

Deciding how to say goodbye

By Graham McBride



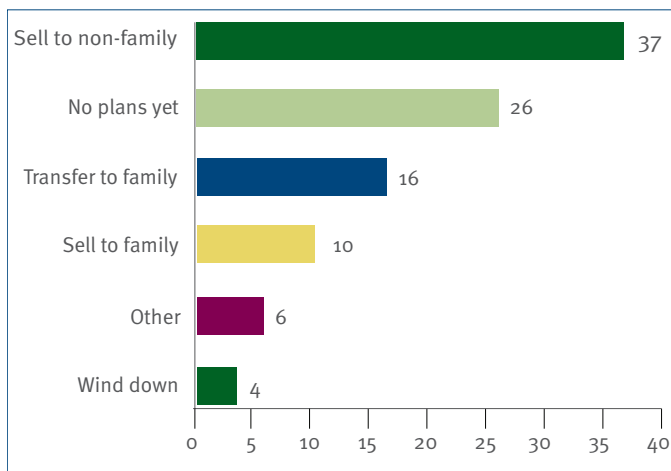
The options for business owners considering retirement

With the majority of Canadian small and medium enterprise (“SME”) owners planning to transfer control of their businesses in the next 10 years, succession planning has become a growing concern. As an entrepreneur, an effective succession plan will help you secure your family’s future and finance your own retirement.

However, determining the future of your company is no easy task. Many considerations come into play and decisions are often complicated by family concerns, loyalty to employees, and long-standing business relationships. Many of these issues can be addressed by gathering input from both trusted advisors and external consultants. Putting a formal plan together can help you look objectively at issues ranging from retirement and estate planning to selecting and grooming your successor.

figure 1.

How SMEs Owners Plan to Exit Businesses (% response)



source: CFIB

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One of the fundamental decisions you need to make is how you intend to exit your business. There are several options available to you, including:

1. Family transfer

It’s natural for business owners to develop a sense of attachment to the businesses that they have poured so much effort into over the years. The idea of transferring the business to a family member holds a certain appeal in terms of carrying on a legacy and providing for your family members. However you may be surprised to learn that only 16% of current business owners plan to transfer their businesses within the family, according to a report from the Canadian Federation of Independent Businesses (“CFIB”) see figure 1.

Passing the torch of leadership to a family member is a delicate and complicated process that needs to be carefully managed in order to succeed. It is a transition that, unless handled properly, can cause a great deal of stress and discord. Issues that need to be considered include:

- Identifying the likely candidates for succession
- Training your successor to take over
- Setting financial terms that benefit both parties
- Dealing with family members who will not have future ownership of the business

2. Phased exit

For many business owners considering retirement, the idea of ending their involvement all at once is difficult to accept. If a clean break is difficult for you to stomach, a “phased exit” may offer a more agreeable path. The first step is finding an experienced financial partner to ensure a smooth

transition. The right financial partner will not only work with you to phase out your involvement over your timetable, but also help address technical matters that arise along the way. This will help in achieving the most important issues at hand – maximizing the end value of your business investment and ensuring successful business continuity. Deciding on a “phased exit” allows you to:

- Begin the succession process while you are still working
- Realize some upside and take some risk off the table
- Gain a financial partner with the same ultimate goal as you
- Introduce new personnel and skills to help the succession process

3. Management buy-out

If continuity is important to you, selling your company to its managers or employees may be the best course of action. A management buy-out often allows the business to carry on with a minimum of disruption and uncertainty. The benefits of a management-buy out include:

- The management team is familiar with the business and its employees
- Corporate culture can be preserved
- The company is likely to keep its existing clients and business partners
- The vending entrepreneur can maintain a “hand” in the business

4. Sale to outside interests

More SME owners are planning to sell their business to non-family members than any other exit strategy, according to the CFIB report. Selling to outside interests eliminates many of the personal and family issues that come with succession planning. And, because many entrepreneurs underestimate the value of their business, it’s wise to seek outside help to establish a fair and realistic price for your business before considering a sale. The benefits of selling to an outside interest include:

- A clean break from the business
- The opportunity to maximize the value of your company

Choosing the Right Financial Partner

When exiting a business, it is often necessary to bring on a financial partner to help you realize the different elements of your succession plan. Finding the right partner is about more than money. Qualities that you might want to consider when selecting a financial partner include:

- An understanding of your industry
- A focus on, and commitment to, businesses of your size
- A strong strategic network, including potential successors and corporate financiers
- Access to capital and ability to offer flexible financing options
- Experience in negotiating the ultimate sale of a business

Remember, if you’re thinking about how to leave your company when you retire, nothing can replace the value of advanced planning. Take the time now to think about succession. You’ll be glad that you did.



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