

Who Will Follow You Into The Business? Advice on Succession Planning



Who Will Follow You Into The Business?

The day will come when you want to, or have to, leave your business. To make the transition to the next owner as smooth as possible, and to get the maximum return for yourself, you need to start planning now. These are just some of the benefits you will derive from early succession planning:

- The business survives the change in ownership/management and continues on as a profitable entity
- You will identify and address family or shareholder issues before they become disagreements and a threat to the business' continuity
- You can minimise tax liabilities and maximise return
- It will ensure an orderly transfer of control and competencies
- The business and future leadership will be ready for the transition

The earlier you start your planning the more exit options available to you. You can, for instance, designate a successor and begin developing their skills to take over when you're ready to leave. Your successor may need to arrange additional financial resources or develop their experience in a certain area before being prepared to take over the business and it could be a matter of years before they acquire these.

First you have to decide what you want to do. Will you sell the business, hand it over to a family member, leave/sell it to an employee, or sell it to the highest bidder? Your decision will be based on a number of factors that include your family situation and the type of business you own.

Many owners have found it can be a mistake to assume that just because the next generation is working in the business now, that they will automatically become the owners and/or managers of the business in the future. They may simply not be interested in taking over the role and would prefer to have the business sold as a going concern. They also might not have the ability to run the business.

You have a wide range of succession/transition options - from giving the business away to selling it outright. Go through the entire range available to you and obtain some information on how the various options could be financed. Set the criteria to be used in evaluating each option. These could include the following:

- Your desire to maximise the value of the business
- The taxation implications
- Disruption to business activities caused by the option
- The need for management continuity
- Costs of the transaction

You are the person best positioned to know the business' core competencies, so gather information on alternatives for transferring and maintaining those competencies to the new owners. Be sure to include timeframes in your evaluations. If you want to sell the business outright, consider some sort of progressive payments or vendor finance. Finding the entire purchase price could be difficult for the purchasers and affect your ability to sell the business. This could in turn lower the amount you eventually receive.

Also, think through the implications for the business of your departure and how this will be dealt with in relation to customers and other key stakeholders. Consider your willingness to stay with the business in a non-executive capacity for a handover period to ensure continuity. As a result of your evaluation, decide on the preferred option. Now you need to prepare a written shareholder succession plan that covers these areas:

- The objectives of all major parties including owner(s), family members and senior team members who may want to acquire the business
- The various options under consideration with pros and cons for each
- The preferred option with details of its implementation including: how the price is to be determined, timing of departure, the ongoing role (if any) of the exiting owner, major tax considerations, and who will have the responsibility for implementing the plan

There are many different professional skills required to successfully transition a business from one owner to another. You will certainly need to talk with your accountant, a lawyer, an insurance agent and, if property is involved, a real estate advisor. Plan early and carefully so that when it's time for you to step aside you can do so knowing that the business will continue, and continue to prosper, under its new ownership.



Want to find out more? Need some advice on succession planning?

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