Business Succession Planning Model

What Is a Business Succession Plan?
A Business Succession Plan is a strategic approach to guide the transfer of business ownership. It is to be utilized as a guide to manage and confront the issues relating to the transfer of your small business. When a succession plan is in place, it allows you to anticipate and effectively manage change.

It will address numerous issues including the sale of the business, which typically becomes the owner’s retirement income, since a majority of entrepreneur’s personal wealth is tied up in their business. For this reason, business succession planning cannot start when you put up a “For Sale” sign.

A successful plan must be realistic and workable and not prepared in isolation. It must involve family members, professional advisors, shareholders, partners, strategic employees, and all stakeholders in the business.

The Plan will address the issues of “when and how” transition of the business to new ownership and management will occur.

How to Use the Business Succession Plan Model
The Business Succession Planning Model is to be used as a model or guide to lead the user through the process of developing a Succession Plan for their business. The model is a tool that will be customized to the personal needs of the user.

This Model will assist the business owner in the preparation and gathering of information necessary to make informed decisions regarding the future of the business. It should not be viewed as a replacement for using professional advisors. The implications regarding legal, financial and taxation issues are too great and intricate to be made without professional input.

Components of the Business Succession Plan
Each Business Succession Plan will be as unique as each business and personal situation. The components of the Plan, which are outlined on the following pages, provide a guideline to be followed however, not every section will be required by every business and may be modified to meet personal needs.
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Foreword
One of the challenges facing small communities in Southeastern Alberta, and indeed all regions of Alberta, is the problem of business succession. Too often small communities lose viable businesses when the owner decides to retire or sell their business. Business owners can overcome this challenge by appropriately planning for business succession, results in benefits to both the owner and the community. Without proper planning, the business may be lost to the community forever.

Businesses in small communities also face the increased challenge of trying to sell their business in markets that are less than attractive to many prospective buyers. Buyers are reluctant to invest in a business, regardless of its viability, in small markets where the long term potential is unknown. These businesses are often destined to close due to the lack of a buyer.

Entre-Corp Business Development Centre Ltd., in partnership with the Palliser Economic Partnership, have taken the lead in developing a Business Succession Planning Model for communities and businesses to utilize as they prepare to face the challenge of business succession. With support from Western Economic Diversification, Government of Canada, Alberta Economic Development, the Chambers of Commerce in both Bow Island and Foremost, and the Economic Development Committee of Bow Island, we are pleased to provide a resource which will benefit not only the target communities of Bow Island and Foremost, but other communities coping with maintaining a strong economic base for the future.

A survey was distributed to businesses in the municipalities of Bow Island, Foremost and County of Forty Mile to those businesses that are considering a transfer of ownership in the near future. The results of this survey were used to address the needs of these rural businesses for succession planning and to develop a useable model that can assist the owner through this process. This Business Succession Planning Model can be used by entrepreneurs to prepare for their own future, as well as, the longevity of their business.
Step 1
Establish Goals and Objectives
This section of the plan is where the owner’s personal goals and vision for the business and his/her future role in its operation will be addressed. The establishment of clear goals and objectives provides a base on which the succession planning process will develop. If the owner is not sure of where he wants to go with the business it will be ineffective and lead to problems in the future.

Items to be Included

**Owner Retirement Goals**
How do you plan to spend your retirement?

How much income you will require to live the life you desire?

Do you plan to stay active in the business?

Do you plan to become involved in another business?

Do you have hobbies or other outside interests to keep you active?

**Family Member Goals**
Who from the family plan to stay involved in the business?

How would selling or transferring ownership impact other members of the family (spouse, children)?

**Goals of Other Stakeholders (partners, shareholders, employees, etc.)**
Will partners or shareholders buy you out?

Does your leaving the business leave a gap in the operations of the business?

Will key employees continue under the new ownership?

**Goals Relating to What is to Happen in Case of Illness or Death of the Business Owner**
How will the business carry on if the owner is incapacitated or dies?
Step 2
Family Involvement in Decision Making Process
This section is important in that by having the family and all stakeholders involved in the decision-making process, or at least kept informed of the decisions being made, will alleviate many of the problems that arise relating to inheritance, management and ultimately ownership issues.

Issues to be addressed

**Communication**
Establish a formal process through which information is exchanged between family members relating to the business.

Communication is critical; all affected members of the family must be provided with the opportunity to express their ideas and opinions.

**Process for Handling Family Change and Disputes**
Establish a process for dealing with disputes and changes to the family structure, which could impact the business such as divorce, death, or injury.

This may require the involvement of outside advisors, such as a lawyer and/or accountant.

**Family Vision for the Business**
A collective vision of what the business is and how it is to operate is necessary if the business is to pass from one generation to the next successfully.

**Relationship Between Family and Business**
There is a need to be able to separate family and business. Although closely related, it is imperative to be able to objectively make business decisions separate from family decisions.
Step 3
Identify Successor(s)
In this section you will address the issue of who will take over both ownership and management of the business. It must be recognized that these two issues are not the same. This process must not be taken lightly and will require a great deal of preparation and planning.

Identification of Potential Successor(s)
It is a difficult process when determining who will take over the business, be it ownership or management. Each potential candidate has to be assessed individually as to suitability, acceptability, commitment, dedication and determination.

Training of Successors(s)
Once a successor has been selected it is necessary to assess their skills and abilities to determine areas in which training will be required.

Establish a training plan to bring the successor’s skills up to the desired level.

Building Support for Successor(s)
With other family members, employees, customers and suppliers.

Teaching Successor to Build Vision for the Business
Your vision is what has driven the business, under new ownership or management the direction may change and the new owner/manager will need to be able to clearly express the vision to employees, shareholders, partners, customers and suppliers.
Step 4
Estate Planning
This section of the Plan is exceedingly important, especially if the business owner is planning to retire or is taking a precautionary approach to the future of the business in preparation for being unable to continue operation of the business due to illness or death. Proper estate planning will significantly impact the financial future of the business owner, the business itself and all those with a financial stake in the business (family members, partners, shareholders and employees).

In Estate Planning, outside advisors are required to ensure that all necessary issues are properly addressed to maximize benefits to the business owner. Advisors to be consulted include: lawyer, accountant, financial/estate planner and life insurance representative. Each advisor will have their own area of expertise and will be able to provide necessary pieces of the puzzle.

Issues to be addressed in this section include

**Taxation**
Planning for the sale, or transition of ownership of a business can have a tremendous impact in the future of the business. When exiting or transferring ownership of a business, there are potential tax risks and benefits that only an expert in this field can properly identify. Each business and family situation is unique and must be addressed specifically for that situation.

**Retirement Income**
Planning for how much money is going to be needed in retirement and where it is going to come from.

Based on the owner’s retirement goals identified in Step 1, lifestyle issues will help to determine retirement income levels required to maintain the desired lifestyle during retirement.

Develop an outline as to how money will be saved to ensure a financially secure retirement.

Should be done earlier rather than later. The earlier a plan is in place, the easier it will be to make the necessary preparations to ensure that sufficient funds are available at the time of retirement.
Provision for Other Family Members
Develop estate and personal financial plans for the business owner and spouse as well as the succeeding generation. This will help to reduce the potential for financial problems to be encountered at the time of transition.

By addressing the issue of providing for family members in the Succession Plan it will clarify the owner’s wishes while all family members can express their concerns.

Active and Non Active Family Members
The issue of providing fairly and equitably between active and non-active family members is often one that creates family disharmony. Fair and equitable are not necessarily synonymous terms and must be addressed in any estate plan.

This issue needs to be discussed and concerns addressed before being finalized to reduce the potential for conflict at a later date.

Other Financial Considerations
Address any issues relating to financial implications impacted by the transfer of ownership of the business. Unforeseen financial implications can have very negative impacts to the future value of the business, the financial stability of the retiring owner and the saleability of the business.
Step 5
Contingency Planning
As plans rarely proceed smoothly or as desired, it is important to consider what could go wrong or awry and prepare alternatives on how to address situations as they occur. It will not be possible to anticipate every situation that may occur, but you can anticipate the more likely scenarios and prepare for them.

A good approach for this section is to look at "what if" scenarios and have a strategy outlined to deal with the situation if it arises. This need not be highly detailed but should be looked at as being a guide if unforeseen circumstances occur, such as illness or death of the principal or key person in the business.

A simple strategy may be to prepare a list of possible situations that could occur and from there identify what you would expect to do, or have done. By using this method, it will cause you to look for solutions in advance rather than having to react at a time of stress or duress.
Step 6  
Corporate Structure and Transfer Methods  
In preparing for business succession it is necessary to review and update the organizational and/or structural plan for the business. In many small businesses, the owner is the sole person responsible for all aspects of the operations. As this person plans to remove himself or at least reduce the active role they play, it may be necessary to differentiate between ownership and management responsibilities and create positions for these roles.

The goals previously established, followed by the choice of successor(s) will factor into how the business should be structured to benefit the owner and the business itself. Just because it worked in the past, the strengths and weaknesses of the successor need to be considered and a structure needs to be established to take full advantage of strengths and compensate for weaknesses.

Issues to be addressed in structuring the business for transition include

- **Identify Roles and Responsibilities**
  As you prepare for retirement or sale of the business it is necessary to ensure that current family members and employees have clearly defined roles and responsibilities to aid in the smooth transition to new ownership and management.

- **Fill Key Positions**
  Ensure that key management and specialized positions are filled making the business more attractive and prepared for transition. A business with a strong management and workforce is more attractive to potential buyers.

- **Structure the Organization Based On Who Is To Be the Successor**
  Look at the strengths and weaknesses of the successor and build a structure to take advantages of strengths and compensate for weaknesses.

  Establish roles for family members (if applicable).

  Separate ownership and management roles if necessary.

- **Take into Consideration Any Potential Roles for the Retiring Owner**
  Advisor  
  Consultant  
  Chairman of Board of Directors

- **Restructuring May Be Required**
  The original owner often fills multiple roles that may need to be separated due to skills, knowledge and/or experience.
Determine the Roles in Succession Planning

There are many methods that can be utilized to transfer ownership of a business either to family members, partners, employees or outside buyers. Each business is unique and must be addressed based on present circumstances. This is best addressed by bringing in professionals to aid in reviewing the alternatives and selecting the method to best suit your needs.

With a good understanding of the issues and your options, the next step in actually creating your succession plan is putting together a strong team of advisors.

At some point, you may need to call upon a variety of outside experts to help implement your plan. Here is the typical line-up of experts who may be able to help you.

The Accountant
If you have one, your outside accounting firm will be well acquainted with your business and, likely, similar operations. Accountants may be able to help you make your business more financially sound and more attractive to buyers.
An accountant can also advise you on various tax considerations to be addressed in the transfer of your business.
Your accountant will also compile the financial statements needed to put a proper value on your business and answer buyers’ questions during any due diligence stages.
Another reason to consider hiring a CA or similar professional is to start getting audited financial statements - a valuable asset in the eyes of many buyers. Experts suggest your accountant should also work closely with your legal advisor to ensure there is no duplication of effort.

The Lawyer
Your business may already have a legal advisor who helped incorporate or settle a dispute. That doesn't mean the same legal advisor is the one you should use for your retirement planning.
Look for a legal advisor or law firm that specializes in business law and estate and has actual experience in selling businesses, setting up business trusts, drafting shareholder agreements and tax planning.

The Tax Advisor
One of the most valuable members of your team will be the tax expert found in your accounting firm, law firm or elsewhere. When exiting a business and transferring it to others, there are enormous potential tax risks and benefits.
Your tax advisor must have a clear understanding of your business, your personal goals and your family needs. It's important that this person understands both personal and corporate tax issues, so ask for references.
The Appraiser or Valuator
If your business is large, complex or has significant assets, you may need an expert estimate of its value, even if you only plan on transferring it to family. There may be a qualified business valuator in your chartered accounting firm or you can find one through the Canadian Institute of Chartered Business Valuators.
In some cases, the valuator may be able to suggest steps you can take to increase the value of the business. Some valuators will also help you create documents for prospective buyers, such as growth forecasts.

The Banker or Lender
Your lenders are an important part of your team and can, in some cases, help co-ordinate the efforts of other members. A lender experienced with small or medium-sized businesses can offer valuable advice at each step of retirement planning. Your lender may also be important in financing the sale or transfer of your business.

The Financial Planner
The financial planner can assist you in many areas of the succession planning process. Depending on their area of expertise, some financial planners specialize in business succession. These experts are a reliable resource to provide advice on various issues such as, tax implications, insurance needs and retirement income.

The Broker
If you plan to sell your business to a third party, you may want to consider listing it with a business broker or agent. Brokers tend to have a large pool of potential buyers and can discreetly contact competitors, suppliers, major customers and other investors without naming names. Brokers can also sift out those who don't have the financial resources or credentials. Most important, a broker may offer tips and techniques for selling a business that you simply can't get from your other advisors. Brokers usually get a commission tied to the final selling price that can range as high as 10-15%.
Experts suggest you insert a clause in the sales agreement that you will pay only when you actually receive the money, not on closing, in case you end up financing the purchase or have an earn out agreement that lasts several years.  

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1 Welcome To My Succession Planning: Sponsored by RBC Royal Bank: Determining The Roles In Succession Planning
Step 7

Business Valuation

It is important that in preparation for business succession steps are taken to enhance the value of the business, in order to make it more attractive to potential buyers while maximizing tax benefits to the current owner.

There are various types of valuation methods used by accountants, realtors and business brokers. It is best to review the options with these professionals in order to select the method best suited to your circumstance.

Some of the factors that impact the value of the business are

What is To Be Sold?
Are the assets of the business or shares to be sold?

Where is the Business Located?
A business located in a small market may not have the resale value of one in a larger market.

Profitability
Consideration must be given to the current profit margins and potential growth. A business that is mature and has limited growth potential is not as valuable.

Financing
The ability of potential buyers to obtain financing will impact the value of the business. Lenders will look at the value of a business differently than an accountant. Take this into consideration when establishing a sale price, as it may provide a more realistic view as to what you can expect to get out of the sale.

Inventory
The value of the inventory to be included in the sale of the business may form a significant percentage of the overall value of the business. The difficulty arises in placing a value on the inventory that is acceptable to the seller, the buyer and most importantly to potential financiers. Often financing of inventory is limited or non-existent.
Step 8
Exit Strategy
In this section of the Succession Plan, you will address issues specific to the transition of ownership and your exit from the day-to-day operations of the business. It involves the comparison of alternatives and a framework for how to make your final choices.

Transfer Method
Selection of the actual method of transfer to be implemented, be it a family transfer or sale, sale to a third party or possibly the liquidation of the business are examples.

Establish Timelines
Identifying a schedule for the implementation of the components of the Plan. Without a schedule it will be difficult to meet your goals and objectives.

Make sure that timelines are reasonable and achievable.

The Exit Plan Needs To Be Published and Distributed To All Persons Participating in the Succession Process
Provides an opportunity for clarification of roles and responsibilities. Provides an opportunity for those affected to raise issues and concerns and bring resolution to those issues prior to implementation of the Succession Plan.

Aids in ensuring that owner’s wishes are adhered to in case of illness or death.
Step 9
Implementation and Follow Up
It will be necessary to review your Succession Plan from time to time. A well-prepared Plan will be done early and will require updating and revision as situations change. As with any strategic planning document it must be dynamic and flexible.

An effective means of ensuring that you take the time to keep your Plan current is to schedule a regular review process. As a suggestion, set aside a specific period each year to examine the Succession Plan, assess its applicability and address any changes that may impact your ability to implement the Plan as required.
**Conclusion**

At this stage of the planning process you will take a final objective look at all aspects of your Succession Plan and determine your readiness and in many circumstances your willingness to proceed with succession. You may wish to identify some of the criteria you will utilize in making the final decision to start the process of implementing your decision to transfer ownership of your business.

By viewing the need for succession planning as a partnership between business and the community, the chance for success is greatly improved. In smaller communities the inter-relationship between business and community is much greater than in urban centers.

The "Business Succession Planning Model" can be seen from two perspectives, the first being from the perspective of the community and community leaders and the second from that of the business. The model has been designed to be a step-by-step process, easy to follow and adaptable to individual needs as required.

Recognize that each situation is unique and any model must provide for flexibility. The steps outlined give a framework, which can be built upon by the business or community as they work through the process of transferring business ownership.