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How to succeed at succession planning

A succession plan is something every business owner needs to prepare for the inevitable – the day you'll transfer assets and control of your business to a family member, business partner, employee, or outside buyer.

Many business owners put off succession planning for any number of reasons – they're busy, they don't like thinking about falling ill or dying, or retirement seems a long way off. But failing to plan for your exit puts you and your business at significant risk.

Having a succession plan means that if life throws a curve ball and you need to step away sooner than expected, you'll have contingency plans in place. You'll be grateful to have made the tough decisions and laid them out, step by step, for a smooth and successful transition. So will your successors.

Why start now?

Because succession planning involves complex decisions that can take up to five years to complete, it's recommended you start early. Here are a few more reasons to start planning now:

- You'll have enough time to plan effectively for retirement.
- You'll reduce the risk of conflict among family members and staff and leave your successors with a flourishing business.
- You'll be able to groom the right team and facilitate any necessary training before your departure.
- You'll get a better price and conditions when you sell.
- You'll greatly increase the odds of your business surviving without you.

Part 1: What is succession planning?

Think of a succession plan as a living document that records exactly how you want the next chapter of your business story to unfold – a tool designed to ensure one of your most valuable assets continues to thrive for many years following your departure.

Succession planning is just as beneficial for a small business as it is for a large corporation. Unfortunately, business owners who underestimate the importance of planning often regret it.

Neglecting to choose – and prepare – a qualified successor can quickly destroy a business. Putting off estate planning can lead to unnecessary stress and conflict. And failing to plan well in advance for the sale of your business can result in getting much less than your company's actual worth.

Business vs. succession planning

Although different in nature and scope, the purpose of a business and succession plan are basically the same: to guide better decision-making that ensures a healthy, profitable, long-lasting business.

Both need to be updated on a regular basis to help you achieve your company and personal goals. And, like business planning, succession planning is an ongoing process designed to mitigate risk – one that only ends when plans are finally set in motion by your departure.

Key planning areas
An effective succession plan addresses every aspect of the business impacted by the owner's exit, including choosing a suitable successor and leadership team.

Other key planning areas include:

- Finances and wealth management
- Estate
- Insurance
- Taxes
- Legacy
- Retirement
- Business transfer and transition

Tips for success
1. Don't procrastinate! Start planning now.
2. Identify human resource issues/concerns (family, staff, partners).
3. Consult with key stakeholders.
4. Hire a team of financial, legal and business professionals.
5. Draft your plan and stick to a timeline.
6. Align your succession plans with financial and estate planning.
7. Include contingency plans for a sudden, unexpected exit.
8. Communicate openly with employees.
9. Review and update your succession plan annually, along with your business plan.

Avoid these succession planning pitfalls
The biggest succession planning pitfall, of course, is never getting around to drafting a plan. Once you're ready to start the process, watch out for these common missteps that can sabotage your efforts.

- Take early note of employees who could be groomed for leadership roles and support their development with training opportunities.
- Don't let fear of conflict get in the way of making good decisions for your business. This can be particularly challenging for family-owned companies.
- Know where you want your business to be ten years from now. Choose senior management roles for candidates you trust to take your business in the right direction.
- Be transparent when considering potential successors. Meeting with candidates in secret or announcing appointments without a fair process will breed resentment and put your organization at risk.
- Avoid losing key talent for future leadership opportunities by consistently nurturing your staff's personal growth and professional development.

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Part 2: Important planning considerations

Before you draft a succession plan, you'll need to spend time giving careful thought to your personal and business long-term objectives.

Ask yourselves these preliminary planning questions so you can create a succession plan that is in harmony with your personal, lifestyle, financial, retirement and business goals.

Personal questions

- What is your main priority when succession planning? Do you hope to maximize retirement income? Keep the company in the family?
- Would you prefer to maintain a part-time role in your business when the day comes – or completely step away?
- What is your preferred timeline for your exit?
- What are your desired terms for the payout – a one-time payment or regular payments?

Business questions

- What is your long-term future vision for your company?
- Who might take over as your successor – a family member, business partner/employee or outside buyer?
- How could current positions in your organization be redesigned to best meet your vision for the future?
- What are your plans for the proceeds if you sell your business?

Planning activity: What will your organization look like without you?

Choosing a successor may require reshuffling some responsibilities in your company. Draft an organizational chart for your succession. If you offer a senior manager a promotion, who will take her place?

Planning activity: Addressing risks

Contingency planning ensures your business can carry on smoothly, no matter what surprises life has in store. Brainstorm a list of risks that could impact your succession plan and how you want to address them. For each risk list:

- **Succession risk:** What can go wrong? What is the potential impact to your business?
- **Likelihood:** Highly Unlikely, Unlikely, Likely or Highly Likely.
- **Impact:** High, Medium or Low.
- **Contingency:** What will you do if this risk happens?

Do you own a family business?

A major reason businesses don't survive comes down to family dynamics. The desire to avoid conflict can pose a serious challenge for small business owners who feel caught between making the best decisions for the company and keeping the peace.

If your family business is struggling with this issue, look for an objective third-party perspective from a business consultant or financial planner. Guidance from a neutral professional whose focus is strictly the bottom line can help facilitate difficult discussions.

Will you transfer ownership or sell?
Business owners should carefully weigh the implications of transitioning the business to a family member.

Although it may be a parent's dream to transfer ownership to a child, have an open discussion first. Your child may have other career plans. In this case, sharing the sale proceeds may ultimately be a better decision.

Communicating early and often about your plans for the family business will go a long way to avoiding tension, anxiety, and disappointment when it's time for your succession.

Family business succession tips:

- Create a conflict-resolution strategy when facing difficult business decisions.
- Be honest about expectations and take care that family time doesn't always include business talk.
- Consider a phased exit if a family member isn't ready to take over when you're set to exit.

Factors such as age, desire, skill set, management experience, family dynamics and the current state of the business should all be considered when deciding how the business will be led when it's time to exit.
– David Fabian and David Steinberg, Ernst & Young, Globe & Mail Report on Business, February 4, 2015

Part 3: Selling your business

If you plan to sell your business, you'll have to decide whether to sell to a family member, business partner, employee or outside buyer. Then you can start getting your business in shape for the sale.

You'll need to determine:

- Whether the sale includes business assets or shares.
- What you hope to gain from the sale (personally and financially).
- Purchase price.
- When you want to sell and method of payment (upfront or scheduled payments).
- Financing for a change of ownership.

It's wise to seek the advice of a business valuator and broker as well as financial, legal and succession planning advisors to ensure the outcome of the sale meets your objectives. These professionals can help determine the right financial structure for the sale of your business, the best way to market your business and provide advice on tax and legal considerations.

Getting the best price for your business
There's one proven way to get the best value for your business: prepare early.

It can take years to sell a business. To facilitate a quicker sale and get top dollar you'll need to take steps early to ensure your business attracts an eager buyer.

- Show your business has been profitable for several years with cash flow forecasts, profit forecasts and budget reports.
- Have your tax records in order.
- Know your customer acquisition and retention rates.
- Develop more revenue streams with extra services or products.
- Start "replacement planning" – grooming your successors and locking in staff through loyalty incentives.
- Offer financing terms.

Another excellent way to make your business appealing to a buyer is to create transferable value – in other words, ensuring your business is "turnkey." You can do this by creating effective systems for management, sales, production and administration, so your business can function seamlessly without you. Another great tip is to create an operating manual that documents all processes in simple, easy-to-understand steps before you sell.

Will you stick around?

A buyer will likely want you to stay on board for six months to two years to help oversee the transition of the business (and, perhaps more importantly, to hold you accountable for any promises!) Will sticking around impede your next plans – to start another business, or start retirement? It's important to determine what you are willing to do for the buyer in terms of your own transition commitment before you set out to sell the business.

Part 4: Drafting your exit plan

You'll also want to work with a team of planning experts who can provide a business valuation, legal advice, personal financial planning and tax-planning counsel.

Hire a dream team

- An **accountant** can help you maximize RRSP contributions, set up individual pension plans, implement an estate freeze, provide advice on capital gains exemption, income and pension splitting and reduce taxes upon business transfer or sale.
- A **business broker** can help prepare your business for sale and offer advice on changes to your business name or registration, leases, memberships, licenses and permits.
- A **business valuator** can help you get the best price for your business and tell you what to do right now to improve value before you list it for sale.
- A **financial advisor** can offer personal wealth management advice and help you decide how to invest proceeds from the sale of your business.
- An **insurance agent** can help update any policies covering disability, death or injury upon your succession – and help manage business risk prior to ownership transition (e.g.) key person protection, buy-out funding, funding of capital gains tax and estate equalization.
- A **legal expert** can help with the transfer of business ownership such as the purchase and sale agreement, modifying partnership contracts, updating your will, assigning power of attorney, setting up trusts – and advise on any charitable and legacy objectives.

Why timelines are key
It's helpful to work toward deadlines for completing your succession plan. Some business owners break their plan into sections, setting firm dates for completion of each one.

Consider breaking your plan down into the following sections:

- Personal future planning (retirement, lifestyle, estate considerations).
- Business housekeeping (e.g.) financial/developmental/legal.
- Successor mentorship/training.
- Handover and transition.

For each section identify:

- Brief description or summary.
- Succession action items.
- Start date.
- End date.

Allow yourself a generous amount of time to seek advice and carefully weigh the right decisions. These rough guidelines can help you estimate how much time you'll need to consider the key elements of your succession plan:

- **Goals** – give yourself around three months to outline what you hope to achieve before making your exit.
- **Family interests** – allow about two months to decide how to best meet the long-term needs of your family.
- **Wealth** – allot one to two months to identify your business's assets and liabilities and how they'll be allocated when the time comes.
- **Legacy** – spend a month thinking through what you'd like your legacy to be.
- **Advice** – now that you have a good handle on your succession goals, take a month to consult with your business advisors, lawyer, accountant, and banker.
- **Plan** – set aside a month to document your options and finalize your plans.

You'll also want to include in your planning document realistic timelines for your planned succession. Set dates for these important milestones:

- Your exit date.
- Transfer of share ownership.
- Transfer of voting control.

A business sale timetable
Although it's tough to predict how long it may take to sell your business, these estimated timelines give an idea of what to expect.

- **Two years** – if you're well prepared with a strategic plan, and your business is in excellent shape.
- **Three to four years** – if you run a family business and plan to hand your business over to professional management – or if your business needs improvement before it's ready for sale.
- **Five years or more** – if you plan to pass your family business on to another family member.

The final test of greatness in a CEO is how well he chooses a successor and whether he can step aside and let his successor run the company.

– Peter Drucker, Management consultant, educator and author.