Business Succession 3

For a business succession to be successful, the seceding party should first succeed. Cessation of the succession system should suffice if surface sales don’t result in sufficient surplus sums. If you get my drift.

He never saw a job he didn't want to take on. He took great pride in being busy, and his automotive repair shop was bursting with employees and vehicles to be fixed. Everyone looked busy and happy but he was constantly looking for more credit finance his growth.

So proud what's he of his business volume, that he kept a running one-line per job printout of each invoice he had ever created, taping the very first one to the wall behind the till, then running the printout up the wall and across the ceiling all the way to the floor at the other end of the shop and back again and so forth. But he never had any money, constantly showing up on my morning reports for spending money against a busily empty bank account. This brought on the usual sorts of tensions businessman have with their bankers when they write rubbery promises to pay.

His adult son, a much quieter sort of person, was clearly embarrassed by his father's bombastic enthusiasm. When I sat down with the two of them for a conversation regarding their latest request for financing, the boy seemed to understand something that dad didn't. Father bragged about gross sales growth, constantly pointing to his wallpaper-like list of achievements. When I tried to have a discussion about what was left after expenses and owner withdrawals, father looked confused while the look in the son’s eyes belied a deeper understanding. I was looking forward to the time when this adult son would take over the business himself. He clearly got it.

In the typical family business, transition to the next generation is one of the key points hinging on success or failure, followed much later by the transition from family to professional management. Usually, but not always, the elder generation has a number of important lessons to pass along to the next.

Business Succession – Part 3

The question of whether or not to sell/buy the family business is just one of many decisions a succession planning framework addresses. Specifically on this issue, both parties should initiate the following four key assessments, which we will discuss under the pseudonym’s Jack & Nancy (parents) and Adam (son):

1) **An assessment of Adam’s desire and aptitude to take over the business.** It is often assumed that children want to participate in the business. This may not be the case and it is therefore one of the first matters to be flushed out. The more difficult step is assessing whether Adam has the aptitude for the business. It’s sometimes impossible for parents to assess their own children, but there are independent firms that can help. As sensitive and emotional as this type of assessment can be, it needs to be done, even at a high level.
2) **An assessment of the future viability of the business.** Start with an assessment of the industry where the business exists and then of the business itself. The assessment should include understanding threats such as future competition and opportunities such as those presented by shifting demographics. Armed with a clear understanding of the business landscape, the assessment should turn to the “tools” that the business have or should have to ensure long term viability – that is, what are the company’s strengths and weaknesses? This type of analysis should help Jack and Nancy understand the risks, challenges, and merits of keeping or selling the family business.
3) **A valuation of the business.** A business valuation is a very useful exercise. The valuation not only will help Jack and Nancy determine value prior to exit but also puts a financial context to their succession. The latter sheds light on the financial viability of their retirement and how much risk they can afford to take to achieve their retirement goals.
4) **An assessment of the saleability of the business.** Factors beyond owners’ control can sometimes prevent the sale of a business even though keeping the business may not be the

preferred alternative. In such cases, the family's broader objective of maximizing wealth from the business would dictate the decision.

The results of the above assessments will help determine if retaining ownership or selling the family business is prudent. Families should not be boxed into feeling it is an "all or nothing" decision and instead that it is fine to explore combinations of family retention and partial sale of the business. It should also be clear that the answer to whether to "keep or sell" is not mutually exclusive. In fact, families can sometimes retain some family ownership while protecting family wealth through a partial sale.

Granted, a partial sale can be more complicated to implement but the outcome can be rewarding. The following is an example how you can use the results of the four key assessments to decide on whether to keep or sell the family business.

And as our initial story so clearly indicates, the sale needs to make sense to all concerned.

Where opinions are offered, they given in good faith by the writer, but may not reflect the opinions of RBC Dominion Securities Inc.

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