

# The ATB Guide to Succession Planning

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# Planning for your Future - An Introduction

Few things are guaranteed in life, but as a business owner, the evolution of ownership of your business at some point is inevitable. This is why it's critical that ownership be transferred to the right person. Succession planning plays an important role in this decision, and can help ensure your legacy be left in good hands.

Many Canadian businesses are family-run, and every entrepreneur would love it if their child one day took over the family business. However, a study by The Canadian Federation of Independent Business (CFIB) found that 52% business owners do not have a succession plan in place. Without a proper succession plan, the future of both your business and your family could be at risk. <http://www.ic.gc.ca/eic/site/sbrp-rppe.nsf/eng/rd02475.html>

The ATB Guide to Succession Planning will help you develop a well-thought-out plan so that when you are ready to exit your business, you can feel reassured it will continue to thrive in the future.

# 1. What is Succession Planning?

Are you concerned about the future of your business when you decide you no longer want to be a part of it?

If you aren't, you should be. The CFIB reported that within 10 years, about 70% of business owners plan to leave or retire. Yet the majority of business owners do not have a formal succession plan in place. This is a great concern.

<http://work911.com/planningmaster/planningarticles/successionplanningprobsgettingstarted.htm>

Succession plans are important because they make sure you've thought about the future of your business. They also ensure a smooth transfer of ownership of your business, so when you're finally ready to leave, you can rest easy knowing that you've "handed over the reins" to the right person.

The most common choices of ownership transfer are:

- Selling your business to a family member
- Selling your business to an employee
- Selling your business to a partner
- Selling your business through a broker
- Selling your business to a competitor
- Responding to an unsolicited third-party offer

In this guide, we outline a 10-step process to help you develop a plan that will, at the very least, get you thinking about succession planning. We'll cover:

1. Identifying a successor
2. Establishing a timeline
3. Creating an exit strategy
4. Developing a written succession plan
5. Beginning the observation period
6. Selecting the chosen successor
7. Assembling a Board of Advisors
8. Announcing the official transfer date
9. Transferring leadership/Appoint Board of Directors
10. Starting the exit strategy

If you have any questions about succession planning, contact your ATB Financial Advisor or ATB Business Relationship Manager, and they can help guide you through the process.

## 2. Reasons you don't have a Succession Plan

You've heard of succession planning, but why haven't you developed one yet?

### **There are two main reasons why you may not have a succession plan:**

- You either haven't thought about—or don't want to think about important matters like retiring,
- You have no idea how to develop a succession plan.

If you haven't created a succession plan because you think it will be too complicated, then you're thinking backwards. In truth, not preparing beforehand will actually make the process more difficult in the long run. It's much easier to start early, and go through the process one step at a time. This will help you understand each procedure and give you confidence in developing your succession plan from start to finish.

### **Is it possible you might be procrastinating?**

This doesn't mean you're lazy. It just means you're placing your attention on things you consider to be more important. Hopefully, this guide will stress the significance of having a succession plan and why it should be a top priority when it comes to the longevity of your business.

Sometimes, life comes at you fast. We understand what that can feel like. You're busy...your mind is focused on multiple things, and there doesn't seem to be enough time in the day to get everything done. No matter what life throws you, as a business owner, you have a high level of responsibility to the community and your family. Creating a succession plan is the responsible way of taking care of your future and eliminating any fears and doubts your successor(s) may have. A succession plans creates a "win-win" situation for everyone involved.

Whatever the reason (or excuse) that has kept you from succession planning so far, there are also legitimate barriers that can prevent it from taking place—especially with family-run businesses.

### **Common Issues in Succession Planning include:**

- A different vision for the future between the owner and potential successor
- A lack of appreciation or respect in the owner/successor relationship
- Not enough trust between the management of business
- Pride and stubbornness to discuss issues, such as retiring
- Unwillingness to forgive over past hurts, which are affecting handing over the business.

<http://www.albertafarmexpress.ca/videos/ten-barriers-succession-planning.aspx>

Some business owners have trouble dealing with issues like pride, anger and lack of forgiveness, and may need to seek counsel in order to talk about succession planning.

The most important thing required to resolve many of the barriers mentioned is a conversation between the parties involved with future of the business.

Another common problem for family businesses—especially farm operations, is that the younger generations aren't interested in taking over or reluctant to wait in taking over the operation. The latter situation is common when the business owner has not provided a deadline to transfer ownership. These situations can create tension, high stress and anxiety among family members, which can be extremely difficult on the family dynamic.

To help ease any family tensions, consider hiring a consultant to implement your succession plan. This will ensure that it gets done right, and offers a neutral mediator in the matter.

## 3. Why Bother with Succession Planning?

Yes, succession planning can be a lot of work, and there are probably many other things that require your immediate attention. But for your sake—and your businesses, don't let this be an excuse to do nothing. Your day-to-day activities are important, but remember: this is your legacy we're talking about.

Many business owners operate under the Going Concern Principle. This accounting principle refers to the fact that business owners assume they will be successful and that they will continue to maintain a healthy business...so there's no reason to think about selling or going out of business. Though it is understandable why you'd think this way, and may be uncomfortable thinking about your business operating without you, it's imperative think about your future, realistically. Ask yourself these questions:

- Who will run my company after I leave?
- Who will ensure the success of my company after I am gone?
- Who will buy my company upon exiting?
- Can I identify/cultivate/train potential successors before I leave?

You need to think about these things, and you need to start thinking about them now. After all, no one wants to fail in life, nor watch their treasured business fall into ruin after passing their business on to someone else.

### **Success is the main goal of succession planning.**

Just as you needed a go-to-market strategy, you also need an exit strategy. Leaving a business can be a difficult process, especially if you don't take the time to plan effectively.

### **Why make it harder than it has to be?**

Make the process as simple as possible. Start by planning it out with professionals that can help you. Don't hesitate to ask friends and family about respected experts and advisors in your community.

#### **Assemble a team of trusted advisors:**

- Accountant
- Banker
- Financial Advisor
- Lawyer

The right professionals can make all the difference. Find individuals that will give you peace of mind and ease your worries when going through this transition. The right advisors can make a complex process much easier and worry-free, so you can focus on more important things...like your business.

## 4. What's the Rush? Q&A

### Is there urgency to creating a succession plan?

You bet there is. By 2015, the average corporation will only have half of the leadership talent it requires due to the "Boomer" population retiring. This means there will be high demand for the next generation.

[http://www.businessweek.com/magazine/content/09\\_49/b4158080830272.htm](http://www.businessweek.com/magazine/content/09_49/b4158080830272.htm)

### How will that affect you?

The younger generations go where the jobs are—plain and simple. If there's a high demand from larger corporations in bigger cities, farming families, for example, may have a tough decision when it comes time to handing the family farm down to the next generation. This may cause a problem if you want to keep the family business in the family.

Creating a succession plan involves providing some security for the next generation so they know they have a way to make a living. This is especially important because some of the smaller businesses may not be able to support two families without well-executed expansion. Expansion is a strategy in itself, and also requires time and careful planning.

### Are you ready for the cold, hard facts?

According to the Family Business Institute, only 30% of family-run companies succeed into the second generation. Only 13% make it to the third generation. The main reason for this is lack of succession planning.

<http://familybusinessinstitute.com/index.php/volume-2-articles/twelve-steps-to-business-succession.html>

### What happens if I don't create a succession plan?

Not having a clear succession plan can cause:

- Disputes among family members or management
- A freeze on company assets
- A loss to shareholders
- Unnecessary taxes
- High stress and high tension at the workplace

### How do I know if my child or family member is interested in taking over the business?

The best way to find out is to ask. Don't assume anything. Good communication will allow you to find out if they want to run the family business.

## **What if I don't have children or family to take over the business?**

You still have options. You can sell the business, or cash out and retire.

## **How do I know if my successor is capable?**

This can be determined by examining their skills, abilities, aptitudes, and experience. Choosing between several successors can be a challenge, but ultimately, one leader must be chosen to minimize confusion and have a structured leadership hierarchy.

(Chapter 6, Step 1 goes over how to effectively pick a leader among several candidates to be the successor of the business.)

If this causes issues within the family, you can also form family partnerships where a complete consensus is required for all important decisions. You can also provide one family member with more control over the day-to-day decisions, and require all fundamental decisions be made by the group.



## 5. Start Planning Now

If this process sounds like a lot of work, well...that's because it is. But you need to start planning now so you can limit the stress, anxiety and frustration that could result if you don't. Your goal should be to start planning at least five years before the date you want to retire.

### Here are six reasons why planning early is key:

1. It will strengthen your company.
2. It will ensure the new leader knows how to run your business.
3. It will help you prioritize company goals.
4. It will help you with the transition.
5. It will guarantee you receive the best deal.
6. It will minimize confusion, stress and anxiety.

### Part of succession planning involves setting transition dates. Set dates for the following:

- Your retirement
- Transferring the share, equity or ownership
- Transfer of voting control

Once the transition dates are set, it's time to make sure your business is ready for the transition. This means if you're selling ownership, you'll need to verify you have a good system in place so that your business can run smoothly without you. This also allows you to discover and correct any existing inefficiencies within the processes. If you work solely with clients, now is the time to hire a manager or have your potential successor get "face time" with them. This will alleviate any "shock" when you get to your transition dates.

Next, you will need to know who will be involved with the succession planning process.

At this key stage, it may be helpful to come up with some identifiable goals of creating a succession plan. Outline your purpose for succession. It could be something as simple as: "To hand over the family farm to my son in the next 10 years," or "To sell my business to my partner so I can retire in the next 15 years." As with any other goal, ensure it follows the SMART principles of being:

- Specific
- Measureable
- Attainable
- Realistic
- Time-oriented

Now, identify the people that will be involved in the process from the list below.

**The following key people are typically needed in succession planning:**

- Owner/Founder
- Board of directors
- Shareholders
- Management staff
- Accountant
- Lawyer
- Banker
- Financial Advisor
- Business Evaluator
- Family members involved in the business
- Any other advisors or stakeholders

Coming up with key people you need in the process is a good starting point. This will eliminate complications when you start the paperwork and the documentation of processes you have in place to run your business. Fewer complications will ensure a smoother transition when the big day comes to actually step down as the manager of your business.

Now that you know what key individuals are needed, the 10 Step Succession Plan is next.

## 6. 10 Steps to Building a Succession Plan

### Step 1: Identify potential successors.

Believe it or not, many business owners have no clue as to who they will one day hand over their business. Not everyone has a son or daughter that shares the common family vision when it comes to the family business, so knowing who to fill your shoes can be a tough decision.

Often, the successor is 20-25 years younger in age, and likely a son or daughter. There are times when a son or daughter does not want to take over the family business. In this case, the successor could be someone in the company that exhibits excellent leadership skills.

For whatever reason, even if you cannot immediately identify a successor, you always have options. (Reminder: Chapter 1 covers the six most common options.)

For other business owners, you may have an even more challenging task of having to choose from among several great successors. If the choice in front of you is not so clear-cut, it may be time to sit down and really think about your options.

#### Leadership skills that your successor should possess:

- Your successor should be a good manager of employees and resources.
- Your successor should have good people skills and work well with others.
- Your successor should be trustworthy and honest.
- Your successor should know the value of hard work.

If your potential successors do not have the leadership qualities you desire, you may request that they get some training in these areas.

No business owner would feel comfortable starting their transition into retirement if they didn't feel comfortable with the successor they have chosen.

Interviewing all candidates is important. Sit down with your potential successors. Learn about them. You may discover they don't want to take on the responsibility of running the business. Simple communication can save you a lot of wasted time, and help you get a sense of who wants to lead, and who doesn't.

## **Step 2: Develop a timeline.**

As touched on in section 5, it is important to come up with a timeline of when to retire, transfer the ownership of the business, and hand over the voting rights.

The important thing here is to set your retirement date. This may take some serious thought, because stepping down is a hard decision. Very few are ready when the time comes. Setting a date will help make the process a lot smoother. After all, it is not fair to keep the successor waiting in limbo. This is specifically important with family-run businesses. Many experience high stress and anxiety when no clear succession plan is embraced. This can create unnecessary (and preventable) tension at the workplace. Eliminate this worry and do the honourable thing by communicating your timeline for retiring to everyone involved with the business.

Keep in mind that Steps 1 and 2 can be interchanged, as they both take place in the early stages of succession planning.

## **Step 3: Develop an exit strategy.**

Did you know that many business owners never retire because they don't know how to continue to support their family after retirement?

Part of a good exit strategy is to come up with a sound financial plan of how to maintain your standard of living after transferring the ownership of your business. Hopefully, you have been putting aside money on a regular basis for your retirement.

A systematic funding of a retirement plan should be taking place throughout the course of the business to ensure that you can retire and continue to support your family.

Talk with your ATB Financial Advisor today to check your retirement plan and make ensure you are on track to retire at your desired date.

## **Step 4: Develop a written succession plan.**

This succession plan typically covers five to ten years up until the transfer of ownership. It also outlines various positions, expectations and responsibilities the owner has identified for the successor to fulfill. This outline will include the transition dates that include the retirement of the owner, transfer of ownership in the company, and the voting rights. This succession plan can be re-visited and modified during the five to ten year period before the transition dates take place.

## **Step 5: Observe potential successors.**

One of the main elements built into the succession plan is the ability to effectively select the successor of the business. At this point, only share the succession plan with key individuals that are on a “need to know” level of management. This way, you can observe the potential successor and evaluate if he/she meets your expectations as a leader. This especially applies if there are several candidates that could be potential successors.

The observation period is important because it can help you avoid making a potentially embarrassing decision by announcing a chosen successor that has not matured and is not quite ready to fill the role as a leader.

During this quiet period, it’s okay to start training the candidate(s) for leadership roles. Then, take the time to carefully observe the candidate in different situations to see how well they handle themselves under pressure.

## **Step 6: Choose your successor.**

After feeling confident about your decision, let the individual know you have selected them. Make an official announcement to family first (if applicable), then to key staff and business clients.

The announcement typically occurs two to three years before the retirement date to give everyone time to prepare for the transition. After the announcement is made, this begins the mentorship program to prepare your chosen successor for everything that they need to know to succeed as the new leader.

## **Step 7: Assemble a Board of Advisors.**

The Board of Advisors is a trusted group of professionals that includes the accountant, the lawyer, and non-competing mentors that will be used to advise the current management and future successor during the transition period.

## **Step 8: Announce the official transfer date.**

Make an official announcement of the date to transfer operating control to your successor. This should be 12-18 months from the actual transfer date.

## **Step 9: Transfer leadership/Appoint Board of Directors.**

Officially hand the business over to the successor, with full confidence in the transfer of operating control. Then, form a Board of Directors to help the new management with any and all aspects of the business.

### **Step 10: Start the exit strategy.**

The exit strategy involves transferring all ownership and voting rights over to the successor, as well as initiating your new plan to continue your standard of living based on a retirement plan.

Many business owners actually decide to transfer the ownership, and then continue working under the new management, providing the business can support more than one family.

The important thing to remember is that you are no longer the boss. You will not be able to run the business after transferring the ownership to the successor. If you have a hard time letting go, this could cause problems.

Develop and document your business policies and processes during the time between steps 1-5. The Board of Advisors will then review and improve upon them so they're ready for the management under the successor.

<http://familybusinessinstitute.com/index.php/volume-2-articles/twelve-steps-to-business-succession.html>

## 7. Helpful Advice for Selling Your Business

If you plan to sell your business, there are some things you need to take into consideration.

### Answer the following questions:

- Who has the aptitude, interest, commitment, and business skills, to be successful with the business?
- Will one person or multiple family members take over the business?
- Who will have what titles and responsibilities?
- Who will be disappointed by the transition plan?
- How will the transition impact current employees?

Next, you need to make sure that everything is up-to-date.

### Speak with the following professionals:

- Your accountant to verify the taxes are up-to-date
- Your banker to make sure your accounts are in order
- Your lawyer if there are any pending lawsuits
- Your Certified Business Valuator to get the fair market value of your business

It's important that you get the fair market value of your business, so you know what to sell it for. Your business will be valued based on the following criteria:

- **Assets:** The cost to replace existing company assets is evaluated.
- **Market:** Ratios are computed based on earnings, sales and cash flow.
- **Income:** The capitalization rate on earnings is used to determine value.
- **The Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)** valuation method is often used in determining the valuation of your company.

The valuator will take this number and apply a multiplier to it to determine the value of your company. For example, if your EBITDA number is \$100,000 and the multiplier is 3, the estimated value of your company is \$300,000.

After properly determining a valuation on your company, seek a buyer. It is recommended that you use a qualified business broker. Your accountant can usually recommend one for you. Ask trusted lawyers, bankers and accountants if they know of any investors you can network with.

Make sure to have the strengths of your business written out. These selling points will give you leverage as you negotiate with investors/buyers. Always have your lawyer present during negotiations so that you do not undersell your business.

Remember that in order to sell, you have to be ready. People that are emotionally tied to a business often have a harder time placing a realistic value on the business because they really do not want to sell.

At the same time, don't be overly eager to sell by taking the first deal offered. Discuss everything with your lawyer first. Remember, when negotiating, patience is your virtue. . If you take time to think it over, and the buyer is eager to purchase, they may increase the offer price.

Once a sound deal is offered, agree to it with your lawyer present and close the deal, providing all necessary legal documents. After you sell the business, you will need to talk with your staff. Let them know about the transition to new ownership. You will also need to alert any suppliers, clients and relevant media that need to know about the change of ownership.

Just as the succession plan is drawn up for a successor in the business, you will also create one for the outside buyer. The buyer may even want you to stay on for a period of time as a consultant to the business.

**Make sure you speak with your accountant to find out the tax implications of selling your business.**

You can also visit Canada Revenue Agency website [www.cra-arc.gc.ca](http://www.cra-arc.gc.ca) for more information.



## 8. Focusing on your Future

Hopefully by now, you understand the importance of succession planning. The ultimate goal is to preserve your business so that future generations can enjoy and prosper from what you worked so hard to build.

After reading this guide, if you still feel uneasy about the succession planning process, remember this: Take it one step at a time, and take advantage of industry experts—like your ATB Financial Advisor or ATB Business Relationship Manager, who are more than willing to help.

As with all complex, yet important things in life, succession planning will save a lot of heartache and hassle down the road, should there be unexpected events in life that render you unable to continue running the business.

Your initiative to take charge of the future of your business will pave the way for future leaders in your family and in the community. Preserve your business so that future generations can proudly say: “My grandfather started this business, and it is still going strong.”

Don't wait, don't procrastinate, and don't put off this vital part of your business.

And if you need help, ATB Financial is more than happy to be there every step of the way.

# Helpful Resources

## Books on Succession Planning:

Built to Sell by John Warrillow  
Succession Planning Toolkit by Canadian Institute of Chartered Accountants

## Online Resources:

Canada Revenue Agency  
<http://www.cra-arc.gc.ca>

Canadian Association of Family Enterprise  
<http://www.cafecanada.ca/>

Chartered Business Valuators  
<https://cicbv.ca/>

Canada Business Network  
<http://www.canadabusiness.ca/eng/page/2819/>

Business Development Office  
<http://www.bdo.ca/library/publications/tax/taxbulletins/012007.cfm>

Alberta Farm Express  
<http://www.albertafarmexpress.ca/videos/>

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Canadian Federation of Independent Business

<http://www.ic.gc.ca/eic/site/sbrp-rppe.nsf/eng/rd02475.html>

Family Business Institute

<http://familybusinessinstitute.com/index.php/volume-2-articles/twelve-steps-to-business-succession.html>

Government of Canada

<http://www.ic.gc.ca/eic/site/sbrp-rppe.nsf/end/rd02475.html>

Work 911

<http://work911.com/planningmaster/planningarticles/successionplanningprobsgettingstarted.htm>