



Changing Lanes

Transition planning for entrepreneurs and family businesses

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with compliments from



Edward Rosenfeld



Guiding Families and Business. Now to Next.

Ensure You Have a Choice

Thom Penmaen is 65 years old and under pressure from his family to retire. However, Thom has a great vision for the future of his tool and die business and there are many things he still wants to accomplish. He is certainly not ready to plan his exit!

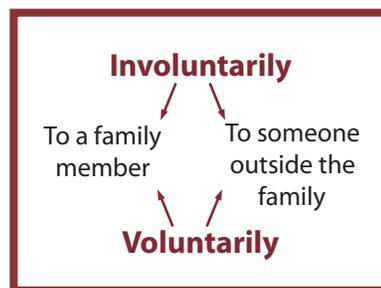
Thom's position is one all veteran entrepreneurs can relate to. So much to do, so little time left. The last thing on their minds is exiting the business before they are ready. How and when to transition their business is undoubtedly a choice every entrepreneur should have.

What Thom doesn't realize is that by not planning ahead he is actually reducing the likelihood that he will have that choice! At the same time, he is reducing the chances of realizing his vision for the business! If Thom truly wants to achieve his vision, he needs to consider what's required to ensure his goals could be met if he were not physically able to lead the charge.

Just like any other project Thom has managed during his 40 plus years as the owner/manager of Penmaanship Tool and Die, enabling a choice around "when to sell" and "to whom" needs a concrete plan of action and regular monitoring.

1. When

From reading previous editions of Changing Lanes, you will remember that entrepreneurs have only two choices around when to sell their businesses – voluntarily, at a time that is right for them – or involuntarily, when death, ill health, reduced profitability or external factors deem it necessary. Thom needs to be proactive in ensuring he can sell voluntarily.



One Day You Will Sell

2. To Whom

Similarly, there are only two groups of people to whom the business can be sold – to someone inside the family business (an internal sale), or to someone who is not already connected to the business (an external sale). Again, there are steps Thom should take ahead of time to give him maximum choice in finding the right buyer.

In this edition of Changing Lanes, you will learn how planning for an internal sale also enables the choice to sell externally.

Remember, this doesn't mean that Thom is going to sell any time soon – only that the business is ready for sale when Thom feels the time is right!

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Prepare for an Internal Sale

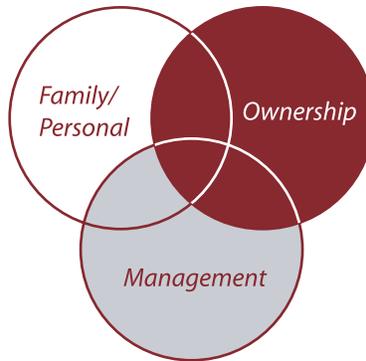
Enabling an internal sale entails preparation and project management in all three areas of the business: the management circle, the ownership circle, and the family or personal circle.

The Management Circle

The objective here is to build a system that eventually sees the day-to-day decision-making pass from the current leader to one or more persons within the business. The approach is to create a management group that could successfully carry the business should something happen to you. Building this system takes years and is likely the most critical part of the overall process to enabling an internal sale.

The model is similar to that found in public companies and certainly the larger private companies. We refer to this process as “professionalizing the business” and it incorporates the following steps:

- Work with your advisor to identify what’s important to you with regard to the future direction of your business.
- Have your advisor help you share your vision with key members of your family and business to determine if there is a common interest in moving forward.
- Involve this group in developing the track for the future and creating a concrete plan to achieve your common interest.
- Look closely at your own role and identify the areas that do not utilize your natural strengths. Match them to people who would get energy from working in that area.
- Engage an expert to determine the skill sets needed to implement this track for the future. Next take inventory of the skill sets currently in-house and develop a plan to fill in the gaps.
- Assign the authority and accountability to go along with each of the responsibilities awarded.
- Create a mentoring plan to increase the skill sets and confidence of the management team and groom prospective successors.
- Check how the system is running without you by taking varying lengths of vacations.



Essentially, you should begin by imagining yourself out of the picture. How would the business function? What needs to be done to ensure it can function? How long will it take? What are the priorities?

It is important to recognize that this management transition is a long-term objective rather than a short-term goal. It is a long-term objective that results in the creation of an investment that is attractive to buyers from both inside and outside the business because prospective buyers can see how the business can survive without you. You have thus enabled the choice to sell internally or externally.

The Ownership Circle

This is the area that is the most straightforward in terms of planning ahead. The objectives are to protect the existing and future equity of the business while creating a fair system for shareholders to enter and exit ownership. The approach is to work with your trusted advisors who will go beyond the typical planning approach to help you identify your requirements and create a plan that meets your specific needs. The steps to enabling an internal sale in the ownership area include:

- Create an advisory board to support the philosophy of the business and add structure to the process of setting the long-term purpose and vision.
- Implement a financial plan that will not only provide you with the choice around when to exit, but also facilitate your desired lifestyle during and after your exit.
- Establish the value of the business and explore the tactics that will provide creditor proofing while managing the tax liabilities of the eventual sale.
- Set up an ownership structure that will not only afford you maximum choice in selecting the next shareholders but allow you some flexibility in treating your beneficiaries equitably.
- Formulate a rule book that documents the terms of ownership, a compensation policy, a dividend policy and the process for allowing shareholders to enter and exit the business.

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Prepare for an Internal Sale *continued*

With these policies in place, you will have formalized the ownership transition process ahead of time, thus making the sale more attractive to prospective buyers within the family or business. Add to these a strong philosophy and culture that increases the goodwill of the business and the result is a more lucrative option for outside investors.

The Family / Personal Circle

Often the greatest challenge in preparing a business for an internal sale is dealing with the differences between family values and best practices in the business. Family values generally focus on what's best for the individuals and the relationships as opposed to what's best for the business. Yet family values are behind the motivation to keep the business in the family in the first place!

While the majority of entrepreneurs favour an internal sale to the family as their exit strategy, many don't work towards this option as they fear a number of negative outcomes:

- Their choice of successor will cause conflict in the family. Treating their children equally is one of the cornerstones of being a parent so choosing one child over another is difficult in any situation.
- Handing the reins to a less experienced leader might result in a loss of the wealth the entrepreneur has created.



- They will lose their identity and purpose when they are no longer recognized as the principal of the business.

So from the perspective of the family circle, the objective in preparing ahead for an internal sale is to build a sense of stewardship around the business. Stewardship is the idea of being the keeper of the assets as opposed to the owner. The

steward's role is to look after the business for a period of time before passing the baton to the next in line. This approach fosters connectedness in the family unit, something that is essential for a successful internal sale. Here are a number of strategies your trusted advisor recommends:

- Share the history of the business so everyone can learn from the past and celebrate the journey.
- Communicate the founder's vision of the business, the ongoing purpose of the business, and the principles upon which it stands.
- Help all family members, especially those that are not involved in the business day-to-day, to feel connected to the business and encourage the building of a family legacy. Be sure to engage all the in-laws so that the concept of connectedness can pass to the grandchildren.
- Promote existing or build new family traditions.
- Ensure there is a safe forum where family members can connect and discuss issues that impact the family.
- Enable individual family members to identify their personal passion and direction in life.
- Establish the process for family members to obtain ownership and/or be involved in the day-to-day operation of the business.
- Help the family learn how to make decisions together. Families can quickly break apart without the parental glue.

When entrepreneurs embrace the concept of stewardship and actively walk the talk, the fear of letting go can be greatly minimized. Instead they are able to recognize that their exit serves to perpetuate the business and strengthen the legacy, and that there is another role for them to play. Also, by actively promoting connectedness within the family, any conflict is more positive and easier to manage and the opportunity for an internal sale to a family member is greatly enhanced.

So as another new year begins, make it your priority to enable that voluntary sale to someone within your business and give yourself maximum choice around how and when you will exit your business. ■

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Integrated Transition Plan

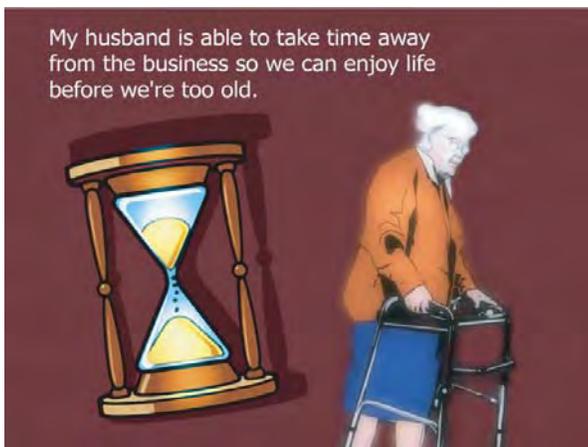
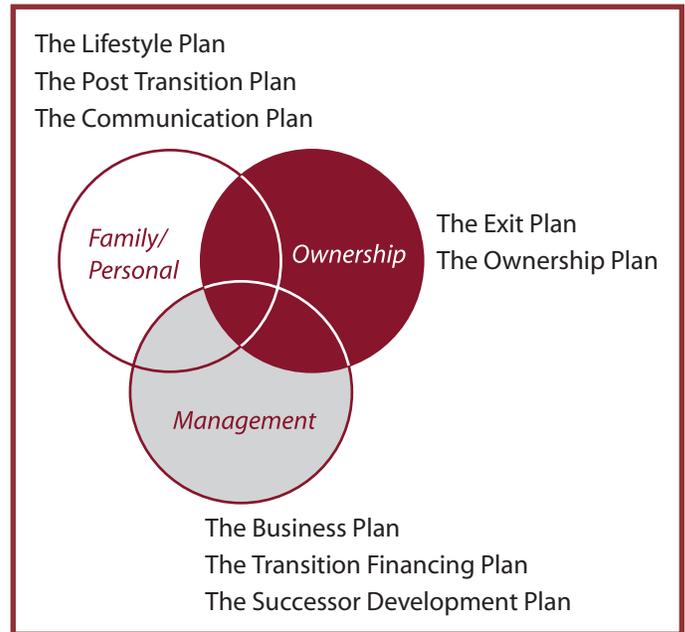
Continuing to look at the components of an Integrated Transition Plan, this issue examines the importance of a *Lifestyle Plan* that will facilitate the entrepreneur's eventual exit from the business.

The objective of a Lifestyle Plan is to ensure that the entrepreneur has the resources needed to fulfill his or her Post Transition Plan and the purpose for that next stage of life identified therein.

A Lifestyle Plan takes stock of the entrepreneur's current assets in terms of his or her values, health, finances, relationships, creativity, and reputation to name but a few. Then after comparison to the goals and objectives laid out in the Post Transition Plan, the Lifestyle Plan identifies which resources are limited and maps out a track to build the supply.

While a personal financial plan is understandably a huge component of an exiting owner's Lifestyle Plan, it is equally important that they are proactive in ensuring they have adequate resources in all other areas of their desired lifestyle. Your trusted advisor can show you how to develop a practical Lifestyle Plan that enables a fulfilling and balanced life. 

The Integrated Transition Plan



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