BUSINESS SUCCESSION PLANNING

IT'S BEST TO FACE THE FUTURE WITH FACTS

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SUCCESSION PLANNING – IT’S IMPORTANT!

According to the Pew Research Center, 10,000 baby boomers will reach age 65 each day for the next 19 years.

(Pew Research Center, 2014)

SUCCESSION PLANNING – IT'S IMPORTANT!

"Family businesses account for a staggering 50 percent of the gross domestic product of the U.S., and it is not just in small storefronts or website businesses. In fact, 35 percent of Fortune 500 companies are private or public companies controlled by families."

(Michael Evans, Forbes)

SUCCESSION PLANNING – IT’S IMPORTANT!

According to an article in INC. Magazine, published estimates forecast up to 70 percent of current baby boomer business owners leaving the business by 2020 – or seven in 10 businesses in every community.

SUCCESSION PLANNING – IT'S IMPORTANT!

There is no emerging group of potential employees on the horizon as in past generations (e.g. baby boomers, women entering the workforce, large waves of immigrants).

SUCCESSION PLANNING – IT'S IMPORTANT!

Many organizations eliminated middle manager positions during restructuring in the 1980s and 90s and no longer have this group as a source to fill senior level vacancies.

SUCCESSION PLANNING – IT'S IMPORTANT!

Younger managers interested in moving up do not have the skills and experience required because they have not been adequately mentored. In many cases, middle managers, who would normally perform this type of coaching role, have been eliminated.

EXIT STRATEGIES

- Selling – Third-party, family member, employee(s)
- Takeover/Gift – family member, employee(s)
- Liquidate assets
- Close

WHAT DO THE NUMBERS SAY?

- 1/3 HOPE to sell
- 1/3 HOPE a family member or employee will buy the business.
- 1/3 will close and walk away

SUCCESS RATES AFTER SUCCESSION

- 50% success rate for new business starts
- 70% success rate for business sales to non-family
- 30% success rates for family succession

NOTE: Third-generation success rates are even lower. **Why?**

WHY DO FOUNDER(S) EXIT?

- Retirement
- Health
- Divorce
- Partnership (family) disputes
- Market dynamics
- Want a change
- Planned succession

TIMING IS A MAJOR ISSUE

- When do you plan to exit?
- Average successful sale/transition takes three years
- Average family succession takes 10 years
- Anticipated shortage of buyers as baby boomers retire
- What are your financial goals?

TEAM OF EXPERTS

- Business Accountant
- SBTDC consultant
- Succession or Estate Attorney
- Business consultant
- Financial planner
- Broker/agent
- Insurance Agent
- Lender

GENERATION GAPS

- Generational differences
  - Family
  - Buyer/seller
  - Employees

- Every generation following mine is wrong!

- Important to understand the perspective of the other party - "***They're not wrong, just different!***"

DOCUMENTATION PREPARATION

- Tax Returns (personal and business)
- Financial Statements (minimum of three-five years)
- Contracts
- Strategic Plans
- Employee Agreements
- Partnership Agreements
- Intellectual Property
- Process Manuals
- Inventory Detail

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DOCUMENTATION PREPARATION

- Customer Lists
- Accounts Receivable
- Aging Report
- Leases
- Liens
- Titles
- Loans
- Judgments
- Taxes Paid (Sales, Property, etc.)

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IMPACT OF NEW OWNER(S)

- Transition of ownership? What is the timeline?
- How will your customers react?
- What impact will the transition have on your company’s culture?
- Will employees stay?
- Transfer of power from parent to child has challenges.
- What impact will your transition have on family?
- What impact will it have on your financier?

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WHAT IS THE VALUE OF YOUR BUSINESS

- What has value in your business?
  - Revenue stream?
  - Equipment?
  - Land?
  - Buildings?
  - Employees?
  - Intellectual Property?
  - Cash Flow?
  - Owner?
  - Goodwill/Blue Sky?
  - Business Name?
  - Customer List?

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WHAT INCREASES A COMPANY'S VALUE?

1. Upward growth trends in sales and profits
2. Good location for now and in the future
3. High demand product now and in the future
4. Marketing focused on defined market segments
5. Trained staff who can assume responsibility

WHAT INCREASES A COMPANY'S VALUE?

6. Reliable financial statements and management reports; good controls
7. Up-to-date facilities and equipment
8. Documented standard procedures and policies
9. No regulatory threats or potential litigation
10. Transferrable customer relationships
11. Good credit/Dunn & Bradstreet rating

Family Business Succession; The Final Test of Greatness, Second Edition.
Craig E. Aronoff, Ph.D.; Steven L. McClure, Ph.D.; and John L. Ward, Ph.D.

Case Study Income Statement	Jan - Dec 13	% of Income	Jan - Dec 14	% of Income	Jan - Dec 15	% of Income
Ordinary Income/Expense						
Income						
Sales	202,000	100%	272,000	100%	335,000	100%
Total Income	202,000	100%	272,000	100%	335,000	100%
Cost of Goods Sold						
Cost of Goods Sold	29,000	14%	43,000	16%	60,000	18%
Total COGS	29,000	14%	43,000	16%	60,000	18%
Gross Profit	173,000	86%	229,000	84%	275,000	82%
Expense						
Advertising and Promotion	3,000	1%	5,000	2%	3,000	1%
Bad Debts	15,000	7%	19,000	7%	25,000	7%
Depreciation Expense	5,000	2%	4,000	1%	3,000	1%
Insurance Expense	5,000	2%	5,000	2%	5,000	1%
Leased Equipment	2,500	1%	3,500	1%	5,000	1%
Legal/Accounting	5,000	2%	5,000	2%	5,000	1%
Miscellaneous Expense	2,500	1%	5,000	2%	10,000	3%
Office Expenses	4,000	2%	5,000	2%	6,000	2%
Officer Salary	48,000	24%	58,000	21%	68,000	20%
Payroll	52,000	26%	64,000	24%	75,000	22%
Payroll Taxes	8,000	4%	10,000	4%	12,000	4%
Rent Expense	14,000	7%	14,000	5%	14,000	4%
Travel/Education	3,000	1%	5,000	2%	7,000	2%
Utilities/Telephone	4,000	2%	8,000	3%	10,000	3%
Total Expense	171,000	85%	210,500	77%	248,000	74%
Net Ordinary Income	2,000	1%	18,500	7%	27,000	8%
Other Income/Expense						
Other Expense						
Interest Expense	4,000	2%	2,200	1%	5,000	1%
Total Other Expense	4,000	2%	2,200	1%	5,000	1%
Net Other Income	-4,000	-2%	-2,200	-1%	-5,000	-1%
Net Income	**-2,000**	**-1%**	**16,300**	**6%**	**22,000**	**7%**

Case Study Balance Sheet

	Dec 31, 13	% of Column	Dec 31, 14	% of Column	Dec 31, 15	% of Column
ASSETS						
Current Assets						
Checking/Savings						
Checking	55,000	45%	5,000	6%	4,000	4%
Total Checking/Savings	55,000	45%	5,000	6%	4,000	4%
Accounts Receivable						
Accounts Receivable	32,000	26%	50,000	56%	63,000	58%
Total Accounts Receivable	32,000	26%	50,000	56%	63,000	58%
Other Current Assets						
Other Current Asset	1,500	1%	1,500	2%	1,500	1%
Prepaid Expenses	1,500	1%	1,500	2%	1,500	1%
Total Other Current Assets	3,000	2%	3,000	3%	3,000	3%
Total Current Assets	90,000	74%	58,000	64%	70,000	65%
Fixed Assets						
Accumulated Depreciation	-8,500	-7%	-12,500	-14%	-15,500	-14%
Equipment & Machinery	16,000	13%	21,000	23%	32,000	30%
Furniture and Equipment	14,000	12%	14,000	16%	14,000	13%
Leasehold Improvements	5,500	5%	5,500	6%	5,500	5%
Total Fixed Assets	27,000	22%	28,000	31%	36,000	33%
Other Assets						
Other Non Current Assets	4,000	3%	4,000	4%	2,000	2%
Total Other Assets	4,000	3%	4,000	4%	2,000	2%
TOTAL ASSETS	**121,000**	**100%**	**90,000**	**100%**	**108,000**	**100%**
LIABILITIES & EQUITY						
Liabilities						
Current Liabilities						
Accounts Payable						
Accounts Payable	6,000	5%	5,000	6%	3,500	3%
Total Accounts Payable	6,000	5%	5,000	6%	3,500	3%
Other Current Liabilities						
Accrued Expenses	2,000	2%	4,500	5%	5,000	5%
Current Portion LT Liabilities	8,000	7%	7,000	8%	10,500	10%
Notes Payable	16,000	13%	35,000	39%	47,000	44%
Total Other Current Liabilities	26,000	21%	46,500	52%	62,500	58%
Total Current Liabilities	32,000	26%	51,500	57%	66,000	61%
Long Term Liabilities						
Long-Term Liabilities	37,000	31%	30,000	33%	20,000	19%
Other Long-Term Debt	8,500	7%	8,500	9%	8,000	7%
Total Long Term Liabilities	45,500	38%	38,500	43%	28,000	26%
Total Liabilities	77,500	64%	90,000	100%	94,000	87%
Equity						
Owner's Equity	37,517	31%	-22,283	-25%	-30,283	-28%
Paid in Capital	12,000	10%	12,000	13%	12,000	11%
Retained Earnings	-6,017	-5%	10,283	11%	32,283	30%
Total Equity	43,500	36%	0	0%	14,000	13%
TOTAL LIABILITIES & EQUITY	**121,000**	**100%**	**90,000**	**100%**	**108,000**	**100%**

THANK YOU

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