

THE BUSINESS SUCCESSION PLAN



Guidelines to business transition

BUSINESS SUCCESSION PLAN

I. WHAT IS A BUSINESS SUCCESSION PLAN

A Business Succession Plan is a dynamic document that is utilized as a guide to manage the issues of transition. When a succession plan is in place, it allows the business owner to anticipate and effectively manage change. A successful plan must be realistic and workable and not prepared in isolation. It must involve family members, professional advisors, shareholders, partners, strategic employees, and all stakeholders in the business. The Plan will address the issues of “When and How” transition of the business to new ownership and management will occur.

II. HOW TO USE THE BUSINESS SUCCESSION PLAN MODEL

The Business Succession Plan is to be used as a model or guide to lead the user through the process of developing a Succession Plan for their business. As each business and owner is unique, the Plan will also be unique. The model is a tool that will be customized to the personal needs of the user. Use of the Model will assist the business owner in the preparation and gathering of information necessary to make informed decisions regarding the future of the business. It should not be viewed as being a replacement for using professional advisors. The implications regarding legal, financial and taxation issues are too great and intricate to be made without professional input.

III. WHY PREPARE A BUSINESS SUCCESSION PLAN?

A Business Succession Plan is an important component of any business’ strategic planning process. It will aid the business owner in preparing for the time when they will retire from the business or in more extreme times, of illness or death. With a Succession Plan in place, the business will be more likely to survive through transition of ownership and will maximize the return to the retiring owner’s investment. By not preparing a Succession Plan, business owners risk monetary loss through ineffective tax and financial planning at the time of succession. In many instances the future of the business may also be put in jeopardy.

IV. COMPONENTS OF THE BUSINESS SUCCESSION PLAN

Each Business Succession Plan will be unique as each business and personal situation is unique. The components of the Plan, which are outlined below, provide a guideline to be followed; however, not every section will be required by every business and may be modified to meet personal needs.

A. ESTABLISH GOALS AND OBJECTIVES

This section of the plan is where the owner’s personal goals and vision for the business and his/her future role in its operation will be addressed. If the owner is not sure of where

he wants to go with the business it will be ineffective and lead to problems in the future. Issues to be addressed in this section include:

a. Owner retirement goals

b. Family member goals

c. Goals of other stakeholders (partners, shareholders, employees, etc.)

B. FAMILY INVOLVEMENT IN DECISION MAKING PROCESS

This section is important in that by having the family and all stakeholders involved in the decision-making process, or at least kept informed of the decisions being made, will alleviate many of the problems that arise relating to inheritance, management and ultimately ownership issues.

Communication

- Establish a process for dealing with disputes and changes to the family structure which could impact the business such as divorce, death, injury
- May require the involvement of outside advisors such as a lawyer and/or accountant

C. IDENTIFY SUCCESSOR (S)

In this section you will address the issue of who will take over both ownership and management of the business. It must be recognized that these two issues are not the same. This process must not be taken lightly and will require a great deal of preparation and planning.

- Identification of potential successor(s)
- Training of successor(s)

D. ESTATE PLANNING

This section of the Plan is exceedingly important, especially if the business owner is planning to retire or is taking a precautionary approach to the future of the business in preparation for being unable to continue operation of the business due to illness or death. Proper estate planning will significantly impact the financial future of the business owner, the business itself and all those with a financial stake in the business (family members, partners, shareholders and employees). Estate Planning is where outside advisors are necessary to ensure that all necessary issues are properly addressed to maximize benefits to the business owner. Advisors to be consulted include: lawyer, accountant, financial/estate planner and life insurance representative. Each advisor will have their own area of expertise and will be able to provide necessary pieces of the puzzle. Issues to be addressed in this section include:

- a. Taxation
- b. Retirement income
- c. Provision for other family members
- d. Active and non-active family members
- e. Other financial considerations

E. CONTINGENCY PLANNING

As plans rarely proceed smoothly or as desired, it is important to consider what could go wrong or awry and prepare alternatives on how to address situations as they occur. A good approach for this section is to look at “what if” scenarios and have a strategy outlined to deal with the situation if it arises. This need not be highly detailed but should be looked at as being a guide if unforeseen circumstances occur, such as illness or death of the principal or key person in the business.

F. CORPORATE STRUCTURE AND TRANSFER METHODS

In preparing for business succession it is necessary to review and update the organizational and/or structural plan for the business. In many small businesses, the owner is the sole person responsible for all aspects of the operations. As this person plans to remove himself or at least reduce the active role they play, it may be necessary to differentiate between ownership and management responsibilities and create positions for these roles. Issues to be addressed in structuring the business for transition include:

- a. Identify roles and responsibilities
- b. Fill key positions
- c. Structure the organization based on who is to be the successor
- d. Take into consideration any potential roles for the retiring owner
- e. Restructuring may be required as the original owner often fills multiple roles
- f. Lawyer
- g. Accountant
- h. Financial Advisor

G. BUSINESS VALUATION

It is important that in preparation for succession of a business that steps are taken to enhance the value of the business in order to make it more attractive to potential buyers while maximizing tax benefits to the current owner. There are various types of valuation methods used by accountants, realtors and business brokers. It is best to review the options with these professionals in order to select the method best suited to your circumstance. Some of the factors that impact the value of the business are:

- a. What is to be sold?
- b. Where is the business located?
- c. Profitability
- d. Financing
- e. Inventory

H. EXIT STRATEGY

In this section of the Succession Plan, you will address issues specific to the actual transition of ownership and removing yourself from the day-to-day operations of the business. It involves the comparison of alternatives and a framework for how to make your final choices.

- a. Transfer method

b. Establish timelines

c. The Exit Plan needs to be distributed to all persons participating in the succession process.

I. IMPLEMENTATION AND FOLLOW-UP

It will be necessary to review your Succession Plan from time to time. A well-prepared Plan will be done early and will require updating and revision as situations change. As with any strategic planning document it must be dynamic and flexible. An effective means of ensuring that you take the time to keep your Plan current is to schedule a regular review process. As a suggestion, set aside a specific period each year to examine the Succession Plan and assess its applicability and address any changes that may impact your ability to implement the Plan as required.

V. CONCLUSION

At this stage of the planning process you will be taking a final objective look at all aspects of your Succession Plan and determining your readiness and in many circumstances your willingness to proceed with succession. It is here where you may wish to identify some of the criteria you will utilize in making the final decision to start the process of implementing your decision to transfer ownership of your business.