

Five Reasons Family Business Succession Plans Fail



A Few Facts

- It is estimated that...
 - *8 to 10 trillion dollars are going to pass from one generation of ownership to another over the next 14 years.*
 - *99% of businesses are small and privately held with less than 500 employees.*
 - *95% of businesses have 20 or less employees*

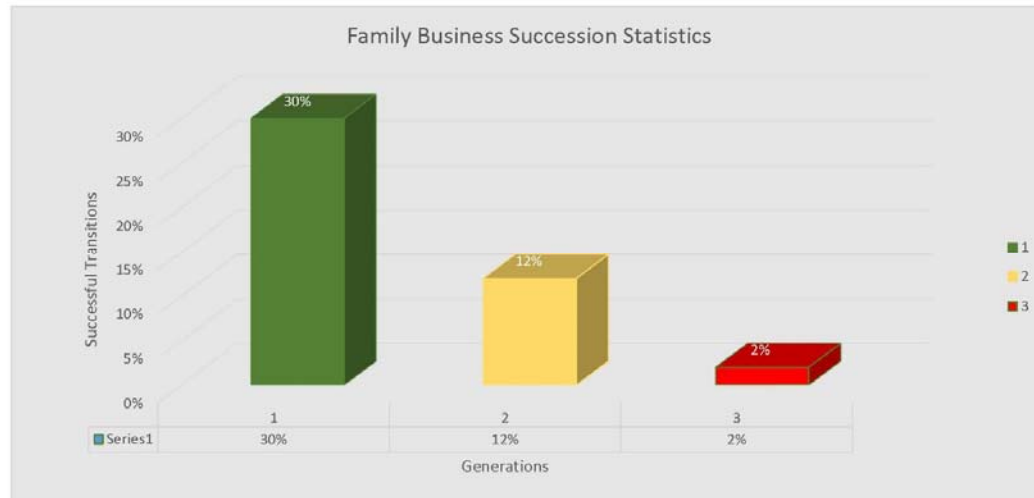
A Few Facts

- It is estimated that...

- *Family Firm Institute and statistics*

- 88% of Family Business owners' belief... new generation of owners
 - Actual statistics of survival rates...

A Few Facts



Why Businesses Fail...

- 32.1% *Poor management of financial activities*
 - 14.6% *Lack of management competence or experience*
 - 12.4% *Inflation and economic conditions*
 - 12.3% *Poor books and records*
 - 10.7% *Sales and Marketing problems*
 - 6.2% *Union problems*
 - 9.0% *Staffing problems*
 - 2.7% *Failure to use external advice*
- Many times the above reasons are caused by the successor owners not understanding how to run the business
 - Notice, only 18.6% of failures are outside of the owner's control!

Understand Value

How a seller sees the value



How a buyer sees the value



Today's presentation topics

Financial Traps

Waiting too long to plan

Not dealing with family issues

Skills Evaluation and Choice for Successor

Financial Traps

What are common Traps?

- 1) Inadequate price and terms for founder to sell the company and transition into retirement*
- 2) Wherewithal to pay of successor(s)*
- 3) Satisfying Lender requirements in the succession*

How to resolve these issues?

Financial Traps

1) Inadequate price and terms for founder to sell the company and transition into retirement

One critical step to determine the founder's post-retirement needs:

Prepare Financial Analysis of founder's post-retirement financial plan...

– and a “Buckets” analysis

Financial Traps- Post-Retirement Buckets

____%

Objective:

- Safety net-guaranteed income for life
- Flexibility to increase income stream
- Maintain capital for future charitable giving

Return Objective: Balanced
Risk Objective: Average

____%

Objective:

- Investment funds:
 - “Mad money” for investments

Return Objective: High
Risk Objective: High

____%

Objective:

- Keep portion of legacy holding

Return Objective: High
Risk Objective: Very High

Financial Traps

2) Wherewithal to pay - successor(s)

a) Small Business Administration (SBA) loan funding

b) Alternative plans- negotiated annuity to seller with buy-sell agreement

*** disability or death of seller*

1) Insurability of seller

2) Note payable to seller or seller's estate

3) Satisfying Lender's requirements in the succession

a) Collateral on lending relationships, how to transfer?

b) Personal Guarantees on company loans and transition time

c) Provide Lender confidence in new management, ownership



Waiting too long to plan

Issues -

Liquidity needs of family upon founder's death, estate taxes

Wealth loss upon disability or death of founder

Leadership crisis due to health problems

Examples-

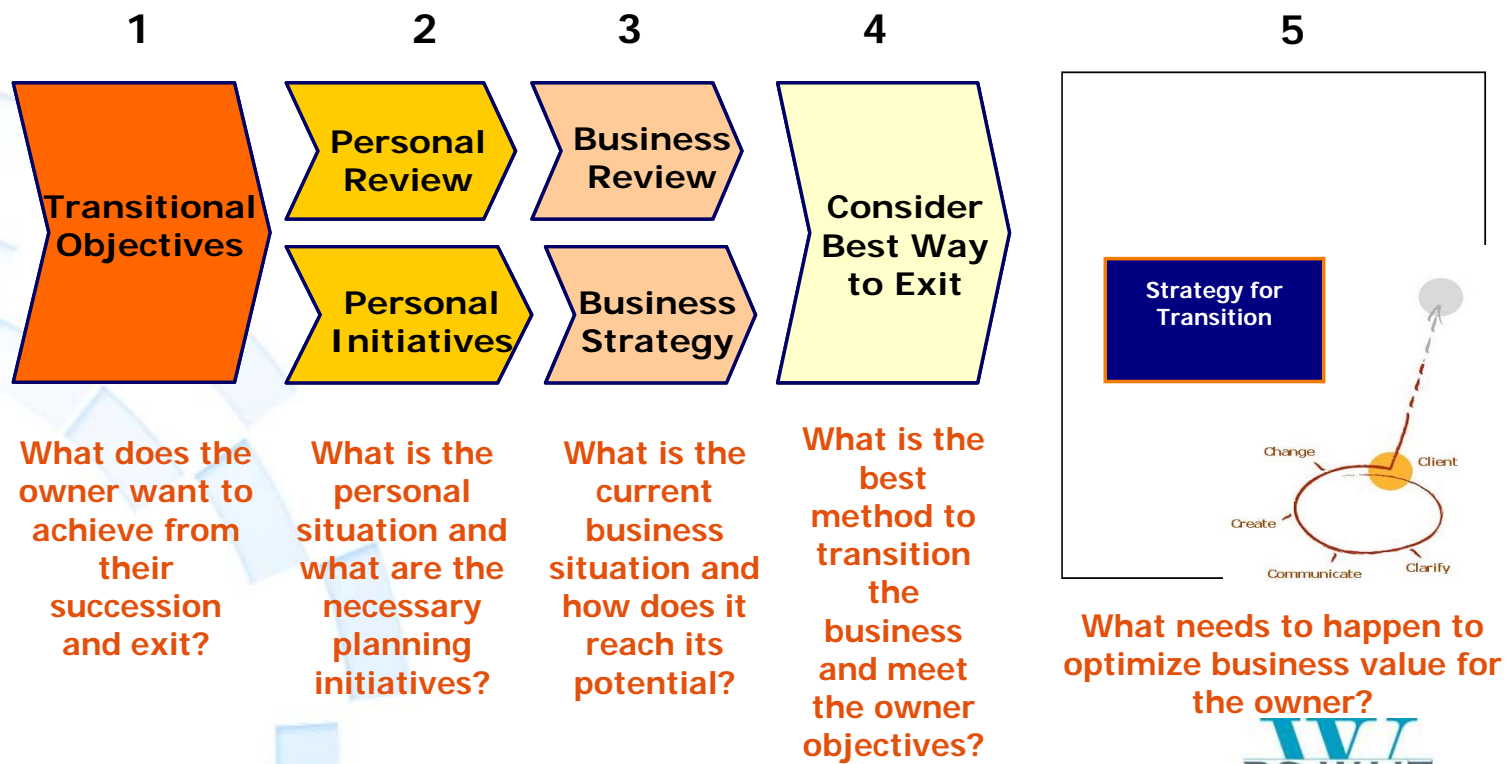
1) Printing company founder was not able to agree with successors on price and terms of sale / succession.

2) Professional accounting office founder - no succession plan.

3) Manufacturer / distributor founder with chronic illness - business closed



Plan solution - The Transition Planning Process



Not dealing with family issues

As with many family situations:

- Siblings have strengths and weaknesses as well as a history of healthy collaborative relationships and*
- There are relationships that are strained or have rivalries.*

How does the founder, the family, and successors manage and resolve issues in relation to the succession of the business?

Succession planning is a delicate process.

In reality, family, business and ownership are equally important.

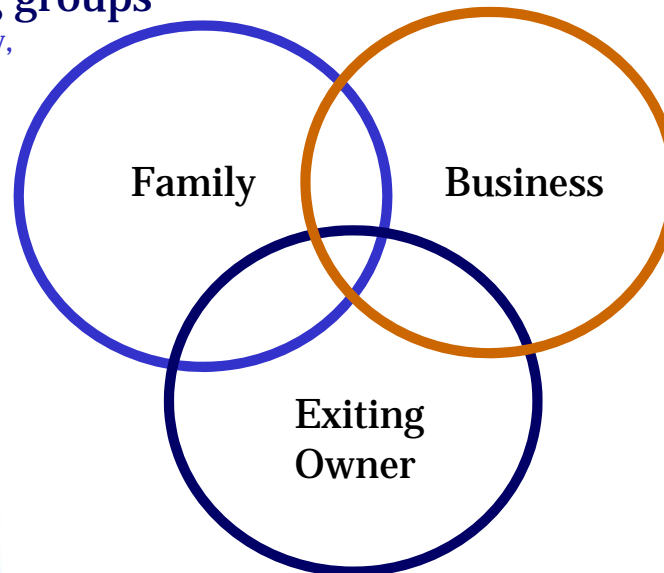
Some owners consider using the “do-it-yourself” approach, and find trouble.



Integrating the needs of the business, its owner and the family...

- The succession plan integrates the needs of these often conflicting groups

Health, prosperity, wealth management, participation, community involvement, communication, education, family values, legacy, philanthropy, etc.



Daily operations, finance, reporting, strategic planning, employee relations, customer and supplier relations, cash flow, competition, etc.

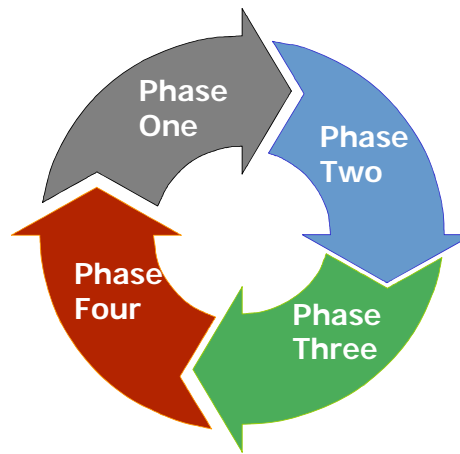
Leadership, shareholder value, liquidity, succession, profitability, etc.



Skills evaluation & choice of Successor(s)- four phase approach...

Phase One:
Assess the existing environment and team

Phase Four:
Implement the Professional Development Plan, develop the team, measure and adjust as necessary



Phase Two:
Assess the candidates for succession and identify the successor

Phase Three:
Develop a Professional Development Plan, job description, scorecard and compensation program



Skills evaluation & choice for Successor(s)

- Identify Successor(s)
 - *Family Member(s) – predetermined?*
 - *Employee(s) – predetermined?*
 - *Other*
- Understand Successor(s)
 - *Interview Process*
 - *Understand how successors are wired*
 - *Current Role(s)*
 - *Current Knowledge and Skills*

Typical evaluation criteria...

- Experience
- Skills
- Leadership Ability
- Team Integration
- Fit with Owner Objectives
- Timeframe for Succession
- Financial Ability for Ownership

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Evaluation Criteria - Samples

- Timeframe for Succession – Using Stoplight Chart

– *High: succession in under 2 years*






































– *Medium: succession in 2 to 3 years*



– *Low: succession in over 3 years*



Evaluation – using a stoplight chart...

	Score for each Candidate				
Criteria	1	2	3	4	5
Experience					
Skill Level					
Leadership Abilities					
Team Integration					
Fit with Owner Objectives					
Financial Ability for Ownership					
Timeframe for Succession					



An optimal outcome is the preferred successor...

- The chart helps to identify the successor and/or the potential areas of challenge for the predetermined successor
- The next step is to document the new way forward in terms of development and training that is required to prepare the successor for the role of owner
- This is what we define as the Professional Development Plan

Why you need to do this...

- To enhance business success
- To guide the succession transition
- To bring the team together
- To allow consistent decision making
- To create shareholder value
- To secure retirement plan

Summary of today's topics

Financial Traps

Waiting too long to plan

Not dealing with family issues

Skills Evaluation and Choice for Successor

Helpful Resources

- **Finishing Big... Bo Burlingham, author of Small Giants**
- **Family Firm Institute website <http://www.ffi.org>**
- **Small Business Administration website <http://www.sba.gov>**

Questions *and* Answers

Additional Questions?

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