INTRODUCTION TO SUCCESSION PLANNING

A guide to help you begin to map out your exit strategy

GGFL
Chartered Professional Accountants

The most successful business owners are always looking ahead to what's next, but the thought of retiring from work and transitioning the business can be daunting. Whether your business is relatively new, or you are at the helm of a 20-year-old company, having a clear plan in place is the key to making your transition a smooth one, and to ensure that the business remains healthy and thriving after you step down.

This guide provides an overview of things to consider when creating a viable succession plan. As you take this step, think carefully about the people you place on your planning team. In addition to your family, you will want to identify trusted professionals who can guide you, provide options that suit your individual situation, and advise on the legal and financial implications of your choices.

IN THIS GUIDE

WHAT IS YOUR EXIT STRATEGY?

You have built a successful business that stands as a testament to your hard work and dedication. You need an exit strategy that brings you the best value from that investment and allows you to transition into retirement.

As accountants and business advisors, we often help our clients understand the available options by posing a series of questions:

- When are you planning to retire?
- How much time do you need to transition the business?
- Is the business ready for succession?
- Are you planning to keep your business in the family?
- Who would run the business today if something were to happen to you?
- How much do you think the company is worth?
- Who are the stakeholders in the company?

TRANSITIONING TO FAMILY

Many business owners want the business to stay in the family and consider their children to be the natural successors. In fact, almost 60 per cent of business transfers take place within the family. Unfortunately, 90 per cent of those transfers prove unsuccessful, in large part due to the lack of a succession plan.

Consider the following if your exit strategy is a family transition:

- Are your children interested in taking over the business?
  - In what capacity will they be involved - active management or shareholders?
- Are they ready to assume responsibility?
  - Do they have the technical or practical knowledge and experience in the business?
- Does their vision of the business's future fit your vision?

An effective way to start the conversation and begin engaging your family in the business is to establish a family council. The family would come together for regular meetings to maintain open lines of communication and develop a thorough understanding of the business. It is at these meetings that you would express your wishes about the future of the business. All decisions affecting the future of the business would also take place at these meetings.

Things to consider:

- Under what circumstances would your children enter the business?
  - o Would they have to attend a university program to learn a certain skill?
  - o Would they begin to work in the business and learn it from the ground up?
- How will they be compensated?
- Who can own shares?
- What happens in the event your marriage, or your child's marriage, breaks down?
  - o Are there prenuptial agreements in place to protect the business?
- How will you handle dispute resolution?
- What is the most tax-efficient way to transfer ownership? Your accountant can advise you on the advantages and opportunities available to you, such as:
  - o Setting up a trust
  - o Creating a gifting program
  - o Using life insurance
  - o Using an estate freeze

PLANNING FOR LIFE AFTER RETIREMENT

Gerry Pulvermacher, Organizational Psychologist specializing in succession and its implementation, offers this guidance.

Fundamentally, giving up a company leadership role is difficult. For many, walking away from the business is like losing a best friend. The sense of loss can be enormous.

Here are some suggestions to help you prepare and actually look forward to the next chapter:

- Create your “bucket list” of activities or interests you want to develop, as well as a learning plan (when, where, with whom, how often), at least three years before stepping down.
- Determine, together with your partner/spouse, how much time you want to spend travelling each year, including visiting family, and start practicing well before stepping down.
- Decide the type of community service you plan to engage in after you retire.
- If board work is of interest, consider volunteering for a local non-profit board now. If you are new to board work, look into board governance courses.
- Create and engage in a solid physical well-being program.

The list is endless. The goal is to stay vital in mind, body, spirit, and action. The purpose is not to lose momentum once you leave your leadership role.

MANAGEMENT BUY-OUT

Do you have a strong management team that understands your business? Do they know your clients and have their trust? Do not underestimate the importance of continuity from a client's perspective.

You may want to consider a Management Buy-Out (MBO). This is a transition plan where members of your current management team buy some, or all, of the business and assume the leadership of the company over time. Your accountant will play a key role in the MBO, specifically in ensuring the structure of the deal is as tax-efficient as possible, as well as providing expertise to help you determine the value of your business.

An MBO requires considerable planning by all of the parties involved in the process.

Things to consider:

- Is there interest from the current management group?
- How will the MBO be financed?
  - o Seller financing?
  - o Bank loans?
- What is the value of the business?
- Would you retain any shares?
- What are the risks of an MBO?
- What factors could jeopardize the success of an MBO?

SELLING THE BUSINESS TO A THIRD PARTY

If your circumstances dictate that selling your business is the best option, you will want to prepare your business to present the best possible face to potential buyers.

Preparing your business for sale, marketing the business, negotiating the deal, and closing the transaction can be a lengthy and complex process. Your accountant will play a large role in the transaction, specifically in the valuation of the business and the financing and tax aspects of the deal.

Things to consider:

- Is this the right time to sell?
- Will you remain active in the business post-sale?
- Will you continue to own the real estate?
- What is the most tax-effective way to structure the deal?
- What is the fair market value?
- How can you increase the value?
- Who are the potential buyers?

MAXIMIZING THE COMPANY'S VALUE

Maximizing the value of your business should always be your objective, regardless of whether you are planning your exit strategy or looking to finance your next big deal.

Things to consider:

- Focus on business growth prior to the sale
- Re-evaluate all expenses and expenditures
- Develop a management infrastructure
- Restructure the business to minimize taxes on the sale

When you need to determine the fair market value (FMV) of your business, a necessity when selling shares to family members or selling a business to a third party, you will require the expertise of a Chartered Business Valuator (CBV). Ask your professional advisors or trusted business colleagues for CBV recommendations. A good CBV will not only value your business, they will also provide advice on ways to recognize and enhance the true value of your business.

Things to consider:

- Can your business continue without you?
- What is your business's expected growth?
- What is the status of your existing contracts?
- Do you own real estate?
- What are the business risks?
- Is your business currently in litigation?

GGFL has many years of experience helping successful business people determine and execute their exit strategy. We work with you to understand your goals, so we can advise you on the best plan and tax strategies for you and your family.

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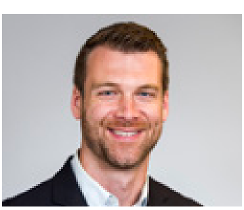

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