Business Best Practices

Succession Planning: Intentional and Systematic Preparation for the Future

Succession planning is an intentional and systematic way to prepare for the future. While most people think of it as trying to answer the question "Who will take over the business?", succession planning actually entails much more than just the transition of ownership. Businesses also must prepare to develop and replace key employees and staff, and they should anticipate and plan for the impacts that any transition in ownership and/or personnel could have on clients, advisors, employees, and other stakeholders. When adequate succession planning occurs at all levels, businesses are able to experience a smooth, well-orchestrated transition; owners or beneficiaries can avoid the dreaded "fire sale" that can occur with inadequate planning. This article provides insight into the succession planning process and focuses on ownership transition issues.

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Planning for Tomorrow—The Owner's Goals and Time Horizon

Planning an exit strategy is usually in the back of every owner's mind, but it often takes a life event or a business reason to bring it to the forefront. The impetus for succession planning is often the result of an owner turning a specific age, with a desire to retire in a five-to-ten-year time frame. Alternatively, an owner may experience a health issue or a serious illness/death of a spouse or close friend, and consequently, reality sets in and the need for a succession strategy becomes more urgent. Other reasons for action might include the need for capital to grow the business, a desire to liquidate the investment in the business, an opportune time to sell based on the company's growth or projections, or a great opportunity that is too good to ignore. And once in a while, there is "burnout"—it's just time to get out.

Whatever the motivation for beginning the succession planning process, the owner should first identify the goals of succession and the desired timeline for transitioning the business. The owner also should prioritize those goals in matter of importance. For example, is the driving force to liquidate and have as much money in the bank as possible, or is it more important to ensure that the legacy of the company lives on, and/or to make sure that the employees are well taken care of? How long does the owner want to stay involved with the business after the transition? Is the owner willing to finance any part of the sale? How long is the owner willing to wait to collect the payments? Are there partners, family members, or key employees to consider? Exploring these types of questions can help determine the alternatives the owner should consider for succession strategies.

Assembling a Professional Team

Transitioning a business is a serious endeavor. Therefore, it is of the utmost importance that the owner assemble the right professional team to assist throughout the process and to ensure the most equitable deal that accomplishes the owner's goals. Such teams typically include:

- *An attorney*—to advise you of legal considerations for each possible succession strategy, ideally someone proficient in mergers and acquisitions and all alternatives for transitioning a business;

- *An accountant or tax specialist*—to advise you of the tax ramifications of the various succession alternatives;
- *A business valuation specialist*—to aid in determining the value of the business;
- *A business broker*—to assist with finding an appropriate buyer, if an external sale is the most likely course for succession, and to offer assistance throughout the search and negotiation process;
- *A business consultant*—to help position the firm for succession and to assist with strategic planning and implementation throughout the process to ensure a smooth transition.

It is not uncommon for a business broker also to be a business consultant, in which case one person is able to serve the seller effectively in both the broker and the consultant role when a business is being sold to an external buyer.

If the business is being sold or transitioned to family members or key personnel, some firms also engage the services of a personal *business coach* to assist with personal development and business skills coaching to the individuals who will be taking over the business. These coaches help prepare the individuals to make the transition from employee to business owner and guide them in developing the skills they need to be successful.

An owner also must consider which, if any, internal key employees will be included in the succession planning process and at what time they will be brought into the process.

Succession Planning Strategies

An owner should be informed on the choices available regarding succession strategies before deciding on any one particular approach. The most common strategies are:

- Selling to an external third party;
- Selling to one or more existing partners;
- Bringing in a new partner with the goal of selling or transitioning the business to that person;
- Selling or transitioning to one or more family members;
- Selling or transitioning to one or more key employees;
- Establishing a company ESOP; and
- Taking the firm public.

Not every alternative listed above is available to an owner. However, for those alternatives that can be considered, it is highly desirable to prepare a list of pros and cons for each alternative to determine which option(s) best meets the owner's primary goals. The team of professionals can assist in that process.

Communication Strategies

Once the succession planning strategy has been decided, but before the deal is finalized, a communication plan must be developed. Timing is of the essence in communication, and a communication timeline that runs in synch with the closing of the deal is a critical part of any successful transition. If a buyer is involved, the details may need to be worked out as part of the purchase agreement. It is important to first craft and deliver the message to employees. Key clients and key business associates should then be contacted directly, in person or by phone whenever possible. Written communication should next be sent to all clients, advisors, and other business associates. Finally, a press release is typically issued to offer a public means of spreading the news.

What if Tomorrow Never Comes?

Stuff happens! Even if an owner is not anywhere near retirement age and plans to be involved in the business for a long time, life can take unexpected turns. It is important that sufficient planning is done around an "unplanned exit," such as a death or debilitating illness or irreconcilable differences between partners. Develop contingency plans for any possible events, seek legal and tax counsel, and have a documented succession plan that outlines the courses of action for any unplanned events.

Conclusion

Developing a succession strategy is one of the most important tasks an owner can undertake. It can be emotionally challenging, and most owners only have one chance to get it right. Take the time to explore all options, assemble the right team, and achieve the best results possible to meet the desired goals. ■