mentioned having current recasted financial statements as part of their company exit plans. This could be attributed to the business owner's challenge in distinguishing between their real and tax numbers. The relatively low ranking of CPAs as the most trusted advisor suggest they might not be actively preparing or sharing these statements. Additionally, the business owner may not have a true understanding of their burn rate or how much cash they are spending or taking out of the business.

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## SECTION 2

### ANALYSIS AND RELEVANT OBSERVATIONS

#### Conclusion

Recall the opening data point in this section: 94% of the surveyed business owners indicated they agreed with the following statement: “Having a transition strategy is important for my future as well as the future of the business.” This data indicates a strong inclination among Minnesota business owners to actively plan for their company’s eventual transition. Their focus on exit planning knowledge and attention to planning presents an opportunity for growth and transformation.

Creating market awareness and empowering business owners to bring exit planning into the present has undoubtedly impacted the surveyed businesses from 2017 to 2023. Many of the respondents are close to exit within the next five years. Sustaining momentum in preparation, planning, and strategy across all three legs of the stool (business, personal, and financial) is critical to not only successful, but significant exit. Being aware of the need for transition is not sufficient; tangible evidence of readiness will be essential for a smooth and successful transition.

Notably, significant companies possess high value, are transferable, well-prepared, and attractive, while aligning with the business owner’s business, personal, and financial goals.

The effectiveness and impact of exit planning awareness campaigns targeted at small to lower middle market business owners are evident in this 2023 report. The deliberate and intentional effort to educate business owners in exit strategy has yielded immense results, thanks to the initiatives of the Minnesota advisory community over the last seven years, from 2016 to 2023. The EPI Twin Cities Metro Area Chapter, along with its numerous community partners and individual advisors, has spearheaded countless awareness initiatives. This has contributed to the remarkable growth of the exit planning community in Minnesota, with members increasing from 200 to 1,000. The number of Certified Exit Planning Advisor® (CEPA) holders has surged from 9 to nearly 100 within the state. The local chapter, in collaboration with its partners, conducted research in 2017 and has successfully organized the Annual Business Owner Forum for seven consecutive years.

In the subsequent section, we will explore recommended actions that business owners and their professional advisory teams can undertake to foster the growth of more significant companies.

# SECTION THREE

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## IMPACT, CONSIDERATIONS, AND ACTIONS



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## SECTION 3

### IMPACT, CONSIDERATIONS, AND ACTIONS

What theories and conclusions can we draw from this data collected through the State of Owner Readiness Survey in Minnesota and what impact does this have on the market within the state?

Assuming the average privately held company in Minnesota is worth \$8 million, the companies within the survey sample alone represent approximately \$2.6 billion in value or wealth for the business owners within this sample group alone. Utilizing the data points from this survey we can begin to form an understanding of the overall impact that transitioning business owners could have within Minnesota from both social and economic perspectives.

- 66% of business owners in this sample group indicated they wanted to transition within the next 5 years, equating to approximately \$1.7 billion in wealth.
- However, considering the national statistics suggest that 70% of companies put on the market today fail, it is estimated that \$1.2 billion of wealth would fail to transition in Minnesota.

Further conclusions utilizing data from the 2021 Small Business Profile of Minnesota Report.

- The 2021 Small Business Profile of Minnesota Report indicates there are approximately 534,000 small businesses in the state. Using the State of Owner Readiness data, approximately 352,000 or 66% of these companies would attempt to transition within the next 5 years.
- However, the Nexus Community Partners Minnesota Statistics for Businesses Report states that 80% of companies do not sell within the state, suggesting that only approximately 70,500 of the 352,000 attempting to transition would be successful.

- These 534,000 small businesses in Minnesota employ 1.3 million people within the state. This is approximately 2.4 people per small business.
- Thus these 352,000 companies attempting transition in the next 5 years would equate to approximately 846,000 employees within the state.
- Using the Nexus Community Partners statistic above, if 80% of these companies fail to exit and thus close, this could mean nearly 680,000 people may be left unemployed or at minimum in search of new employment.

**The impact of ill-prepared owners for transition is both economic and social.** If the data collected within this survey is applied across Minnesota, more than 66% of privately held companies will be looking to transition within the next 5 years. There will be immense impact if the owners cannot transition and harvest the wealth from their company. It will impact charitable intent, nonprofit organizations, and our communities. It will impact tax collection within the state and the vendors that provide goods and services to these small and lower middle market companies. And it will impact people within the state that are specifically employed by these companies.

So, what are going to do about it? If the business owner respondents to this survey are representative of business owners across the state, Minnesota is well ahead of the game in terms of exit planning awareness, and business owner readiness. Though, the actions must be a collaborative effort that involves the business owners, their employees and leadership, the professional advisory community, and the leaders within Minnesota. And the momentum that has been created must continue to build to effect positive outcomes for business owners within the state.



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## SECTION 3

### IMPACT, CONSIDERATIONS, AND ACTIONS

#### Considerations and Actions for Business Owners

Owners of privately held companies must increase their proactivity to improve transition rates and harvest their most significant financial asset. Success rates are not likely to improve if business owners view exit planning as something they do down the road when they are “ready” to transition. Rather, exit planning needs to become an imperative strategy that is integrated into the way they currently operate their company.

Exit planning is present tense. An effective exit strategy is a business tool that will create more income today, empower management teams or the next generation to take the business to the next level, create owner independence, and potentially increase the owner’s wealth by 400-500%. In other words, exit strategy is simply good business strategy.

Owners can begin by integrating the actions of a successful transition strategy into the way they run their business every day. They can accomplish this by identifying what they have now and taking risk-mitigating actions to protect their value and thereafter their wealth. By strategically building value over time, they position the business to have multiple exit options and perhaps, multiple exit events over time. Owners must always actively and holistically manage their wealth including the business before, during, and after the exit event.

The first step to an effective exit strategy begins with understanding the value of your company. Management systems must be adapted to give the owner strategy and feedback on the value of intangible assets including human, structural, customer, and social capital on a regular basis. These are called the “4Cs” and account for up to 80% of a company’s value. Most accounting and

management systems today do not provide feedback on the value of the business. Focusing on value first drives all other positive outcomes including increases in sales and profits.

Business planning should be integrated with personal and financial planning to ensure a meaningful and fulfilling exit for the owner. Identifying personal purpose, vision, and goals is essential for success in the next phase of the business owner’s life, considering that 70% of owners deeply regretted selling their company.

Furthermore, business owners must recognize and address their wealth gap, which exists for nearly all owners to some extent. To do so, owners need to envision their desired next act in life and collaborate with a professional financial advisor to create a strategy that aligns with their goals.

**This holistic and focused approach is called aligning the “Three Legs of the Stool”,** or the formal integration of personal and financial goals and plans with business planning that ultimately prepares the business owner for all possible events while creating rapid growth and wealth for the business owner.

Lastly, business owners must remember that 50% of all exits are forced, that is, they do not occur on the owner’s terms or timeline. These exits are the result of what is referred to as the “5Ds”. These are death, disability, distress, disagreement, and divorce.

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## SECTION 3

### IMPACT, CONSIDERATIONS, AND ACTIONS

In summary, if the business owners within Minnesota want to rapidly grow the value of their company while creating significant wealth for themselves and their families the owners must:

1. **Continue to Immerse Yourself in Education.**

51% of respondents in Minnesota said they had completed formal education in value acceleration while 66% had sought advice. There are resources across Minnesota and nationally through the Exit Planning Institute® to educate business owners. Continue to understand new strategies, lean into your exit planning advisory teams, and the many educational forums provided by groups within the state. Attend local events produced by the Twin Cities Metro Area Chapter of the Exit Planning Institute® including their annual Business Owners Forum event held each fall.

2. **Identify and Understand the Value of Your Company.**

The business owner must understand their Profit Gap and Value Gap at any given time regardless of which business cycle they are in. The path to a higher valuation starts with knowing where you are today. Understanding the value of your company today will drive improved results such as happier employees, more net profit, and more new revenue in the short term, while building strategic value in the future.

3. **Concentrate on Value and Income Generation.**

Many business owners today are concentrated on income generation. Just because the business generates good income does not mean the company has a high valuation. Integrating exit strategy and value enhancement into your daily business operations will allow the business owner and their teams to focus on both value and income.

4. **Identify Personal Purpose.**

According to a study from the Proceedings of the National Academy of Sciences (PNAS), nearly 75% of Americans state they have no clear sense of purpose or meaning in their life. Understanding personal purpose will allow the business owner to understand their vision for the next phases of their life. An owner's personal purpose is crucial to understanding their Wealth Gap and implementing their personal financial strategy.

5. **Establish a Team.**

It takes a village to raise a child. Growing value while aligning the business owner's personal and financial goals and objectives is complex and something not executed alone. Ensure that at least one of these advisors is certified in this process. These advisors are called CEPAs, Certified Exit Planning Advisors®, and hold the training, resources, and network to help the owner create the appropriate strategies to rapidly grow value and unlock wealth.

By consistently executing these actions and following the overall exit planning process, business owners can protect, build, and harvest business value, positioning themselves to unlock wealth in their business effectively, regardless of the economic climate.

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## SECTION 3

### IMPACT, CONSIDERATIONS, AND ACTIONS

#### Considerations and Actions for Advisors

The exit advisory community is growing. It is an evolving cross-functional profession including core and functional advisors across multiple disciplines and with varying expertise. This profession is driven by the rapidly approaching baby boomer generation that is more immediately in search of harvesting the value of their company. And is followed by the multiple generations of entrepreneurs who continue to build and grow their companies with an eventual, hopefully planned, and significant, exit in mind. The professional advisor community can help business owners change their outcome.

The local advisory community has undoubtedly made an impact within Minnesota over the last six years. It has been felt and seen. Continue the momentum. An effective exit strategy is holistic in its approach and takes 3 to 5 years to appropriately execute. Professionals who can help grow value, unlock wealth, align personal goals, and position the business and the owner for transition success are needed. The owners surveyed within this report have shown they are willing and able to learn and grow while integrating key elements of successful exit strategy into their business and lives. Exit planning education and awareness should be driven by the most trusted advisors and supported by the functional key advisors to this overall strategy.

Learning from this survey data the professional advisor community should take and focus on three immediate actions.

#### 1. Education

Clearly, from this sample group, education on effective exit strategy is welcomed. Creating content and programs that business owners could interact with and attend would help professional advisors connect and educate the business owner community within the state. Creating educational programs that allow them to not only learn from the expert professional advisor, but also to share these insights amongst each other is likely one of the most effective educational platforms advisors can build. Remember the third most trusted advisors to these respondents were the owners' peer groups.

#### 2. Collaboration

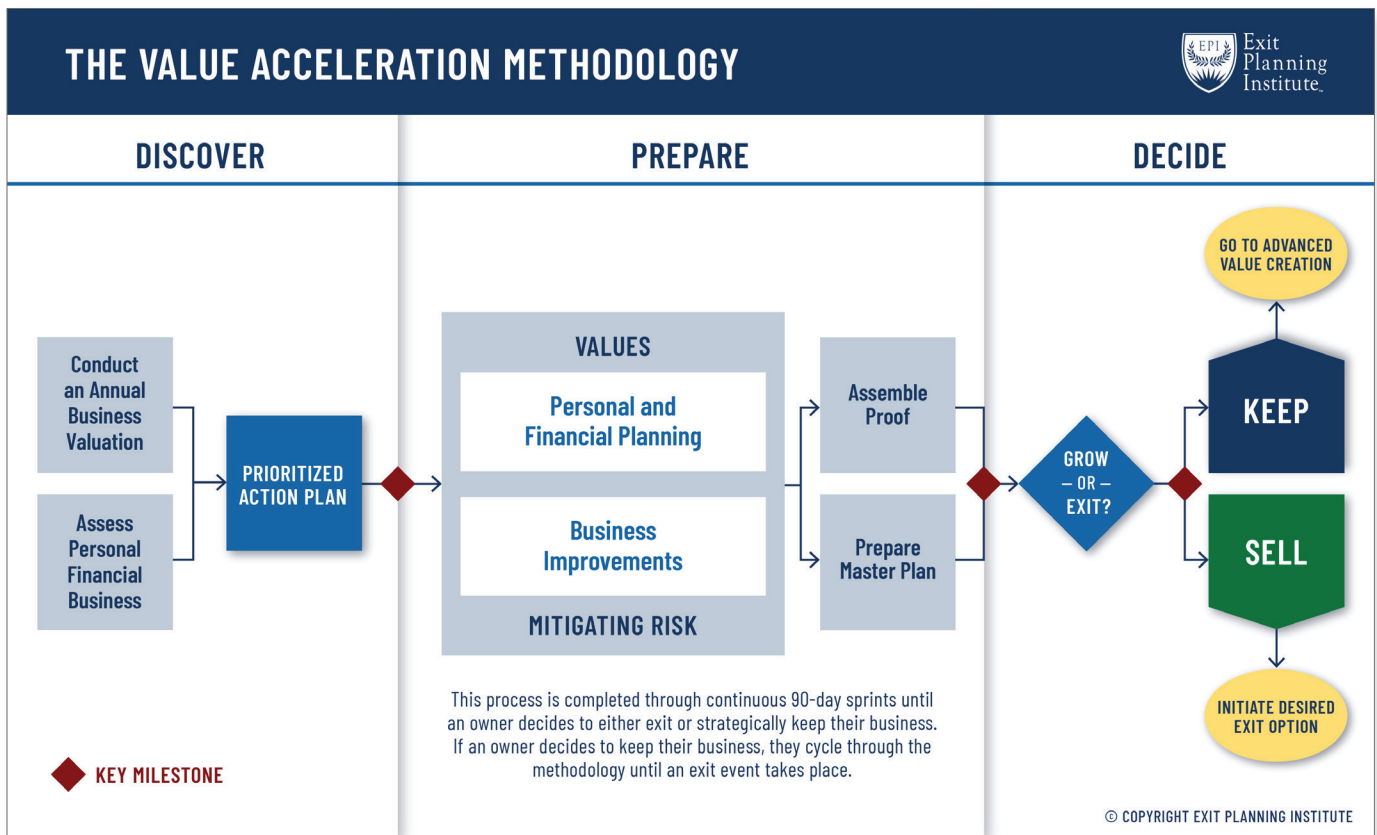
Undoubtedly exit planning is a team sport. Through this State of Owner Readiness Research, we can begin to see the many facets an effective exit strategy involves. An exit planning team features a core team and advisors with elements of financial advisory, accounting, legal, and value growth to the family. This team also includes advisors to manage potential exit options that would include private equity and investment bankers or business brokers. In addition, the more traditional professional advisors are surrounded by more functional specialists that allow the business to grow with value in mind or allow a business owner to develop their personal goals and objectives. These advisors could be people like life coaches, executive coaches, marketing consultants, IT or cyber security professionals, or human resources and leadership professionals. All these advisors drive both income and value to the company or business owner. As such, each advisor should take a value, not just income, approach to their advisory practice.

# SECTION 3

## IMPACT, CONSIDERATIONS, AND ACTIONS

### 3. Common Framework

The community and market overall need to adopt a common framework of which to operate within. This framework, or process, will allow the advisory community and the business owners to share a similar language, process, format, organizing principles, concepts, and goals. At the Exit Planning Institute®, that framework is called the Value Acceleration Methodology. A proven and award-winning process that is addressed in the book *Walking to Destiny: 11 Actions an Owner Must Take to Rapidly Grow Value and Unlock Wealth* written by Exit Planning Institute® CEO, Christopher Snider.





# SECTION FOUR

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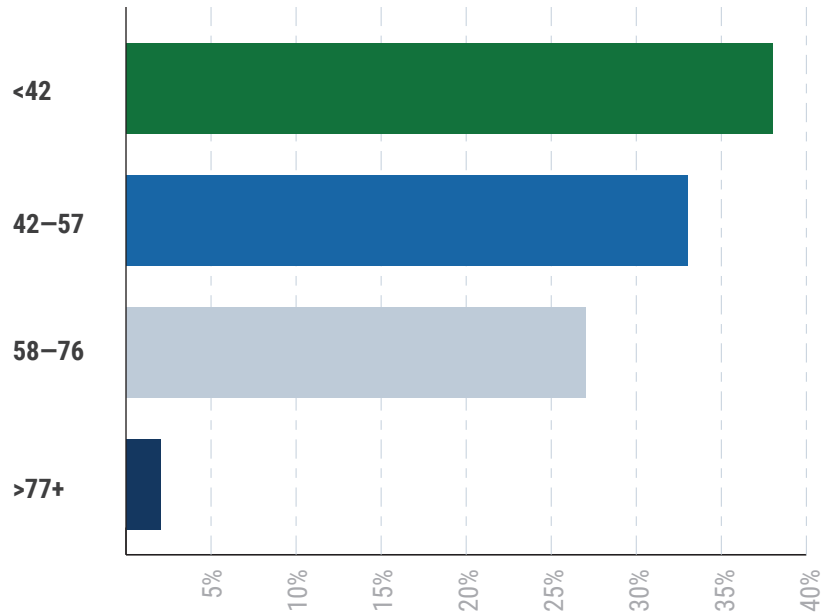
# APPENDIX

# SECTION 4

## APPENDIX

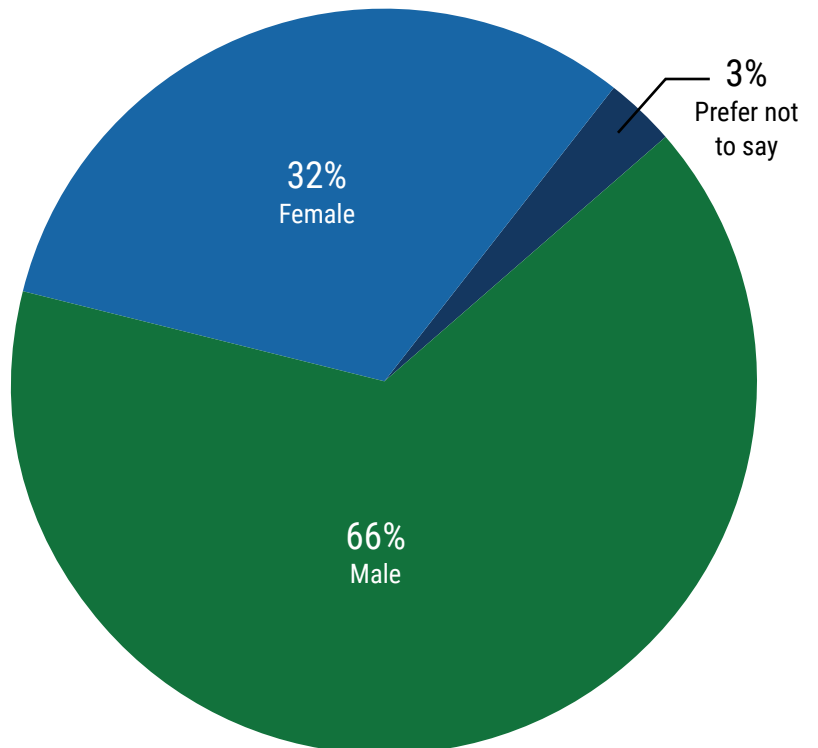
QUESTION 1:

WHAT IS YOUR CURRENT AGE?



QUESTION 2:

ARE YOU:



# SECTION 4

## APPENDIX

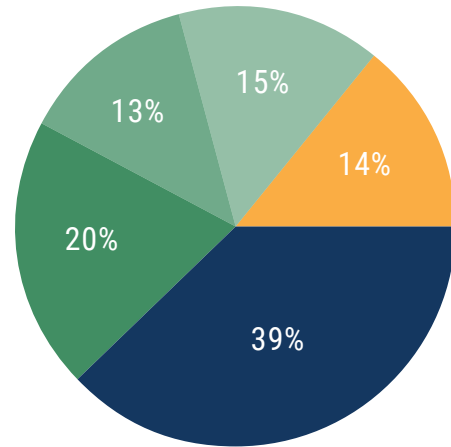
### QUESTION 3:

## WHAT IS YOUR COMPANY'S ANNUAL REVENUE?

### Percentage of Businesses by Size of Revenue

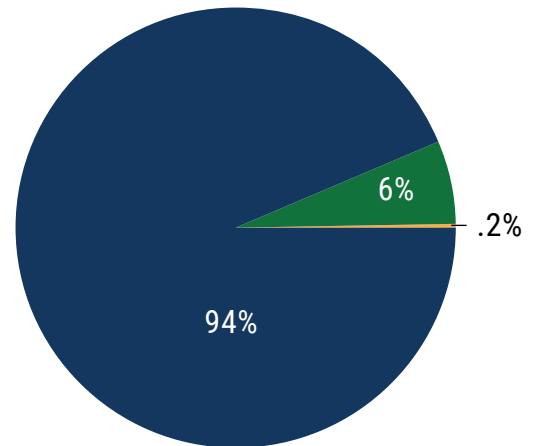
#### 2023 MINNESOTA EPI SURVEY

- < \$5 million
- \$5M to \$25M
- \$25M to \$50M
- \$50M to \$100M
- > \$100 million



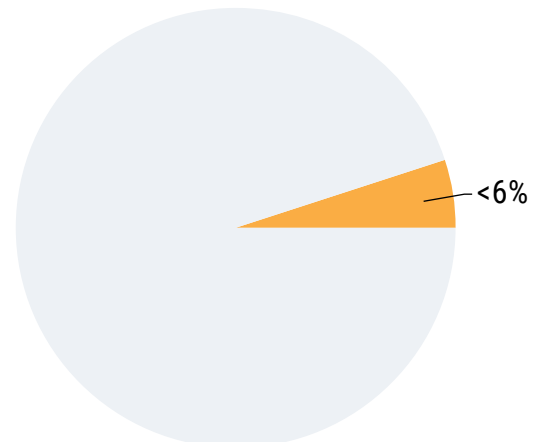
#### US CENSUS

- < \$5 million
- \$5 – \$100 million
- > \$100 million



#### PREVIOUS SOOR SURVEYS

- > \$100 million

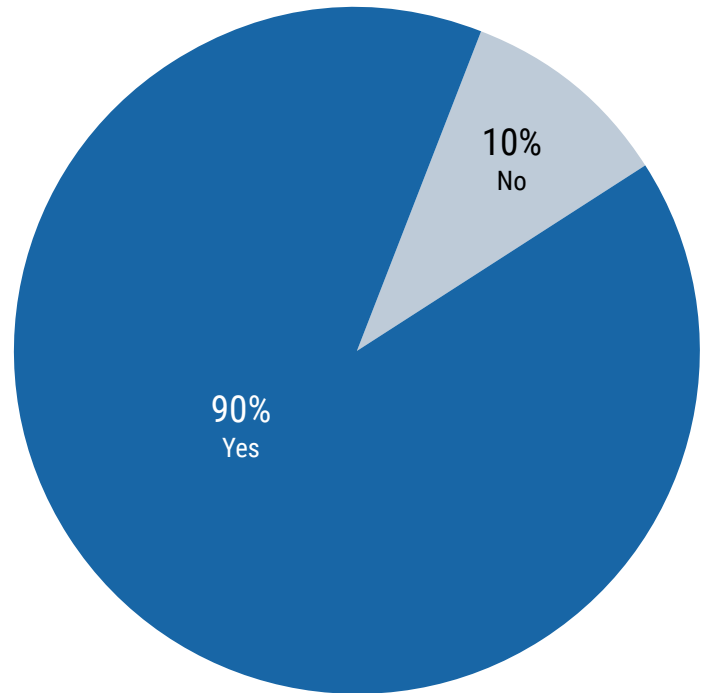


## SECTION 4

### APPENDIX

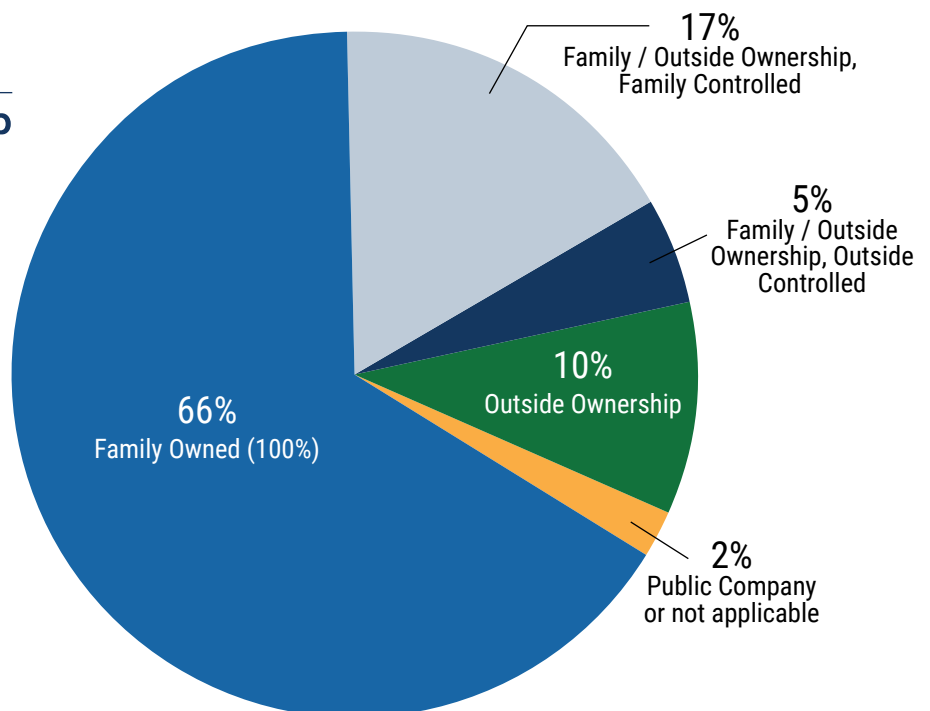
#### QUESTION 4:

**IS YOUR BUSINESS  
LOCATED IN THE STATE  
OF MINNESOTA?**



#### QUESTION 5:

**WHAT IS THE OWNERSHIP  
STRUCTURE?**



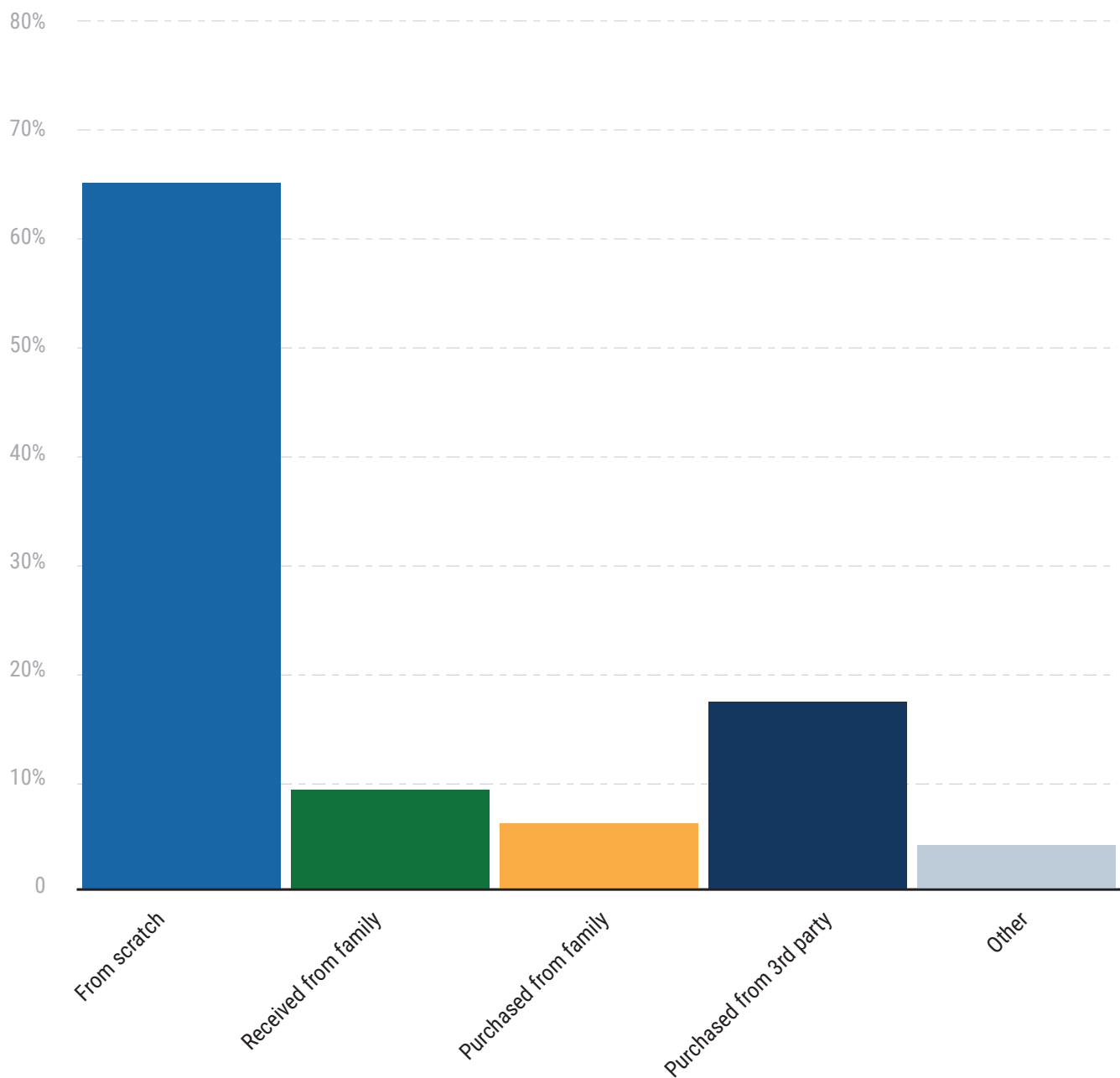


## SECTION 4

### APPENDIX

#### QUESTION 6:

### HOW WAS THE BUSINESS STARTED?

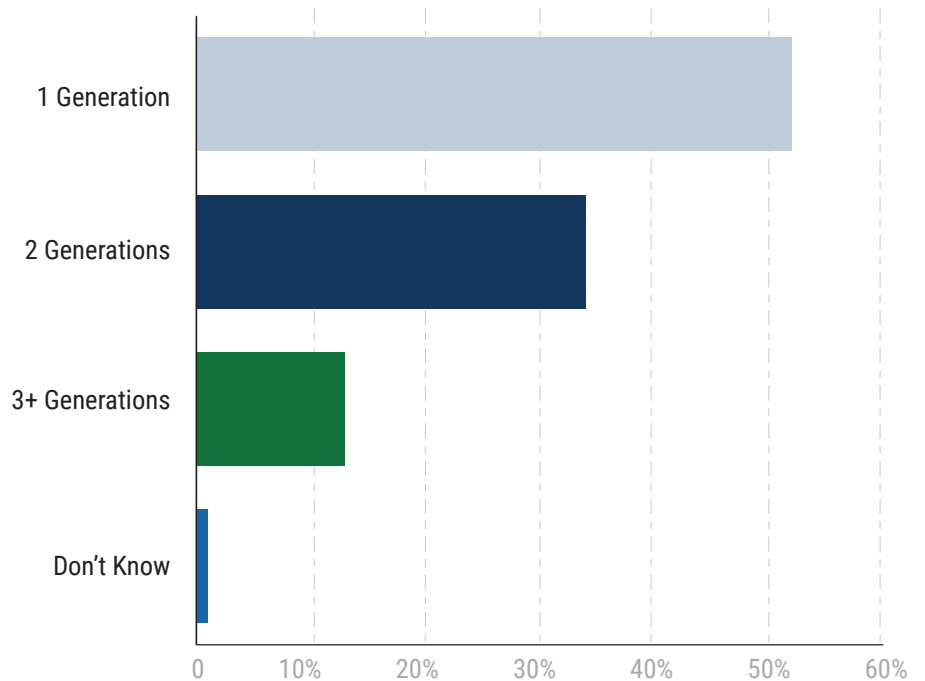


## SECTION 4

### APPENDIX

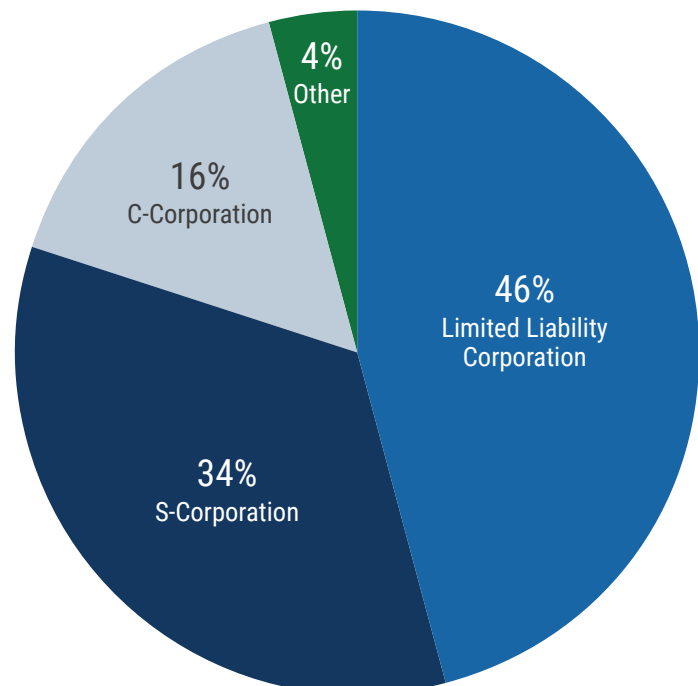
#### QUESTION 7:

**IF FAMILY OWNED,  
HOW LONG HAS YOUR  
COMPANY BEEN OWNED  
BY THE FAMILY?**



#### QUESTION 8:

**HOW IS YOUR BUSINESS  
ORGANIZED?**

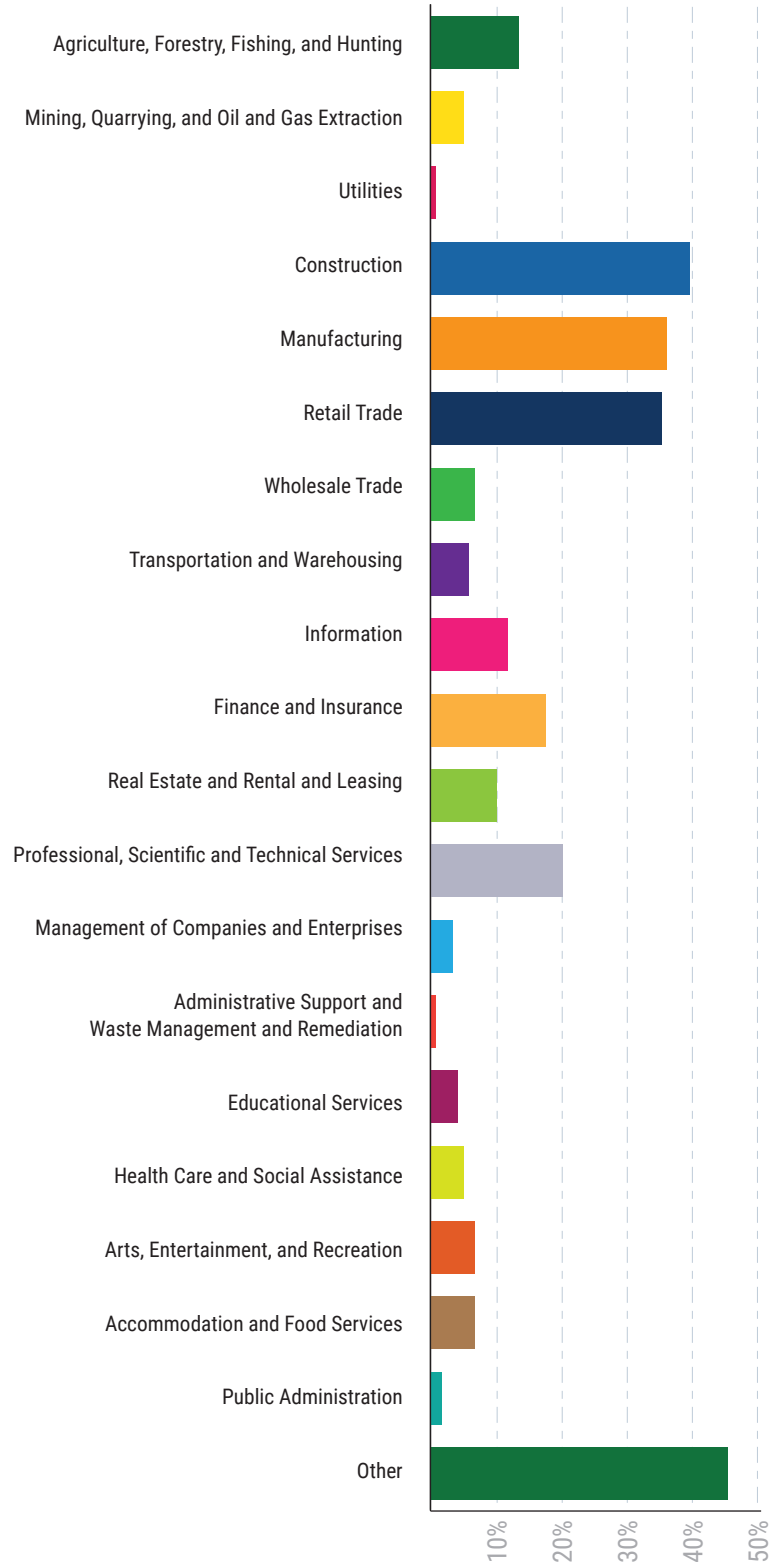


# SECTION 4

## APPENDIX

### QUESTION 9:

## WHAT INDUSTRY ARE YOU IN?



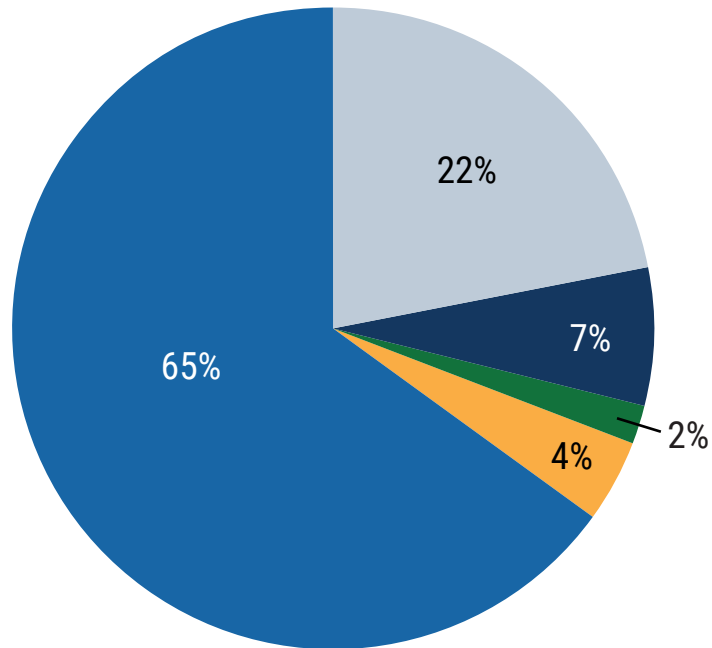
## SECTION 4

### APPENDIX

#### QUESTION 10:

### HOW RELEVANT IS YOUR BRAND TO THE VALUE OF YOUR BUSINESS?

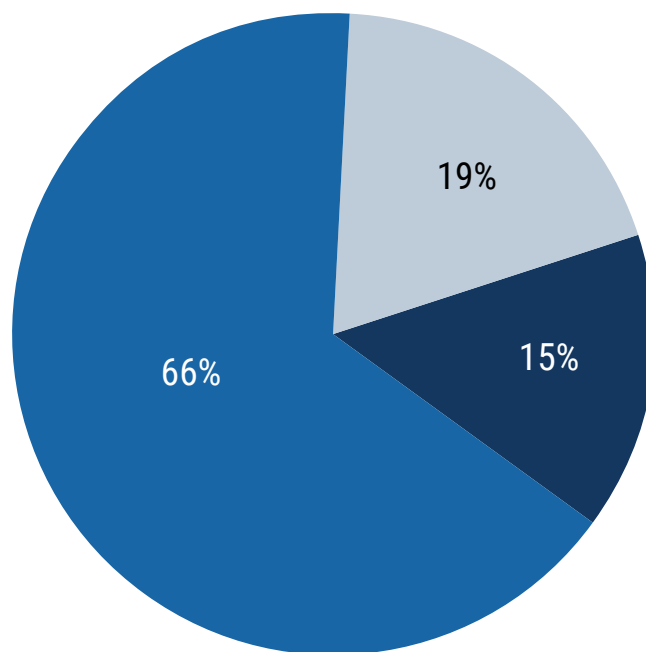
- The company's brand is well-established and known to our target market and will add significant value in a sale
- The company's brand is established but not well known to our target market and should not negatively impact company value
- The company's brand is not well-established but should not negatively impact company value
- The company's brand has reputation issues and may negatively impact company value
- The company's brand will not impact business value, positively or negatively



#### QUESTION 11:

### WHICH STATEMENT BEST REPRESENTS YOUR GROWTH GOAL SETTING AT YOUR BUSINESS TODAY?

- We have documented growth goals and strategies in place to achieve those goals
- We have documented growth goals but no documented strategies to achieve those goals
- We have no specific growth goals documented



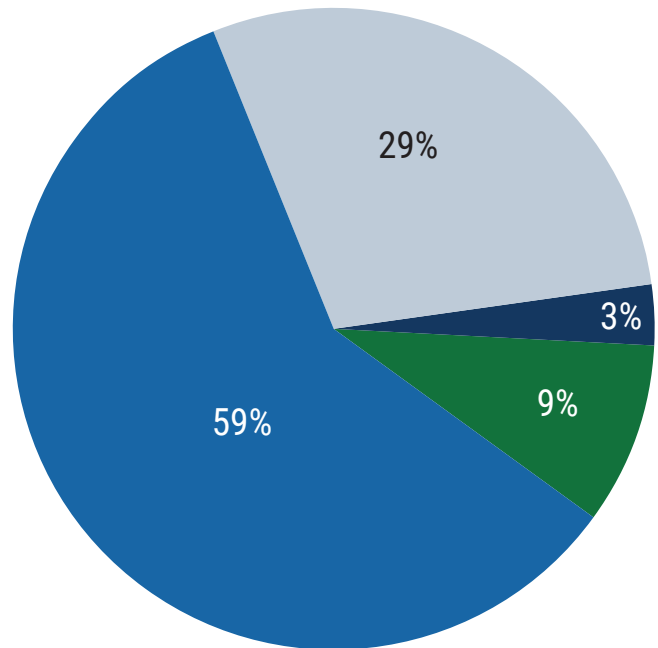
## SECTION 4

### APPENDIX

#### QUESTION 12:

### HOW WELL DOES YOUR EMPLOYER BRAND REFLECT YOUR COMPANY VALUES AND CULTURE?

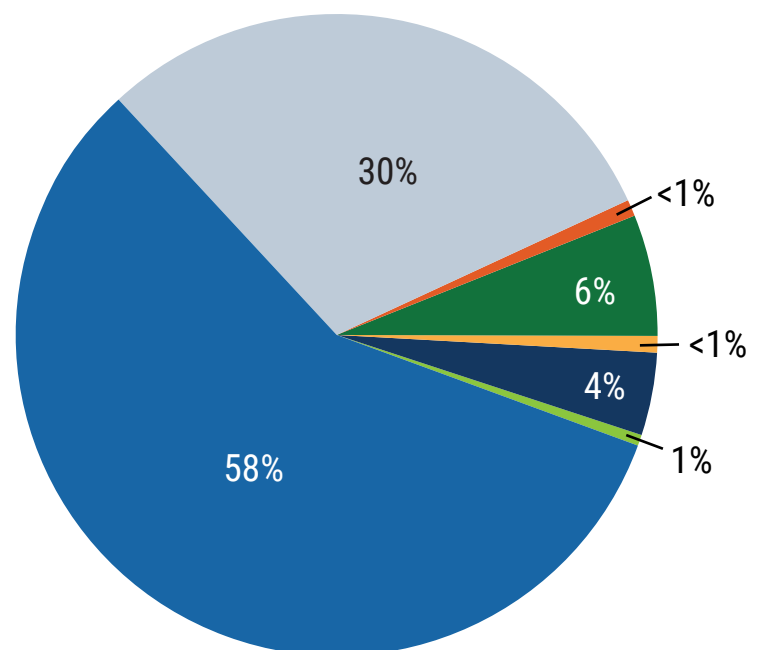
- Our employer brand does a good job of communicating our company values and culture
- Our employer brand does an adequate job of communicating our company values and culture
- Our employer brand does not accurately represent our company values and culture
- We do not have an employer brand



#### QUESTION 13:

### HOW MUCH DO YOU AGREE WITH THE FOLLOWING STATEMENT? HAVING A TRANSITION STRATEGY IS IMPORTANT FOR MY FUTURE AS WELL AS THE FUTURE OF MY BUSINESS.

- Strongly Agree
- Agree
- Somewhat Agree
- Somewhat Disagree
- Disagree
- Strongly Disagree
- Unsure



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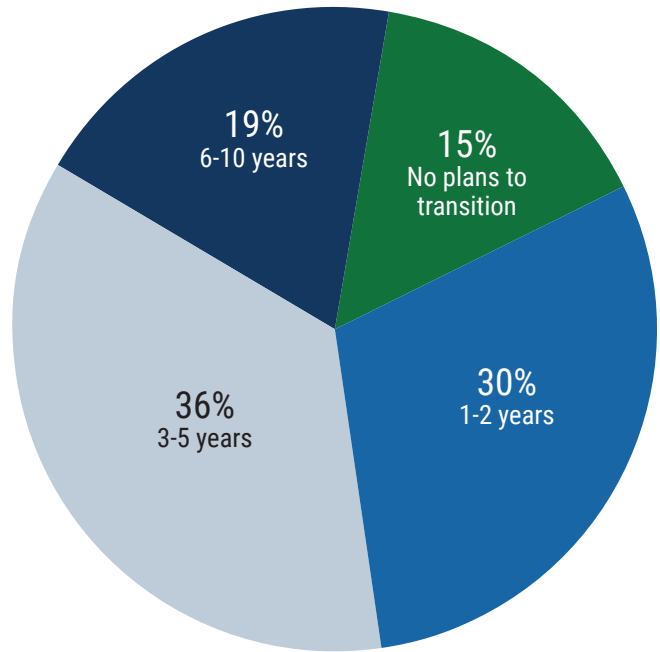
## SECTION 4

### APPENDIX

#### QUESTION 14:

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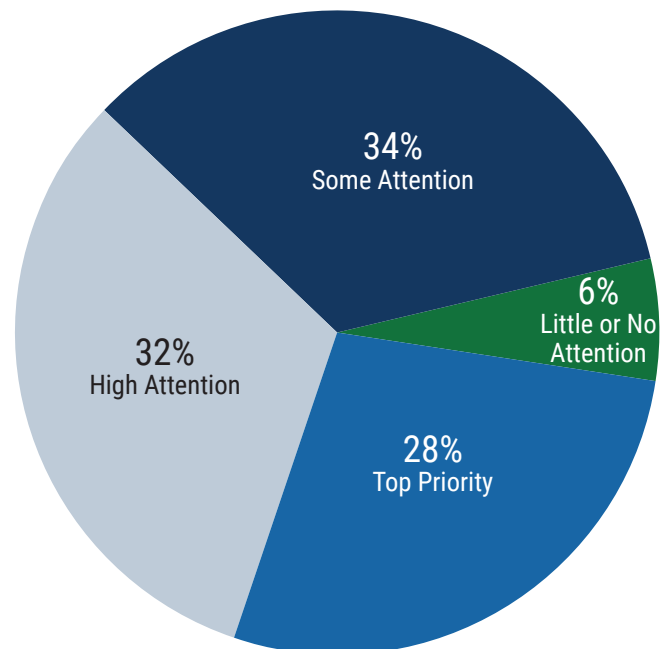
**WHEN ARE YOU PLANNING TO TRANSITION THE COMPANY?**



#### QUESTION 15:

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**HOW WOULD YOU DESCRIBE THE ATTENTION YOU HAVE GIVEN TO YOUR EXIT UP TO THIS POINT?**



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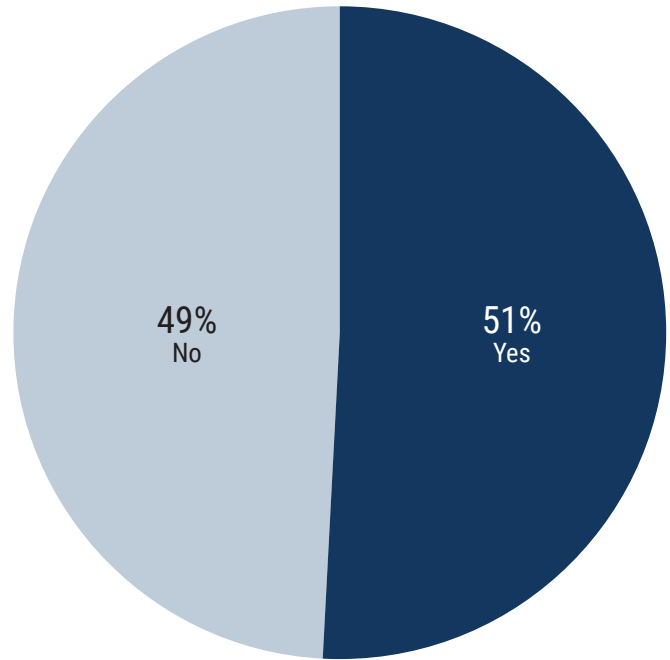
## SECTION 4

### APPENDIX

#### QUESTION 16:

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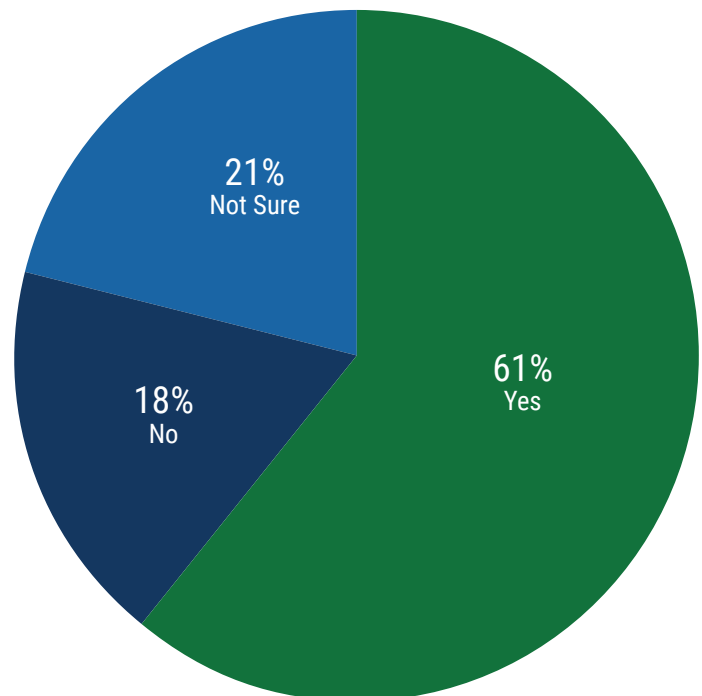
**HAVE YOU COMPLETED ANY FORMAL EDUCATION RELATED TO TRANSITIONING A BUSINESS?**



#### QUESTION 17:

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**ARE YOU FAMILIAR WITH ALL YOUR TRANSITION OPTIONS?**

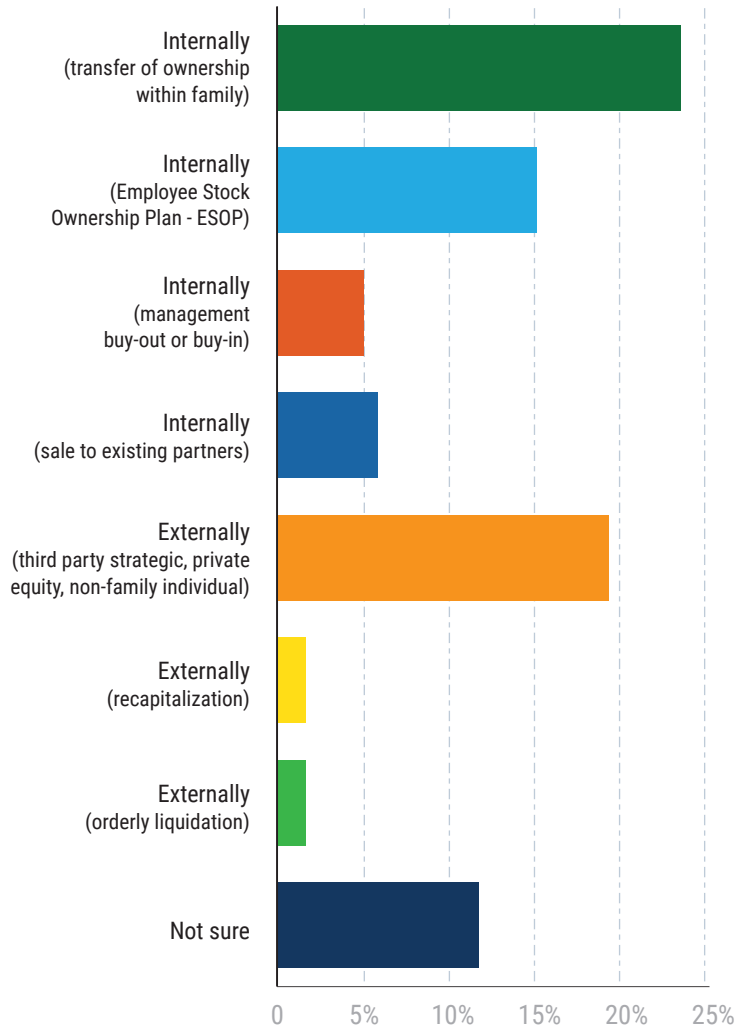


# SECTION 4

## APPENDIX

### QUESTION 18:

## WHAT BEST DESCRIBES HOW YOU ARE PLANNING TO TRANSITION?





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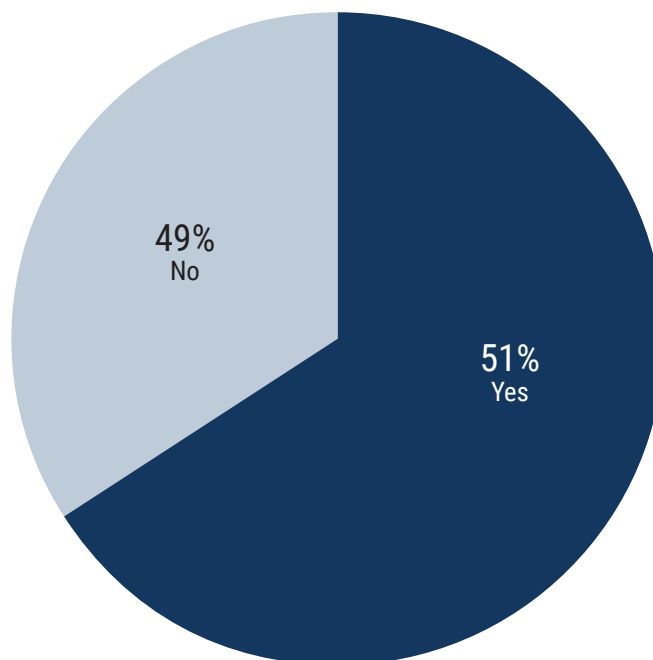
## SECTION 4

### APPENDIX

#### QUESTION 19:

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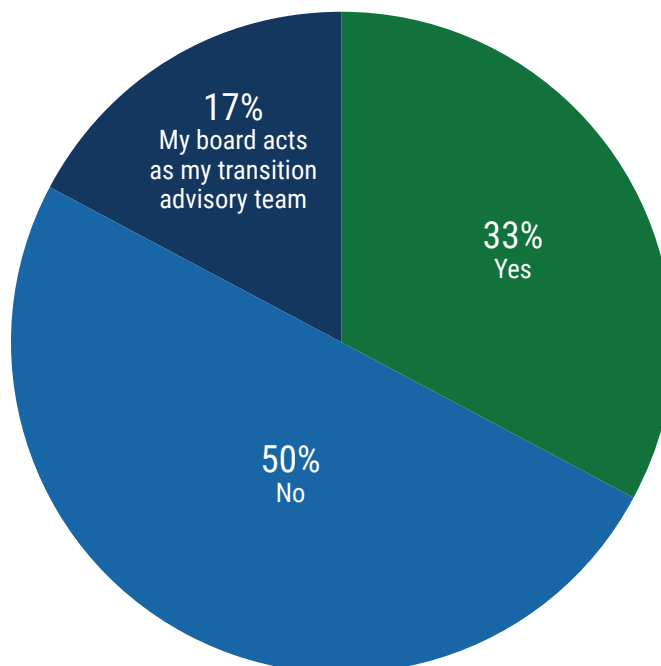
**HAVE YOU SOUGHT  
OUTSIDE ADVICE  
REGARDING YOUR  
TRANSITION PLAN?**



#### QUESTION 20:

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**HAVE YOU ESTABLISHED  
A FORMAL TRANSITION  
ADVISORY TEAM?**



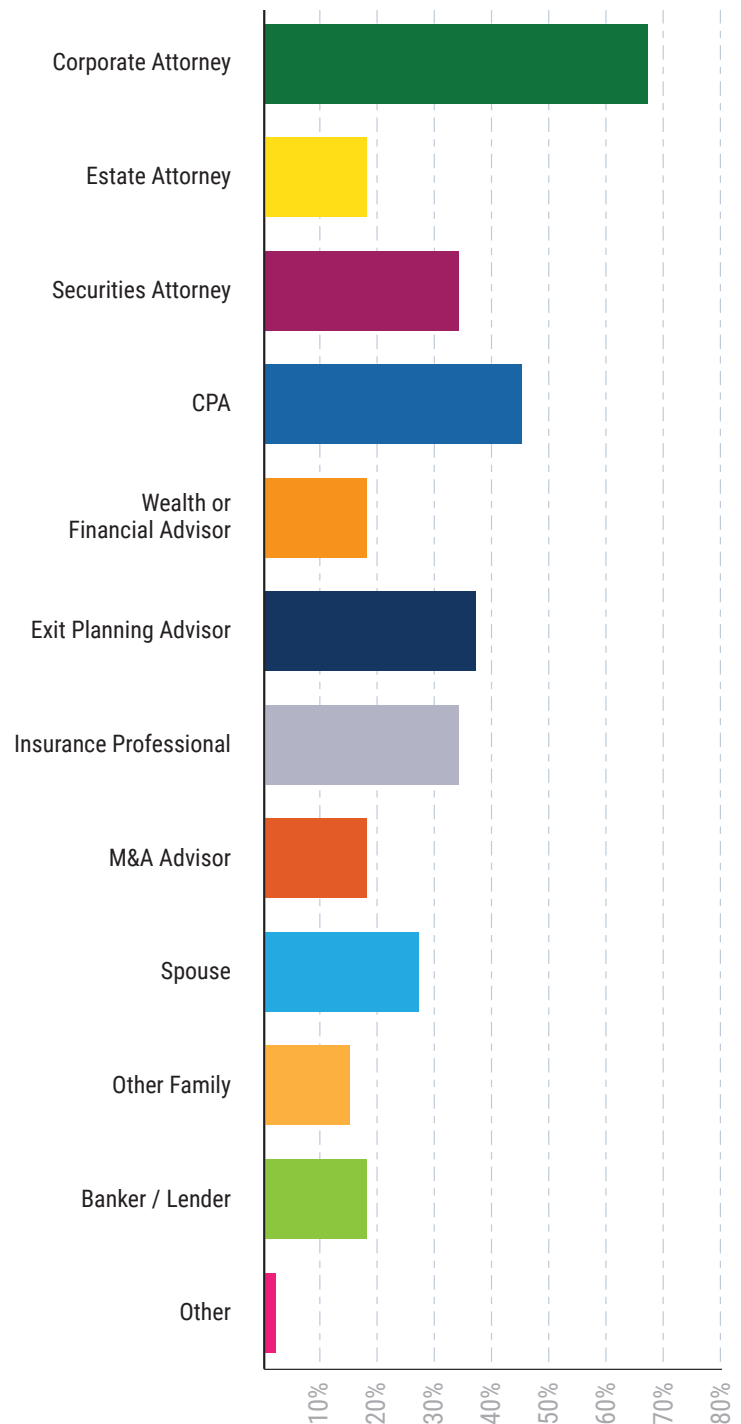
# SECTION 4

## APPENDIX

QUESTION 21:

**PLEASE CHECK ALL ADVISORS THAT ARE ON YOUR TRANSITION TEAM:**

**If you have sought outside advice, who have you sought outside advice from?**

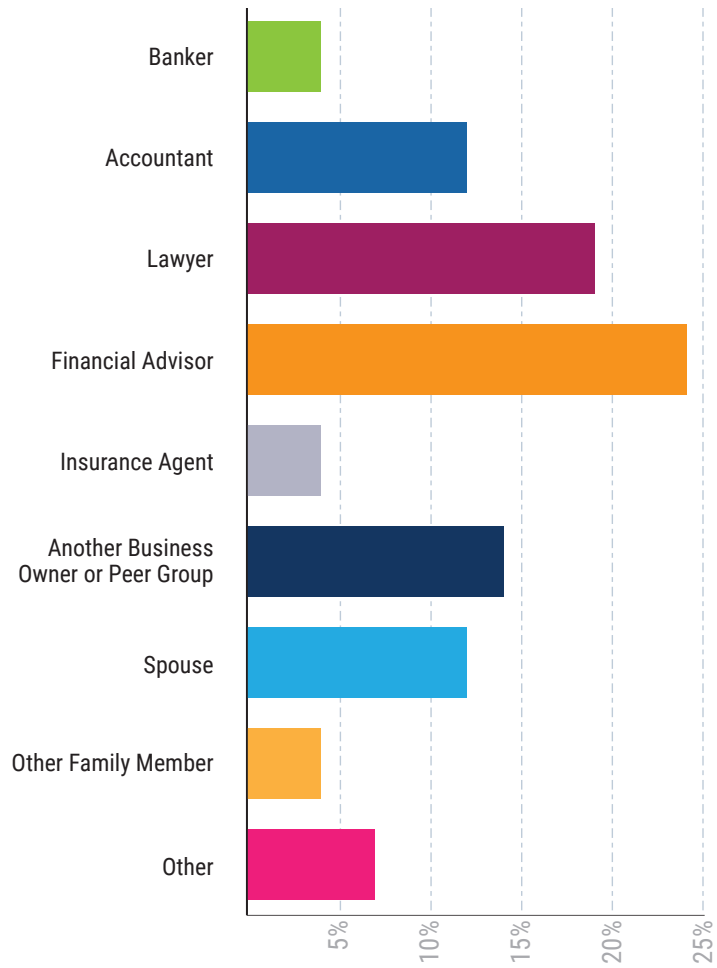


# SECTION 4

## APPENDIX

### QUESTION 22:

## WHO DO YOU SEE AS YOUR MOST TRUSTED ADVISOR?

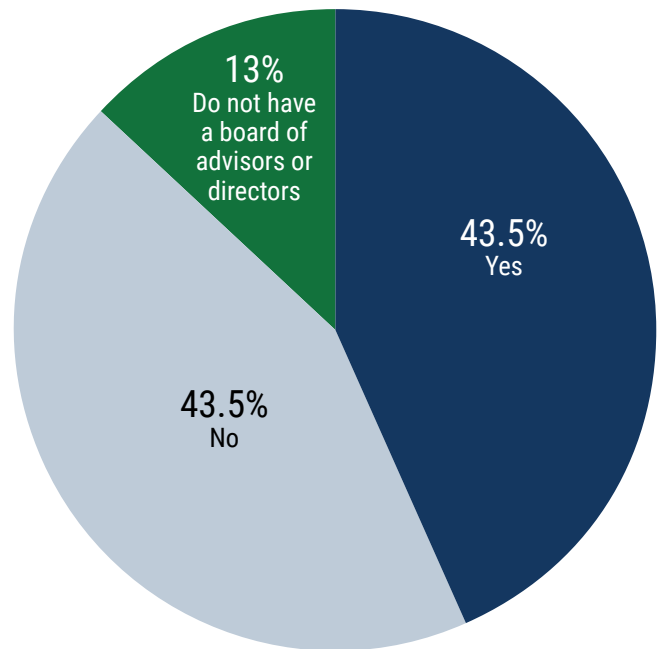


## SECTION 4

### APPENDIX

#### QUESTION 23:

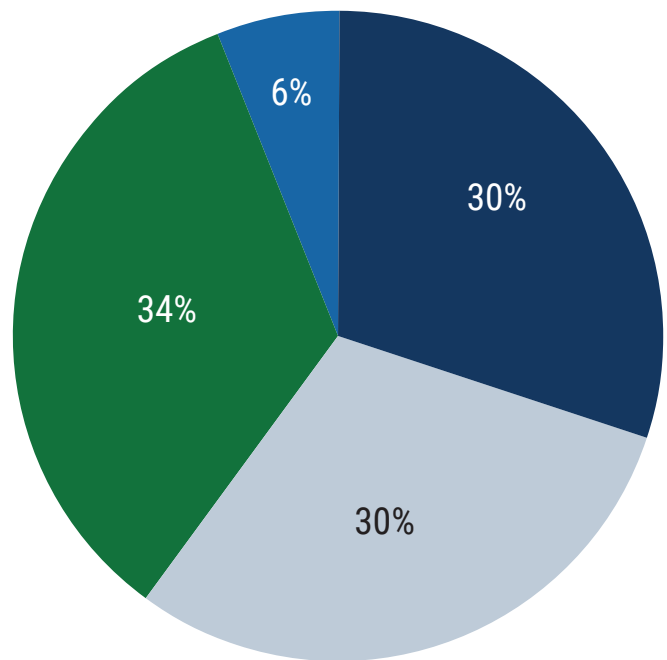
**DO YOU HAVE OUTSIDE (I.E. NON-OWNER/NON-FAMILY) BOARD MEMBERS ON YOUR BOARD?**



#### QUESTION 24:

**WHICH STATEMENT BEST DESCRIBES YOUR POST-TRANSITION PLAN FOR WHAT YOU WILL DO AFTER YOU TRANSITION YOUR BUSINESS?**

- I have a written formal plan of what I will do next
- I have a good informal plan of what I will do next
- I have an idea, but not a formal plan at this time
- I have not really thought about what I will do after I transition the business

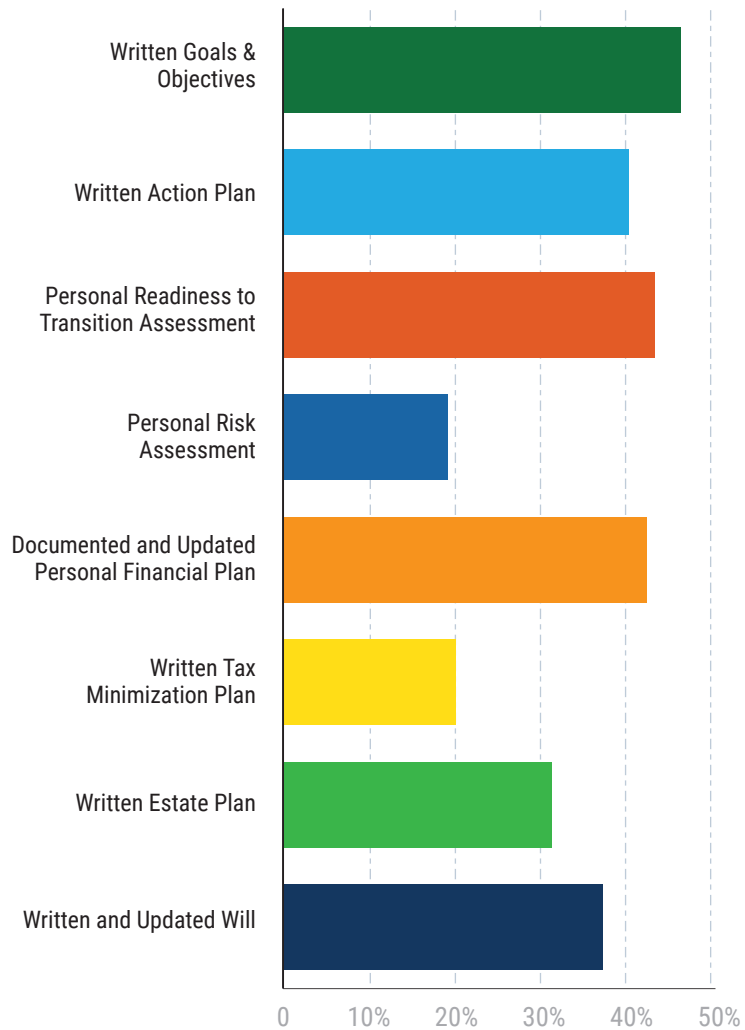


## SECTION 4

### APPENDIX

#### QUESTION 25:

**IF YOU HAVE A PERSONAL TRANSITION PLAN INDICATED IN PREVIOUS QUESTION, PLEASE CHECK ALL THAT YOUR PLAN ENCOMPASSES. (SELECT ALL THAT APPLY)**

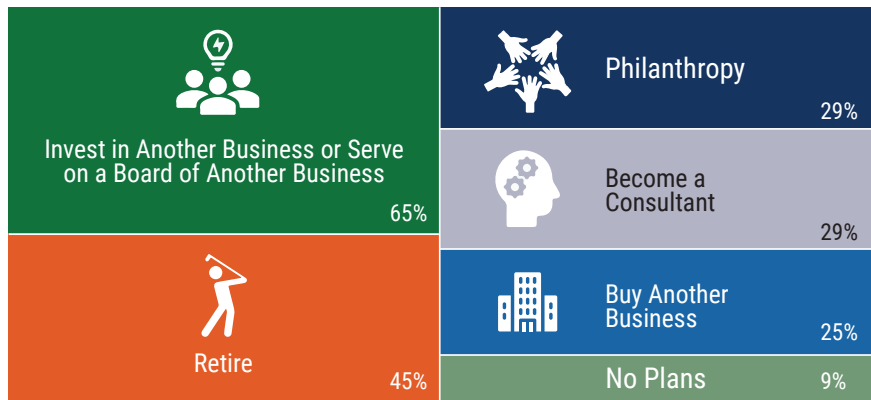


# SECTION 4

## APPENDIX

### QUESTION 26:

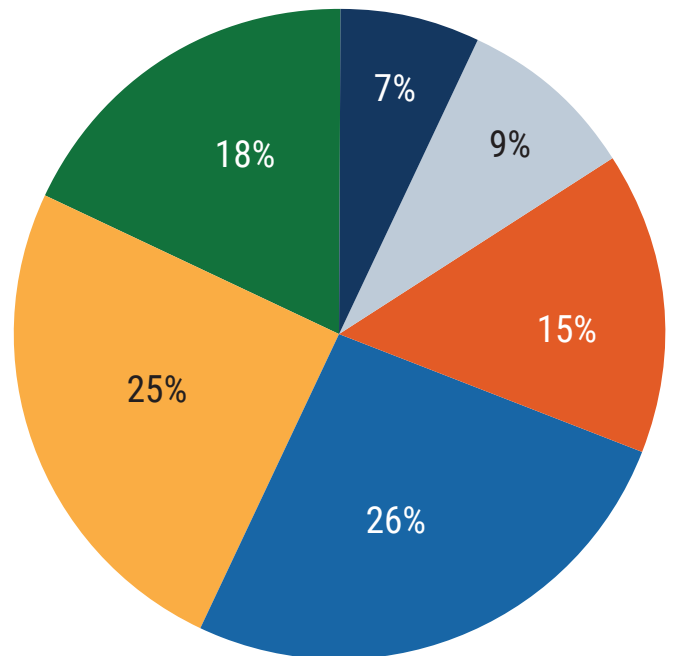
**WHAT DO YOU PLAN TO DO POST-TRANSITION? (SELECT ALL THAT APPLY)**



### QUESTION 27:

**USING THE FOLLOWING SCALE, PLEASE RATE HOW "READY" YOU CONSIDER YOURSELF PERSONALLY TO TRANSITION AWAY FROM YOUR BUSINESS AND DO SOMETHING ELSE.**

1 = NOT READY AT ALL;  
6 = COMPLETELY READY

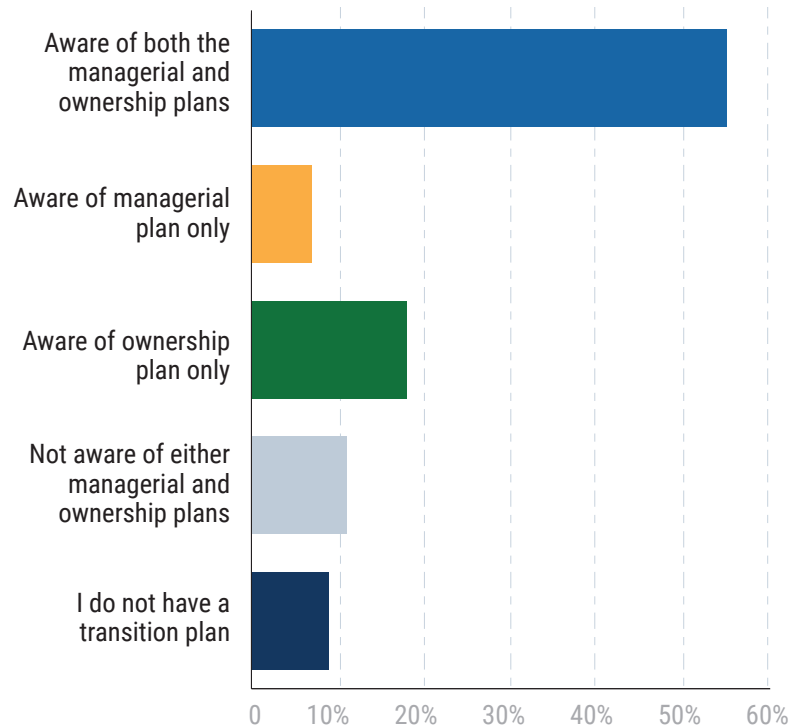


## SECTION 4

### APPENDIX

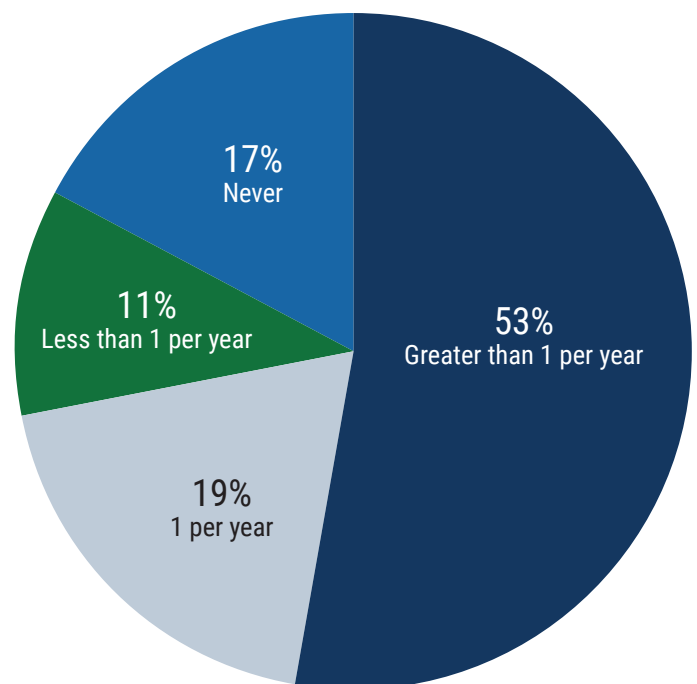
#### QUESTION 28:

**WHICH BEST DESCRIBES THE LEVEL OF FAMILY AWARENESS OF THE MANAGERIAL AND OWNERSHIP TRANSITION PLANS?**



#### QUESTION 29:

**HOW OFTEN DO YOU HAVE FORMAL FAMILY MEETINGS WITH REGARD TO THE BUSINESS?**



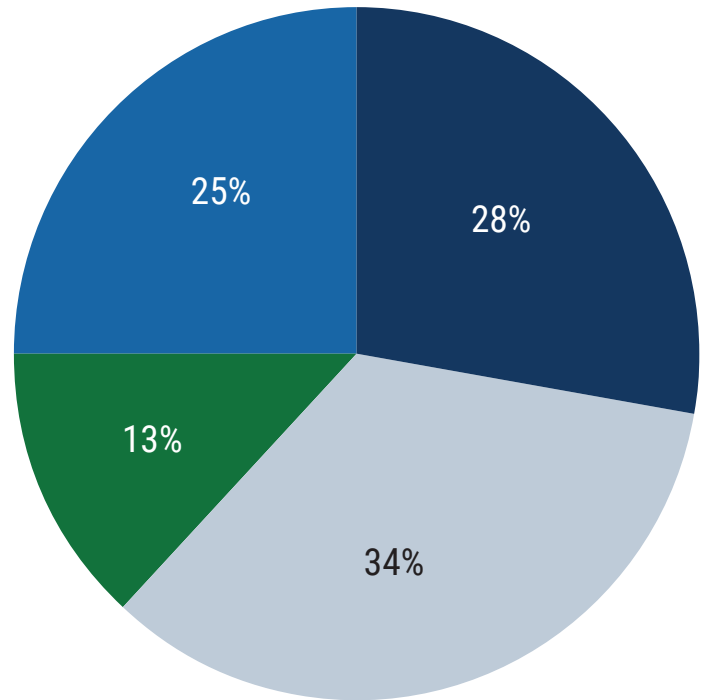
## SECTION 4

### APPENDIX

#### QUESTION 30:

**IF MANAGERIAL PLANS INCLUDE KEY POSITIONS BEING FILLED BY FAMILY MEMBERS, HOW WOULD YOU ASSESS THEIR LEVEL OF READINESS FOR THIS RESPONSIBILITY?**

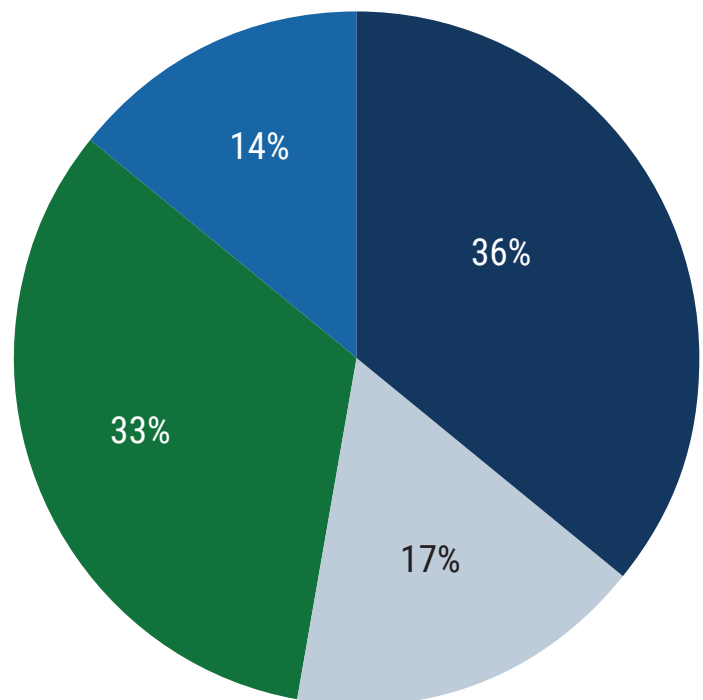
- Some family members filling key positions are ready
- All family members filling key positions are ready
- No family members filling key positions are ready
- No family members will fill key positions going forward



#### QUESTION 31:

**IF FAMILY MEMBERS ARE FILLING KEY POSITIONS, WHICH OF THE FOLLOWING BEST DESCRIBES MEASURES BEING TAKEN TO TRAIN (EXCLUDES COLLEGE TRAINING) THESE FAMILY MEMBERS?**

- Formal training within the company only
- Formal training outside the company
- Formal training outside and inside the company
- No formal training





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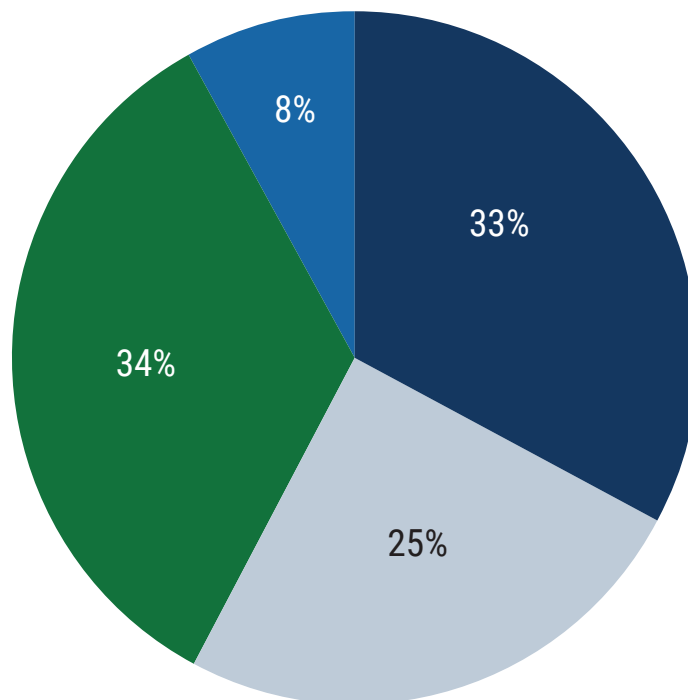
## SECTION 4

### APPENDIX

#### QUESTION 32:

### WHAT BEST DESCRIBES YOUR COMPANY'S TRANSITION PLAN?

- We have a written formal transition plan
- We have a good informal transition plan
- We have an idea but no plan
- We have not considered it

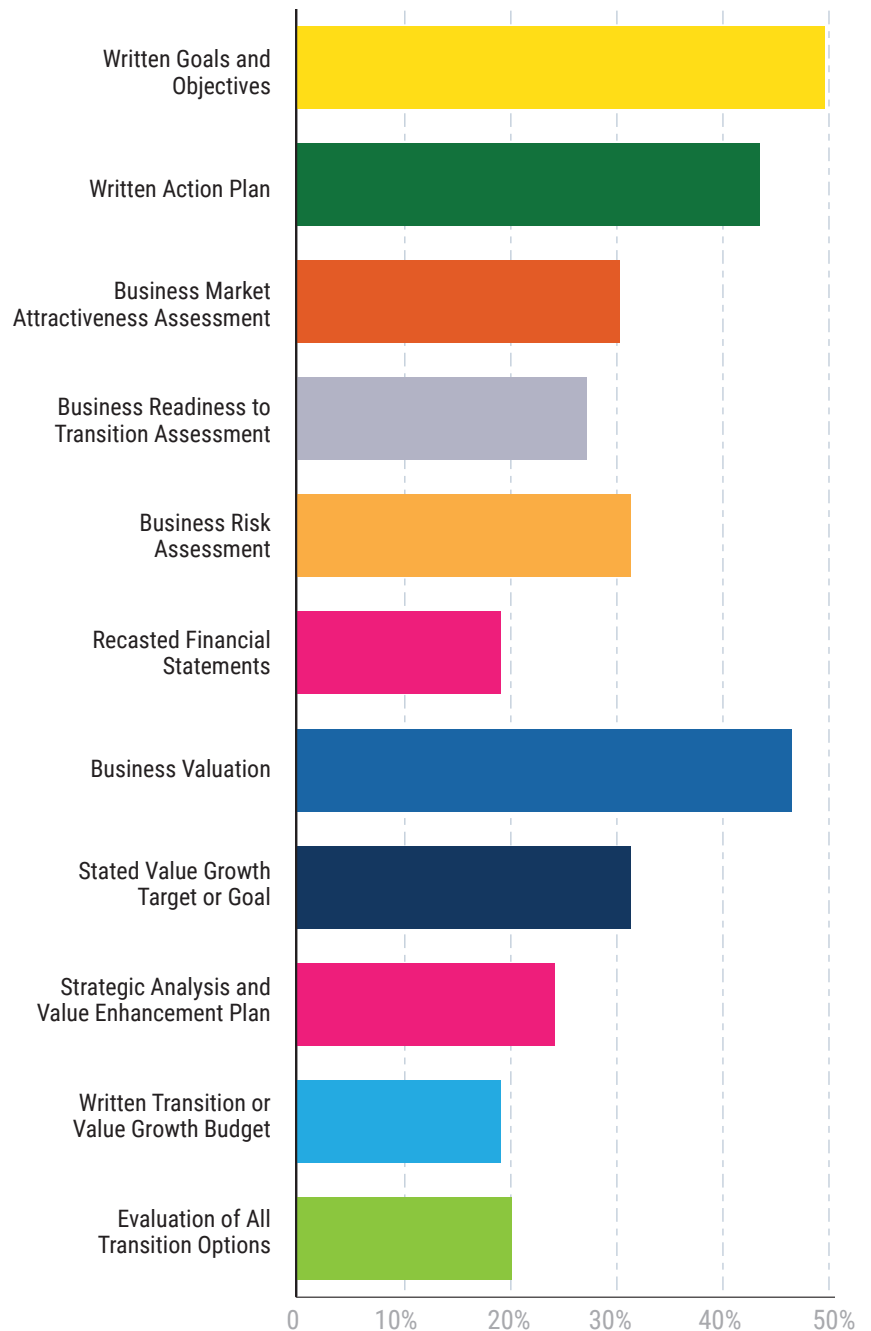


## SECTION 4

### APPENDIX

#### QUESTION 33:

**IF YOU HAVE A WRITTEN PLAN INDICATED IN PREVIOUS QUESTION, PLEASE CHECK ALL THAT YOUR PLAN ENCOMPASSES:**



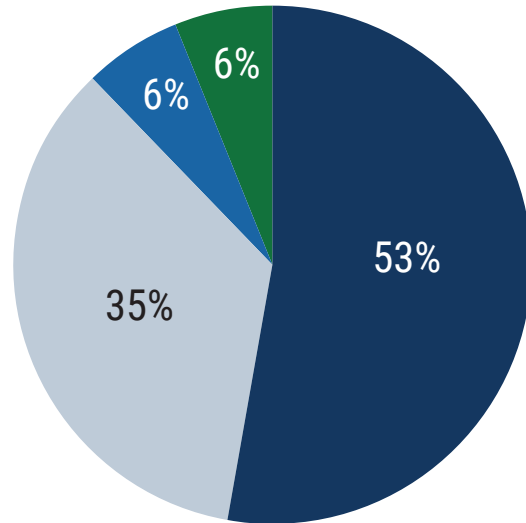
## SECTION 4

### APPENDIX

#### QUESTION 34:

**DOES YOUR TRANSITION PLAN REQUIRE THE COMPANY REMAIN PROFITABLE FOR YOUR PLAN TO BE PROPERLY EXECUTED?**

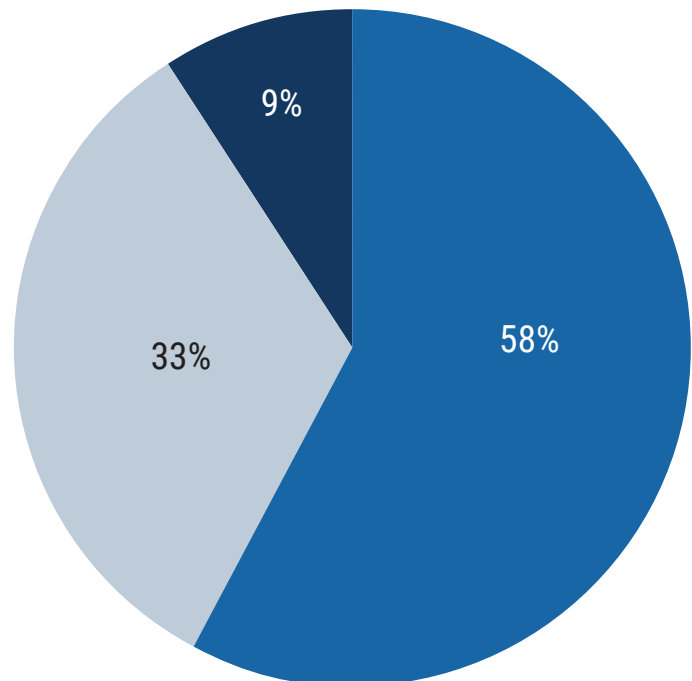
- Yes, critical for the company to be successful for the ownership transition
- Yes, it helps if the company is successful for the ownership transition
- No, ownership transition is not really affected by success of company
- I do not have a transition plan



#### QUESTION 35:

**WHICH OF THE FOLLOWING BEST REPRESENTS YOUR CURRENT UNDERSTANDING OF THE VALUE OF YOUR COMPANY?**

- I have had my business formally valued within the last two years
- I have not had my business formally valued but I have a good idea what it is worth
- I am not sure what my business is worth



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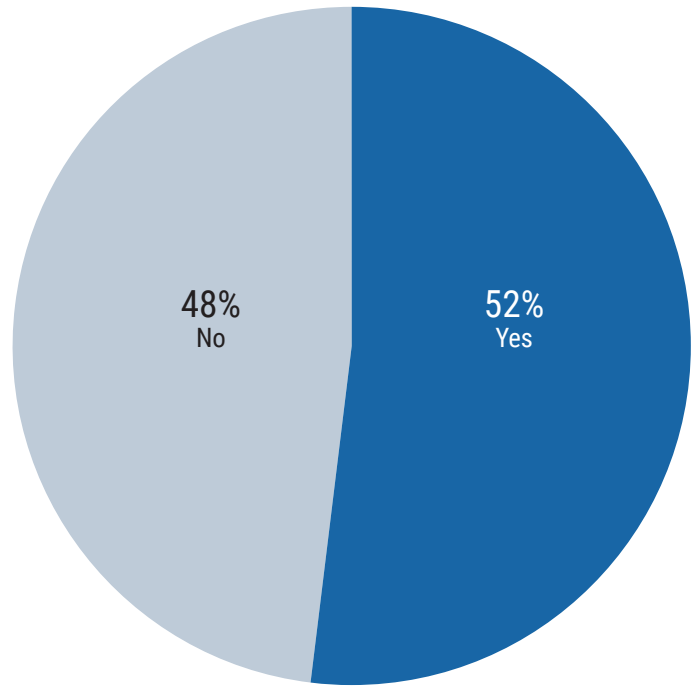
## SECTION 4

### APPENDIX

#### QUESTION 36:

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**IN THE LAST TWO YEARS, HAVE YOU COMPLETED A FORMAL, PRE-TRANSITION VALUE ENHANCEMENT/ PRELIMINARY DUE DILIGENCE PROJECT TO DE-RISK THE BUSINESS, MAXIMIZE ITS VALUE, AND POSITION IT TO SUCCESSFULLY TRANSFER TO A NEW OWNER?**

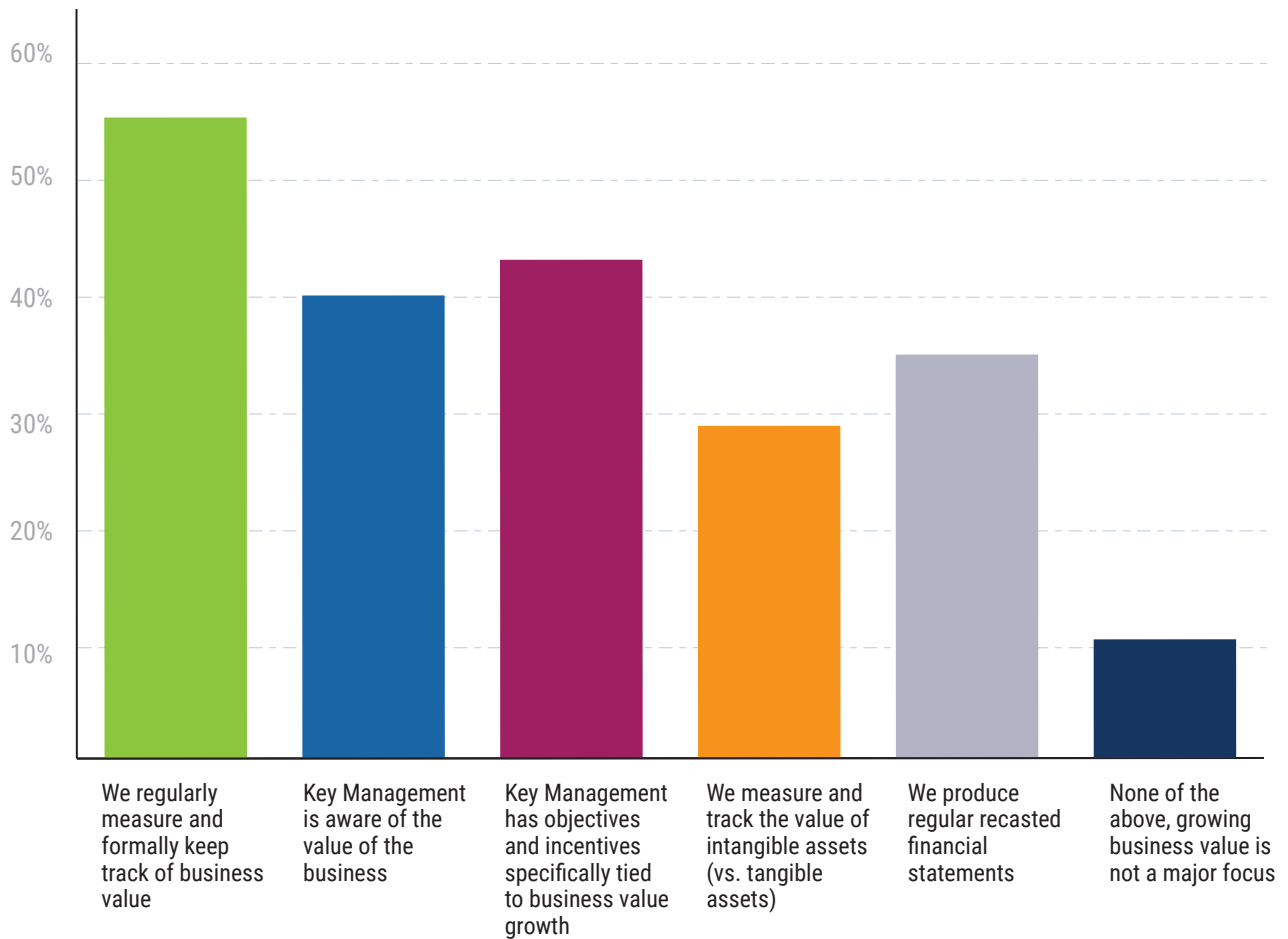


# SECTION 4

## APPENDIX

### QUESTION 37:

**HOW FOCUSED ARE YOU AND YOUR MANAGEMENT TEAM ON GROWING THE VALUE OF YOUR BUSINESS? (SELECT ALL THAT APPLY)**



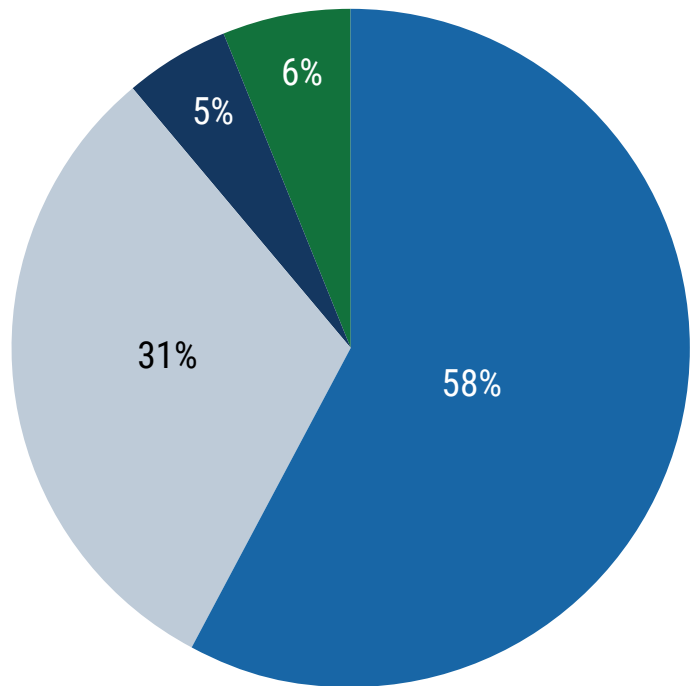
## SECTION 4

### APPENDIX

#### QUESTION 38:

**HOW COMFORTABLE ARE YOU THAT YOUR MANAGEMENT TEAM WILL BE SUCCESSFUL WITH NEW OWNERSHIP WHEN YOUR BUSINESS TRANSITIONS?**

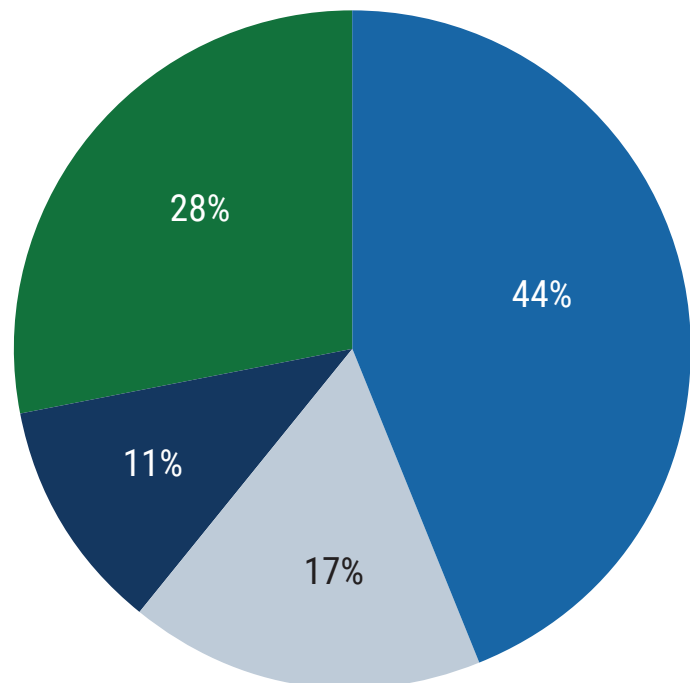
- Very comfortable
- Some concerns
- Uncomfortable at present time
- Have not thought about it



#### QUESTION 39:

**IF THERE ARE MULTIPLE OWNERS/PARTNERS IN YOUR BUSINESS, DO YOU HAVE A WRITTEN BUY-SELL AGREEMENT AND HAS IT BEEN REVIEWED AND UPDATED IN THE LAST 3 YEARS?**

- Yes, it is written and updated within the last three years
- Have a written buy-sell agreement but it has not been updated in the last three years
- Do not have a written buy-sell agreement
- I own 100% of the business



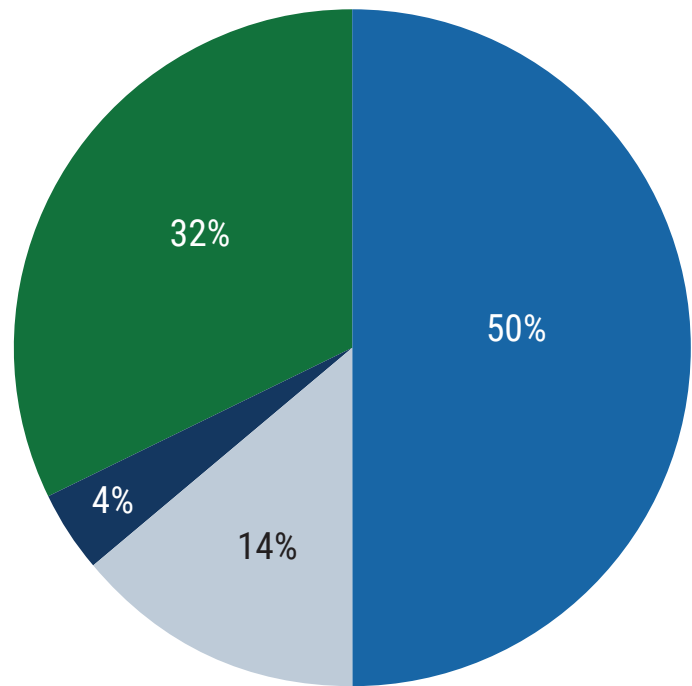
## SECTION 4

### APPENDIX

#### QUESTION 40:

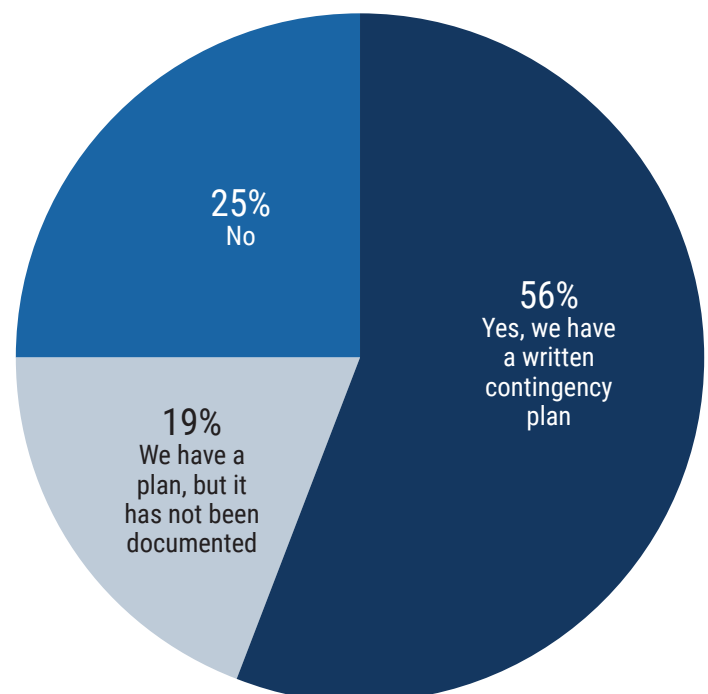
### IS YOUR BUY-SELL AGREEMENT FUNDED BY LIFE INSURANCE AND/OR DISABILITY POLICIES?

- Yes, both life insurance and disability insurance
- Life insurance only
- Disability insurance only
- No, neither life insurance nor disability insurance



#### QUESTION 41:

### DO YOU HAVE A DOCUMENTED CONTINGENCY PLAN IN PLACE FOR THE BUSINESS WHICH ADDRESSES THE POSSIBILITY OF A FORCED TRANSITION CAUSED BY DEATH, DIVORCE, OR DISABILITY?



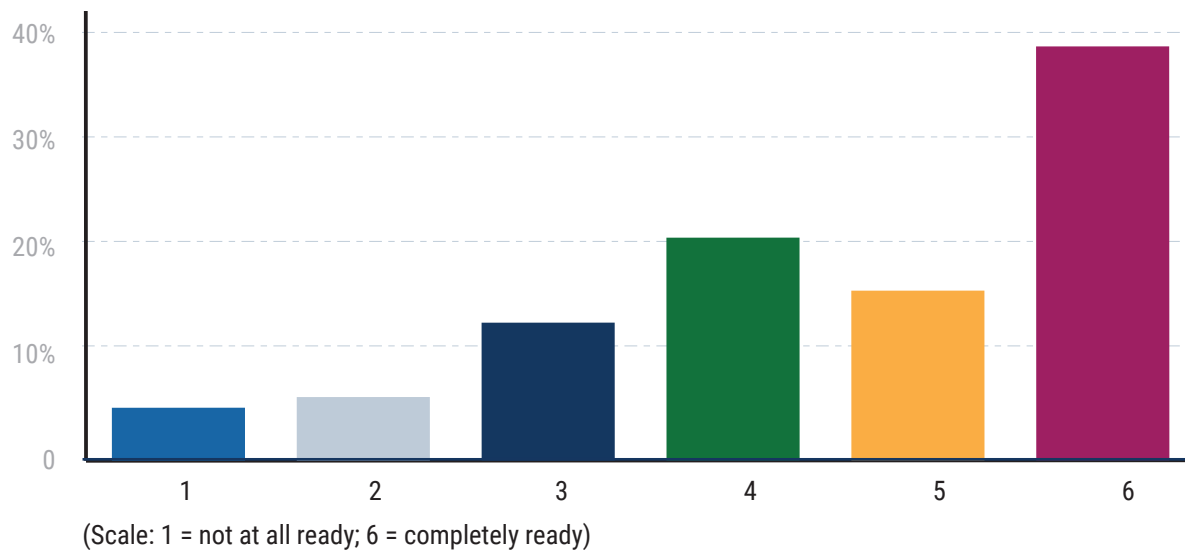
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## SECTION 4

### APPENDIX

#### QUESTION 42:

**USING THE FOLLOWING SCALE, PLEASE RATE HOW "READY" YOU THINK YOUR BUSINESS IS TO TRANSFER TO A NEW OWNER.**





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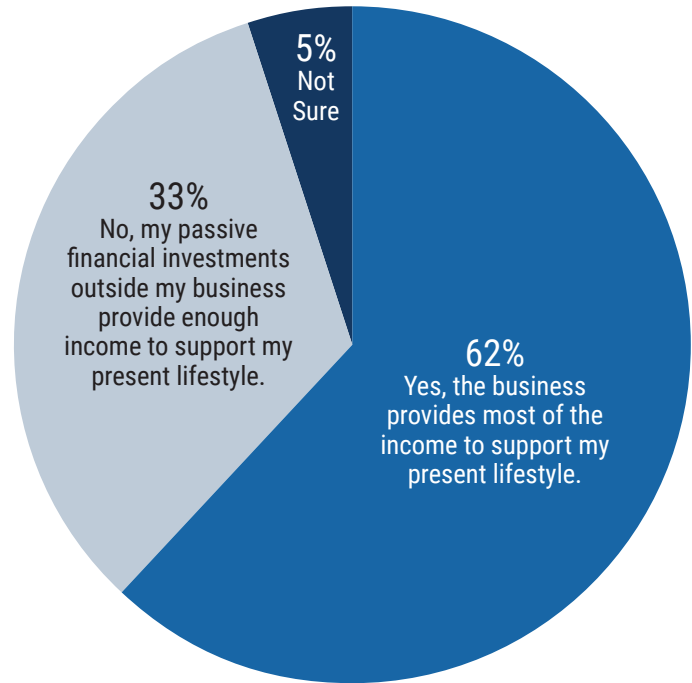
## SECTION 4

### APPENDIX

#### QUESTION 43:

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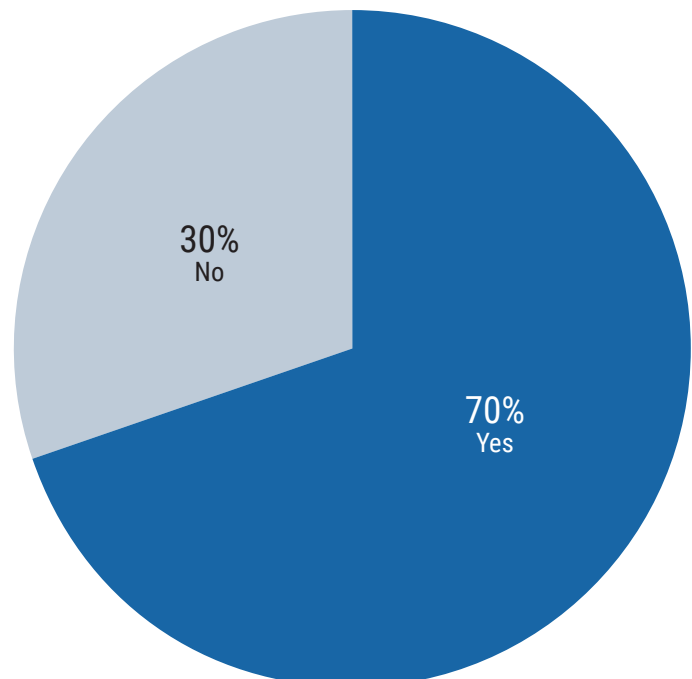
**DO YOU NEED THE INCOME PRODUCED BY THE BUSINESS TO SUPPORT YOUR LIFESTYLE?**



#### QUESTION 44:

---

**HAVE YOU DETERMINED HOW MUCH YOU NEED (NOT WANT) TO NET AFTER TAXES FROM THE TRANSITION OF YOUR COMPANY TO FUND YOUR RETIREMENT, FUTURE GOALS, AND FUTURE SPENDING NEEDS WITHOUT INCOME FROM YOUR BUSINESS?**



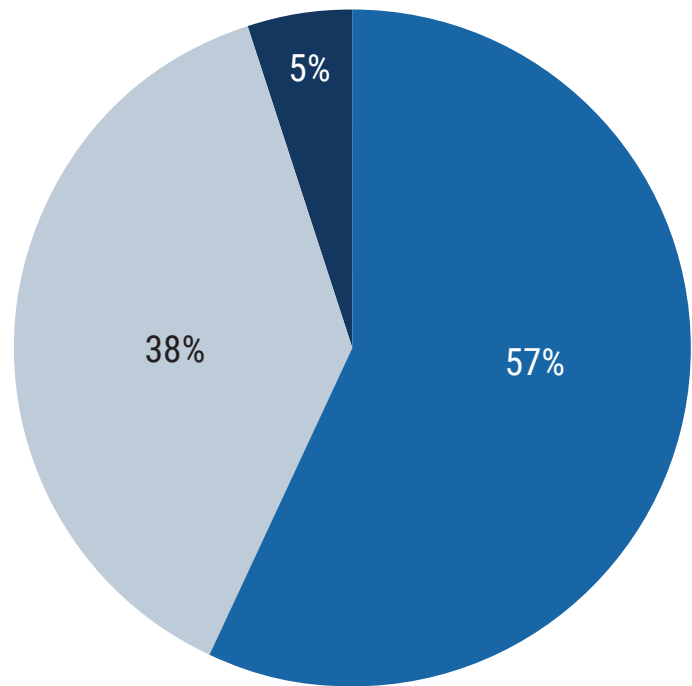
## SECTION 4

### APPENDIX

#### QUESTION 45:

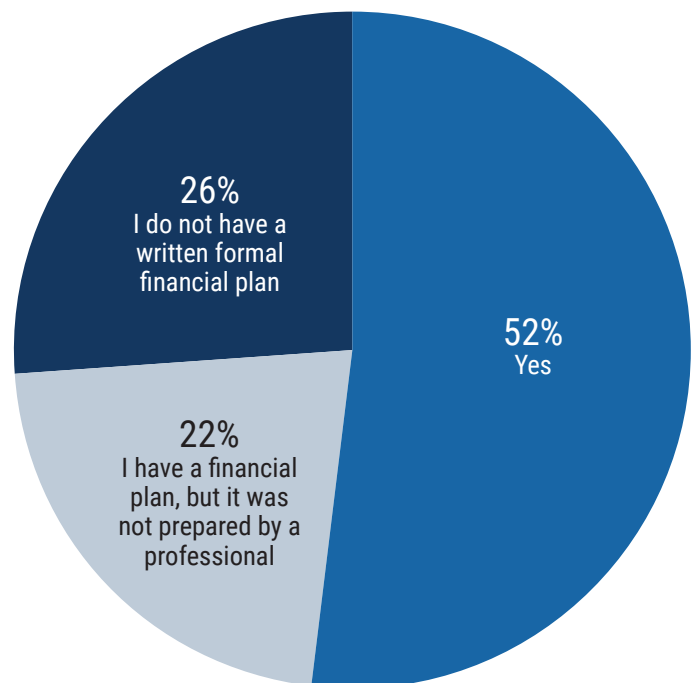
**DO YOU NEED THE PROCEEDS FROM THE TRANSITION OF YOUR BUSINESS TO SUPPORT YOUR LIFESTYLE POST TRANSITION?**

- Yes, I need (not want) to harvest the value of my business to support my post transition lifestyle
- No, I have adequate financial resources outside the business to support my post transition lifestyle regardless of whether I receive anything from the transition of the business
- Not sure



#### QUESTION 46:

**DO YOU HAVE A WRITTEN PERSONAL FINANCIAL PLAN PREPARED BY A THIRD PARTY PROFESSIONAL FINANCIAL ADVISOR?**



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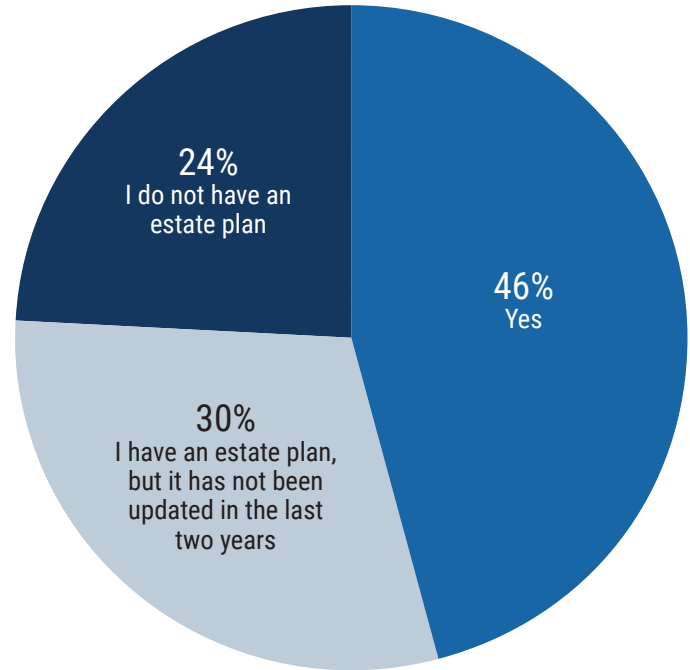
## SECTION 4

### APPENDIX

#### QUESTION 47:

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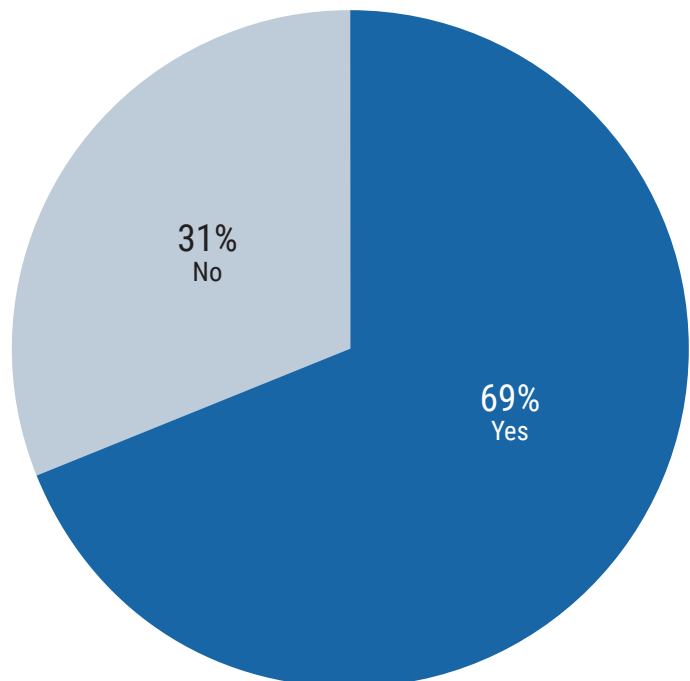
**HAS YOUR ESTATE PLAN  
BEEN UPDATED WITHIN  
THE LAST TWO YEARS?**



#### QUESTION 48:

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**DO YOUR ESTATE AND  
FINANCIAL PLANS  
PROVIDE FOR THE SALE  
OF YOUR BUSINESS?**



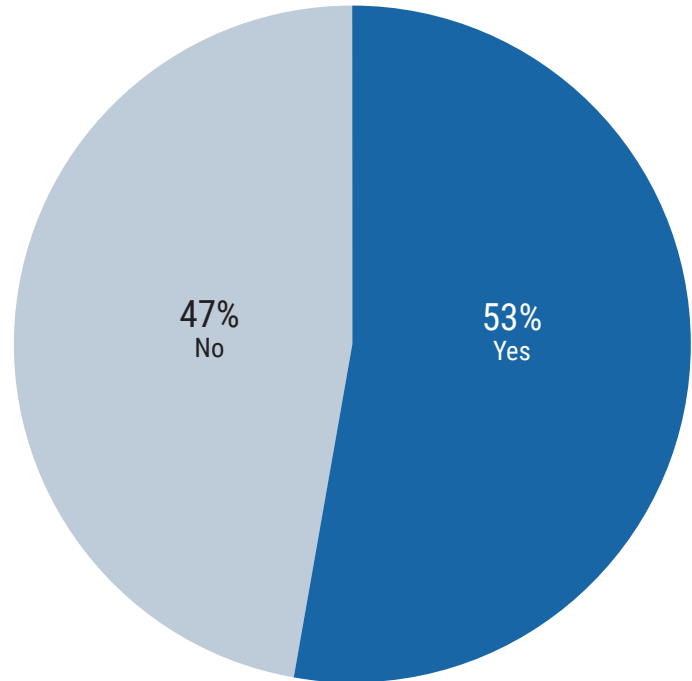
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## SECTION 4

### APPENDIX

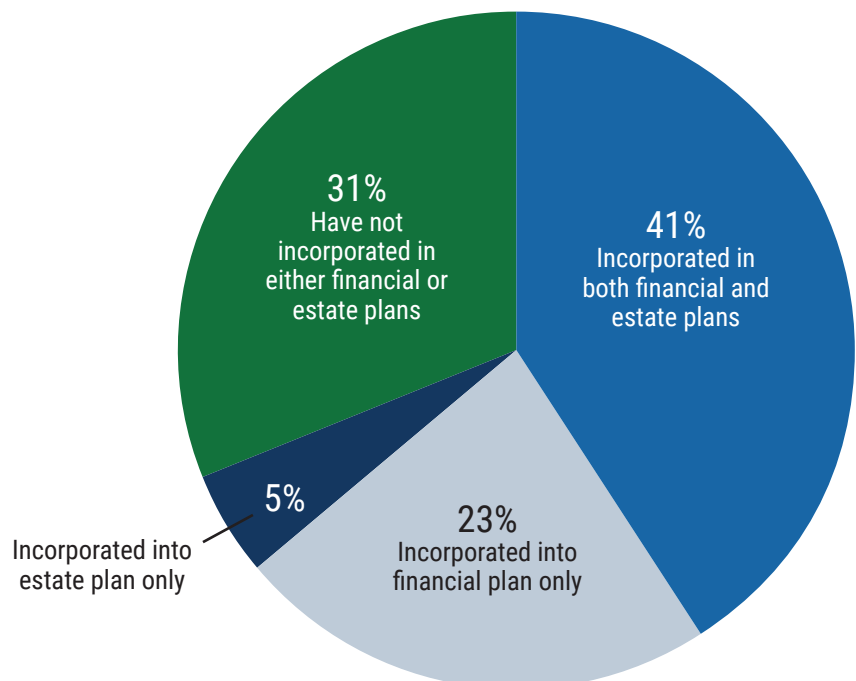
#### QUESTION 49:

**DOES YOUR ESTATE PLAN INCLUDE AN UPDATED VALUATION OF THE BUSINESS?**



#### QUESTION 50:

**HOW WOULD YOU BEST DESCRIBE THE LEVEL TO WHICH YOU HAVE INCORPORATED THE TRANSITION OF YOUR BUSINESS INTO YOUR PERSONAL FINANCIAL AND ESTATE PLAN?**



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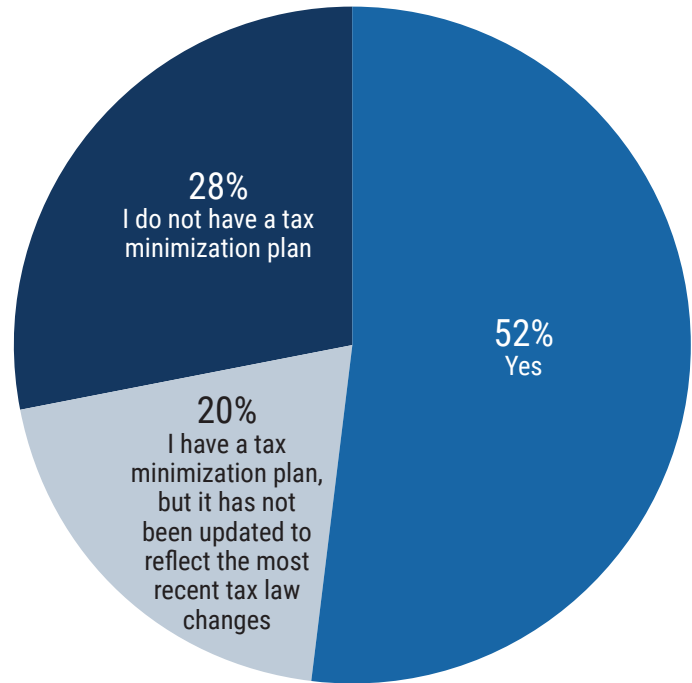
## SECTION 4

### APPENDIX

#### QUESTION 51:

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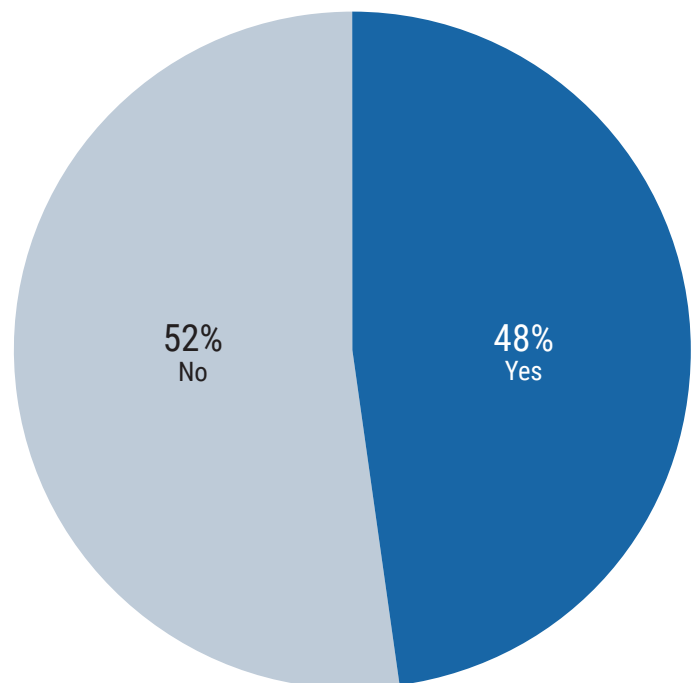
**HAS YOUR TAX  
MINIMIZATION PLAN  
BEEN UPDATED FOR THE  
MOST RECENT TAX LAW  
CHANGES?**



#### QUESTION 52:

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**DO YOU HAVE A BOARD  
OF DIRECTORS/  
ADVISORS?**



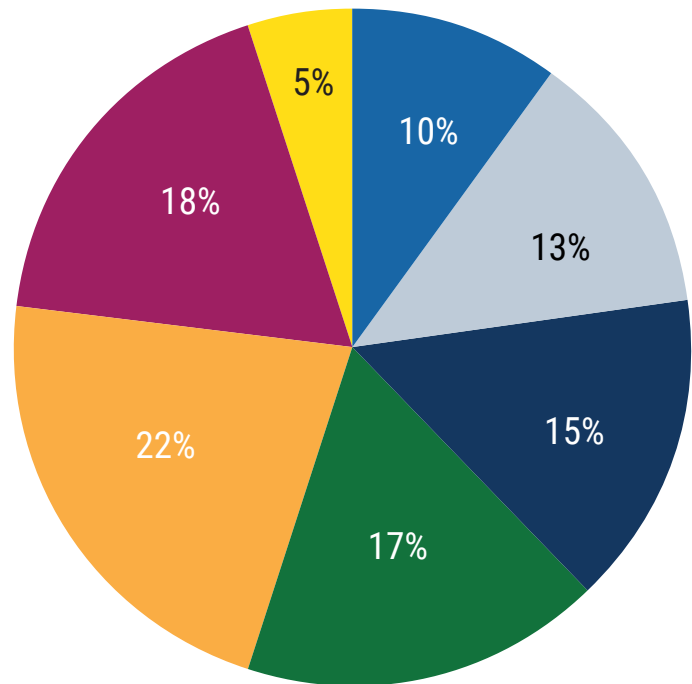
## SECTION 4

### APPENDIX

#### QUESTION 53:

### WHAT IS THE PRIMARY REASON YOU HAVE NOT COMPLETED A VALUE ENHANCEMENT OR DUE DILIGENCE PROJECT?

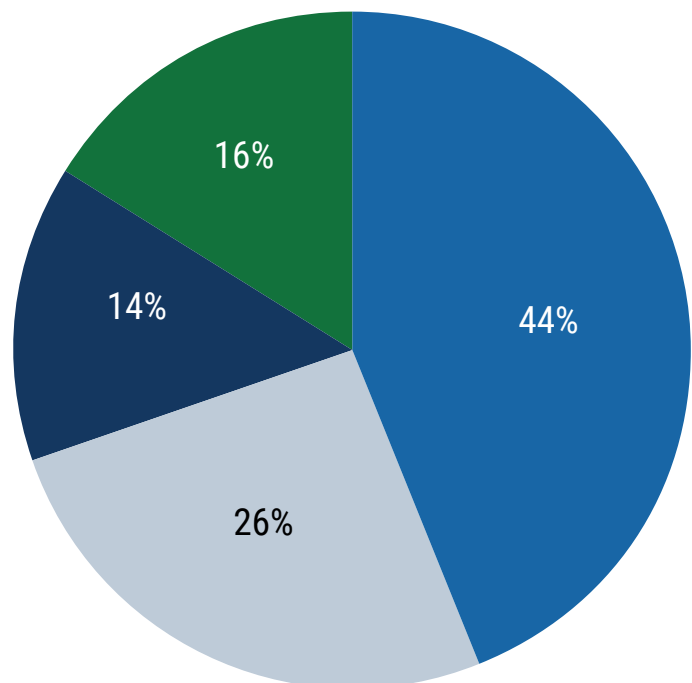
- Too expensive to undertake
- Don't have time for it
- Don't see the value in it/don't understand benefits
- Don't feel it's necessary
- We are doing everything we can to maximize value
- Don't understand what's involved or not familiar with value enhancement
- Don't know who to call or don't know who does it



#### QUESTION 54:

### WHICH OF THE FOLLOWING BEST DESCRIBES POTENTIAL CHANGES TO YOUR LIFESTYLE FOLLOWING THE TRANSFER OF OWNERSHIP?

- My lifestyle will not change regardless of what happens to the company
- The company will have to continue to perform well for me to maintain my lifestyle
- I plan on reducing my lifestyle
- Not real sure how it affects my lifestyle

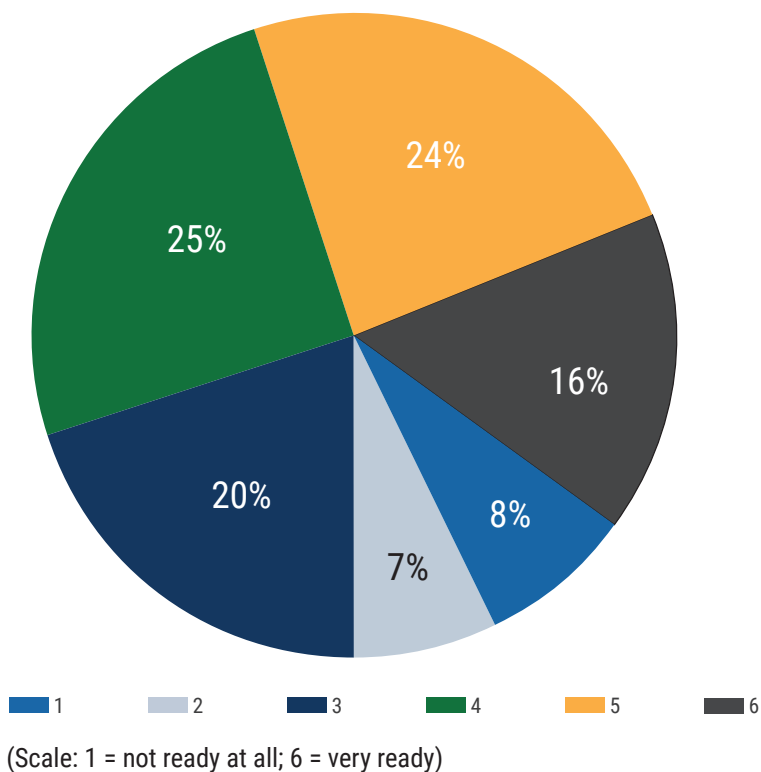


## SECTION 4

### APPENDIX

#### QUESTION 55:

ON A SCALE OF 1 TO 6, PLEASE RATE HOW "READY" YOU CONSIDER YOUR MANAGEMENT TEAM FOR THE BUSINESS TO TRANSITION TO NEW OWNERSHIP.



THANK YOU TO OUR PARTNERS!



Twin Cities Metro Area Chapter

EPI wishes to thank True North Mergers & Acquisitions, Olsen Thielen, Dayta, Sunbelt Business Advisors, and the EPI Twin Cities Chapter for their continued support of this research which will benefit businesses both in Minnesota and nationally.



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