



***Business Affairs Ltd.***

*since 1985*

BUSINESS MANAGEMENT  
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## **SUCCESSION PLANNING**

What's your game plan?

When would you like to sell your practice? How long do you plan to practice (after you sell)? How will the sale of your practice fit in to your Retirement Plan? Do you have a Retirement Plan in place? What is the best way to sell your practice? How will your choices affect your family?

The answers to these types of questions help to lay the foundation of your Succession Plan.

When should a Succession Plan be developed...it's never too early to start, especially since a Retirement Plan is involved. The earlier you start the more you may have to modify it depending on how much your circumstances change. However, the earlier you start the sooner you'll know where you want to go, metaphorically speaking. Once you know where you want to go, you can chart a path to get there.

If you don't have a Succession Plan, how do you know what you're doing is the right thing?

A Succession Plan marries your business (professional) and personal affairs.

Without a succession plan, you might be forced to sell your practice for much less than it's worth. If you want to capitalize on your investment, whether by selling your business and/or handing it over to the next generation, putting in place a succession planning strategy *now* is one of the smartest things you can do.

### **What it is**

Succession planning is just that: the process of planning, in writing, who will take over your business and how that transition will occur. Seemingly straightforward, succession planning

involves many factors and can be a lengthy and complex process.

### **So start now**

A pain-free transition is difficult to ensure unless a clear and comprehensive succession plan is adopted years before you retire or sell the business. Plan for at least five years in advance. Eight or 10 years is even better. The sooner you start, the more wide-ranging your succession plan is, and the easier and more successful your transition will be. Planning early will present you with the greatest number of options to protect your business, your family and your capital.

### **How to begin**

Before you begin thinking about drafting a succession plan there are a few options to consider:

When are you going to retire? Who's going to manage it when you step down? Will you play any role in the business after you've retired? How will ownership be transferred? Will your business carry on? Should it be sold outright? And how do you best capitalize on your capital investment? A good succession plan must take into account all of these possibilities.

### **Who will replace you?**

Who will take on your role, after you're stepped down? A family

member or a valued employee? Is he or she capable of taking on these responsibilities? How much do they know about the business? And do they have the personality to lead the company?

When planning for succession, it is critical to take into account the emotional stake some family members and employees might have invested in this issue. But emotions should never cloud your decision; the person chosen to succeed you should be the one best suited to lead the company.

### **Communicate..**

#### **Communicate early..**

An essential part of the planning process, well in advance, is the need to discuss the issue of succession with family members, key managers and employees. Failure to take this initiative is one of the biggest obstacles to a successful succession. It is a complex process, much of the process depends on other people, but it starts with you, the owner of the business.

#### **Should you sell?**

If there is no one family member or partner capable or interested in managing the business, then you need to think about selling the business. You can sell to employees, or to outside buyers but either way, to ensure the best sale possible, you will

need to take a hard look at the current state of your business.

### **Analyze your business**

One of the most important aspects of your succession plan begins with the analysis of your business. This means taking a close look at how and why your business works. If, for instance, your business has prospered, you'll need

to understand why so that you can ensure it will continue to do so. If your role has been critical to that prosperity, you need to consider how you can begin sharing some of your responsibilities with others in the company.

### **Create a thorough financial picture**

Review your company's financial statements and evaluate the current net worth of your company. This information will help set a realistic purchase price. It will also provide critical information to your successor. You will, in any event, most likely need a professional appraisal. That, together with your financial statements and budget projections, can provide a thorough financial picture of your company.

### **Put your house in order**

If your business has suffered financially, if there is too much debt,

and poor management, now is the time to address these issues. Begin paying down debt. Look to replace or add staff and take time to find the best people to fill the positions. Do what is necessary to turn your company's fortunes around long before you retire or show the business to prospective buyers.

### **Always plan for the unexpected**

When creating a strategy, you'll need to explore all possibilities. For instance, as a business owner it is important to plan for the possibility of death or disability. Could your company survive your loss or the loss of a partner? How would such a loss affect the company's saleability? For these eventualities, it is important to work with professionals to create a formal plan that addresses these concerns and the needs of those who remain in the business.

### **Seek out a succession-planning team**

Assemble a succession team of experts. There are lawyers, accountants and financial advisors to assist you in defining objectives and developing a plan.

### **Selling your company, effective representation**

If you decide to sell your company ensure you have professional representation. There are companies that specialize in small and family-owned business succession planning, who can connect you to potential buyers, broker deals and even negotiate complex transactions. Stonecroft+Partners is one such business solutions firm that can help direct your efforts.

### **What's left?**

Your company not only represents your legacy, but also the capital you'll need to live in retirement. A good succession plan is your retirement nest egg: it will ensure that you have the funds you need to retire and that the business you have built continues to thrive.

### **TAX TIPS AND TRAPS**

We have included two Tax, Tips and Traps newsletters for your enjoyment. And if you're really motivated, we've included the GGA's of Ontario guide to Personal Tax Planning for 2004/2005.

### **HAPPY HOLIDAYS**

From everyone here at Business Affairs, we wish you all the best for the Holiday season, and health and happiness in the new year.

Client Surveys  
Corp Excess Cash  
Free Insurance Analysis  
Happy Holidays Sentiment

Closed for the holidays  
Succession planning (CFIB article)  
CFIB Courses  
2005 Salaries for 2006 RRSP contributions