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**The
Small Business Owner's
Guide To**

Succession Planning



SCORE 
FOR THE LIFE OF YOUR BUSINESS



**Think of
a succession plan
as peace of mind
for the business you've
worked
so hard to build.**

Do you think succession planning is just for family businesses or for business owners who are close to retirement? Think again. Whether retirement is 30 years away, just over the horizon or not in your game plan at all, a succession plan is vital to ensuring the continued success of your business.

A good succession plan can help:

- **Transfer ownership when the time comes**
- **Maintain your lifestyle in retirement**
- **Provide for your heirs financially**
- **Prepare the business to handle unexpected events**

Why is a succession plan so important? Life happens—and unless you have a plan to deal with the unexpected, the business you worked so hard to build could crumble if you become disabled, die, get divorced or decide to split with your business partner.

Think of a succession plan as peace of mind for the business you've worked so hard to build.

In this guide, we'll explain the four steps to developing a succession plan that works for your business.

1

DECIDE HOW TO EXIT YOUR BUSINESS

OPTION 1:

Transfer the business to your heirs

Passing their business on to the next generation is a lifelong dream for many entrepreneurs. But making that dream a reality requires careful planning. Here are some questions to ask yourself:

- **Do you have a family member who wants to step into your role?** If so, are they qualified or can they be trained? Talk honestly to all of your family members, both inside and outside the business, to gauge their interest and suitability for filling your shoes.
- **What type of roles will family members who are not actively involved in the business play?** What percentage of ownership and what decision-making power will they have?

- **How will you provide financially for family members who are not active in the business?** Those working in the business should receive business ownership and those not in the business should receive other assets of equal value.
- **Do family issues regarding the business need to be resolved?** Identify them now – otherwise, internal disagreements may destroy the business after you're gone.
- **Where will the funds come from to buy you out?** Consider what the terms of the buyout will be ahead of time and how that will impact your retirement income strategy.

OPTION 2:

Sell the business to your business partner/s

Selling your share of the business to your partners is a no-brainer – but without the proper agreements in place, it can be tough to do. When a business partner dies, their share in the business typically passes to their spouse. The spouse may not have any interest or the necessary know-how to run the business.

When an unfortunate event occurs, it's helpful to have a buy-sell agreement financed by insurance in place. Either the company or the individual partners can purchase life and disability buyout insurance on the partners. In the event of a partner's death or disability, the remaining partners can use the insurance proceeds to buy back that partner's shares. This can be more efficient than having to use cash flow from the business to fund a buyout.

OPTION 3:

Sell the business to a key employee

If you don't have an heir or a business partner, selling your business to a key employee is another option for succession. Financing the transition is the biggest hurdle in this scenario, since few employees can finance a purchase of this size. Options include getting a business loan (possibly using the business itself as collateral) or seller financing, in which you receive a percentage of the business's value at the sale and the rest of the payments over time.

OPTION 4:

Sell the business to an outside buyer

Selling the business to a financial or strategic buyer at the highest multiple possible is the dream of every business owner. But the reality is finding a ready, willing and able buyer—that's one who is ready to accept your price and terms within the time frame you choose—is not easy.

Consider what the terms of the buyout will be ahead of time and how that will impact your retirement income strategy.



Whether you plan to sell your business to an outsider or hand it over to your children, you want it to keep going—and growing.



Many entrepreneurs count on selling their companies to fund their retirement, but not all businesses are equal in this regard. Businesses that can continue running without the owner on board are some of the most valuable to potential buyers. There are also other key value drivers that make a business more or less attractive to acquirers. Understanding these drivers, and putting resources toward improving them, can go a long way toward realizing your dream of selling.

2 CONDUCT A BUSINESS VALUATION

Even if you aren't planning to sell your business, conducting a business valuation has many benefits. It helps you develop a retirement income strategy, properly value future owners' shares, and purchase adequate insurance for protection planning. It can even make it easier for your business or potential buyers to get loans or attract investors.

Don't try to calculate business value yourself. A valuation from an impartial third party is more credible to potential buyers, so hire a credentialed valuation expert. Most experts calculate valuation figures based on a combination of:

- 1. Assets (such as equipment, inventory, real property and intellectual property)**
- 2. Income (both current revenues and future earnings potential)**
- 3. Market value (based on recent sales prices of similar businesses in the area)**

If your business's value is less than you expected, don't despair. Instead, use the business valuation as a learning tool. Talk to your team of advisors to find out what's holding your business back. Then, work with them to develop a plan that will increase the business's value over time and maximize your financial return when you are ready to exit.

3 PREPARE FOR TRANSITION

Whether you plan to sell your business to an outsider or hand it over to your children, you want it to keep going — and growing. However, the transition period to new ownership is a vulnerable time for a business. To prepare both your successor and your business for a smooth hand-off, take these steps:

- **Identify weaknesses and develop a plan to remedy them.** You've undoubtedly uncovered some problems in your business. For example, your

business valuation might show you're carrying excessive debt; discussing succession with your children may bring long-simmering resentments to the surface. Decide how to solve these problems so they don't derail your succession plan.

- **Maximize your business value.** Working backward from your planned retirement date, you and your advisors should set financial and operational goals for your business along the way. Plan how you'll measure progress toward those goals; then hold yourself and your team accountable for achieving them.
- **Systematize your business.** Fine-tune your business's systems and processes. Create operations manuals and employee manuals to document them. This helps your successor make a smooth transition, which reduces the risk of losing key employees or customers.
- **Begin training your successor.** Using a timetable based on your planned retirement date, create a detailed career path for your successor to follow to gain the experience and skills they'll need. Meet with them regularly to monitor their progress and provide advice.
- **Determine what incentives, if any, you'll offer your key employees to remain in the business.** Incentives, which might include bonuses, stock options or a percentage of ownership, can help persuade non-family employees to stay with your business for the long haul.
- **Get comfortable with delegating.** Your business can't survive without you if you're irreplaceable. Start small by delegating minor tasks to your chosen successor before handing over bigger responsibilities. This not only helps your successor gain experience, but also gives you more time to focus on big-picture goals for your business.
- **Decide what role you want to play in your business going forward.** After transitioning your business to new ownership, do you want to stay on as an employee, serve as an advisor and attend occasional board meetings, or ride off into the sunset? Plan a "second act" that will lead to the lifestyle you dream of and be sure any compensation you receive is commensurate with your ongoing involvement.
- **Put the necessary legal and financial tools in place.** Accomplishing your desired succession plan may require changing the legal structure of your business, buying life or disability insurance, or developing legal agreements. Work with your attorney, accountant and insurance advisor to complete these tasks.



4

REVIEW YOUR PLAN REGULARLY

Creating a succession plan is a big accomplishment, so give yourself a pat on the back. But don't just file your plan away and forget about it. Over the years, key employees may leave your business, family members may lose interest in taking the reins, and your own plans for your future may shift. Reviewing your succession plan annually with your team of advisors will help ensure a successful and seamless transition — no matter when or under what circumstances it happens. ●