
INSIDE THE 3RS ANALYSIS FOR BUSINESS SUCCESS

**A 3RS™ FRAMEWORK FOR
PERSONAL PROFIT**



Plan for What's Important

Each of us probably knows, or knows of, a Hollywood Entrepreneur. This is someone who at an early age dedicated themselves exclusively to taking a unique idea, scaling it for growth, and creating “celebrity wealth” through a sale or IPO. They might have holed up in their parents’ basement, or worked around the clock with a small team, undistracted.

It’s a wonderful and idealistic story, but that is not the experience of most successful entrepreneurs and business owners.

The reality is that most entrepreneurs are developing and growing their businesses alongside their busy lives. They have family obligations, lifestyle goals, and ongoing commitments, in addition needing to invest in and run their businesses. There are clear financial ties between owner and business. The owner’s personal wellbeing and business success are closely interrelated.

The problem is, not understanding or even ignoring this dynamic interrelationship — particularly during periods of transition or disruption — can create challenges to success and personal financial freedom. At minimum, you risk being miserable on the journey due to personal stress, or worse you may not fulfill your goals and aspirations or may not attain the true independence required to step back on your terms.

To help you address this interrelationship, we developed a simple yet dynamic framework. **We call it the 3Rs.** It is based on our work with business owners for over three decades, and we believe it can potentially help you with your financial decisions – both for your business but also for yourself — to create and manage your financial freedom.

A 3Rs™ Framework for Personal Profit

The concept of the 3Rs analysis is simple. The 3Rs is a profit paradigm for owners to use in their business, with the goal to achieve personal financial freedom from their business. For every dollar of profit generated by a business, you (as owner) have three choices:

1. **Reward** yourself with a paycheck.
2. **Reinvest** in growing the business.
3. **Repurpose** into an outside investment.



When put in proper context of your goals, values, and risk profile, business owners can use this 3Rs framework to make better decisions around allocating profits to the right places. It helps them set priorities, manage expectations, and establish behaviors. It may help them to be better prepared for unexpected events, to minimize events which could derail the business or obstruct their own financial independence.

In Charge of Your Options

Over time, the 3Rs analysis may help build liquidity, and liquidity brings options. With options, you can steadily pursue a path to your goal for your business, whether it's an exit strategy, succession plan, or transition event.

There's no formula or prescribed application of the 3Rs. It varies by entrepreneur and business owner, depending on unique individual goals. Let's walk through the 3Rs framework at a high level.

 REWARD

In the early stages of building a business, an owner must straddle the line between paying themselves (Reward) and sustaining business operations (Reinvest). Indeed, you may be able to temporarily sacrifice your personal financial well-being for the sake of your business. But many owners and entrepreneurs have on-going obligations and commitments or seek to maintain a certain lifestyle. And as these commitments grow, evaluating the balance around the 3Rs factors may be fluid.

Perhaps you have children or aging parents to care for — or both, as we find with many of our clients today. Maybe you want to work less and enjoy the fruits of your labor. Or conversely, you may need to weather a business challenge or take advantage of growth opportunities. Your emphasis on Reward at any point in time depends on your risk appetite, immediate financial obligations, and long-term goals.

 REINVEST

While Reward satisfies your personal needs and goals, Reinvest tends to your business needs and goals. It means taking profits and plowing them back into the business. You might be investing in new growth initiatives, making new hires, or upgrading capital equipment. Perhaps you are making an acquisition. You might consider third-party capital (equity or debt) for larger business requirements, but reinvesting from profits is usually a cheaper source of funds.

What's most important is understanding the short-term sacrifices necessary for long-term security. You might be tempted to invest your own money into the business to support its growth. But this can lead to liquidity issues if your net worth is tied up in private company stock. Concentrating your personal financial resources in one asset also increases your risk of permanent capital loss.

 REPURPOSE

To ensure you have something to fall back on in case your business experiences setbacks, you may need to Repurpose. By diversifying your assets outside your business, you can help minimize risks of liquidity issues and permanent capital loss. In short, Repurpose can potentially improve your cash cushion and diversify your wealth.

In some cases, Repurposing takes greater focus as your personal financial situation stabilizes and you have enough capital on hand to support the pace of business growth. Or you may want to simultaneously build up your cash reserves and supplement your retirement resources with personal savings and investments. Whatever stage your business is in and its long-term performance, Repurposing is one step toward future financial security.

Your Own 3Rs Version of Success

Advisors from our Atlanta office can help build a 3Rs wealth management plan around your story, using thoughtful discovery and independent discipline with the goal of helping your assets and your life appreciate together.



The EP Wealth team is experienced at assessing potential risks versus rewards and making the necessary business and personal financial trade-offs. Long-term success may require smart short-term decision making for yourself, your family, and your business. As outlined, it could mean leveraging the 3Rs with an eye on both where you are today and where you ultimately want to end up.

We believe this approach may work for you, because we've lived it ourselves and guided generations of small business owner clients along their own paths to business and life success. We look forward to helping you develop a 3Rs plan for both.

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