

Succession Planning

With the baby boomer generation heading toward retirement, there is going to be a huge turnover of business ownership in the coming decade.

Do you think about retirement? What will you do with your business? Is a family member or a key employee interested in assuming ownership of the business? If you are thinking about the next stage of your life, you've already started your succession planning. It's an informal plan but it's a starting point.

A "formal" succession plan is a strategic document that sets out a process and schedule for a business owner's eventual withdrawal from the business. It includes the legal and other supporting documents to put this plan into effect.

There is no cookie-cutter solution to the succession planning process. Every situation is unique. Whether you are near retirement or planning to retire several years from now, the more time you have for planning, the more options you can consider and the more likely you will achieve your goals.

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What are the Issues?

Throughout the planning process, you will have to deal with many "technical" issues and "soft" issues.

- The technical issues involve legal, accounting and financing matters such as share ownership, the transfer of ownership, tax planning, the financing of the transition and the funding of your retirement as well as the "tools" - the legal and planning documents - that ensure your plan will meet your objectives.
- The "soft" issues involve interpersonal relationships within the family and with other stakeholders and the need to maintain open and transparent communications. In succession planning, communication can spell the difference between success and failure.

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What are Your Options?

Generally, the most common options for exiting your business are:

- Passing the business to a successor;
- Transferring ownership through a management buy-out or employee buy-in; or
- Selling the business (shares and/or assets).

There are also variations on these options and other options that may be suitable for your particular circumstances.

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Passing the Business to a Successor

Family members can be good choices for successors, but only if they have the aptitude, commitment and proven business skills to manage the business. Some business owners select a single successor, while others may select a sibling or family team to serve as co-managers. Great care should be taken if you are considering a team approach. Roles and responsibilities should be clearly outlined to avoid any potential conflicts.

You will need to plan the successor's development and your own future goals as you make the transition from the business. Doing as much advance planning as possible will help ensure your successor builds the skills and knowledge he or she needs to assume the leadership role in the future. The process of grooming your successor will include matters such as training, introductions to key business contacts and managing the transition so that there is little or no disruption to the business.

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Transferring Ownership through a Management Buy-out

You may want the business to stay in the family, but after discussions with family members and thoroughly assessing this option, decide it is not the best decision for all involved.

One alternate option to transferring the business to a family member is to offer key management an opportunity to purchase all or part of the business. There are many methods of structuring the financing of a management buy-out (commonly referred to as an "MBO"), including stock option plans, a financed purchase or a buy-out over time. Initially, however, you will need to consider whether there are employees in the business who are willing and prepared to take the risk of ownership and whether the business itself is a good candidate for this succession option.

The management buy-out can be advantageous in ensuring continuity of personnel and the business itself. Like many proud owners of private businesses, you may not want to risk losing your company's identity or seeing loyal employees transferred or terminated after a sale. A management buy-out is more likely to achieve your wish for continuity than a sale to an outside party.

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Selling the Business

You and your family may decide that the best strategy for all involved is to sell the business outright to an outside party. A sale can be structured in several ways. It may involve an active role for you in running the business for a period of time or maintaining a minority ownership interest. Or you may decide to take advantage of the proceeds of the sale and fully disassociate yourself from the business.

Selling a business is not like selling other assets you might own. It requires considerable time to get a business ready for sale. Another factor is that your family members may have mixed emotions about selling. You will need time to resolve any issues before you begin negotiations with a purchaser.

Once you have made the decision to sell, your short-term plan will include determining the value of the business, identifying areas that diminish value and then finding ways to improve these areas so you can obtain the maximum price.

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Decisions, Decisions, Decisions

Whether you are on the doorstep of retirement or looking into the future, the decisions you make will affect the future of the business, your customers, your employees and, most importantly, your family.

Good, sound professional advice has a way of paying for itself. Your exit from the business may well be the most complicated financial transaction you undertake. Working with your chartered accountant and other professional advisors throughout the planning stages will help ensure that you lay the groundwork for successfully developing and implementing a succession plan that will achieve your goals.