Plan for the future

Succession planning for business owners **Interviewed by Steve Trusty**

Sometime in the near or distant future any business is going to face the inevitability of the owner moving on.

"The right time to think about succession is three years ago," says Michael O'Rourke, CPA, ABV, CVA, a partner located in the Fort Lauderdale office of Berenfeld Spritzer Shechter & Sheer LLP. "Today is the next best time. You and your business are going to be much better off if you plan right now to be ready for an opportunity or an unforeseen event."

Smart Business talked with O'Rourke for more insight into the steps to take for a smooth transition from owner to nonowner.

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Why is it important to start planning for succession now?

There are many events that create a need for a business to change hands. Retirement is one that can be predicted and timed. Most others are unpredictable. They include illness, death of a principal or key associate, divorce, burnout, partnership dispute, or desired change of career or geography. There are too many options to leave them for the last minute. It is also important to recognize that sophisticated planning cannot be accomplished immediately and problems cannot be remedied overnight.

What are some of the planning issues to consider?

If you are planning for retirement, you need to think about financial independence, business succession, investment management and charitable intentions. In preparing for the unexpected, you also need to consider survivor needs, taxes (including income, gift and estate) and estate administration and distribution. You have to consider all of your assets and how any sale fits into your overall plan and allocation of assets.

After deciding to start the succession planning process, what is the next step?

It is extremely important to obtain the services of the right professional to assist you throughout the process. A good adviser will make sure you pull together the proper pricing, packaging and accounting. Confidentiality can be a factor, and your professional can make discrete inquiries on your behalf. The adviser can provide a variety of marketing tools, including the Internet and brokerage channels. Access to specialized databases allows your adviser to identify industry strategic and equity fund buyers. The adviser can handle arms-length negotiations and prepare the contract and documents, including IRS filings. He or she can assist in securing optimal asset allocation. And last, but not least, through a team approach, he or she can help get everyone on the same page.

What are some of the possible purchase entities that might be considered?

Buyers within the family may be considered through gift or sale. Associates and partners are potential candidates. Employees could be potential buyers through an ESOP. The business could be given to a charity through a charitable remainder trust. Another business in the same industry, third-party individuals, equity funds and strategic investors are other possibilities. It is important to review all the options and evaluate total value potential, not just a sales price. Tax and accounting consequences must be taken into consideration.

What are some of the value drivers that help promote overall value?

Increasing cash flow and developing operating systems that improve sustainability of cash flow are important. Document the sustainability of earnings. Improve the facility's appearance. Increase the value by paying down debt to an optimum level. Solidify and diversify your customer base. Implement a strategy to grow the company. Build a solid management team and groom a successor.

What operational areas should be considered to increase value?

Identify areas in the business operations that could be improved. Sell or eliminate weak product lines that operate at, near or below break-even. Strengthen profitable product lines by allocating additional resources to them. Diversify the customer base as much as possible. Substantiate customer agreements with signed documents whenever possible. Reduce over-reliance on specific customers and vendors. Formalize verbal agreements with suppliers. Be sure agreements are transferable to any potential buyer. Assess internal controls and implement methods to strengthen them where possible.

What are other steps to take in preparing for the sale of the business?

Eliminate multiple accounting systems. Minimize obvious perks that may make perfect sense with you as the operator but won't be necessary to a potential buyer. Have the books reviewed and preferably audited. Mitigate heavy concentrations of revenue. Improve the cosmetics, as when selling a house. Stabilize revenues and cash flow. Think of what you would be looking for if you were buying the business. <<

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