Date Updated

Business Name

Succession Plan

**Purpose**: The purpose of a Succession Planning exercise is to help businesses articulate a plan as it currently stands (recognizing it may go through several reiterations over time).

## SUCCESSION MODELS

Which TWO of the following models do you currently feel are most promising for your business?

Transitioning your business to a family member

Transition the company into a worker co-operative

Sell to a competitor

Dissolve the business and sell off its assets

Sell the business to a known outsider

Sell the business to an unknown outsider

☐ Sell to key employee(s) or manager(s)

☐ Keep the business as a cash cow

☐ Merge with another business

# YOUR TEAM

It is important to build a succession planning team, a network of individuals and supports that can assist in executing the plan. Below, please list who you expect to be a part of your succession planning team:

Personal mentor(s):

Accounting support:

Key employees:

Business valuation:

Other advisor(s):

Other advisor(s):

Other advisor(s):

# MY SUCCESSOR

Often in the succession of a business, it is vital to find the ‘fit’ between the current owner of the business and his/her successor. With that in mind, use the space below to describe what you are looking for in a successor by completing the following sentence: *For me to consider someone as a prospective successor, he or she must demonstrate the following skills, traits, or goals*:

1.

2.

3.

# YOUR KEY ASSETS

When it comes to selling or transitioning your business, one of the critical questions is: *what am I actually selling*? Or, *what is my successor actually getting*? Answering this question puts you in a position to emphasize these assets to maximize the value of your sale.

For each of the following categories, please rate each one from 1-10, where 1 indicates an asset of negligible value, and 10 indicates an asset of extreme importance.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| A physical building |  | Special equipment or machinery |  | A strong brand reputation/identity |  |
| A loyal list of customers and associated data |  | Loyal/contract employees with specialized skills |  | Intellectual property (trademarks, patents) |  |
| Operating systems or processes that would be difficult to build |  | A strategic location that competitors couldn’t match |  | Special licenses or permits that would be difficult to get |  |
| Efficiencies or cost advantages built over time |  | Exclusive access to software or technology |  | Exclusive access to distribution rights |  |
| Long-term customer contracts |  | Transportation or distribution systems |  | Sustained growth pattern |  |
| Training manual |  | Other (specify) |  | Other (specify) |  |

# **THINGS TO KEEP AN EYE ON**

No business is static; it exists in an ever-changing environment that will have consequences on the business’ value and attractiveness to potential successors.

Please look at the list of external pressures many businesses face, and identify the TOP THREE factors you must monitor closely as you prepare for succession.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Municipal, provincial, or federal tax policies |  | Employment laws or employee safety |  | Product safety standards or labelling requirements |  |
| Industry-specific regulations |  | Environmental regulations |  | Interest rates |  |
| New entrants into your industry |  | Local economic growth or decline |  | Skilled labour availability/ employment rate |  |
| Consolidation within your industry |  | Population growth or decline |  | Online shopping or e-commerce trends |  |
| Society’s attitudes towards your industry |  | Technology change or automation in your industry |  | Stability of your key suppliers |  |
| Minimum wage legislation |  | Competitors’ expansion plans |  | Tourism |  |
| Other key stakeholders |  | Other (specify) |  | Other (specify) |  |

# SUPPORTING YOUR SUCCESSOR

Many individuals who assume ownership or leadership of a business expect or ask for support from the previous owner or leader.

Please consider and answer the following questions, which relate to the level of support you wish to or expect to provide to your successor.

1. In a perfect world, how long after you transition ownership/leadership would you like to support your successor (in weeks, months, years)?
2. Naturally, you bring a particular set of skills and competencies to your business that will be missing once you leave. So, if your successor asked you to outline the THREE (3) most essential competencies *you* possess (which will have to be replaced once you leave), what would you tell them?

a.

b.

c.

1. Listed below are several different roles business owners sometimes play in the business once they transition ownership or leadership to someone else. Which of the following seems *most* Appealing (A) and Likely (L) to you right now (recognizing they may not be the same)?

|  |  |  |  |
| --- | --- | --- | --- |
| Leave the business entirely, immediately |  | Remain in the business in a different role |  |
| Work as a paid advisor for the new leader/owner |  | Work as an unpaid mentor for a limited time |  |
| Remain on as a minority shareholder |  | Provide formal training for the successor |  |
| Provide formal training to any new employees the successor brings on with them |  | Other: |  |

# LOOKING INWARD

One of the first places many businesses look for a potential successor is – naturally – within the business. Thinking about key managers or employees within your business, please complete the following table:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Employee name | Current title | Time before they could lead the bus.? | Top 3 skills | Skill gaps | How interested do you think emp. would be (1-10)? |
| *i.e. Rhonda Akers* | *Operations Manager* | *Two years* | *Cust. service, organization, supervisory* | *Leadership dislikes working overtime* | *6* |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

# **DEALING WITH EMOTIONS**

Listed below are several different emotions a business owner might expect to feel as they move through the succession process. Please identify the THREE (3) emotions you think might be most difficult for you.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Fear |  | Anger |  | Sadness |  | Joy |  |
| Anxiety |  | Trust |  | Overwhelmed |  | Empowered |  |
| Relieved |  | Uncomfortable |  | Nervous |  | Excited |  |
| Enthusiastic |  | Guarded |  | Tense |  | Focused |  |
| Confident |  | Skeptical |  | Calm |  | Glad |  |

What strategies will you employ to manage these emotions? Who will help you?

# FINANCES PART 1

It almost goes without saying that finances immeasurably influence the succession planning process. Please take a moment to consider the following financial questions.

|  |  |  |
| --- | --- | --- |
|  | **YES** | **NO** |
| In the back of your mind (or maybe in the front of your mind), have you thought about the financial return you would like to receive as you exit your business? |  |  |
| Have you completed a formal business valuation to determine whether your expectations are realistic? |  |  |
| Do you know how much you will have to grow your business (between now and your exit) to achieve the financial return you require? |  |  |
| Have you thought about what you would do if a formal business evaluation revealed that your business was worth substantially less than you expected? |  |  |

# FINANCES PART 2

It is undeniable that the financial performance of your business is of significant importance for would-be successors. In short, they want to know how your business has performed and what financial performance they might expect to see if they succeed you. As a result, it is common for buyers of your business to require the past three years of financial data. Although they will likely require full and audited financials, here is your opportunity to complete some primary data:

|  |  |  |  |
| --- | --- | --- | --- |
| ***Income statement data*** | **2020** | **2021** | **2022** |
| 1. Total sales revenue (A) |  |  |  |
| 1. Direct cost of goods sold (B) |  |  |  |
| 1. **Gross profit (C) = (A-B)** |  |  |  |
| 1. Selling, General, and Admin expenses (D) |  |  |  |
| 1. **Net profit (before taxes) (E) = (C-D)** |  |  |  |

In addition to your income statements, many potential successors will also want you to disclose some other key ratios and performance indicators that ‘tell the story’ of your business. Please input the following data:

|  |  |  |  |
| --- | --- | --- | --- |
| **Indicator or Ratio** | **Most recent available** | **Indicator or Ratio** | **Most recent available** |
| **Current Ratio**: (current assets/current liabilities) |  | **Quick Ratio**: (current assets – inventory/current liabilities) |  |
| **Debt Equity Ratio**: (total debt/total equity) |  | **Return on Assets**: (net profit after taxes/total assets) |  |
| **Average Collection Period**: (accounts receivable)/(net sales/365) |  | **Accounts Receivable Turnover**: (net sales/average accounts receivable) |  |

# MANAGING CRISIS

Few entrepreneurs enjoy thinking about this, but it is a statistical certainty that some entrepreneurs will be forced to step away from their business well before they had intended (and for unforeseen reasons). This may result from illness, injury, family circumstances, or even death. Please consider the following question: *if you knew that in one week from today, you would no longer be able to own, run, or lead your business, what do you think would happen to it*?

Plan A:

Plan B:

If for some reason your ‘plan A’ (above) was not an option, what would be ‘plan B’?

# INTANGIBLES

Inevitably, most business owners believe there is more to their business than ‘just the numbers.’ That is, there are intangible strengths and assets that exist within the business that potential successors need to know about. Now is your chance to tell them. If you were sitting down with a potential successor tomorrow, and your goal was to convince them that the future of your business is bright (in ways that the numbers might not capture), what would you tell them?

1.

2.

3

# WHAT’S NEXT FOR YOU?

Many entrepreneurs approaching succession planning – understandably – spend almost all their time and energy on the process itself. They spend far less time asking, ‘*what’s next’*? We would like you to take some time to think about your post-exit options.

Please review the post-succession options below and indicate which THREE (3) are currently most appealing and/or likely for you.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Travel |  | Find a new job |  | Retire from work |  | Mentor others |  |
| Consult within your industry |  | Start a new full-time business |  | Start a new part-time or hobby business |  | Be a speaker or writer for your industry |  |
| Take time before deciding (gap year) |  | Spend time with family |  | Pursue a hobby |  | Nurture friendships or relationships |  |
| Focus on health or recreation |  | Pursue academic education |  | Become involved in philanthropic activity |  | Invest in other companies |  |
| Care for aging parents |  | Start a non-profit |  | Volunteer |  | Other (specify |  |

# **YOUR ACTION PLAN**

Congratulations. You have arrived at the end of your Succession Plan. However, there is one critical step remaining: *the commitment to act*. Please take a few moments to complete the following table, which will outline the steps you intend to take in the coming months and years.

|  |  |  |
| --- | --- | --- |
| **I will do the following** | **By what date** | **I expect the following outcome(s)** |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |