



# Endgame

*Designing Your Business for  
the Ultimate Reward*

The **Value**Builder System™

A sunset over a body of water. The sun is low on the horizon, creating a bright orange and yellow glow. The water is dark blue with many small ripples and bubbles, some of which are in sharp focus in the foreground. The overall mood is serene and contemplative.

“Begin with  
the end in mind.”

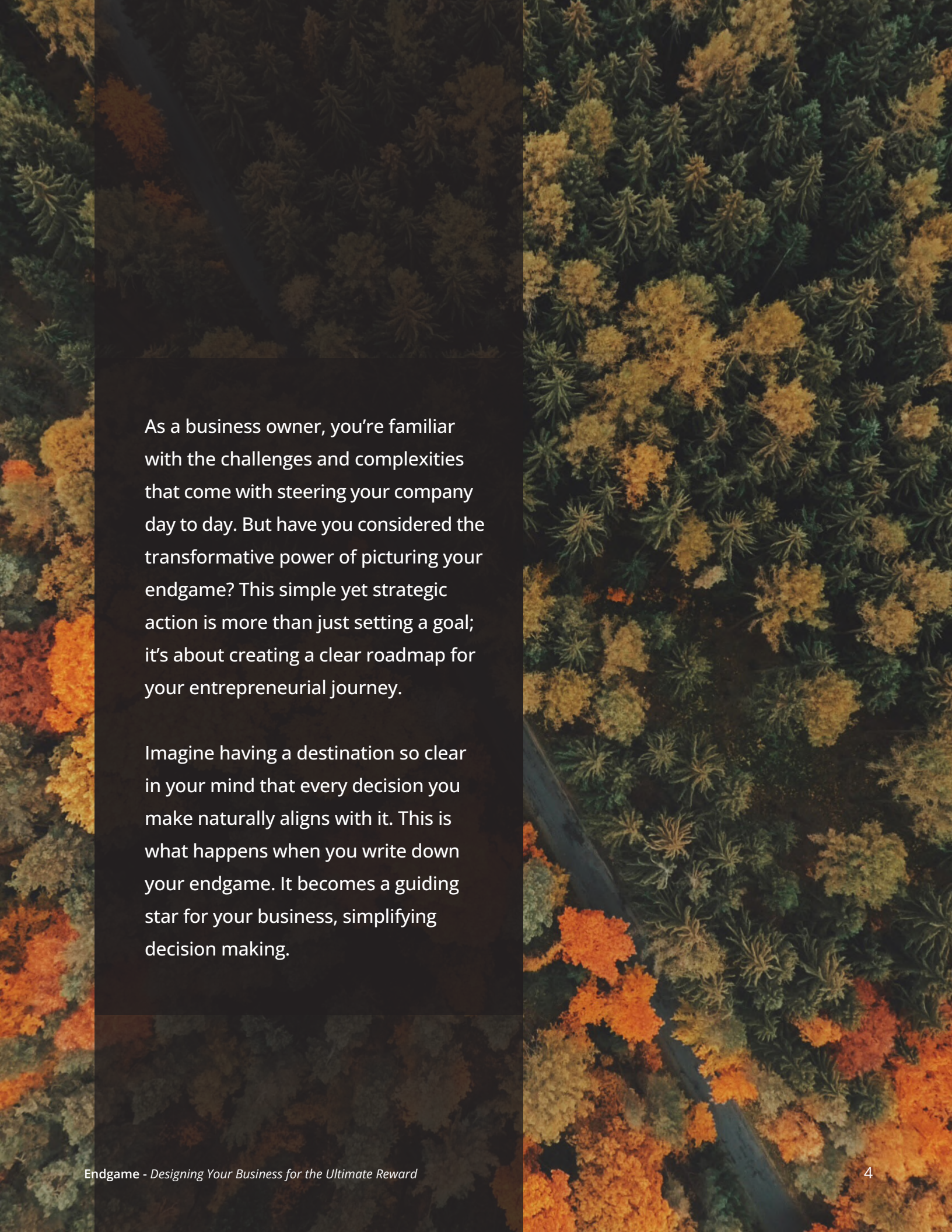
- Stephen Covey

*Author of  
The 7 Habits of Highly Effective People*



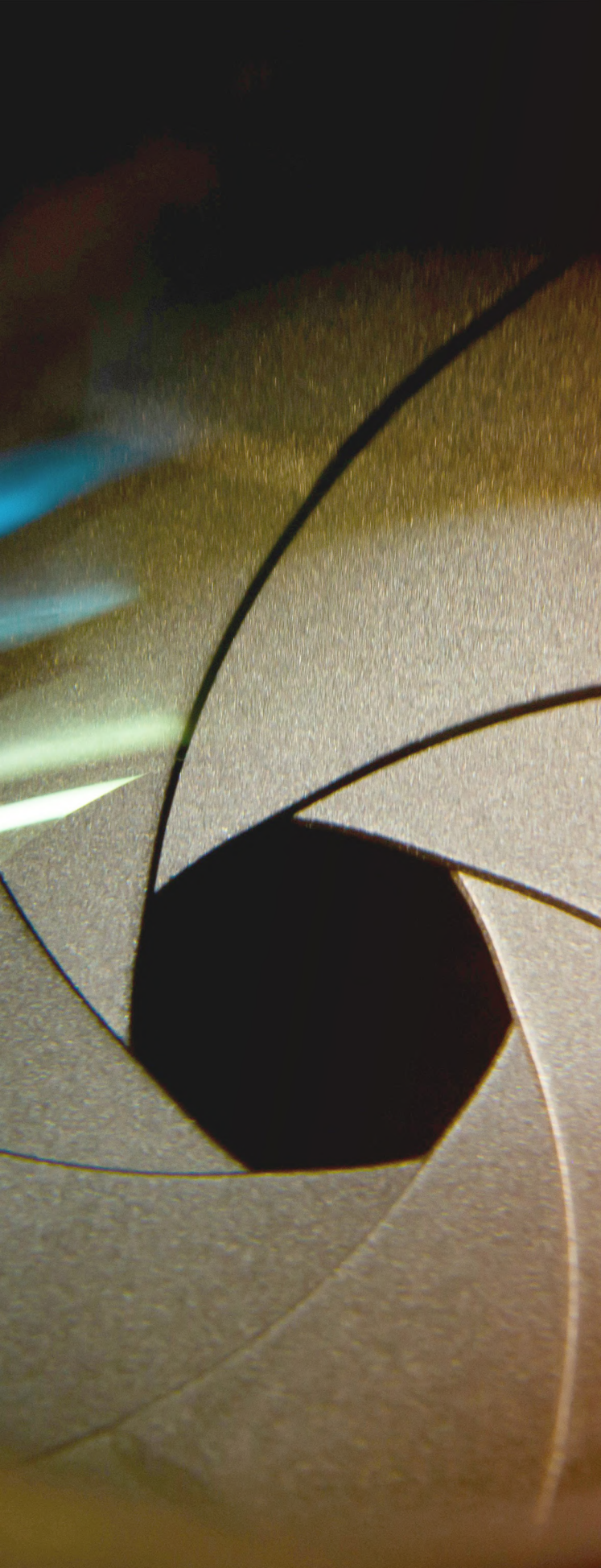
## ⚡⚡ **Begin with the end in mind**

was first coined by Stephen Covey in his influential book, *The 7 Habits of Highly Effective People*. Covey's groundbreaking book was first published in 1988 and has since sold more than 40 million copies. "Begin with the end in mind" is the second habit in Covey's framework and it emphasizes the importance of having a clear understanding of your destination or goals in order to take appropriate and effective steps toward them. Covey's philosophy is rooted in the principle that all things are created twice: first in the mind as a mental or visionary creation and then in the real world as a physical creation.



As a business owner, you're familiar with the challenges and complexities that come with steering your company day to day. But have you considered the transformative power of picturing your endgame? This simple yet strategic action is more than just setting a goal; it's about creating a clear roadmap for your entrepreneurial journey.

Imagine having a destination so clear in your mind that every decision you make naturally aligns with it. This is what happens when you write down your endgame. It becomes a guiding star for your business, simplifying decision making.



For example, if your endgame is to sell your business to a strategic acquirer, your focus should be on investing in the uniqueness of your leading product or service. This specialization makes your business an irresistible target for acquisition as a highly differentiated product or service is something a larger company might struggle to develop on its own.

Diversifying your product or service line into weakly differentiated offerings will dilute your attractiveness in the eyes of a strategic acquirer that prioritizes acquiring businesses with products they couldn't easily duplicate.

Conversely, if you're planning to pass your business on to your children, your strategy may be fundamentally different. Your goal might be to create a diversified group of products and services, each with a steady cash flow for your heirs to benefit from. Although unlikely to be attractive to a strategic acquirer, a diversified product and service offering ensures that you're handing over a stable, resilient entity that's poised for continued profitability.

Two totally different strategies contingent on one thing: understanding your endgame.

## Jogging vs. Training

Knowing what your goal is dramatically increases your odds of achieving something extraordinary. Consider the casual runner that jogs a few miles several times a week without a specific goal. They enjoy the benefits of running but don't push beyond their comfort zone. Similarly, many business owners operate their companies without a clear endgame. They manage day-to-day activities, maybe even achieving modest growth, but they lack a long-term vision. This approach often leads to stagnation. Without ambitious goals, they never truly realize their full potential and miss out on opportunities for significant growth and achievement.

By contrast, a marathon runner represents the epitome of goal-oriented training. They have a clear destination: completing a 26.2-mile race as fast as possible. They know the race date and often have a target time they aspire to achieve. This clarity of purpose transforms their entire training regimen. Every training run is purposeful, tailored to incrementally build their endurance, speed, and resilience toward that 26.2-mile goal.

Similarly, when you set a definitive endgame—whether selling to a strategic acquirer or preparing the business for the next generation to take over in a smooth succession process—your entire approach to business transforms. Decisions are made with the endgame in mind, whether it's investing in innovation, expanding market reach, or building a robust organizational structure. This endgame-focused strategy ensures that every step taken is a calculated move toward achieving your ultimate goal.



# 4 Things That Define Your Endgame

When describing your endgame, there are four key questions you need to answer to ensure clarity and precision in your planning.

# 1 What's Your Endgame?

First and foremost, you need to clearly articulate what your endgame is. Are you planning to pass your business to your children, ensuring it remains in your family for generations to come? Or is your goal to sell to a strategic acquirer, finding a buyer that sees the value in what you've built and is willing to pay a premium for it? Another option might be to do a majority recapitalization with a private equity group, where you can cash out partially while still retaining a stake in the business. Each of these scenarios requires different strategies and preparations, so being clear about your preferred endgame is crucial.



# 2 By When?

Get clear about when you plan to transition out of your business. Is this something you see happening in the next few years, or is it a goal that's decades away? The timeline for your endgame will significantly influence how you run your business in the present. If your exit is imminent, your strategies might lean more toward increasing intermediate-term value. Conversely, if your exit is further in the future, you might focus more on long-term stability and growth.



# 3 How Much Money Do You Want to Walk Away With?

Determining your financial goal is a critical aspect of defining your endgame. This is about quantifying your ambition: What is the amount of money you want to have when you exit your business? This number, often referred to as your “walk-away number,” is a key target that will influence many of your business decisions. Your walk-away number should guide your strategies for growth, investment, and potential partnerships or acquisitions.

# 4 How Close to Your Walk-Away Number Are You Now?

Understanding where you currently stand in relation to your walk-away number is essential. This involves having a thumbnail valuation done on your business to gauge its current worth. Next you'll want to understand the frictional costs associated with selling your business. The three largest expenses are usually taxes, legal fees, and a success fee paid to your M&A advisor. Knowing this gap between your dream number and what you stand to gain from selling your business is critical for strategic planning. It helps you identify how much growth or improvement is needed and can guide your decisions on resource allocation, business development, and potential market expansion.



# Pros & Cons of the Most Common Endgame Options

Each owner's endgame is unique, but there are some common approaches, each with pros and cons:

	Pros	Cons
Selling to Employees (Employee Stock Ownership Plan – ESOP)	<p><b>Continuity</b> Employees that understand the business maintain its legacy and culture.</p> <p><b>Incentivization</b> Employees become more invested in the company's success.</p> <p><b>Tax Advantages</b> Depending on the tax code where you live, ESOPs may offer significant tax benefits for both the seller and the company.</p>	<p><b>Complexity</b> Establishing an ESOP can be complex and expensive.</p> <p><b>Funding</b> Employees may struggle to raise funds for the purchase.</p> <p><b>Performance Risk</b> Business performance can suffer if employees lack management skills.</p>
Passing Your Business to Your Children	<p><b>Legacy Preservation</b> Keeps the business in the family, preserving legacy and values.</p> <p><b>Emotional Satisfaction</b> Fulfillment from family succession.</p> <p><b>Familiarity</b> Successors that grew up with the business understand it well.</p>	<p><b>Family Dynamics</b> Potential for family conflicts and nepotism</p> <p><b>Skill Gaps</b> Children may lack necessary skills or interest.</p> <p><b>Estate Planning Complexity</b> Navigating fair distribution among heirs can be complex.</p>
Selling to an Individual Investor	<p><b>Simplified Process</b> Easier and potentially quicker than selling to a larger company.</p> <p><b>Opportunity for Continued Involvement</b> The seller may negotiate a role in the business post-sale.</p> <p><b>New Vision</b> Fresh perspectives and ideas from the new owner.</p>	<p><b>Limited Funding</b> Individual investors may have limited funds, affecting the purchase price or terms.</p> <p><b>Misalignment</b> Risk of differing visions for the company's future.</p> <p><b>Diligence</b> Finding the right individual that aligns with the business's ethos can be challenging.</p>
Majority Recapitalization with a Private Equity Group	<p><b>Cash Out Partially</b> Allows the owner to realize some liquidity while retaining a stake.</p> <p><b>Growth Capital</b> Brings in capital and expertise for growth.</p> <p><b>Professional Management</b> Can add professional management skills.</p>	<p><b>Loss of Control</b> The owner will likely cede majority control.</p> <p><b>Short-Term Focus</b> Depending on the typical hold period of your private equity investor, some may prioritize short-term gains over long-term health.</p> <p><b>High Expectations</b> Pressure for performance to meet investment returns.</p>
Selling to a Strategic Acquirer	<p><b>Higher Valuation</b> Strategic buyers may pay more for synergies.</p> <p><b>Complete Exit</b> Opportunity for a clean and total exit.</p> <p><b>Growth Opportunities</b> The business may benefit from the resources and networks of the acquirer.</p>	<p><b>Cultural Clash</b> Risk of incompatible cultures and business practices.</p> <p><b>Redundancies</b> Potential for job cuts or restructuring.</p> <p><b>Loss of Brand/Identity</b> The business might lose its individual identity within a larger entity.</p>



# Write It Down

*Once you know your endgame, write it down. There's an undeniable motivational boost that comes from seeing your endgame in writing. It's a constant reminder of what you're working toward and helps you stay committed and focused. Additionally, a written goal acts as a checkpoint, preventing you from moving the goalposts as you inch closer to success. It's easy to keep shifting targets, but a documented endgame serves as a steadfast reminder of your original aspirations, allowing you to celebrate milestones without losing sight of your ultimate goal.*

*The importance of writing down your endgame is not just theory; it's grounded in real science. Dr. Gail Matthews at Dominican University in California found that participants in her research study who wrote down their goals were 33% more successful in achieving them compared to those who did not. This effect was observed across both personal and professional goals, suggesting that the act of writing down goals can help clarify them, increase motivation, and provide accountability.*

*Another study, published in the Journal of Applied Psychology, supported these findings, showing that writing down goals increased the likelihood of achieving those goals by 42%. This study highlighted that writing down goals was more effective than merely thinking about them or verbally expressing them.*

*In the corporate setting, a study published in the Academy of Management Journal found that employees that wrote down their goals exhibited higher productivity levels and were more successful in achieving their goals than those that did not write them down. This study also noted that writing down goals helped improve focus and motivation and aided in prioritizing tasks.*

*Lastly, research published in the Journal of Research in Personality observed that individuals that wrote down their goals experienced higher levels of life satisfaction and well-being. This study concluded that the act of writing down goals assists people in focusing on their objectives and provides a sense of accomplishment upon achieving them.*

# Timing Your Endgame



You may be hesitant to set an exit timeline, fearing you can't predict future market conditions. On the surface, timing your exit seems to make sense. In most industries, an economic cycle can impact valuations by up to two turns, which means that a business selling for five times earnings at the peak of an economic cycle may go for as low as three times earnings at a low point in the economy.

The problem is, when you sell your business, you must do something with the money you receive, which usually means buying into another asset class that is being affected by the same economy. Sure, you may diversify a bit, but most asset classes you'll consider—from residential real estate to stocks or vacation property—generally move in the same direction as the economy.

## Peak Seller vs. Trough Seller

For example, let's compare two hypothetical sellers. Seller A and Seller B had identical businesses in the same industry, both generating \$1,000,000 in pre-tax profit leading up to the Great Recession of 2008. To keep things simple, let's imagine they were both living in a country that required no tax to be paid on the sale of a business.

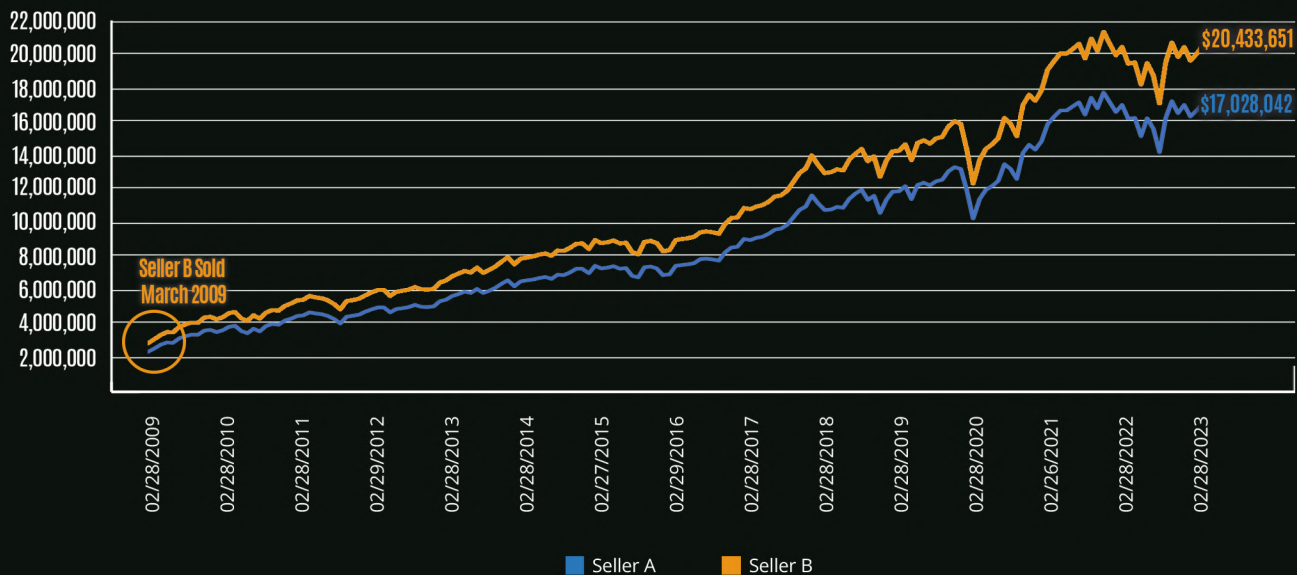
Seller A sat stealthily on the sideline until the economy reached the absolute peak and sold his business for \$5,000,000 (five times pre-tax profit) in October 2007. Seller A then took his \$5,000,000 and bought into a Dow Jones Index fund when it was trading above 14,000. Eighteen months later—after the Dow Jones had dropped below 7,000—Seller A would be left with less than half of his money.

Even though Seller A cleverly waited until the peak of the economic cycle, by March 9, 2009, having invested in the index, he would be left with less than \$2,500,000 from the proceeds of his sale.



# The Trough Seller

At first glance, Seller B waited too long and sold her business in early 2009—the trough, or lowest possible point, in the economic cycle—and got only three times earnings: \$3,000,000. Yet notice that even in the trough, Seller B got 20% more than if she had sold at the peak like Seller A and bought an index fund at the top of the market.



The difference between Seller A and Seller B's outcomes gets amplified over time. By the summer of 2022, Seller A would have around \$14 million, whereas Seller B would be sitting on more than \$17 million.

The Seller A scenario is just like selling your house in a good real estate market; unless you're downsizing, you usually buy into equally frothy conditions. When you sell, you can't put your money under a mattress, which is why timing the sale of your business on external economic cycles is usually a waste of energy.

# In Summary

As a business owner, your endgame shouldn't be a distant, abstract goal. Knowing how you plan to transition to your next chapter, by when, and with what proceeds is a powerful tool shaping your current strategies and decisions. Envisioning your exit, whether it's selling to a strategic acquirer, passing the torch to the next generation, or another path, provides clarity and direction. This clarity can transform your daily decisions, align your goals, and ensure every action contributes to your ultimate aim. It's about more than just the destination; it's about optimizing every step of your journey along the way.