Strategies for Success—Billings Business News

Succession Planning—A critical component of business viability

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One of the most vexing challenges facing many business owners today is the question, "Who is going to run this business when I want/have to retire?" Many business owners fail to consider succession planning until it is normally too late to make a well thought out decision.

Succession planning is the careful planning of sustaining the business, firm, practice through constant change and turbulence. The only constant in today's environment is change. If you do not have a business succession plan, today is the day to begin that process.

If your business is a family business, as is most Montana small business, you may have thought that the children will run the business when you are ready to retire. However, if you have not had this explicit discussion with your children, you may be in for a big surprise. None of the children not only want to have anything to do with the business, but they hate the business and industry which you are in. This may come as a big surprise to you. If you have not asked that question, today is the day to begin that conversation.

Professionals in private practice are another group where succession planning is vitally important. Many small business owners think that the sale of the business upon the owners retirement will provide the retirement nest egg that will carry them through retirement. Careful planning is again strongly suggested here.

Let's explore a couple of examples—A sole practitioner medical professional I know has a very successful practice. He has been in practice over 35 years, has a great book of business and is busy all year round. He is able to take one day off a week and one week off every 6-8 weeks, throughout the year for vacation purposes. His equipment is modern, however, is not the newest or most state of the art. He has had a couple of associates earlier in his practice life, however, for the past 15 years, has practiced solo. Now, as he approaches retirement age, the question arises of what he is to do to gain maximum value of the business and be able to live comfortably in retirement? Sadly, he tells me that he has "given it some thought", but has taken no decisive action on what to do. As a result, his current game plan is to "try and phase out" to part time work, perhaps 2-3 days a week, with some of the simplier procedures, leaving the more complicated and time consuming procedures to a new doctor. However, the challenge he is finding is that new doctors coming fresh out of school are used to the most modern and state of the art equipment, not the equipment he has. Yes, his equipment works fine, however, the new doctors want what they trained with in school. How does he find a new associate doctor who can carry on the practice while the practitioner elects to retire?

A recent survey by the American Institute of Certified Public Accountants (AICPA) found that 29% of the sole accountant CPA practioners surveyed had no subordinate staff to develop because they were without additional talent or did not feel their current staff working for them could become new leadership for the firm. The same AICPA study found that in 2008, multi-owner CPA firms had 32% of their partners leaving within the next five years. 52% of this group were over 60 years of age, with ages ranging from 70-93 years of age. Who is going to carry on the business after these individuals retire or die?

The development of a business exit strategy is something that should be identified early on in the business maturation cycle. This is a factor that cannot be left to chance—if you do, you may be sadly surprised what the end result may be. The end result may be that there is no one willing or financially able to buy the business or professional practice. If that is the case, the most often found solution for a business is to conduct a retirement sale, or in the case of a private professional practice, close the doors. The remaining fixtures and equipment are liquidated and hopefully, you will find someone to buy the book of business. The price that the book of business brings may be substantially lower than you had expected, perhaps causing additional stress as you enter retired status.

Assuming that either you don't have a succession plan or the plan is no longer viable—i.e, you had an individual or employee identified who wanted to buy the business, today is the day to begin to identify your business successor.

Next month, we will address some more factors in succession planning that will allow a smooth transition. If you don't have a succession plan now, give some heavy duty thought to how/whom you might wish to carry on your legacy after you retire.

Pull Quote:

"Devising a succession plan is crucial in case of disability, retirement, death, or in the event that growth in your company changes your role away from "hands on" to a more managerial focus. Your successor can then assume your duties as a "doer," and free up your time so you can direct your attention to larger issues."

Glenn French, CLU
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