

# Changing Lanes

Transition planning for entrepreneurs and family businesses

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with compliments from



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Guiding Family Business. Now to Next.

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## How long do you plan to travel the Business Highway?

In a recent survey by the Canadian Federation of Independent Business, 41% of the owners of small-medium sized businesses reported that they want to exit their business within the next five years, and a whopping 71% plan to exit ownership or transfer control within ten years. The situation is the same on both sides of the border. In its latest study, MassMutual reported that 39% of entrepreneurs expected the leadership of their businesses to change within five years.

**The reason?** The vast majority (82%) plan to retire and they need to finance that retirement either through the proceeds of selling their business or collecting dividends from the business after their departure.

Consequently, a significant number of business owners are relying on the ongoing success of their business for their future lifestyle.

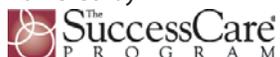
**Are you one of them?** If so, do you have a formal plan to increase the value of your business before it's time to sell? Do you have a formal plan to prepare your successor and ensure the continuity of your business? Or are you one of the 65% of business owners who haven't planned that far ahead?

The CFIB survey reports that only 35% of Canadian business owners currently have a plan and most of those are very casual. Not surprisingly, the statistics are almost identical for the USA.

The survey also discovered that among those who do indicate they have a plan, most focus only on the technical issues such as the legal transfer of ownership or tax issues and are not addressing the human side of a business transition that incorporates determining the long-term vision and profitability of the business or the process for selecting and training the successor.

So why have 65% of business owners not developed their succession plan? In this issue of Changing Lanes, we will examine the reasons the CFIB survey uncovered.

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## Why SME's don't plan

### Too early to plan for succession

At the top of the list for 60% of the respondents to the CFIB survey is the belief that there will be plenty of time later to address the transition of the business.

Unfortunately, these entrepreneurs don't realize that transition planning requires a much more structured and formal approach than many other types of business planning due to the considerably longer time required to prepare for, and execute, the transfer.

To realize its maximum value, your business must be able to operate without your involvement and it can take many years to reach that stage. Why settle for less than optimum value when a little planning can result in a much better sale?

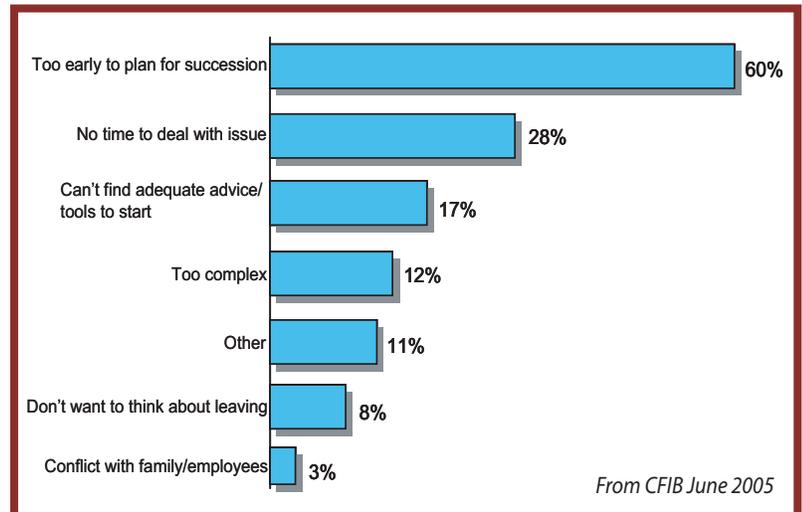
Similarly, if you plan to transition the business to a family member or someone within the company, it will take considerable time to groom a successor to take over. So even if your planned exit from the business is ten or more years hence, it is wise to start the process now.

Then there is the unplanned exit from the business. Even though you don't expect any disaster to strike, you would no doubt want to ensure your family and business are protected should tragedy occur. Planning ahead will also allow you to have a say in what the transition will look like and everyone can sleep at night knowing there is some clarity around the future.

It is critical that you take steps now to ensure you have a choice around how and when you will exit. You need to be proactive in determining and protecting both the business and your family!

### No time to deal with the issue

Understandably, most business owners have great difficulty in setting aside the time to work ON their business in addition to working IN their business. But to quote J.F. Kennedy, "The time to mend the roof is when the sun is shining." It is the working ON the business while the sun is shining that will help protect your business, and ultimately your family, from the rainstorms that loom ahead.



Time is money, and having a professional advisor guide you through the process can be a huge timesaver. Your trusted advisor can help you to quickly determine the strategies and tactics that are right for you.

### Can't find adequate advice/tools to start

The SuccessCare® Program is recognized as an all-encompassing approach to supporting the continuity of businesses just like yours. Your trusted advisor has access to The SuccessCare® Program's comprehensive package of tools for entrepreneurs and families in business. He or she will be happy to share with you the concepts and tools that will best meet your needs.

For example, selecting a suitable successor is a major obstacle for many business owners. They may lack confidence in the abilities of a prospective successor, or they may fear choosing between family members and causing conflict. Note that your business can be just as successful under the leadership of someone else provided they have time to develop. Using The SuccessCare® tools to help you plan earlier rather than later, your trusted advisor will first identify the qualities that are required for the role of leader and help you determine who is right for the role. He or she can then help you develop a personal development track for your successor in order to build the skills, confidence and leadership required.

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## Why SME's don't plan *continued from page 2*

### Too complex

A family or privately-owned business is a very complex entity so it's no surprise that most entrepreneurs find the entire transitioning of the business equally complex.

The make-up of a privately-owned business is considerably different from the structure that forms the basis of a public company. A public company must rigorously apply a 'business first' policy in all its business operations, strategic planning and decision-making processes. The successful operation of a family or privately-owned business, however, is also dependent on common interests and healthy relationships within the family or ownership unit.

Consequently, family dynamics and relationships play a huge role in whether or not the business can be transitioned successfully. Most business owners think they are on the same page as their selected successor and fail to plan adequately. The CFIB survey reports that only 16% of business owners seek input from their successors in developing a transition plan.

In order to maintain stability within the business and manage the disputes that develop as a result of the changes, it is extremely important that you share your thoughts and plans with your family, key employees and successors.

### Other

Among the other reasons shared by the survey participants are the issues of financing the transition, and access to cost-effective advice. While many family business owners would like to pass the business over to family members, most are concerned about how they will resolve the issue of finances from the perspective of both the owner and the successor. The current owner is concerned about his or her dependence upon the business for income and how the successor might secure financing for the purchase. This is one of those technical areas through which your personal advisor can guide you.

Generally, business owners consider planning an optional expense rather than an investment in the future. However, you can keep costs to a minimum by engaging an advisor whose approach ensures your time and resources are not wasted and acts as a coach to guide you through the entire process.

### Don't want to think about leaving

Underlying many of the reasons for failing to address the inevitable transition of their business is the fear entrepreneurs have of leaving what they have worked so hard to build. The business is their life and they do not want to give up control.

Your advisor can show you how you can gradually delegate control while finding a way to still employ your unique abilities. Together you will develop a track that will allow you to slowly step away from the business while doing what is needed to protect your family and the business.

### Conflict with family/employees

As mentioned earlier, relationships and family dynamics are big factors in successfully transitioning your business. It's understandable that many business owners are reluctant to try and reconcile the differing personalities, values and principles that exist in every family. What is more surprising is that this barrier is so low on the chart! In reality, the 3% is a blend of family and non-family business where 17% of family businesses cite conflict as a major barrier to planning for transitioning, while only 4.3% of non-family businesses see conflict as an issue.

Ignoring conflict is like ignoring that gnawing toothache. Sooner or later the tooth will become abscessed. The result is severely debilitating pain and a problem that is much more difficult to resolve.

With the appropriate structures in place, you can address the underlying conflict and clear the way to moving ahead with a transition plan. An advisor who specializes in consulting to privately-owned businesses can guide you and ensure you have the resources required to address this obstacle.

So why take such a chance with your own and your family's future when there are some simple steps you can take to protect your equity? Take the first step to investing in your future right now. Call your advisor to begin the process of ensuring you are able to complete all the necessary steps before it's time to exit. And isn't this an investment worth making? 

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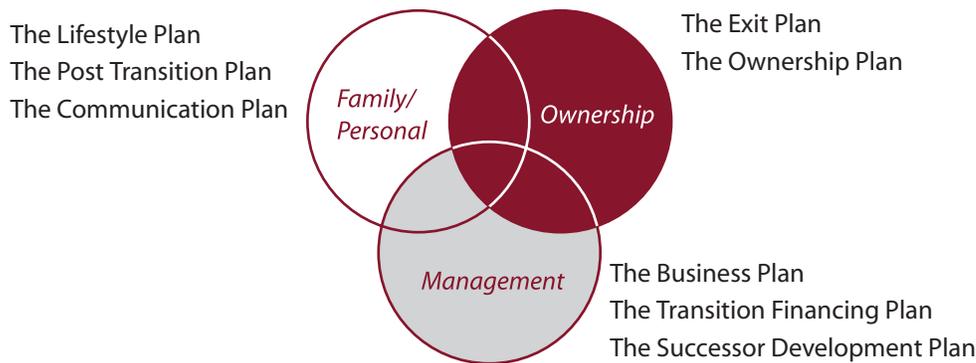
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## What is a Transition Plan?

A Transition Plan is an integrated approach to enabling a choice for entrepreneurs and families around the eventual change of leadership of their business. Transitioning a business involves much more than transferring the ownership. It's about ensuring that the family remains intact, regardless of who ultimately owns or manages the business.

Your Transition Plan should meet the needs of all three areas of your business: the family or personal area, the ownership area and the management of the operation. Within each of these areas, a total of eight sub-plans are required. In upcoming editions of Changing Lanes, we will review the objectives of each of these plans. 



## Re-invent Yourself

When planning for the transition of your business, it is extremely important that you include a Post Transition Plan to determine where you will direct your energy once you are no longer totally consumed by the business.

A Post Transition Plan is not just about what you will do during your retirement. In his program called The Best Half™, Gordon Neufeld has a different perception of this next phase of your life.

"The dictionary definitions (*of retirement*) are all about pulling away from the everyday world," explains Gord. "They don't say where we are heading but it sure doesn't sound like a place where I want to go."

Instead, you should look on this time as the best half of your life and plan to expand your experiences. Gord terms this planning 're-inventing yourself.' "It's about creating shape, purpose and possibility for the second phase of your life. It's about discovering what will give you fulfillment."

So be sure to discuss your Post Transition Plan with your trusted advisor or personal coach. Consider what pursuits will enable you to lead a fulfilling and balanced life and then determine how you will put that plan into action. 

[www.best-half.com](http://www.best-half.com)



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