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An Owner's Guide To Creating A Business Succession Plan

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An exit strategy is how entrepreneurs and investors transfer ownership of their business to a third party, or lays out how they will recoup money invested in the business. You may want to be acquired by another company, do an initial public offering (IPO), sell to employees or keep the business in the family. For many of you, the plan is simply to liquidate the company or close its doors.

Susan Michel, founder and CEO, Gnn Eagle, Photo courtesy of EA Photography

For those of you who are considering passing your business on to your children or to other family members -- whether they run the business or not -- this article is for you. Family businesses comprise 90% of all business enterprises in the U.S., and 62% of total U.S. employment.

Susan Michel, founder and CEO of Glen Eagle, a broker-dealer and investment advisory service, not only advises clients on succession planning for their businesses but she's done it for her own business. Here are six tips she shared.

1. **Start planning for your succession early**

When Michel started Glen Eagle, she wasn't thinking of establishing a family legacy. Initially, the goal for Glen Eagle was to provide supplemental income so the family could take vacations. But the values of the company resonated with a segment of the market and it grew because they, like Michel, believe:

- There is a higher purpose to money than just increasing it.
- Wealth management can help you fulfill your dreams, which often revolves around relationships and family.
- Your business helps you serve others, including clients, employees and your community.

"When the company became profitable, I realized that I needed to develop a succession plan to protect my family and employees," said Michel.

2. **Form a posse**

She formed a team, like the ones she participates on for clients, that included an attorney and an accountant who helped her figure out her strategy. If you're not a financial planner, you want to have one on the team. You may also want to have an executive recruiter who can help you develop a formal process for evaluating internal and external talent as well as develop a training program for the successor.

Your advisors help you evaluate whether you have the talent and interest in the family or not. “Having outsiders provides objective insight,” said Michel.

3. **Identify your successor**

You may dream of keeping your business in the family and passing the torch on to a child or family member. The reality may be that no one in the family has the interest or talent to take over the business.

Not to worry. If you choose to turn over the management of the company to others, there are financial structures, such as trusts, that can provide for family members.

As teens, Michel’s four kids helped with shredding and filing. As they got older, they helped prepare Excel spreadsheets. She discussed the business around the kitchen table. Her kids enjoyed giving their advice. She never imagined that they would have an interest in becoming financial advisors or coming into the family business.

Now that her children are adults with careers in the legal and financial services industries, they’re all on the family board and are a huge asset. After graduating from Yale, her youngest son, Robert worked at Morgan Stanley and is now going for his MBA at Wharton. He expressed interest in working in the firm. It is likely he will take over the business.

4. **Prepare your successor with training**

Determine the critical functions of your business and have your successor work in each. Technology is critical to managing clients at Glen Eagle With his big-firm experience, Michel’s son is well suited to managing this area and is already contributing significantly.

If you have an executive recruiter on your posse, he or she can help you create a development plan including on-the-job training, mentoring, feedback and coaching as well as formal academic and training programs to ensure that the successor chosen will be a success.

5. **Be transparent and communicate your succession process**

Family, employees and even clients and vendors care about what happens to your company in the event that you pass away unexpectedly. Knowing that there is a process and what that process is gives them all peace of mind.

6. **Protect the company in the case of your death**

Michel also set up key person insurance and a buy-sell agreement. This provides the company income to hire another senior executive in the event that a principal dies. Using funds from the insurance, the company can:

- absorb late principal's stock interest rather than have it pass to the estate
- replace lost revenue resulting from the loss of the key person
- use the insurance funds as a signing bonus to hire a replacement
- finance a PR campaign to offer assurances to existing clients
- finance a previously written transition plan

A buy/sell agreement enables the spouse of a principal to be bought out of the company in the event of the death of a partner.

How are you preparing for the succession of your business?

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