Business Succession Planning

It’s best to face the future with facts.

Part 2

Presented by
Missouri Small Business & Technology Development Centers

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Course Objectives

Upon completion of this training, the participant will be able to:

1. Develop and prepare successor(s) to take over the business at a time decided by current and future owners. What will the future impact be?
2. Locate all pertinent documents that are important for the sale/transition of the business.
3. Maximize the value of the business for future sale/transition by analyzing its currents assets, structure, etc.
4. Figure out how to value the business for sale/transition.
5. Look at financials to determine the strength of the business.

Why Focus on Succession Planning?

- Baby boomer retirements are on the rise just at the time when the economy is growing and increasing the demand for senior management expertise.
- There is no emerging group of potential employees on the horizon as in past generations (e.g. baby boomers, women entering the workforce, large waves of immigrants).
- Many organizations eliminated middle manager positions during restructuring in the 1980s and 90s and no longer have this group as a source to fill senior level vacancies.
- Younger managers interested in moving up do not have the skills and experience required because they have not been adequately mentored. In many cases, middle managers, who would normally perform this type of coaching role, have been eliminated.

Theresa Howe "Succession Planning & Management"

What can you do to prepare a successor for your business?

1. **Create a job description**. Start with the things you do as owner of the business, then add the intangibles – the "soft skills" you believe are necessary to succeed – as well as the things you have learned through the years from doing the job.

2. **Train incrementally**. Give a potential successor broader responsibility on projects, both for training and to test readiness. If your company has a formal training program, reach out to the training department.

3. **Create milestones.** Formal or informal "milestones for readiness" will signal to everyone when a successor is ready.

4. **Focus on future needs, not just the present**. Link your succession plan to your organization's overall strategic plan. You're preparing for tomorrow, not today.

5. **Don't choose a clone of yourself.** It may make you more comfortable, but will it help your organization achieve new heights? Organizations need different leadership styles at different times.

6. **Don't let a transition shock your team**. Start talking about succession well before you actually intend to hand over the company to someone else. Allow your team to get used to the idea that someone else will be in charge. Prepare their expectations. Keep them posted on the transition and what to expect.

7. **Have your replacement shadow you**. Introduce your successor in the new role. Allow sufficient time for people to meet and talk with the new owner. Take feedback, and express your confidence that the individual will succeed in the role. Pave the way.

8. **Offer a full debriefing** to your successor.

Documentation List

You will need to examine your business carefully before you prepare for success planning. What documents do you need?

- Tax returns (both personal and business)
- Financial statements (minimum is three years; five years is even better)
- Contracts
- Strategic plans
- Employee agreements
- Partnership agreements
- Intellectual property
- Process manuals
- Inventory detail
- Customer lists
- Accounts receivable aging reports
- Leases
- Loans
- Titles
- Liens or judgments
- Taxes Paid (Sales, Property, etc.)
- Articles of Organization and filing paperwork
- By-laws
- What else?

Buyers of businesses will pay more for companies that offer:

- Upward growth trend in sales and profits
- Good location for now and the future
- Attractive product in high demand now and in the future
- Marketing program focused on defined market segments
- Trained staff empowered to assume responsibility
- Reliable financial statements and management reports
- Good financial controls
- Up-to-date facilities and equipment
- Standard procedures and policies in place
- No regulatory threats or potential litigation
- What else?

"You want to leave your business in as good a condition as it would need to be if you put it on the market and expected top dollar for it."

Family Business Succession: The Final Test of Greatness
Second Edition, 2003

Valuation

Quick Calculation of Business's Value

Step 1
Calculate the business's total asset value. This figure is comprised of all assets owned outright by the company, as well as accounts receivable and cash on hand. For example, if the business owns $150,000 in buildings, $100,000 in land, $50,000 in vehicles, $50,000 in equipment, $25,000 in accounts receivable and has $25,000 cash on hand, its total asset value is $400,000.

Step 2
Compute the business's total expenses, including mortgages, vehicle loans, accounts payable, credit card debt and wages payable. If the business has a $50,000 mortgage on an office building, $30,000 in vehicle loans, owes $25,000 in accounts payable, has $15,000 in credit card debt and owes its employees $20,000 in wages, total expenses equal $140,000.

Step 3
Subtract the business's total expenses from its total assets. Using the examples above, the business would have a rough value of $260,000. This amount represents the cash you would walk away with if you sold all the business's assets for their listed value, combined the proceeds with cash-on-hand and paid off all creditors.

Step 4
Add or subtract the business's most recent net income from the rough value. Net income equals total revenue minus total expenses for a given accounting period and can typically be found on your income statement. If the business has a positive net income, add it to the value; if the business has a negative income, subtract it from the value. For example, if the business had revenue of $250,000 and expenses of $130,000, its net income in the period was $120,000. Add $120,000 to the $260,000 rough value calculated in Step 3, resulting in a value of $380,000. If the business had $200,000 in revenue and $250,000 in expenses, the net loss was $50,000, resulting in a $210,000 value at the end of the period.

Taken from: http://smallbusiness.chron.com/determine-value-business-4126.html

Best Case Scenario

What is your "best case scenario"?

Based on your values while balancing the needs and goals of everyone involved, define your "best case scenario." This becomes the optimum situation that the business owner hopes to attain in the succession plan.

Missouri Small Business & Technology Development Centers

Our experts can help you

The Missouri Small Business & Technology Development Centers (MO SBTDC) help businesses in every stage. From concept to startup, growth to renewal, mature to succession, we are here to help you succeed at every point. We have experts located throughout the state who can help you address a wide variety of business challenges.

Consulting Services

MO SBTDC business development specialists use their expertise to help Missouri businesses with critical business development issues. They provide guidance addressing topics such as management, marketing and strategic planning is available for new and existing businesses. All counseling is confidential; many services are available at no charge (subsidized by our funding partners). For personalized help exploring ideas or growing your business, contact a MO SBTDC counselor near you listed on the website linked below or sign up online at https://missouribusiness.net/sbtdc.

Contact

Your local SBTDC office. A complete list of locations can be found here: https://missouribusiness.net/sbtdc/

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