

PLANNING FOR SUCCESS IN BUSINESS SUCCESSION

Who will lead your business when you're no longer there?

How will you use the value of your business to fund your retirement and attain other goals?

These questions should be top of mind for every business owner. Business owners dedicate their life's work to building an enterprise which offers opportunity and reward to employees, customers and many others. The owner himself typically has most of his net worth tied to the business, which may also define his identity in the community. But despite years of diligent planning and careful management, most business owners fail to prepare for the greatest risk to their business - handing ownership and control over to others. All too often, failure to plan for succession severely limits the founder's ability to realize his goals and enjoy the rewards of his hard work. Fortunately, a carefully developed and well-implemented succession plan greatly enhances the ability of the founder to attain his goals.

Succession planning is a process of identifying key goals and designing strategies to achieve those goals when the founder leaves the business. It is not a one-time exercise; instead it is an ongoing process involving a number of key players. The goal is effective transition of ownership and control of the company, whether it be to the next generation in a family business, the management team in a management-led leveraged buy-out, or a sale to an unrelated strategic or financial buyer.

As the "baby boom" generation of business owners reaches retirement age, the need for succession planning has never been greater. Yet many business owners find it difficult to start planning because it requires them to come to terms with difficult issues. How long can I expect to remain in control of the business? What will I do when I no longer run the business? Who could possibly carry on my life's work? It also requires skills and expertise which are foreign to many successful business owners, and it is human nature to avoid tough issues. But with an understanding of the risks of succession and the process of planning for it, a business owner can position his company for a successful transition which will also serve his personal goals.

Key components of the succession planning process are:

Setting Goals and Priorities. - understand your goals for your business and your personal affairs, and realize that there may be conflicting goals which require you to set priorities. If you want to fund your retirement upon existing the business but avoid leveraging the balance sheet, it may be difficult to do both.

Evaluate and Position the Business. Think about how a buyer would view the strengths and weaknesses of the business. Does it have good operating results and a strong balance sheet? Are there opportunities for growth? If so, what is needed to capitalize on them? Does the management team have all the necessary capabilities? What about the company's financial and accounting systems and controls? As part of this process, evaluate opportunities for transition. Are family members interested in and capable of running the business? If so, do you need to keep non-family members engaged and motivated to contribute to the success of the business? Could the management team buy it, and if so can they get outside financing or would the owner

have to provide seller financing? Are there financial or strategic buyers who may be interested in the business?

As you identify areas which need improvement, develop a plan for fixing them. If a family member will take control, implement a training and mentoring program to make sure he or she has the necessary knowledge and skills, as well as the support of other members of the management team. If you plan to sell, take the company through “dry run due diligence” which will let you discover and resolve problems before a buyer finds them and discounts the value of the company. Invest the necessary resources, including the owner’s focus and attention, and re-evaluate the plan during its implementation.

Use a Team Approach. Build a team of advisors who bring the necessary expertise to the situation in areas such as business valuation, investment banking, accounting, law and insurance, and who have experience working with the unique challenges of business succession. Succession planning should be carefully integrated with the owner’s estate planning, so the owner’s financial advisor should be part of the team as well. These advisors need to work as a coordinated team, and any effective team needs a leader. While the business owner is the ultimate decision maker, given the numerous demands of operating the business, it may be wise to delegate management of the process to an experienced team member.

Start Soon. Business owners tend to think they will be able to handle transition of the business on their own timeframe. After all - they own the business - why shouldn’t they control the timing of its transition? The reality is that there are many factors beyond the control of the business owner which may trigger the need for a succession and dictate the timing of the process, such as health or financial problems, industry conditions, ability to access capital in the financial markets and conditions in the markets for buying and selling closely-held businesses. Advance planning and preparation is essential to success; ideally, the owner should start the process at least three years, and preferably five years, before he plans to implement the succession.

Business succession presents many challenges and opportunities to a closely-held business. Failure to plan for succession often results in a decline in the business when the owner is no longer able to guide it forward. But an effective succession planning process greatly increases the owner’s likelihood of achieving his personal goals and his goals for the business.

This article was authored by Ben English and provided by HIRSCHLER FLEISCHER, A Professional Corporation.