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Stop Procrastinating and Start Focusing on Your Exit Strategy

by Tim Hermann, CFP®, CExP™

ONLY 21 PERCENT OF BUSINESS OWNERS have a written exit plan for their business, according to a recent Business Enterprise Institute (BEI) survey. This number is way too low. Baby boomers currently own a large portion of successful businesses in America. With the youngest baby boomer turning 55 this year, time is of the essence when it comes to forming an exit plan.

Exiting a business means transferring wealth, which almost always has major implications for the owner, the owner's family, and the business itself. Waiting is not an option when it comes to developing an exit strategy—the best time to start is now.

For many funeral home and cemetery owners, the pandemic has created a lot of uncertainties and hardships. But in some cases, the pandemic is fueling new business opportunities—the opportunity to evolve

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a business, to increase use of technology to meet family needs, or to offer new products and services. Whatever the outcome, business may look a bit different than before, which makes *now* the time to plan and strategize a clear path forward.

Every funeral home and cemetery owner will eventually leave the business. In a perfect world, an owner will exit the business on his or her own terms—financially secure, ready to retire, with a willing heir or buyer at the ready. But in many cases, exits happen for unexpected reasons: health issues, financial necessity, or death. Forming an exit strategy can ensure a smooth transition, no matter what the circumstances.

To frame the issue for readers, I think it is important to share a few more statistics from the BEI survey. The key question is: *Do any of these criteria apply to you?*

- Over 74% of business owners rely on their businesses for more than half their personal income.
- Over 58% of business owners would exit today if their financial security were assured.

- Over 81% of business owners want to stop working in their businesses in the next 10 years.

In short, most business owners rely heavily on their businesses for income and wealth, but many are also ready to wind down their career. Developing a successful business is an incredible accomplishment that takes years and possibly generations of hard work, persistence, strategy, and luck. But building the business is not quite enough—you also need a way to extract the wealth you've created, or at least ensure it stays in your family. That's where an exit strategy comes in.

Framing the Problem During Uncertain Times

As a Certified Exit Planner™ and Certified Financial Planner®, I have worked with quite a few businesses owners on developing their exit plans. But I have seen my fair share of business owners who delay or avoid it altogether.

For many, the uncertainty of the current economic climate is a sticking point. I often hear, “I'll work on my exit plan when things settle down and the economy and world return to normal.” For others, the COVID-19 pandemic has been a setback for their business, and the thought of developing an exit plan now feels overwhelming and poorly timed. How could you possibly develop a plan in a time of such high uncertainty?

I certainly understand this sentiment and empathize with the personal and professional stresses of the moment. But in my view, the current uncertainty should actually *increase* the urgency to make a plan! By definition, the goal of a good plan is to turn an unknown into a known. And that's what many funeral service business owners need right now, especially if recent events might have changed their thoughts on a timeline for exiting the business.

Business owners have other reasons for waiting. Many funeral home and cemetery owners are waiting to find a buyer or successor that meets the goals for the business. Some funeral home and cemetery owners are undecided as to who should take over the business. Data from the National Funeral Directors Association (NFDA) in 2019 shows that close to 50 percent of owners plan to transfer the business to a child, but there are many other possibilities.

Other funeral home and cemetery owners are waiting until the business gets a little better, generates a little more revenue, or

is worth enough to sell at an attractive price. Some owners just want to reach a specific age before selling or handing over the business. Finally, there are owners who have no interest in ever leaving, selling, or transitioning the business (to note: as you know better than anyone, no one actually lives forever).

In my experience, most funeral home and cemetery owners just want to exit the business on their own terms and with financial security. The problem is that few business owners have defined what their “own terms” actually are, and many do not have a clear picture of what financial security looks like. An exit plan will define both.

Developing an Exit Plan Isn't Hard

Creating an exit plan for a funeral service business you've spent years growing may seem like a daunting task. But with the right help and expertise, developing a plan can be easier than you think.

It starts with a review of your goals and objectives. When do you want to leave the business? Do you know who you want to sell or leave the business to? Would you prefer drawing income from the business after you leave, or do you want to sell it for the maximum amount possible? Have you received an independent and objective appraisal of your business's value? How will you invest the proceeds of the sale so as to meet your financial needs? What are your income/cash flow needs in retirement?

These business-oriented questions need to be considered in tandem with your personal financial plan. By understanding your current financial situation in detail, a Certified Exit Planner™ and Certified Financial Planner® can think through all the different variables in play, ultimately determining how to monetize your business in such a way as to address your long-term goals.

You can turn unknowns into knowns.

Over time, your financial situation will almost certainly change, and the business will evolve. But having an exit plan and a financial plan does not mean you're stuck following a rigid step-by-step process—the plan actually makes it easier to evaluate new options, changes, or strategies that come along over time.

Your successor might drop out, or a new buyer may come along and make a better offer. Your family may decide they want to keep the funeral service business going, or they may decide that the legacy of the business should move into new hands. Are these new offers/approaches better or worse for your business and your wealth? An exit plan can help you answer that question.

The end results are two-fold:
(1) you will have a plan for how to leave your funeral service business and monetize your exit, and
(2) you will have a comprehensive financial plan in place to ensure financial security after you leave.

Factoring in the Pandemic

The BEI survey and the NFDA Personal Financial and Succession Planning study were conducted before the COVID-19 pandemic arrived, so it would be understandable if many business owners' ideas and thinking about the future are quite different now than they were nine months ago—all the more reason to make a plan.

One final statistic from the BEI survey: 11 percent of business owners said they had not given any thought to their business exits at all. While I would strongly advise all funeral home and cemetery owners to think about their exits early and often, this statistic does indicate that a large majority of owners are at least *thinking* about their exits. That's a good start. The next step is to turn thoughts into plans, and there is no better time than the present to get started. **M**



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