



Succession Planning

Why succession planning is important?

Some 75 per cent of private firms are family owned. However, fewer than half of first-generation family businesses have succession plans.

Common reasons include **resistance by the owner** to let go of the reins, fear of retirement or inability to find or choose an effective successor.

Transferring ownership can be highly emotional and complicated, which is why it is often **ignored until it becomes a pressing issue**, for example, when the owner becomes ill or too old to carry on running the business.

Often as pressured business owners are forced to deal with a range of important daily issues, they take a short-term view and consequently end up failing to attach enough importance to their succession plan.

What is at stake?

Leaving succession planning until it is too late can lead to an ineffective ability to transfer ownership in time. A **forced, ill-informed or panicked decision** could mean the business is transferred into reluctant or incapable hands.

The business could be severely disrupted as arguments take place over who should own or run the business, while uncertainty and lack of leadership could have a disastrous effect on sales and morale within the company.

All of this could ultimately result in the failure of the business. Setting aside enough time to sufficiently review your options in advance, and then formulating an effective succession plan, is the **key to success**.

The benefits of getting it right

An effective succession plan should form part of your **overall business development strategy**.

Knowing exactly how, when and to whom ownership will be transferred, is the most likely way the current owner will maximize their returns.

Choosing the right successor and making sure the transfer happens at the right time is the best way to ensure the ongoing success of the business.



“ *Positive direction can have far reaching effects.* ”
- Jack Daniels

“ *Always have a plan, and believe in it. Nothing happens by accident.* ”
- Chuck Knox



Assessing your options

You could decide to transfer ownership of the business to a family or non-family member. You might sell the business or dispose of it through a management buy-out or a management buy-in. Indeed, you might decide the best course of action is to wind up the business altogether by means of voluntary liquidation

Factors that should guide your decision

Begin by considering whether there is an obvious choice of successor within the business. This could be a **family or non-family member** who has worked for you for some time, someone who knows the business well and who has the necessary skills to take control.

Identifying the right person to take over the running of your business can be a difficult decision. Much is at stake here, and you need to be absolutely certain your chosen candidate is capable of taking your business forward.

If an internal appointee is not possible, you might have to opt for an **external appointee**. However, if you need to generate funds for your retirement, a sale might be the right course of action.

Keeping it in the family

Choosing a family member as a successor is a popular option for many owner-managers – especially when the person already works within the business. People from outside might not have the necessary desire or aptitude to run the business.

Family succession provides a feeling that the business has been left in the hands of someone who is committed and who will do all they can to bring continued success.

Making your choice

When considering who is best equipped to take the business forward you must remain objective. Be guided by the **needs of the business**, not emotional considerations.

When considering potential successors look for **evidence of commitment**. Assess **skills and experience** carefully, because the person you choose needs to have what it takes.

Consider also whether they have the necessary **leadership skills and personality** to motivate and manage others.

Preparing for succession

Once you have chosen the person most suited to succeed you, start preparing them through education (informal and formal if necessary), training and close mentoring.

Set a **timetable for transference of power/ownership** and use the time you have left to give them the benefit of your knowledge and experience. To test their readiness, you can begin to lessen your involvement and give your successor responsibility for making some important decisions.

Give them the necessary time to equip themselves with the skills and knowledge they need, otherwise you will be setting them up for a confidence-sapping fall.

Business transfer - Non-relative value

Transferring ownership and control of your business to a family member might not be possible or feasible.

After careful consideration you might conclude that a **non-family member** – a current employee, someone who **knows the business** and is committed – is best placed to take the business forward.

If such a person does not exist, you might be forced to bring someone in from the outside. Be careful, such an appointment can cause resentment.

To minimize the risk of problems arising, **communicate the reasons** for their appointment to your staff and make it clear that it is in the best interests of the company.

Trust is the major issue if control of your business is given to an external person. You will need to be sure about their skills and experience because the person you choose should have what it takes.

As well as knowledge of your firm and type of business, they will need the necessary **leadership skills and personality** to motivate and manage others within your business. You will also need to be sure of their commitment.



Trade sales

Selling the business is often the best option if there is a need to raise cash (perhaps to fund retirement), an absence of successor, or the family has no desire to continue its involvement in the business.

Deciding to sell can be tough for owner-managers who can feel reluctant to let go of a business they have nurtured for years. Careful preparation will help to lessen any anxieties; until finding the right buyer.

Preparing for sale of your business

It can take several years to get to the stage where a business is ready for sale. If you decide selling is the most appropriate option, then you need to establish a plan and some objectives for preparing the business for sale.

To ensure your business is in the best shape to command a competitive offer, you should consider seeking guidance from one of our experienced **business brokers**.

Before being in a position to sell, you need to make sure your business is as lean, efficient and profitable as possible.

Clear evidence of sales growth via credible projections will maximize its appeal. There should be no major issues that could jeopardize the sale, such as legal action or a tax investigation.

The key options

Management buy-outs (MBO) are becoming increasingly popular with younger family businesses. Transferring control of the business to a **management team from within** that already has knowledge of the company provides numerous advantages.

It also gives the owner-manager the chance to transfer ownership to people who are already committed, possess **knowledge and relevant experience**, and who have a stake in the business' continued success.

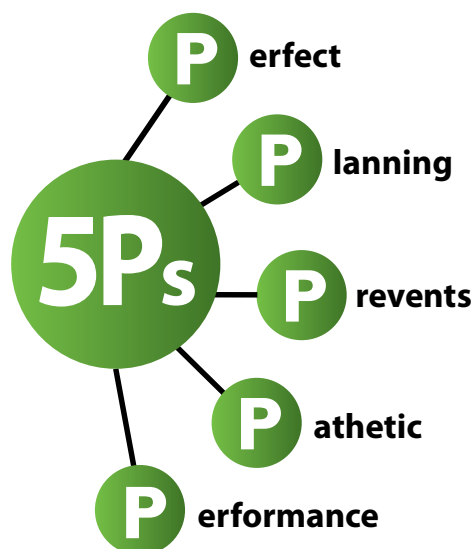
Management buy-ins (MBI) occur when an external management team joins the business and takes a stake in its equity.

Voluntary liquidation

Voluntary liquidation involves dissolving all of a company's assets, paying off employees in accordance with redundancy law and closing the business down.

It is usually only considered when all other options have failed (eg when no one is interested in buying the business or taking over its management).

There can be quite substantial expenses involved, and so voluntary liquidation is unlikely to provide the best returns for business owners who are looking to raise cash.



Have a formal succession plan

A succession plan is no use if it exists only in your mind.

Having to formalize your succession plan enables you to know exactly what course of action you plan to take, when and how. Setting it out in black and white often means shortcomings are exposed, which means more effective strategies need to be employed.

Once you have decided which course of action best enables you to relinquish control of your business in the manner you want, you should be able to work out a **timetable of necessary actions**. This needs to be meticulously planned and executed.

A succession plan develops over several years, after the framework is complete waiting for the right time to implement.

Getting support

Only when the time is right, your succession plan will then need to be communicated effectively to other important people within your business.

Letting staff, customers and suppliers know of your intention to cease involvement in the business is important – and timing is crucial. The last thing you need is people to lose faith in the business when they hear you will no longer be involved.

Throughout, it is important to **seek expert advice** on every aspect of relinquishing ownership of your business – not least of which is taxation. There will be implications for both your personal finances and those of the business.

One of the most difficult challenges that business owners face is learning to slowly but surely let go in advance of actually relinquishing control over their businesses. However difficult, it is a necessary part of the process.

“Whether you believe you can, or whether you believe you can’t, you’re absolutely right.”

- Henry Ford

About Firstbase

Firstbase provides a full spectrum of innovative strategies and services for business owners of all sizes.

Solutions

The marketplace is in the midst of significant changes complete with new rules and regulations, opportunities and expectations.

To flourish in this new age, your organization needs to find innovative solutions enabled by business intelligence designed to help you respond to evolving business challenges.

Firstbase provides solutions that are designed to enable executives and managers to integrate strategies, and through good planning and implementation, and end up with a profitable end game exit strategy option.

Action

This crucial information enables the development of insights about what changes are occurring and what actions need to be taken. Insights alone are not enough. Leaders need the ability to take action.

Whether you are faced with the death of a family member, change in partnership/ownership, or refinement of an existing business; leaders need the ability to respond quickly and effectively.

Results

Leaders demand results, and a Firstbase succession plan delivers.

Mission Statement:

Our Mission is to work closely with our clients in a partnership to enable them to grow and prosper.

“ *The difference between buyers and sellers blurs to the point where both are in a web of economic, information and emotional exchange.* ”

- Stan Davis

Do you need a fresh perspective?

The Firstbase team has extensive international expertise in developing and implementing strategies that optimize the maximum value for your business. We deliver the return you deserve and produce results.

You know your business better than anyone. But sometimes, a fresh perspective can help take your business to the next level.

At Firstbase, we have an open-minded approach. We work with you to identify opportunities to enhance your business. We give you objective advice in all areas.

Firstbase advisors can be trusted to bring you the right kind of thinking. Fresh thinking from start to finish.



How can we help?

Firstbase Services Ltd can help by providing:

- *Business diagnostic*
- *Raising capital*
- *Selling*
- *Buying*
- *Business planning*
- *Succession planning*
- *Exit planning*
- *Market research*
- *Business consulting services*

Time is money



Move to the next level

As your partner in helping your business move to the next level, Firstbase stands ready to assist our partners and customers to achieve their business goals.

We work closely with you to plan and implement your strategy and achieve measurable results.

Contact us

Call us today at **1.888.859.5388** for a preliminary **no obligation discussion** to explore the opportunities.

