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Ready to Hand Over the Keys to Your Business: The Importance and Benefits of Succession Planning

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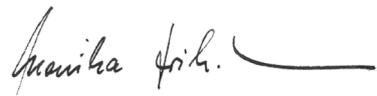
Editorial

Welcome and Guten Tag,

Most SMEs do not survive the succession from one generation to the next generation due to lack of proper planning.

An effective succession plan should form part of the overall business development strategy. This enables a smooth transition with less likelihood of disruption to operations. For entrepreneurs, planning their exit well in advance and making sure the transfer happens at the right time is the best way to ensure the ongoing success of the business.

Yours



Monika Frick-Becker

Ready to Hand Over the Keys to Your Business: The Importance and Benefits of Succession Planning

Preparing to concede ownership of a business can be tough for owner-managers, but getting it right is crucial if the business is to remain successful. To cope with the difficulties, expectations and emotions of what can be a touchy subject businesses must proactively plan for succession, openly discuss the details of the process and utilize tools which simplify the situation.

A poorly planned or poorly executed succession will often lead to disputes, poor customer experiences, business decline and financial pressure. Therefore, to maximize the value and potential of the business, the exit plan is required to be implemented well in advance, allowing time for a smooth transition and any unforeseen contingencies.

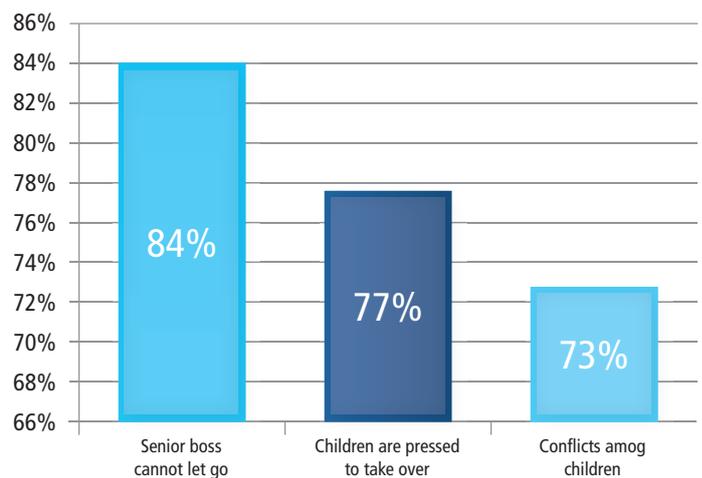
Succession Planning: A rare tale of family business survival

The lack of retirement preparedness by small and medium-size business owners continues to be a major concern. Moreover, for the first time the number of old company owners has exceeded the number of potential acquirers of businesses. In a special report on corporate succession, the Association of German Chambers of Commerce and Industry (DIHK) found that more than 40 per cent of senior entrepreneurs cannot find the appropriate new boss. Especially in manufacturing industry the challenges are great: There are - as an arithmetical calculation - five old owners of businesses for one possible successor.

Depending on the definition, only about 50 to 80 percent of family-owned business transfers end up successfully. The statis-

tics reveal a disconnect between the optimistic belief of today's family business owners and the reality of the massive failure of family companies to survive through the generations. Research indicates that family business failures can essentially be traced to one factor: an unfortunate lack of succession planning. Most often the preparations and planning have not been undertaken for psychological reasons, particularly the fear of family conflicts on the ownership or stake holding issue.

Why Family Business Succession Plans Fail



Deutsche Unternehmerbörse, TNS Emnid, Survey 2014

Without proper planning unexpected disasters such as illness, accidents or death can have major financial and emotional impact upon people's lives, not just the life of the business. In addition, rating agencies and banks now factor succession planning into their pronouncements.

Hence succession planning needs a strategic approach as a part of the business process which enables tackling of emotional issues to make the best decisions about the future of the promoters and their business. It must be an ongoing activity, which constantly seeks to align an organization's business demands with its human capital requirements.

To ensure a smooth transition, each succession strategy requires careful planning and implementation - in the preparation stage, during the deal and in the subsequent integration phase. A well-defined succession plan will boost confidence levels for all stakeholders and be an enormous source of reassurance.

The Twelve Step Exit Planning Process

1. Plan and prepare early; establish goals & objectives.
2. Seek professional advice (consultants, lawyers, auditors).
3. Reduce internal resistance; foster emotional readiness.
4. Optimize processes to maximize business value.
5. Find out the fair market value of your business.
6. Establish personal retirement goals and cash flow needs of retiring family owners.
7. Create a transition plan; consider options.
8. Identify the core skills and competencies that your successor will need.
9. Select a successor, negotiate a buy/sell agreement, due diligence.
10. Agree on payment and financing terms.
11. Communicate the succession plan professionally to family/stakeholders.
12. Transfer ownership; mentoring of successor; introduce successor to staff, customers, suppliers and other partners.

Communication: The benefits of getting all stakeholders involved

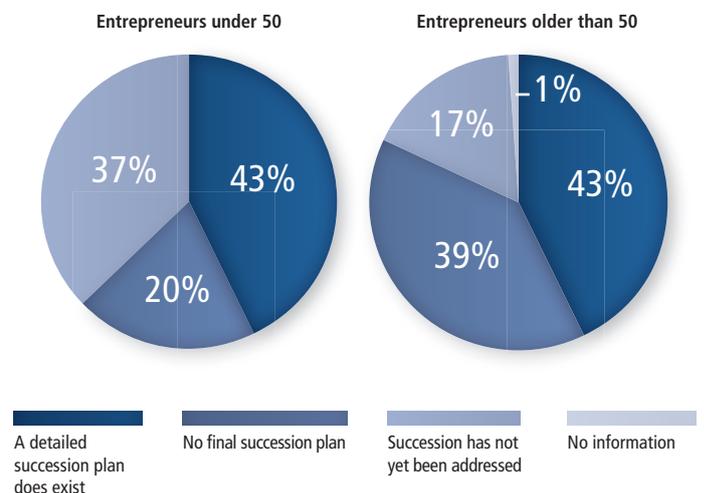
The succession process in family-owned firms involves numerous participants. Letting other family members, staff, customers, bankers and suppliers know of the owner's intention to cease involvement in the business is important - and timing is crucial. The manner and medium of communication of the successor should be well-strategized.

A company could potentially risk losing key employees and important customers if the same is not articulated properly. The last thing a company needs is people to lose faith in the business when they hear the boss will no longer be involved.

A discussion on succession is definitely bound to evoke passionate debate. The business could be severely disrupted as arguments take place over who should own or run the business, while uncertainty and lack of leadership could have a disastrous effect on sales and morale within the business. Thus, for the succession process to unfold smoothly, key participants must come to feel comfortable with one another.

Choosing the right successor and preparing a communication strategy for notifying all participants is the best way to ensure the ongoing success of the business. It is important to assess skills and experience of potential successors carefully, because the person needs to have what it takes to lead, motivate and manage others.

Business Owners: Have You Planned Your Exit?



Deutsche Unternehmerbörse, TNS Emnid, Survey 2014

Common goal: Business growth and sustainability

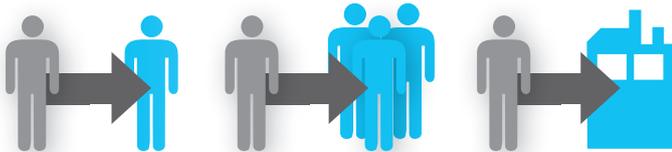
SMEs have to prepare their businesses for succession. This planning process will mean having a „sale ready“ business, for instance having good documentation on business processes, making sure the books are all in order.

This is the time to put processes in place to maximize business value – from benchmarking against peers, rationalizing business lines and identifying service gaps to shoring up balance sheets. The responsibilities of the team should be defined with appropriate accountability.

A succession plan also forms part of the broader human resource plan which seeks to ensure that at all times the organization

has the right people performing the right jobs. Whereas a human resource plan will be looking at the appropriate staffing numbers and skills mix for the entire organization, a succession plan will focus on ensuring that there is a steady pool of candidates with the requisite skills, knowledge and attributes to perform the identified critical roles in the organization.

What Are Your Options?



Transferring ownership to a family or non-family member

Management or employee buy-out

Selling the business to a third party

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The way to success: Managing succession professionally

Good succession planning interacts with multiple elements of the business - especially corporate culture, strategic planning and leadership development - and thus needs to be seen as a critical component in its own right. This allows the owner to identify potential obstacles to an intended succession plan and put processes in place to resolve them.

Transferring ownership can be highly emotional and complicated for owner-managers who can feel reluctant to let go of a business they have nurtured for years. Often, pressured business owners forced to consider a range of important daily issues take a short-term view and consequently end up failing to attach enough importance to succession.

To lessen any anxieties, it is important to seek expert advice on every aspect of relinquishing ownership of a business. The use of professional services is essential to the success of a small business, including its transfer to another owner.

Professionals can provide knowledge and expertise in areas where owners may have little experience. They can also round out the management team to ensure that the business is operating efficiently. Through strategic planning sessions with key personnel and/or the creation of a family council, these experts can solicit unbiased input from all stakeholders to ensure the succession plans take everyone's varying needs into account.

Succession Planning: It's Important to Seek Expert Advice



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Succession planning is a dynamic process. As the business and/or family dynamics change over time, the succession plan must change with them. The plan should be reviewed periodically to reflect the owner's wishes, current business requirements and the team. It is important to communicate any change of plans to key stakeholders so no one is blindsided when the time for a business transition arrives.

If there is enough time for an intensive preparation business owners can enhance the odds of reaching their succession planning goals by developing parallel succession plans – one that can be implemented immediately in the event of an unforeseen emergency; a second that can be implemented in the mid-term (within one to 5 years) to begin closing any identified gaps; and a third that lays out the owner's long-term intentions. To avoid any failures, it is important to develop a succession plan that is attainable - this means setting a realistic timetable and measurable milestones along the way and sticking to them.

Succession planning is a long-term exercise that deserves the serious attention of any entrepreneur who has aspirations of leaving a legacy of the business that he has built with passion.

Owners must consider which exit strategy is best suitable to allow building a strong financial security for themselves and their families as it is their single largest asset and a major source of personal worth and self-esteem.

To be successful succession planning needs a strategic approach as a part of the business process which enables identifying gaps and inconsistencies in processes as well as people.

A good succession plan can maximize the value of a business and enables it to meet future needs.