GROWERTALKS

Features

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Succession Planning When There's No Succession

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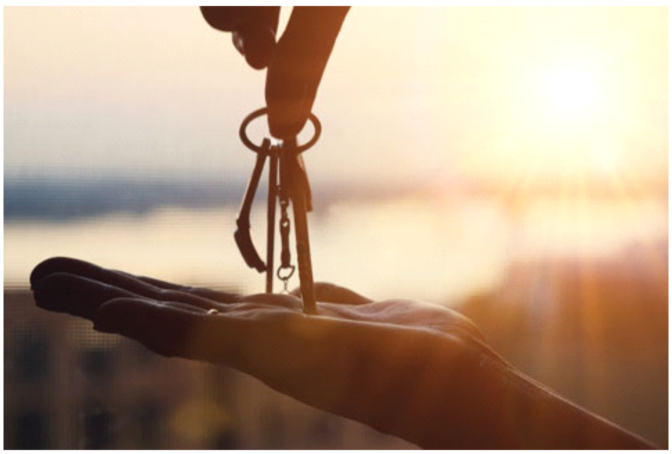

The phone call was a jolt and shook us to our core. Tragically, we received news that a grower we'd met during our succession/exit planning seminar at Cultivate'21 in July was killed in a car accident. He was a good man, who had built a fine operation, but the business was highly owner-centric— everything passed through him. He had no accountant, lawyer, financial planner or exit plan advisor, and certainly no business continuity plan. We had a few discussions with him after the seminar, but he'd put things on hold. Now a strategic partner of ours is helping the family, amidst their grief, with the disposition of the business. Unfortunately, there's a long and challenging road ahead.

There's one indisputable fact—100% of owners eventually will exit their business. It could be through family succession, sale, liquidation, closure, death or any number of reasons—many of which are outside the owner's control. According to the Exit Planning Institute (EPI), 50% of exits will be involuntary and 40% of business owners lack even a basic business continuity plan should something happen to the owner (death, disability, divorce or illness).

Suppose there's no family to take over the reins … in that case, the logical choices are to transition the business to new leadership and/or your employees (often through an Employee Stock Ownership Program or ESOP), sell the business outright (to an investor, competitor or investment group), or close up shop and liquidate. Since a company can often represent about 80% of an owner's net worth, we'll address the more wealth-saving and positive options of transitioning and/or selling the business.

Forty-eight percent of business owners don't know how or have even thought of preparing for the sale of their company (PWC Family Business Survey). We've found that the best business transitions begin early and have a team of people working in tandem to maximize the value of the business and get you and your business transition ready.

The challenges

“If you fail to plan, you are planning to fail!” —Benjamin Franklin

The numbers are staggering: 10,000 Baby Boomers hit retirement age every day and 60% of all business owners are over age 55. Yet, according to EPI, PNC Bank and Kent State surveys, 80% of business owners have no transition plan or haven’t documented or communicated a succession plan.

Furthermore, 80% of these businesses aren’t saleable, nor do they have a proper talent or family pipeline to continue. Of the remaining 20% sold, 12% will be lower than the original asking price.

Even though 98% of business owners feel that succession planning is essential, they rarely have a plan. When they do have a plan, there are several reasons why they fail:

• Many think it’s unimportant and choose to focus on the transition rather than the transactional nature of a business.

• Potential future leaders and family leave the company looking for greener pastures. As a result, owners don’t adhere to the plan and stay long past their expected departure date.

• New leaders are ill-prepared to take over or don’t perform to the level of the original owner.

• A focus on the past or a mindset fixed on “this is the way it has always been done” not only cripples future leadership, but puts the future of the business in jeopardy.

• Time, lack of commitment and fear.

Successful succession planning = Transition ready

Not all hope is lost. We’ve been a part of many succession and exit plans that have been and continue to be successful. We begin with an assessment and evaluation of four critical areas of personal and business transition readiness that have a direct impact on value from an investor’s perspective and the questions they will be asking:

• **Financial Preparedness:** Valuation of the business and industry comparisons, reviewing financial metrics (ratios, receivables, banking situation and overall financial health) and the tax impact—on the owner and the business. Is the company operating at a high level and doing more with less?

• **Planning Preparedness:** Review potential buyers, professional advisors (accountant, lawyer, financial planner, exit plan advisory and broker), business continuity planning and addressing owner centricity. Can the business operate independently of the owner? An owner with all the key relationships and is responsible for most of the sales, especially to larger customers, can be an issue. Are customer relationships spread out among your staff? Workaholics, who are in their operations seven days a week and micromanage their businesses, are bad bets for a potential buyer. If the owner should suddenly leave or pass away, how easy would it be to transition to new leadership or potentially sell the business for a high return?

• **Revenue and Profit Preparedness:** Consistent sales and profits—the ability to drive revenue, but not at the expense of margin. New product/service offerings, new markets, diversification and those elements of your operation that deliver consistent sales and profitable results. The presence of recurring revenue is also important (long-term contracts, vendor agreements and leases). Bankability—are there well-prepared financials and key performance metrics with predictable and reliable cash flow?

• **Operations Preparedness:** Do you have up-to-date modernized systems, and are your processes and procedures efficient? Is information readily available? Review management, systems, technology, standard operating procedures and operational efficiencies—are you staying on top of trends? Website, e-commerce, email lists, social media are all critical. Are there efficient processes and procedures in place that can be easily managed and communicated?

The next step is to optimize and accelerate the value of the business before a sale or transition and understand that effective succession planning is more than just transitioning to new leadership. It's a process that could take several years, so it's never too early to get started. There are transactional components at work as well. Owners need to take an objective investor's approach to their business—is the risk at a low level and is there a potentially high ROI? Addressing financial strength, planning, revenue and profit health, operational efficiency, and looking at the business from an investor's perspective all point to a higher success rate and return.

Transition-ready businesses are more valuable

"Transition ready" means that you're prepared legally and financially, but also emotionally. We know that it's often an emotionally charged exercise from our own experiences, especially in a family business. In fact, according to the EPI, after transitioning or selling their businesses, 75% of owners "profoundly regretted" it after just 12 months. Some owners can simply walk away, but many more can't because their sense of purpose, wellness and community are all wrapped up in the ownership of their business.

Building the value of the business is an ideal time for the business owner to switch gears, have fun optimizing their business for a sale and pour themselves into the planning. John Dini, noted exit planner and author of "Your Exit Map," says: "As the company grows in your chosen direction, you could just be having too much fun to leave on your originally planned date."

There's no antidote for regret like having fun making the leap from working in your business to working ON your business. In addition, this is where a trusted exit planning advisor can keep you focused and be that all-important sounding board. We hear from clients all the time how grateful they are to have a safe and trusted confidante that they can go to with their concerns. It's also critical to have a team of knowledgeable advisors (your financial planner, attorney, CPA and other key advisors) on the same page to make sure you're financially and legally ready.

A glut of companies will be transitioning or be up for sale in the foreseeable future as the Baby Boomer generation continues to move into retirement. The pandemic and economic concerns have also accelerated this trend. So focus on making you and your company more transition-ready and those aspects of your business that drive and build value. Then, instead of planning to fail, we can now plan to finish strong with a clean transfer and a mutually beneficial transition and transaction to a new owner.

It's hard to transition when there's no family to take the reins. And sometimes even more challenging when there is, but that doesn't mean that the planning should stop—it's more important than ever to get started. One hundred percent of us will eventually have to exit, so isn't it time that you plan and prepare for the transition and transaction of your life on your terms? **GT**

SOURCES: PWC Family Business Survey; PNC Bank; Kent State; Exit Planning Institute; Pew Research Center and the National Center for Employee Ownership.

Chris Cimaglio has more than 30 years of horticulture, consumer and commercial products experience, including nine years as CEO of a progressive industry sales and marketing firm in Chicago. He's currently the Managing Partner of BEST Human Capital & Advisory Group, a retained executive search and HR consulting firm based in Indianapolis, and leads its Exit Planning Advisory. As the product of a family business, Chris has experienced succession and exit planning issues firsthand, and it's a passion of his. He can be reached at ccimaglio@bhcagroup.com and more information on BEST can be found at www.besthumancapital.com.