



Succession Planning: The In and Out of your business

One of the most overlooked questions with any small business is: “When do I get out?” There is no easy answer. But it’s a question every business owner needs to consider and plan for.

Part of every business plan should include an estimate of the lifetime of the business. Do you intend to be in the business for a certain period, with the primary focus on selling for a profit at a predetermined time? Or, is it a long-term family business to pass on to your children when they’re ready and able to take over?

An exit strategy may also become necessary if you feel declining passion and enjoyment in owning the business. For many entrepreneurial owners, once the excitement of getting the business off the ground fades, there’s not enough satisfaction just from running it. Perhaps the core activity of the business needs to change to continue to be successful. If so, you may need increased personal commitment and finances to grow the business beyond where you originally intended.

Many key decisions for your business will be determined by the future exit strategy you have in mind. An example is the cash flow and financing. If you only plan to be in the business for a few years, your financiers will want their money back quickly. Your business structure must be able to ensure this.

If your goal is to transition the business to the next generation once you reach a certain age, make sure you ask:

- Has the next leader of the family business been identified?
- Have they confirmed their desire and willingness to take on this role?
- Will the chosen successor be able to run the business when you are ready to step aside?
- Does your successor need particular qualifications?
- Will they need special training before they can take over?

You need to think through all these crucial issues years ahead of a leadership transition.

Other considerations for a successful transition will be based on your own relative importance to the business. If the operation of the business depends on your expertise and involvement, how do you foresee passing on the baton? Have you focused on developing *business goodwill* as opposed to *personal goodwill* in the business? Have you addressed what may happen to the business and its future value if you are forced to exit by illness or accident? Unless you prepare for such a contingency, your plans for capturing and realizing the value of the business when you leave could fall through.





Perhaps you intend to sell the company at a certain point. In that case, your strategy will be to enhance the value of the business before that date by increasing the worth of its net assets. How you do that depends on many factors. For many businesses, it requires a focused and sustained drive for a larger customer base and/or an expanded range of products. For others, it can mean an emphasis on continued research and development to patent new products or processes.

To get the best possible price when selling your business, it is also essential to maintain accurate and verifiable financial records. Most buyers looking to purchase a business generally want to see at least three years of financial information. Having a well-formulated business plan with supporting cash flow budgets provides significant comfort to a prospective buyer.

You need to be able to ensure the current and future profitability of your business. Many owners use their small business to provide for a range of non-essential or non-recurring operational expenses. Make sure you keep supporting records of all these expenses so that the valuation of your business can reflect expected normalized earnings.

Chances are pretty good that your departure from the business will happen in phases. In certain circumstances, owners may be able to enhance the value of a business to a purchaser if they are willing to stay around in a defined capacity. During the transition, the new owner acquires an in-depth knowledge of all the systems and processes. This can also help you make a gradual adjustment if you are retiring, or just planning a holiday from owning a business.

Always remember that circumstances can change. You may find that you want to sell out well before you had intended, or conversely that you want to stay on longer. Having a constant view of “the end in mind” will keep you focused on positioning the business and having it ready for sale and transition when the best time presents itself.

Whatever your plans may be, exiting a business does not have to be a trying or negative experience. It can simply be a part of making progress to an eventual goal, or a way to take advantage of new opportunities. Being prepared with a sound, well-thought-out exit strategy means you can enjoy your business ownership, secure in the knowledge that you will be able to leave when you are ready – not because you have to.

If you are thinking about or currently working on your business succession plan and are in need of assistance, please contact Rick Gendemann, one of our business succession leaders. We look forward to the opportunity to connect with you to discuss your transition planning issues and address how we may be able to work with you and your family on developing and implementing your successful business transition plan.

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