

Why we call it business transition planning

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As the demographics of our society continue to change, the business world is faced with challenges unlike any others our economy has had to deal with in the past.

The aging workforce, the shortage of people to fill employment vacancies and increased life expectancy are all causing people to work beyond what was the traditional retirement age. Further, the need for more creative work arrangements is also challenging today's marketplace as businesses must find solutions to meet the changing needs of the workforce and remain competitive in the global economy.

On top of this, middle market companies have their own set of unique challenges. At the forefront is the issue of how the owners of many successful owner-managed businesses will be exiting and transitioning their organizations that they spent years building and making into successful enterprises.

Struggling to start the transition process

Certainly, there are a great deal of issues for the owners as they get their financial house in order. For example, is their estate plan structured properly? Do they have the entity organized properly to minimize taxes? On a personal level, are they financially secure and emotionally ready to handle a transition?

However, these issues are not the only areas concerning business owners. Perhaps the biggest obstacle for owners and managers, as well as their families, is actually how to get the succession process started, and not be overwhelmed by the tasks that lie ahead.

All too frequently, what we see is that business owners do nothing. They freeze up. Added to that dynamic is the owners have built their successful organizations through hard work, guile and personal capital, often making huge sacrifices to achieve what feels like a monument to personal accomplishment. Due to this hard work and achievement, some entrepreneurs wish for time to stand still, to take a breath and contemplate retirement and next steps.

Nevertheless, time marches on and the smartest entrepreneurs understand that businesses are built to be sold. Whether it is selling to an outside buyer, selling to management or transferring to the next generation in the family, planning for an event should be part of a company's natural progression. It is not to be avoided or ignored, but embraced and addressed in a thoughtful and forthright fashion. If business owners (a) create a well-conceived plan, (b) allow sufficient time to execute, (c) create the right team of advisors and (d) have the fortitude to implement their plan, success and satisfaction will be accomplished. The transition will be on their terms, and not as a result of an outside, unforeseen circumstance, such as a sudden health issue.

Having an exit strategy is key

There are many facets to this type of planning. Paramount is developing a strategy for the business and the business owners. Transition planning is like a normal operational strategic planning process that is familiar to many leaders. As in strategic planning, succession and exit planning also involves leadership and owners determining where the enterprise should be headed and what tactics need to be deployed to get there.

Preparation is always key to planning. Acquiring the education to understand the advantages and disadvantages of each strategy and alternative, and analyzing the implications for various stakeholders is a starting point. Next steps include researching what the potential value of the enterprise is and then determining ways to enhance that value in the eyes of potential acquirers. Inquiring about recent transactions in the industry is also critical.

Evaluating the effectiveness and passion of the current management team and their importance to an event is also key. If family members are involved in the business, evaluating their readiness to take control of the enterprise is critical. In a family-run business, the family dynamics are often fraught with potholes that are very sensitive to deal with. If not addressed thoughtfully and delicately, these family dynamics can undermine the ability for the organization and its owners to make progress toward the desired changes.

Often one of the key areas not given sufficient focus is planning for the owners' future. This shortcoming is not necessarily about their financial future, but something that is much more personal in nature. One would think having a dispassionate evaluation as to whether the owner(s) should separate themselves from the business and have the next generation take the reins or monetize the business, seems like a natural analysis that should take place. However, given the emotional attachment many owners have to their business, such discussions and planning can be difficult and cloud the overall planning process.

Owners need to keep in mind they control the ultimate implementation of any planning process. That's why it is important to talk about the exit strategy sooner rather than later as sometimes events do not happen on the expected timetable. Preparing for an event that will be an eventuality is just smart business.

There are many moving parts to a sound plan. We strongly recommend an action plan or road map that stages the accomplishment of the various tactics, embeds deadlines and assigns responsibilities to get things done. Just like with strategic planning, it is often times valuable to engage an outside consultant, coach or facilitator to guide the planning process and hold the business owners accountable. In addition, of course, a collection of professional trusted advisors is needed to help execute parts of the plan.

Businesses have many transition stages

So why do we call this business transition planning? The life cycle of an enterprise includes transitions through many stages: from startup to growth phase to maturity.

Business leadership must plan and be laser-focused on executing so the enterprise can transition from one stage to the next while avoiding retrenchment. Business transition planning is another stage, a very critical stage, to the journey of being a business owner, and if transition planning and implementation are done right, this final stage could be one of the most rewarding aspects of being an entrepreneur.

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