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# Succession Planning Workshop

Madison, Wisconsin

June 6, 2012

# Program Overview

- Brief Overview of Succession Planning
- Background & Basics
- Selling Options
- Professional Assistance
- Helpful Tools
- Resources

# Some Statistics...

**4.6 million**

family-owned/closely-held  
businesses

# Some Statistics...

Employ

76%

of U.S. workforce

# Some Statistics...

Small and medium-sized  
businesses create

**65%**

of net jobs in U.S.

# Some Statistics - (the wave)

- ⦿ During the next 20 years close to 80 million baby boomers will be retiring.
- ⦿ More than 70 percent of privately owned businesses will be changing hands within the next two decades.

# Some Statistics –(the wave)

- The largest intergenerational transfer of wealth in history ... a staggering \$10 trillion

A "business transfer tsunami"

# Some Statistics...

20 years ago

30%

of small businesses made it to  
2nd generation



# Some Statistics...

15%

made it to the 3rd

# Some Statistics...

Now

15%

of small businesses made it to  
2nd generation

# Some Statistics...

5%

make it to the 3rd

# Some Statistics...

COSE study found that about

**80%**

Do NOT have a succession plan

COSE = Council for Smaller Enterprises in Cleveland, Ohio

# Recipe for Disaster.....

- Fewer companies transitioning to “next” generation
- Aging Ownership Population
- Few Owners have plans in place
- What can go wrong.....

# Worst Case

Family loses business investment

Business Shuts

Employees Lose Jobs

Communities Lose Tax Base

Quality of Life and Services Suffer

Domino Effect

# Succession Planning is:

Strategic planning for the future of both the business and the owner

A plan for the transfer of ownership and control of a business

# Benefits of Succession Planning

- Achieve business and personal goals
- Facilitates retirement
- Controls how and when owner exits
- Ensures survival and growth of the business
- Preserves family/stakeholder interest



# Benefits Cont.

- ① Reduces Uncertainty
- ① Maximizes value and/or stakeholder interests
- ① Minimizes, defers or eliminates capital gains, estate and income taxes
- ① Provides strategic options from which to choose

# Transition Planning Process

- ① Assemble a Team of Advisors to guide the transition
- ② Complete a Feasibility or Prefeasibility Study
- ③ Develop and Implement the Exit Plan
- ④ Develop a Business Plan
- ⑤ Implement the plan

# Selecting Advisors

- ① Find experienced professionals
- ① Interview several before selection
- ① Get and check references
- ① Have a “Team” of trusted advisors
- ① Define roles amongst team

# The Advisory Team

Business Owner/Management Team

CPA

Attorney

Financial  
Planner

Investment  
Advisor

Valuation  
Analyst

Transaction  
Advisor

Succession Planner

# Check on Transition Feasibility

- ⦿ Business Owner Meeting
- ⦿ Complete detailed questionnaire concerning personal and business goals
- ⦿ Review the data
- ⦿ Conduct preliminary research of industry and similar transactions
- ⦿ Interview the owner to discuss the questionnaire

# Transition Feasibility Cont.

- Define roles
- Clarify and prioritize goals
- Establish goals and benchmarks
- Develop succession plan outline
- Coordination of other advisors for necessary services

# Business Valuation

- ⦿ Determination of value of the business
- ⦿ Completed by a CVA
- ⦿ Cost based on complexity of business
- ⦿ Value driven by business earning capability
- ⦿ Usually a factor of EBITDA

# Business Valuation Shortfall

- ① How can the business value be increased?
- ① Value Enhancement Process
- ① What are the value drivers
- ① What are the risk drivers



# Internal Areas for Business Review

- HR-Benefit & Compensation Planning
- SWOT Analysis
- Tax Analysis & Entity Structure
- ESOP / Worker Co-op
- M&A Transaction
- Stock v. Asset Sale

# Internal Areas for Review & Recommendation

- Current management team assessment
- Outline performance feedback system and criteria
- Exit Options
- What are the contingency plans? – life & disability insurance

# Corporate Document Review

- Article and code of regulations
- Operating agreements
- Ownership ledgers
- Lease and contract files
- Benefit plan documents
- Buy-sell agreements

# Keep/Motivate Employees

- Confidentiality
- Implement key employee incentive compensation programs
- Cash based v. Stock based
- Results in increased company value
- Non-compete agreements

# Buy/Sell Agreement

- ① Definition of fair market
- ① To whom, what price, terms and restrictions
- ① Advantages/disadvantages
- ① Provisions
- ① Trigger events

# Personal Financial Plans

- Set realistic goals – both spouses need to be engaged in the process
- Take inventory of assets and liabilities
- Evaluate current portfolio
- Project retirement & dependent needs
- Evaluate “risks’ & insurance options

# Estate Planning

- ⦿ Review estate tax strategy
- ⦿ Taxation – avoid/minimize federal and state estate tax
- ⦿ Devices to consider
- ⦿ Distribution considerations – transfer estate equally to children (?)
- ⦿ Alternatives in transferring assets

# Financial Considerations

- Clean up the balance sheets
- Clean up the income statement
- Consider higher level of review of financial statements
- Ensure tax filings are up to date
- Normalized EBITDA



# Succession Plan Implementation

- Continued coordination with advisors
- Pre-transaction due diligence on business if necessary
- Implement value enhancement
- Personal action plan
- Business action plan
- Monitor and adjust the plans

# Potential Inside Buyers

- Family Members
- Partners
- Management
- Employees
- Combination of the Above

# Potential Outside Buyers

- ① Strategic Buyer Within Industry
- ② Strategic Buyer in Aligned Industry
- ③ Financial Buyer

# Sale to Family

- ⦿ Continued owner involvement
- ⦿ Dependent on one's ability
- ⦿ Retirement income a “burden” on the business
- ⦿ Financial security may be diminished
- ⦿ Variety of transfer options
- ⦿ Takes time to accomplish

# Sale to Partners

- Buy-Sell Agreement
- Right of first refusal
- Purchase option
- Earn out
- Push-pull

# Sale to Management

- Leveraged buy-out
- Investment bankers
- Management/employee contract
  
- Staged sale
- Sale via earn-out
- Owner maintains some control

# Passing on the Business to the Employees

- Why would owners want to sell to their employees
- Why would employees want to buy from the current owners
- What circumstances will generate positive outcomes

# Benefits to Owner

- 1042 Rollover Qualification
- Staged sale
- Financeable transaction
- Retains some control during transition
- Real property kept in use
- Positive legacy in the community



# Benefits to Employees

- Retained job
- Gained control of career
- Received equity position – via payroll deduction plan
- Expanded capabilities
- Maintained community
- Job flexibility

# Owner Characteristics

- No logical successors
- Wants to phase out of the business
- Concerned about business legacy
- Concerned about employees

# Business Characteristics

- Profitable companies
- Sustainable business model
- Limited leverage
- Transferable skills
- Historic practice of “Open Book Mgt.”

# Employee Characteristics

- ① Longevity with the business
- ① Desire to continue and grow the company
- ① Have an “Ownership Mentality”

# Community Characteristics

- Rural
- Limited local buyers
- Business is “large employer” in a small community

# Succession Planning Time Frame

The Good

The OK

The Scramble

# Good Timing – Early Adopters

- 5 to 7 (plus) years prior to sale
- Ability to adjust plans accordingly
- Increased likelihood of achieving goals
- Opportunity to increase value of the business

# OK Timing – Just in time

- ⦿ 2 to 3 years ahead of event
- ⦿ Exit options reduced due to time constraint
- ⦿ Limited time to effect large changes
- ⦿ Difficulty grooming management successors



# The Scramble – Better late than never!

- 1 (or less) to 2 years ahead of event
- May be forced to sell for less than top dollar/meet other key objectives
- May have to have an asset sale rather than a stock sale
- May have lost key employees to the competition

# Common Pitfalls

- Waited too long – must liquidate
- Denial of mortality
- First attempt failed, leaving no options
- Only founder's role considered
- Unrealistic opinion of company value
- Ego(s) get in the way
- Impeded by owner's lifestyle – supporting multiple families

# Common Pitfalls (cont.)

- Family constraints/conflicts
- Performance/development process weak
- Reluctance to let go
- Talent not available, have followers
- No functioning advisory board
- Other stakeholders left out

# Cost of Lack of Planning

- ⦿ Leaving Money on the table
- ⦿ Missed opportunities
- ⦿ Lose control over the exit process
- ⦿ Pay more than necessary capital gains, estate and other taxes
- ⦿ Fail to realize personal, financial or business goals

# Get the Plan Started

- ⦿ Family harmony
- ⦿ Preserving the business (legacy)
- ⦿ Financial security in retirement
- ⦿ Financial security for surviving family members
- ⦿ Stakeholder's interest covered
- ⦿ Reduce taxes

# Our Resources

- *Owner's Guide to Business Succession Planning*
- *Selling to Your Business to Your Employees*
- *Webinars*
- *Train Co-op Developers*
- *CEPA Consultation with Business*

# Website & Contact Information

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## Exiting Your Business - Overview



### The Small Business Succession Planning Program at Kent State University

Closely held businesses are the backbone of the American economy. Despite the attention paid to the stock market, the 8500 public companies traded there provide only 24% of private sector employment; by contrast, 4.6 million closely held companies provide 76% of employment in the private sector. Practically all the job generation in the country is in the closely held sector. What is the most cost effective means of retaining these businesses and the jobs they provide in our communities? Timely and effective succession planning.

In the early 1980s, studies showed that 30% of family businesses made it to the 2nd generation of family ownership and management and 15% made it to the 3rd generation. Twenty years later, a 2004 US Small Business Administration study found that only 15% made it to the 2nd generation and 5% to the 3rd. It gets worse. The small business monitor survey conducted by the Greater Cleveland Growth Association's Council of Smaller Enterprises (COSE) found, for example, that only 21% of Cleveland family business owners have written a plan for succession

#### Resources

- [Doing Employee Ownership >](#)
- [For ESOP Companies >](#)
- [Library](#)
- [Find A Professional](#)
- [Ohio ESOP data](#)
- [Preliminary Feasibility Grants](#)
- [Low-Interest Loans](#)
- [Links](#)

#### News

**Exiting Your Business -  
New FREE Webinar  
Series!**

**2010 Employee Owner  
Retreats - Learn More!**

**Evergreen Laundry  
project starts up**

**Succession Planning for  
Economic Development**



# Q & A

Troy Agriculture Orientation

February 25, 2010