Advisory Alert: Succeeding at succession — structuring your transition plan

Matching your objectives with your exit strategy

In the early years of a privately held business, it's not uncommon for owners to follow Bob Dylan's risk mitigation strategy: when you got nothing, you got nothing to lose. Over time, those who successfully employ that strategy, as well as more conventional ones, frequently find themselves with something—a profitable business—and much to lose: wealth, family harmony and more.

Despite these achievements, many business owners unwittingly risk losing everything by failing to adopt the optimal transition structure. Very frequently, family-owned businesses fail following the death of the founder. Unexpected events aren't the only source of business failure.

Just 30% of family-owned businesses survive the second generation, 15% the third generation and 5% the fourth, according to the Canadian Association of Family Enterprise (CAFÉ). 78% of family businesses face a transition of ownership within the next 15 years, yet 70% have done no succession planning.

These numbers paint a bleak picture for the future of privately held business, at least at first sight. Yet many businesses thrive and prosper after succession.

Why? Because the owners took time to align their personal objectives with an appropriate succession structure, one that not only pays financial and emotional dividends, but also reduces the risk of business failure and minimizes taxes.

Have you reached a turning point in your business?

While the need for an effective succession plan is ongoing and best started early, it is often precipitated by a shift in the owner's outlook toward business and life. In some cases, owners who were willing to bet the house on a new or rapidly-growing business become more reluctant to gamble with both personal and company assets as time goes on. In other cases, the need for a new generation of managers or a transition to the next generation is the impetus for the succession.

External change, such as market dynamics, can also bring an owner to a turning point. The business may need new strategic direction to maintain competitive advantage and maximize shareholder value. Or the new realities may put the owner at odds with younger managers or family members seeking faster change or more aggressive tactics.

No matter what the precipitating factor, the shift in attitude can have unintended consequences. Without adequate succession planning, growth can stagnate, management may become disillusioned and value erosion could follow at alarming speed. Recognizing that shift is one thing. Taking the steps to consider the consequences and structure an appropriate succession plan is another matter altogether.

Contact us
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The first step is to reflect on what you want for yourself and for your business. Few business owners allow themselves this luxury, but it's critical to establishing a personal agenda and identifying catalysts for change. This self-evaluation requires the owner to honestly answer questions such as:

- What are your personal ambitions? How long, for example, would you like to stay active in your business;
- Are your personal aspirations aligned with the objectives of your business?
- What is your appetite for risk and is it aligned with your company's strategic direction?
- What underlying challenges does your business face?
- Do they require capital?
- Is your management team capable of operating and growing the company?
- Do you need any personal liquidity?

It's important to keep an open mind when undertaking this self-evaluation. Your answers may surprise you. Quite often, an owner is thinking more about aspirations for their business and less about outcomes from a personal perspective. In other cases, the owner may harbor nagging self-doubts about their own abilities, believing their company will be substantially better off in the hands of someone else. Then, through this introspective discovery process, they realize that isn't the case after all.

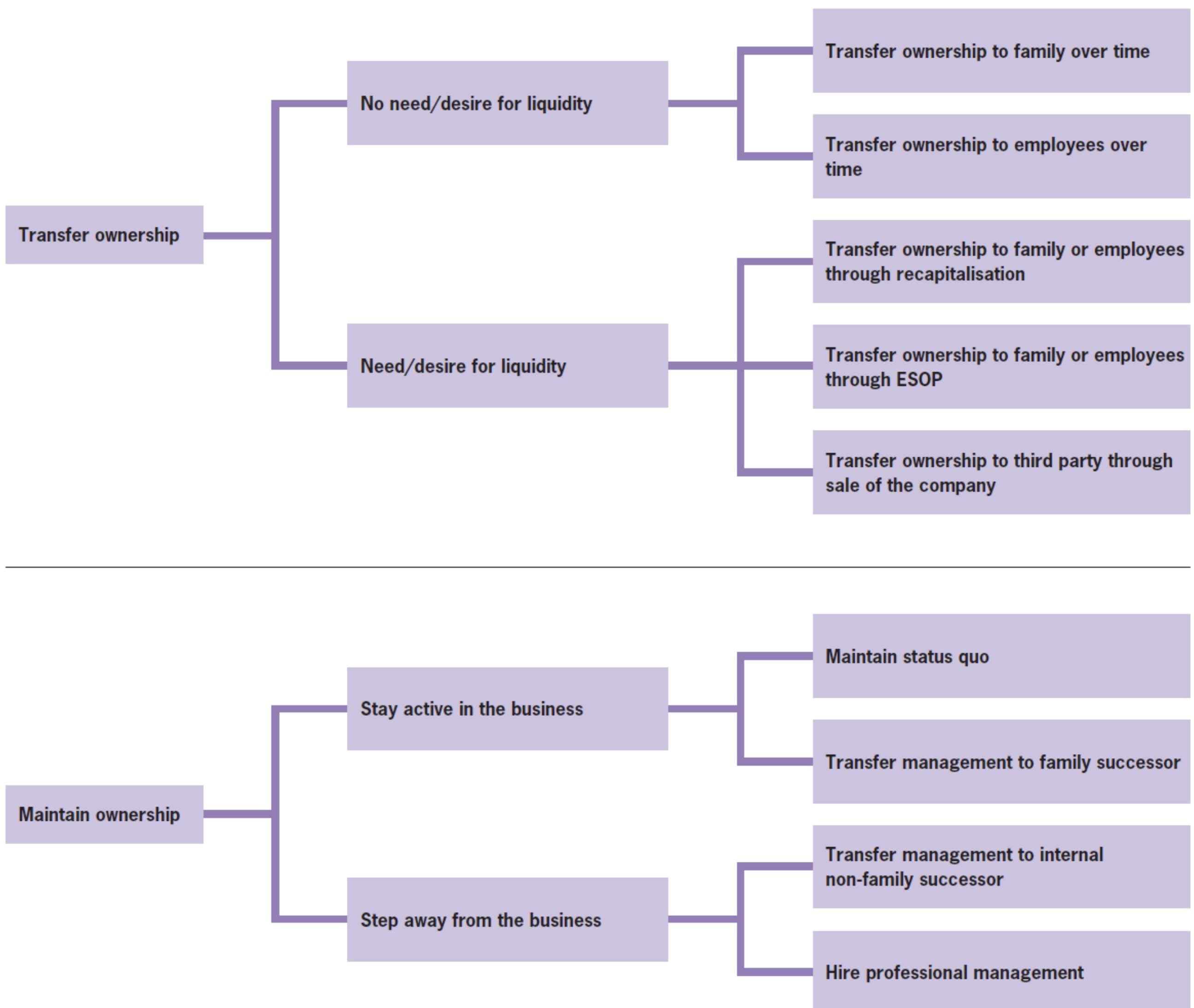
Of course, any number of conclusions is possible, including maintaining the status quo, at least for the time being. The goal is to reaffirm what you're seeking for yourself and to determine the implications of those choices from a business ownership and management perspective.

Selecting the best structure

With a clear understanding of your objectives, you have the elements you need to structure your succession plan. Whether you intend to transfer or maintain ownership, the following decision trees can assist you in evaluating your options.

This process is especially useful in helping you decide whether to look internally or externally for the human and financial resources you'll need to reach your objectives.

Transferring ownership options



There are many techniques and structures that can work independently or together. The key is to match these to your company's cash flow, growth plans and your need to take money off the table.

Keeping your options open

Establishing a structure for your succession plan is essential, but it's only a good first step. Because in business, as in life, things rarely go according to plan. So the structure must be flexible enough to adjust to changing circumstances. Determining the degree of flexibility requires consideration of two groups of factors: controllable factors, such as company policies, family creed and business values; and uncontrollable factors, including economic trends, ownership continuity and growth plans.

All of these internal and external factors, controllable and uncontrollable, form the basis for testing various succession structures.

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Making the most informed choice

Experience tells us that the best approach to succession planning is to start early. That helps to avoid surprises and gives you time to gain confidence in and comfort with your decisions.

The bottom line

Succession planning is a highly personal process. With many options or combinations of options available, it can be daunting for even the most experienced entrepreneur.

Being a once in a lifetime experience doesn't make the task any easier. That's why outside advisers with succession planning expertise can be valuable. From estate and tax planning to transaction advisory, we can help you build an effective transition strategy. With our global reach, proven track record, integrated suite of services and in-depth knowledge of privately held businesses, our practitioners truly act as your trusted guides to help you navigate the succession planning process.

Call us to make an appointment with one of our experienced advisors. Consultations are completely confidential.