# Regions Wealth Podcast

## Episode 5: Taking Care of Business

It's called the American dream, but running a business is tough, and even the most seasoned entrepreneurs find themselves in need of small business guidance from time to time. In this episode, Wealth Planning Executive Bryan Koepp walks us through the stages of starting and growing a business: funding it, running it, growing it, and facing the business expansion hurdles that may come along the way.

### *Episode Transcript*

**Anne Johnsos:**
Welcome to Regions Wealth Podcast, the podcast that tackles life's challenges with financial experience. I'm your host Ann Johnsos. It's called the American dream, but entrepreneurship is tough — 20 percent of small businesses fail in their first year, and 50 percent fail after five years. The obstacles are both personal and financial. Joining me in studio is Bryan Koepp. He's a senior wealth strategist at Regions Bank. Bryan, thanks for being here.

**Bryan Koepp, Wealth Planning Executive, Regions Bank**
My pleasure.

**Anne:**
In this episode we're talking about taking care of business. We've gathered frequently asked questions from a bunch of people and created one fictional character who needs your advice. So let's listen.

**Joe:**
Hi, I'm Joe. I'm 50 years old and I've been running my business for 25 years now. I started it with my wife. She makes these amazing soaps that friends were always talking about. I thought we could turn it into a business. It was slow going at first, but the business now has an annual revenue of a couple million depending on the year. We've made a lot of mistakes along the way of course. I'd say the first was when we applied for that loan right out of the gate. We needed money for supplies and packaging, some basic marketing, and keeping ourselves afloat as we tried to get the soaps into stores. We applied at a local bank and were completely unprepared. No business plan, nothing. Looking back, I'm surprised they didn't laugh us out of there. They were really polite, but they turned us down anyhow.

**Anne:**
So Joe didn't really have a business plan. What does a business plan entail?

**Bryan:**
Well I think a business plan entails a number of subsequent aspects. And it really can be customized based upon how the business owner really thinks and feels about their specific type of business and their future. I think one of the things that I always say is that a business owner is always going to know their business better than I am as a consultant or as an advisor. But really, if I think about the pillars or the tenants of that type of plan, I think number one is ultimately first, when I enter the business — and the Small Business Association actually states this — the minute you start a business, you should be thinking about how do I exit it, how do I transition from it. So, what's my start point, what is my end point?

Secondly, ultimately, what do I want to do? So is it creating something, is it a service-based business, who are my customers, where am I going to take it? And then from there, it's thinking about the resources that I need, you know what are my subsequent costs, what are the unanticipated things so things that I think about immediately are insurance, whether it is liability insurance, property and casualty insurance, ultimately life insurance to protect a key person. But to really begin to list those things and then really quantify and prioritize, what do I need to do today, what do I need to do tomorrow, to really put me on the path to success.

**Anne:**
So, hearing Joe speak about his experience with the bank, it seems as though he and his wife put the cart before the horse. Bryan, you've chaired a national practice group for planning for the business owner. So what steps do you suggest people take when it comes to small business financing?

**Bryan:**
Really think about the goals, intentions, and aspirations of what you want to accomplish and really where do you want to take that business. So, a lot of times it is really locking in on a specific plan which we know needs to be flexible because obviously life is full of curves. That puts us in position when we come to the table for financing that we know exactly why we're doing what we're doing.

**Anne:**
So, we've read that a lot of entrepreneurs start with getting loans from friends and family. Is that a good idea?

**Bryan:**
I think it's a good idea if friends and family have the wherewithal and opportunity to do it. I think about that on a number of levels. I would say that you do need to define, in a business relationship, expectations going in. Because sometimes what may happen is that if

expectations are not — if there's not a meeting of the minds in regards to expectations — that could result in hard feelings which could damage a family or a friendship. And you never want to see that happen. So what I would say is if you go that route, you need to have an honest conversation. You need to have transparency in regards to the books, the business plan, what you're trying to accomplish.

**Anne:**
Okay, so there are options for funding, but the key with any of them is that you need to have a clearly communicated plan. Here's Joe again.

**Joe:**
We ended up funding it ourselves. I put in $5,000 and so did Janine. A few months later, my mom passed away. She left me some money, so I put another $30,000 of my inheritance into the business. I guess I never thought of it as a bigger investment on my end, at least not at the time. It was our money and we both viewed this an investment into our future. Anyway, the company was growing and things were going well. I focused more on money, operations, and growth. Janine was the creative, working on new products, marketing, that kind of thing. Eventually we started hiring people — sales, marketing, and so on. This is where things went south for us. We hired this guy who was supposed to be great at R&D. We thought he'd make our process better. He turned out to be a bit of a wackadoo and convinced us to change our ingredients. Bad idea. A bunch of customers got rashes and ended up costing the company a lot to fix… put a lot of financial pressure on us personally. It took us several years to bounce back.

**Anne:**
Uh-oh. Okay, so let's address the bad hire first. How do you get back into a good spot financially after a bad hire results in a loss of business?

**Bryan:**
So, the first thing that I would say to Joe is slam the brakes, let's take a step back, let's take a deep breath. And again, that's easy for me because it's not my money, it's not my business, and technically it's not my future. So, and that's something that I always remind clients of is that it's easy for me to say that. So, what you really need to think about is know your business and know your culture. So a lot of times wackadoos, usually — the reason why they are a wackadoo is because they don't fit the business culture. And I'm willing to bet you that in this situation, that going back to the mission statement, if we think about why we're doing what we're doing, and where we want the business to go. When I'm looking in a deep talent pool as far as who I want to be in key positions, or for that matter any service position, is to say, do you fit the culture of our business, do you answer to its core values, do you even know the mission statement.

I think, secondly, is that mistakes are made. Nobody is perfect in regards to running a business, operating a business, sitting in any seat in an advisory capacity. So when we make the determination we have a wackadoo and, it, puts us in the wrong direction, and that individual is gone. Now what we need to do is we need to think about a contingency plan to say how do we get back to where we need to be. Let's focus on the future, let's say what do we need to do to get back on track, who do we need to talk to to get back on track, do we need to eliminate that position? Is R&D necessary in this case? Can we utilize some other type of source? Let's make it efficient and then get the business to where we need it to be.

**Anne:**
So Joe used a bunch of his own money to fund the business. So, what precautions should he have taken or should anyone take if they decide to self-fund a business?

**Bryan:**
So when I think about that, it all starts with one: great planning on the front end. So talking with your attorney, what is the best entity selection under state law to in essence protect that investment? Because one of the things that we need to acknowledge, if the business doesn't go the way that we want it to, is that we will have creditors. And creditors can potentially attach to our personal assets. So great asset protection, entity selection out of the gate is essential to make sure that we address that the right way. It doesn't mean that you can't retrofit it, but it's a lot less expensive and a lot more effective if we handle it correctly out of the gate.

**Anne:**
Right. So let's go back to Joe to hear where things stand.

**Joe:**
Now the business is recovering nicely, but Janine wants to bail. We've been arguing a ton and she's talking divorce, so it's not just the company she wants to bail on. I still think they both got potential — the marriage and the company. I can't force her though. She wants me to buy her out, but I have no idea if I can afford it at 50 percent. I have a feeling this is going to get messy.

**Anne:**
What are Joe's options right now? So can he buy her out, can he bring in a new partner... how would you advise him?

**Bryan:**
The first thing that I would say to Joe would be is — you know, with legal counsel present — is number one, not to do anything. Because if you're in a marital situation or in a creditor situation, so we're having a dissolving of the entity or the partnership, immediately then there's potential for issues to erupt if we start making rash moves. And the optics of that does

not look good by the way, either. So the first thing I would do is I'd say slam on the brakes and let's take a look at where we are and really determine, based upon the planning you've done, what are your options. So that's step one. You can't really do the planning now — we are where we are. So, if we do have a buy-sell agreement in place, that's going to control. If we don't have that in place, now what we really are going to need to do is we're going to need to be honest and transparent, we're going to need to have great legal counsel, and we're going to need then to determine — either via through settlement or through the court process — what those options are going to be and what the cost is going to be. And that would be is because you need to do strategic planning early. When you don't, the court now is going to fill in what those potential options are for you. So in my advice always in this situation is pick your own destiny.

**Anne:**
Are there additional measures married couples should take when starting a business together?

**Bryan:**
I think there's two sides of that question. I think the first side would be is you have the incorporation and legal side that affects every business. And then you have the relationship. And that's something that is going to be different for each and every married couple and it's something per se that's going to be off the ledger. Because invariably, every relationship veers off the path. There's good times and bad times. There's peaks and there's valleys. So when we think about that, that's when we kind of have to go back to the fundamentals. I always talk about it this way, and I think we all in some form or fashion in our life — whatever we do — baseball, we choke up on the bat a little too tight. And we begin to think about things, that's when things become a lot harder. And so if we have a depository, we have a foundational piece that we all buy into and we believe in — so, constitution I think is the right term — we can go back to that, refresh that, and talk about that. Not only do I believe it improves our chances of a successful business and a successful future transition — because 100 percent of businesses will transition — but what it does is it strengthens the marriage and it strengthens the friendship or the relationship.

Because it's just — life moves so fast. And I think that invariably, emotion clouds our ability to really look at reality and purpose sometimes. And so whether it's at the business meeting or you go out for a cocktail on a Friday night and just say “okay, 10 minutes let's address this and let's go have some fun”, is to kind of come back to the core a reasons of why we're doing what we're doing in the first place. In this situation it was, “I really believe that we can create a wonderful product that I could see on retail shelves across the country that men and women alike are going to come in, they're going to love the scent, they're going to love the feel, and that's going to be a household name and we're going to better our family and we're going to be in a better position." Well, let's get back to that, let's get back to why we're doing what we're doing.

**Anne:**
Okay. At the end of these podcasts we like to offer the audience some takeaways, something they might share with a friend. What are your takeaways for this?

**Bryan:**
I would tell Joe right now, as hard as it may be, is to pause and do a complete inventory in regards to where I'm at from both a business and a life perspective. First thing would be is if in my marital relationship I have kids, they're the most important thing. I make sure that they're well taken care of and we focus there first. I think in regards to the business, we need to think about what the current situation is.

I would immediately have a meeting with my advisors to, in essence, choreograph the next days, weeks, and months ahead. Because when I do that, even though there's uncertainty, I do create some level of prediction. So that way, then I know what in essence we're going to be, what we're going to do. And then from there I can begin to work my plan to ultimately get us to where we're going to be, which is still to be defined and there's no doubt that there's a lot of uncertainty in Joe's situation. But this is a time where you cannot in this situation go it alone. If you do, it's going to put you in a worse position. Surround yourself with the advisors that you should have on your team and let them do a lot of the caring. But you've got to open up and be honest and transparent with them.

**Anne:**
Thank you, Bryan. I hope what we discussed today can help people like Joe make good decisions to take care of their businesses and their relationships. Thanks also to you, for listening. We'll be covering a new wealth management challenge in every episode, so check back, and maybe introduce us to a friend you think would benefit from Regions Wealth Podcast.

**Anne:**

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