

**Take  
Action  
Series**

# **Preparing For Succession**

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# Table of Contents

Acknowledgments.....	iv
Do-It-Yourself-Tools.....	iv
How to Use This Manual .....	v
Planning For Succession Overview .....	1
Key Issues that Drive the Succession Process .....	1
Family Business Succession.....	3
Seven Different Perspectives .....	5
Let's Review.....	8
Are You Ready?.....	10
I. Personal Financial Planning .....	12
Let's Review.....	14
II. Personal Estate Planning – Business Owner.....	16
Probate Process.....	18
Let's Review.....	19
III. Estimating the Value of Your Business .....	21
Let's Review.....	23
IV. Business Management Succession .....	25
Resistance to Succession .....	26
Management Skills Assessment .....	27
Let's Review.....	28
V. Business Ownership Transition.....	30
Let's Review.....	32
VI. Surviving Strategic Business Plan.....	34
Let's Review.....	35
Final Thoughts .....	38
Terms Discussed .....	A–C
Extra Forms/Checklists .....	D–L
We Appreciate Your Business .....	M

# Overview

In every business owner's life, there will come a point in time when they must address, "How and when do I get out of my business?" The objective of this manual is to outline the critical issues associated with developing a viable succession plan for your business. Business Succession is a complex process. It involves the transition of leadership and ownership in a privately-owned business; from an existing business owner(s) to a next generation business owner(s). Effective Succession Plans are evolutionary; they involve careful planning and the holistic management of key stakeholder expectations over a period; typically, years. We will highlight and discuss the key elements of a Succession Plan.

**EVERY BUSINESS OWNER WILL REACH A POINT IN THEIR PERSONAL LIFE** when it is time to develop a viable exit strategy from his/her business. A wide range of life events and conditions will ultimately influence the timing of your exit strategy. Your game plan should be designed to enable you to exit from your business with peace of mind; knowing that you will be able to adequately fund the pursuit of your desired retirement lifestyle.

## Key Issues that Drive the Succession Process

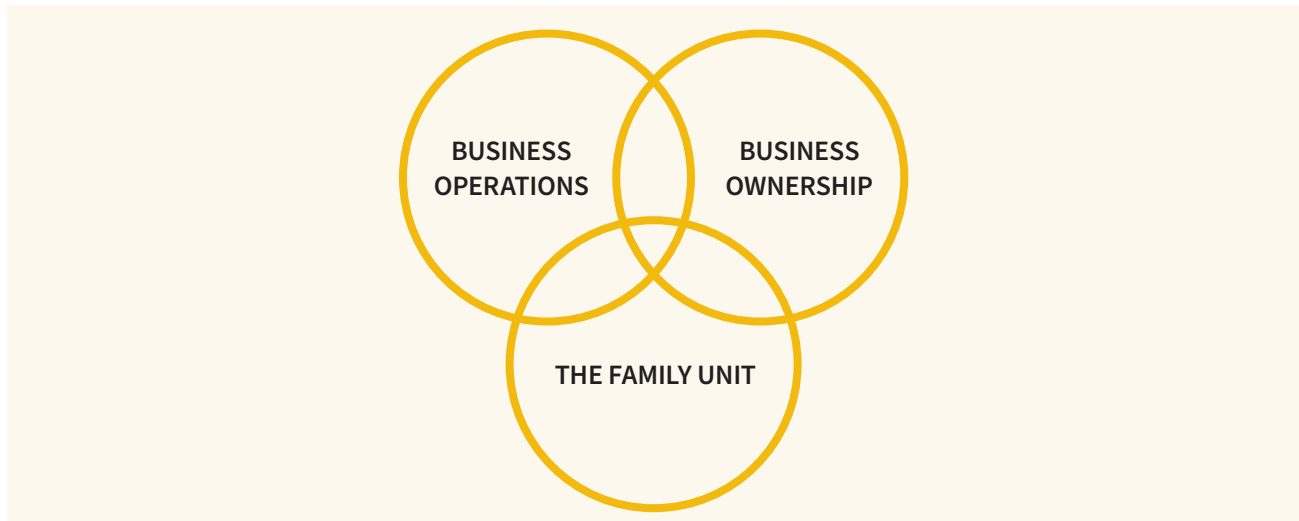
At HBRC we've discovered; business succession is linked to being capable of addressing the following interrelated topics:

- I. Personal Financial Planning
- II. Personal Estate Planning
- III. Valuing Your Business – What is your business worth?
- IV. Business Management Succession
- V. Business Ownership Transfer
- VI. Business Planning for the Surviving Business

The issues are endless as every business and every circumstance is unique. For instance, as an exit strategy, you may want to sell your business to your existing employees. This option assumes the employees have the ability to finance the acquisition of the business as well as the managerial skills to operate the business. If there are no viable options to sell the business to existing employees, you may find it necessary to find and negotiate the sale of the business to qualified 3rd parties. Identifying qualified 3rd party buyers can be a challenging exercise. Some of the things you'll need to address are; determining a reasonable value for the business, vetting out the buyer's capability to buy, and negotiating the terms and conditions of the sale.

# Family Business Sucession

In family-owned businesses, succession can be addressed using a dynamic three-dimensional model involving:



Each of these dimensions is in a constant state of motion that creates an evolving chemistry that must be given consideration. Business Operations – businesses operationally evolve over time from a start-up position to a mature business model structure. As your business changes and matures over time, your organizational make-up must change to support your operational requirements. To succeed and stay competitive, your operational policies and procedures must also evolve to meet the needs of the organization. The business management infrastructure should reflect the complexity of the business.

The next influence affecting succession is ownership – Business Ownership. Family business ownership begins with a first-generation owner or owners. They are faced with the enormous challenge of incubating and establishing the business as a true going concern entity.

Second generation family owners inherit an established business; as the founding owners exit, they are faced with the challenge of creating going concern value that is sustainable. These owners can range from individual owners to siblings or cousins. Occasionally there may also be some employee owners, or 3rd party owners.

Third generation family owners are typically family members that can range from; individual owners, their siblings, their direct family members, to cousins. The family structure associated with 3rd generation ownership is typically very complex because; it includes members from multiple generations; some of which are involved in the business as owners and/or employees, and others that are not directly involved in the business as either an owner or an employee. You must be concerned with the issues affecting your generational status.

The third dimension of the model involves the make-up of the business owner's family – The Family Unit. In first generation businesses, the owner's family is typically a young family that includes a spouse, and small children that are typically not involved in the business' day to day operations.

Over time the business operationally matures, and the children of the first-generation owners may have the chance to actually work in the business for their parents. They may also be given an opportunity to acquire a direct ownership interest in the business.

All second-generation family owners will have to face personal self-identity issues if they transition into ownership and/or management roles in the business. They will all have to ask the question, "Can I become an independent adult with a personal life and mind of my own, and still be embedded in the business and the world of my parents?"

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