Succession Planning is a Process

If you have a business, it’s never too early to start thinking about succession planning. Here’s why—and how—you need to do it.

Gabrielle Bauer, May 4, 2011

To everything there is a season. If you’re a business owner, the one thing you can count on, along with the proverbial death and taxes, is that your turn at the helm will eventually come to an end. The uncertainty lies in how the transition will unfold: at a profit or at a loss, in an ordered sequence or mad scramble, according to your wishes or against them.

Planning for the succession of your business is a way to put yourself in the driver’s seat before and during the change of guard. “Half of all businesses are sold because the owner has to, rather than wants to, sell,” says Brent Cunningham, a managing partner at Sequoia Business Brokers in Vancouver. “Succession planning helps prepare for such contingencies.”

According to Cunningham, avoiding the process can lead to such grim scenarios as a grieving spouse rifling through ponderous documents and fielding phone calls from nervous employees, clients and suppliers.

A case in point. Several years ago, Ron Sangster, co-owner of Success ’N Planning in Antigonish, N.S., was working with the owner of a small business worth about $1.5 million. “I suggested he set up a succession plan that included life insurance, liquidity management and continuity planning in case he became ill.” Unfortunately, he didn’t and “when the man died, the family incurred $400,000 in legal fees and other unnecessary expenses, and now three years later two of his kids are no longer speaking to each other and the business is barely surviving.”

gravel-processing equipment, to handle its owner’s unexpected death from a position of strength. “Even before I arrived, the company had started to plan for the owner’s retirement,” says Greg Helfrich, Elrus’s national operations manager (pictured left). Under Helfrich’s direction, Elrus’s upper-management team “catalogued the skills required for each position and the gaps that would need to be filled if the employee left.” It’s not about pushing people out, just identifying key skill sets and planning for the time they decide to leave, notes Helfrich.

In tandem with this internal prep work, a good succession plan gives you a road map for readying your clients and suppliers for a change of ownership. According to Helfrich, getting Elrus’s clients used to the idea posed a challenge because “the owner was their best friend” and customers were also worried about losing the technical support needed for their equipment.

The owner’s family members “went out in force to see the customers and explained that a sound operational plan was in place and business would continue as usual.”

First things first

As well as tackling the legal and financial aspects of your succession plan—which David Bradley, president of the Succession Planning Group Inc. in Calgary (pictured above), says is the part most people expect—you also need to define your personal priorities and prepare yourself to let go of your business.

“After you’ve settled on your vision, your succession plan needs to allow for different scenarios. This involves asking some hard questions,” says Bradley. What happens if you pass away before retirement? What if you become disabled and can no longer work, how long do you continue to pull in an income or partake in profits? You’ll also need to plan for transferring organizational knowledge to your key players.

“We use a clinical process to define the required roles and the skill sets,” says Bradley. Then “we identify people who are strong on the tactical side, the strategic side and the co-ordination side, and match them with the best-fitting roles. In some cases we advise bringing in new talent from outside the company.”

All in the family?

There’s something fundamentally satisfying about passing a business on to family members: personal legacy.
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continuity and all that. Cunningham suggests you think carefully before taking this route, but cautions “transfers to family members account for about a quarter of business transfers and have the lowest success rates.” Often because the heirs do not have the skill sets or entrepreneurial drive—all of which leave the business unfocused and vulnerable.

Options for selling outside the family include a management buyout, a sale to an independent buyer, and an acquisition by a competitor. The prospect of selling loomed large for Randy Byrnes, a former business owner from York, Pa., after he “lost the sense of challenge and no longer felt like I was fulfilling my obligation to my employees and knew something needed to change,” said Byrnes. “I found a company just like ours, negotiated with them and they acquired us.” Byrnes stepped out of his operational role in the company, but stayed on as a member of the board of directors.

The way you package your business also counts. “You have to create a proposition that will attract buyers,” says Sangster. He recalls a case in which a sole proprietor was having trouble convincing potential buyers of the value of his business, which lay in his hard-earned client base and loyalty. “We incorporated the business so the owner could pass it on as a shareholding entity,” he says. With this simple measure, the business rose in value and a sale was made.

Putting a price on your baby

Anyone who has ever watched the hit TV show Dragon’s Den knows that business owners are notoriously biased when it comes to valuating their companies. A Montreal-based businessman who didn’t want to be identified confronted this truth when, in preparation for selling his cosmetics company, he attempted to calculate its worth. “I then hired a professional valuator and, let’s just say, he was a bit more conservative than I had been.” He says the service cost him about $2,000—money he considers well spent as it led to “being taken more seriously by potential buyers.”

Calculating assets can be tricky to tally up, however, when much of a company’s value lies in goodwill (existing or developing relationships with clients). Such was the case with the Montreal-based businessman. “We had solid business relationships in Europe and had just started exporting to Korea,” he says. “The valuator I worked with was open to my thoughts and factored these accomplishments into his calculations.” He says this prep work culminated in a fair price for the business.

To sweeten the deal for the buyer—and get a higher sale price—he gave the buyer all his equipment, formulas, trademarks and even some of his employees. This wholesale transfer of assets left him free to embark on the next phase of his life.

Bottom line

Succession planning is not an item to check off a to-do list but is a process. So, allot a wide arc of time to prepare. “If you handle it well,” says Bradley, “it can actually be enjoyable because you’re making decisions that will affect not only the future of your company but future generations.”

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