Michelle Brennan Hall Become a fan
President, Brennan Wealth Advisors, LLC

Improve Your Success With a Succession Plan

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Many founding owners are so skilled at building a company, delivering incredible service, hiring key personnel and growing the enterprise that the succession plan becomes illusive. The lack of focus in this area is apparent in national statistics. According to the Family Business Institute, "88 percent of current family business owners believe the same family will control their business in five years ... yet only 30 percent survive into the second generation and 12 percent are still viable into the third generation."

It comes down to communication and realistic financial expectations that lead to successful transitions.

Here are a few steps to start with the end in mind:

Don't do it on your own. Bring a financial advisor to the process in the beginning to assist in designing the financial outcomes, identify buyers, help start the conversations and many times be your representative during negotiations. Organizing your plan and working with an advisor skilled in these areas can bring focus to getting what you want in the sale of your company. Integrating the strategic sale of your company with a well-crafted financial plan for your future is also how you can best understand the right direction to pursue when transitioning your business.

Be ready for the ultimate sale of your business whether it is sold in one transaction or transitioned over time to someone you know or don't know. This is what I call planning with the end in mind. It's about a mindset of preparedness. When your vision is on a successful transition whether it's now or 15 years from now, it will translate to strategic decisions for hiring, growth initiatives, mentoring the next buyer and positioning your enterprise. It is how smart entrepreneurs remain ready for the sale whenever it takes place.

Determine who is a likely suitor. This may require a review of various scenarios, but typically there are three types of buyers: Family, competitor or an internal key employee. Having at least a thought process about potential buyers allows business owners to observe potential candidates over time to allow a mental "sifting out." It also gives the seller an opportunity to have preliminary conversations with customers, business partners and other stakeholders to gain their perspective before you actually get to the negotiation stage.

Develop a realistic timeline including whether you envision the entity to be sold in one transaction or transitioned over a period of time. And get real about the money. Many entrepreneurs would like to create annuity payments from the sale of their business. In other words, they'd like a perpetual stream of annual income for life. This is many times an unrealistic burden for the buyer and the ongoing success of the entity.

Be sure to spell out "success metrics" for how the entity will not only survive the transition to the new owners, but how it will thrive. For some owners, it strokes their ego if the company can't make it after they are gone. Visionary owners who develop a well-structured buyout plan gain a sense of pride from the successful transition that turns into a thriving enterprise. Let this be your scorecard.