

# Planning for Succession

By Graham McBride



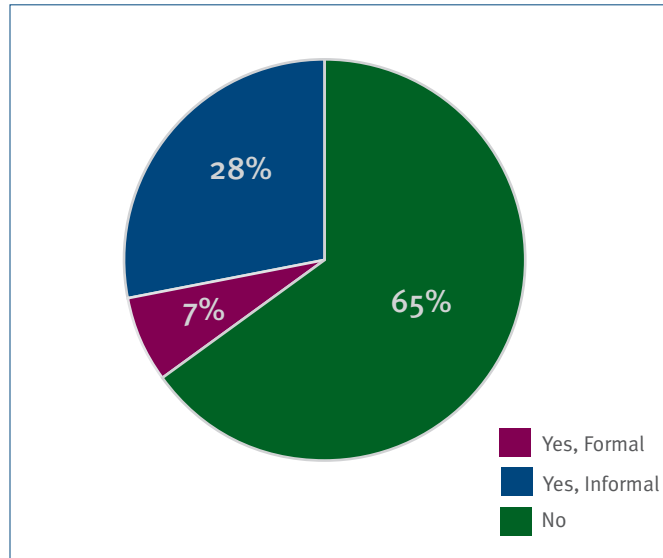
## The questions that every Canadian business owner should ask themselves

Are you a Canadian business owner approaching retirement age and wondering what the future holds for you and your business? If so, you're not alone.

As the Canadian population ages, more and more business owners are pondering retirement. A 2005 study by the Canadian Federation of Independent Businesses ("CFIB") revealed that 41% of owners of small and medium-size enterprises ("SMEs") plan to exit their business over the next five years. Despite their looming departure, only one third of business owners have a succession plan in place – and the majority of those are "informal" plans (see figure 1).

figure 1.

### Existence of a Succession Plan (% respondents)



source: CFIB

The benefits of developing a formal succession plan are immeasurable. It can help you to address a myriad of concerns that stem from a decision to exit your business – ranging from how to legally transfer ownership to how to minimize your personal tax liabilities (see figure 2).

figure 2.

### The Succession Plan: What's In It?

- Tax considerations
- Legal considerations
- Retirement estate planning
- Valuation
- Required qualifications and training of successor
- Purchase mechanics and successor financing
- Timetable
- Roles of key members of the business
- Process for resolving disputes

Not only will it help you plan for your retirement but it will also smooth the way for your successor, whether they are an employee, a family member or an outside business interest. Recent studies indicate that successors feel that they have benefited significantly from the well thought out succession plans of previous owners. Detailed plans also improve the likelihood of a successful transaction as well as optimizing price.

The key to succession planning is thinking about your future needs and understanding the options available to you. It's essential that you take the time to evaluate your priorities over both the short and long-term in order to ensure you make a decision that suits both your financial needs and lifestyle choices.

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So how do you go about developing a formal succession plan? The best place to start is by asking yourself the following questions:

#### 1. When do I want to exit the business?

Establishing a time frame for your exit is critical to developing a successful succession plan. By starting to plan early, most experts recommend at least 18 months to two years, you can take a long hard look at your business and address issues such as valuation, tax implications and preparing your successor to take the reins.

#### 2. Who do I want to sell to?

Even in the case of family businesses, as an entrepreneur you are faced with several choices when exiting your company. These include transferring the business to a family member, a management buyout where the company is purchased by the members of its management team, or selling to outside interests. While each option has its merits, deciding on which choice is right for you requires both time and objectivity.

#### 3. Do I want to maintain some sort of interest in the business?

Many business owners elect to exit their business gradually, rather than making a clean break. You need to decide what type of interest you want to maintain in the company and establish how that relationship would be structured.

#### 4. What is my business worth?

Whether you are passing it on to a family member or selling it to outside interests, a fair valuation will be at the core of your succession plan. Valuing a business properly takes time and requires a lot of research. It may pay to engage an experienced business valuator for this task.

#### 5. Who can help me?

You can start planning for succession by consulting with your closest advisors - this group may include your family, your lawyer, your accountant and your management team. From there, it's probably best to look outside for an objective perspective.

#### Seeking Objective Input

Most small business owners are intimately involved in all facets of their business. For many, that makes it difficult to step back and evaluate their company objectively. When you consider exiting your company, it's in your best interests to have someone provide an expert analysis of its strengths, weaknesses and provide advice on how to generate maximum value in the event of an exit.

In many cases it makes sense to choose a partner that can offer not only expert business analysis and support, but also flexible financial solutions to help you and your successor through the transition. Potential partners include senior lenders (banks), private equity firms and mezzanine finance specialists. Look for an experienced partner who is committed to realizing the true value of your business.



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