A succession planning roadmap can help avoid five common mistakes when selling a business

Every business owner's succession plan will be unique to their own situation. For those who are selling the business, it is usually the largest and most challenging financial transaction of their life. Most owners will only sell a business once, so unfamiliarity with the process could lead to critical mistakes during the sale. Selling a business is emotionally and technically challenging and the business owner must follow a defined process – a succession planning roadmap.

When the selling process works well, everybody walks away happy. The seller knows that they achieved the best available price and terms under the circumstances, while the buyer feels like the deal was fair. But when the selling process breaks down, the results can be disastrous.

There are five common mistakes to avoid to help you achieve your goals and reach the best possible outcome:

1 Unrealistic value expectations

It is shocking how many private company owners do not know how much their business is worth. Often, business owners overvalue their company, and in a sale situation they will be reluctant to accept a fair offer if they believe it is too low. Ultimately, the business is worth what the buyer is willing to pay, and the seller is willing to accept. It's critical that you understand what your business is worth before you start the sales process. If the value is lower than you expect, there may be time to do certain things to help increase the value before selling the company.

2 Lack of advanced preparation

They say that failing to plan is planning to fail, and this holds true in many areas related to the sale of a business. Most business owners want to extract the maximum value from their company, however many may not be fully aware of how buyers will assess their business, or how to improve certain value drivers well in advance of sale to ensure the company is well positioned. The impact of income taxes must also be taken into account. Selling the shares of a business can result in a very different income tax bill than a sale of business assets, so it's important to understand the differences. Planning in advance may mitigate the tax burden. Also, the sale process typically takes 6 to 12 months, and some business owners are surprised that the process is so intense and time-consuming.

3 Waiting until you have to sell

No one knows the future, so this one can be challenging. However, it is unfortunate that many business owners are confronted with selling their business prematurely when an unfortunate life event arises (such as poor health, divorce or death), and a succession plan is not in place. Waiting until you must sell to implement a succession plan can be troublesome and is less likely to maximize the value of the business and ensure its continuity.

4

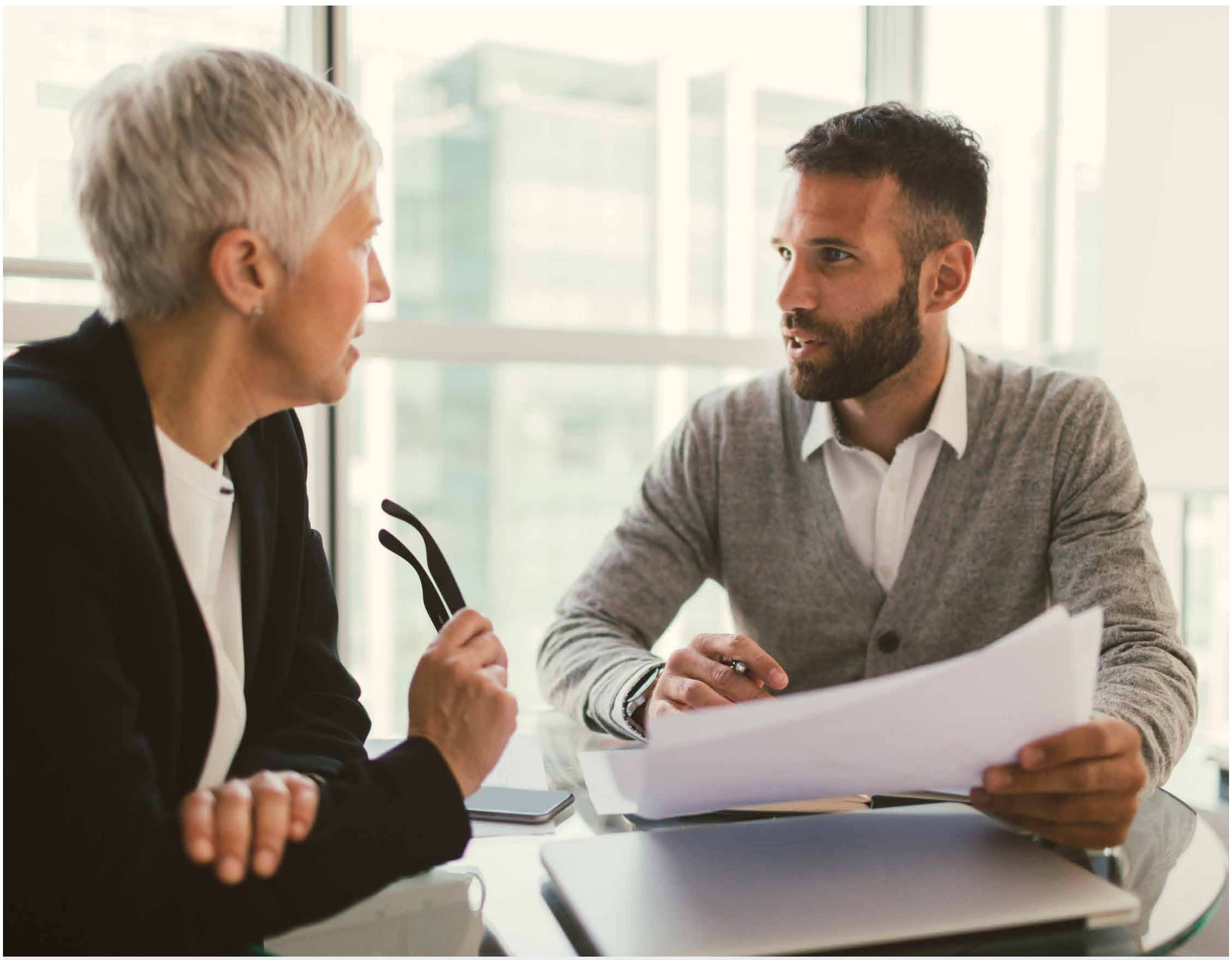
Lack of a selling strategy

Timing is important: your company's performance, the economic environment and your industry's outlook all make a difference because it's harder to sell during challenging times. Understanding the differences between potential buyers is important. Strategic buyers will be right for some businesses, while financial buyers will be better for others. Know the difference. Finally, consider price, confidentiality and time; you may not be able to achieve all three of these goals, so it's critical that you decide what's most important to you.

5

Confidentiality

Selling a business is unlike selling real estate, because people are a big part of every business. Some of the employees may leave if they know the business is for sale, and staff turnover is usually bad for business. Similarly, if customers and suppliers know that a change in ownership is coming, this sometimes opens the door for them to reconsider their relationship with your business. Confidentiality is key, knowing when and how to communicate to various internal and external stakeholders will impact on the transition.



Implementing a succession planning roadmap

Developing a succession plan and following a roadmap that covers all the details of the transfer of the business can help avoid common mistakes when selling a business. A succession plan details your vision for the management of the business and the disposition of your shares in the business. You have devoted a significant amount of time, energy and money to building your business. If you're contemplating a sale to a third party or a transition to family or employees, setting goals, having a vision and developing a formalized business succession plan are critical for success.

Succession Planning Roadmap

	Goal Setting Phase (SET GOALS)	Strategy Development Phase (CHOOSE AN EXIT STRATEGY)	Strategy Implementation Phase (OWNERSHIP TRANSITION)
Personal Steps	Assess personal and family needs, goals and vision for your business	Retirement planning – Estate and tax planning	Family transition planning – Finalize wealth management plan
Parallel planning to address both personal and business objectives			
Business Steps	Business needs analysis	Development of options – Establish value	Prepare for sale or transition

There are a number of steps to consider from a personal and business point of view when **developing a succession plan:**

1 Assess your personal and family financial needs, goals and vision

It is important that each family member contributes their own goals and objectives. The business owner and their family should establish or review all of their objectives in terms of retirement, working, business ownership, wealth transfer, and so on. Establishing clear objectives for each family member will help the decision-making process become more transparent and inclusive.

2 Business needs analysis

The business will have goals, objectives and a vision independent of the family. What is the five- or ten-year plan for the business? How will the business plan be achieved? What are the obstacles confronting the business? What are the leadership needs of the business? A clear business needs analysis will simplify decision making for a family succession or third-party sale.

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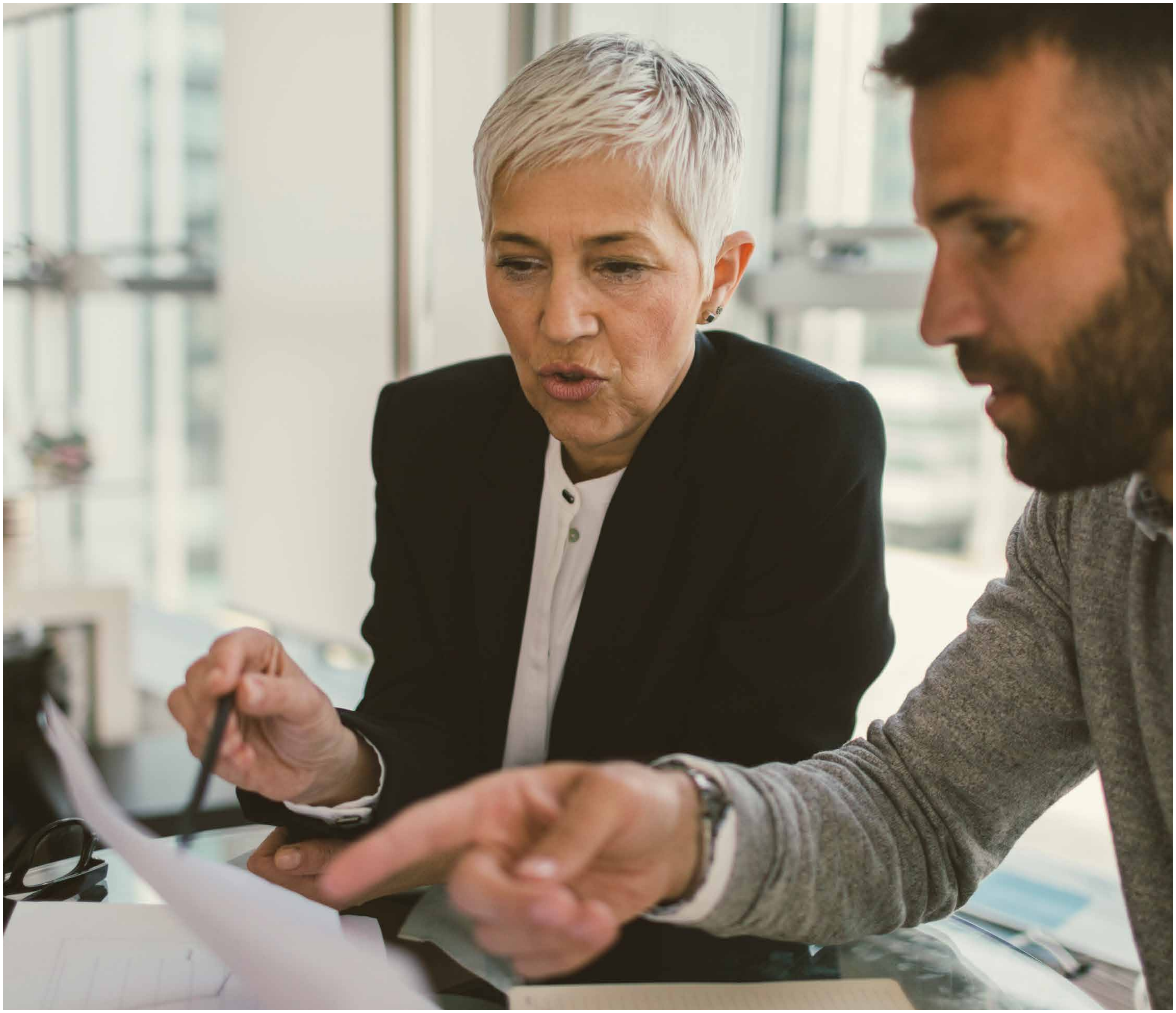
3 Development of options

This step reviews the current resources and assets available and the goals of the owner, family and the business. Options or strategies can be developed to achieve objectives with the resources available. This step requires a team of professionals to be assembled to address the goals of the owner, their family and the business and work together to analyze the situation and develop appropriate strategies.

4 Establish business value

Completing a business valuation is an important step in succession planning. The value will drive the asking price, the income tax plan, any corporate reorganization and the estate plan. Knowing the value and what drives value will help with the development of options and choosing the right alternative.



Retirement planning

The retirement plan will ensure that the appropriate level of assets is segmented, or that sources of income are available for retirement to free up business assets for succession or estate planning.

Estate and tax planning

Tax minimization and asset conversion are common objectives of estate planning, but the plan should be dictated by the family's goals and objectives for their intergenerational wealth plan.

Prepare for sale or transition

Once the family has decided whether to take on the business or sell, preparation is necessary to move forward. Either decision will require a review of information systems, review of management structure, review of financial statements, general corporate housekeeping and operational analysis.

Family transition planning

The family will need plans and arrangements to pass on your attitudes and visions for the business to the next generation. This starts with the development of a mission statement, formation of a family council and other governance elements.

Finalize intergenerational wealth plan

This plan pulls all the pieces together in terms of family and business succession. By carefully reviewing the wealth plan, the family can see the financial results of their decisions and will be able to gain confidence that they are on the right track.

Conclusion

Selling a business is a complicated process and it's important to avoid the common pitfalls that are often encountered. If you are a business owner contemplating the sale or transition of your business, setting your goals and envisioning your exit plan early is critical for success. It is important to consult with professional advisors well in advance of selling or transitioning your business. A BMO business advisory and succession planning professional can help you steer through these and many other challenges that are likely to arise.

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Preparing for the transition

As business owners plan their exit, they should ensure that all of their constituents are informed and prepared for the transition of the business.

The constituents typically include members of their family, the management team, current employees, customers and suppliers. The foundation of a smooth transition is open communication. Bringing up the idea early helps prepare everyone for change and allows them to address concerns, risks or identify issues that may arise later. In addition to open communication, there are some other strategies worth considering.

Management succession plan

A management succession plan is the best way to prepare the management team and current employees for a transition. This plan ensures that there is a smooth transition of power and leadership within the business. It ensures business stability and continuity, builds confidence in suppliers and investors, boosts workforce morale, incentivizes the best employees to stay and increases the overall value of the business.

A few things should be considered when preparing a management succession plan.

- Document formal job descriptions for each of the key positions in the company
- Identify individuals within the company who have the skills and attributes to grow into leadership roles
- Note the gaps in knowledge of prospective leaders and plan for ways to bridge those gaps
- Communicate the plan to people within the business, lawyers, accountants and other professional advisors

With a plan in place, your business will experience a smoother transition as you exit from the business.

Business valuation

Many business owners do not know the value of their company at any given time. A business valuation can provide that important piece of information, which can be used as a fact check or benchmark. Additionally, it can be used for planning and negotiating the transfer strategy when exiting the business. However, be aware that a business valuation is a subjective process and the results can vary according to the approach taken.

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Nondisclosure agreements and due diligence

During the sale of the company, some sensitive business information must be disclosed to potential buyers. Information disclosed in due diligence can include financial statements, trade secrets and details of employees, customers and suppliers. The best way to protect your business is to avoid disclosing too much, too soon and by entering into a non-disclosure agreement (NDA). NDAs are legal documents intended to prevent confidential information being disclosed to a third party or being used against the party disclosing the information.

As you start to think about the decision to exit your business, communicate openly with your constituents, devise a strategy to protect both you and your business and assemble a team that can assist you. Your BMO business advisor is available to support you as you look toward transitioning your business.

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We're here to help.™

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