Business Succession Planning Checklist

The business succession process isn't a "rainy day" task. It's a living process that you should start as soon as possible. You've probably given it some thought and almost figured out how you want to transition your business, but an "almost" succession plan is no plan at all.

Let's break down the business succession planning process into practical steps that build on each other.

Step 1: Clarify Your Goals and Vision

Clarifying your goals and vision will help you know what's important in your succession plan and where to put your energy.

Questions to ask yourself:

1. What are your core values as a business?
2. Does your business culture reflect your core values or are they aspirational?
3. What is your purpose and vision and are you living it out?
4. Does your staff share this vision? Does it permeate your firm?
5. Does your history hold up to this kind of vision?
6. If you have identified a successor, do they embody your goals, vision and core values?

Questions to ask yourself about succession planning:

1. What is your primary goal for succession?
   - [ ] Liquidate the business and retire on the assets
   - [ ] Pass on the business to family
   - [ ] Pass on to key employees
   - [ ] Sell or merge with another organization
   - [ ] Other ______________________________

2. How do you feel about your business?
   - [ ] It is my legacy that I want to pass on for generations.
   - [ ] I don't have family members or key employees interested in carrying my business forward.
   - [ ] It is not sustainable for future generations.

Step 2: Identify Key Positions and Risk Factors

Understanding who your key employees are and their impact on your business – including what might happen if they left – is critical to the due diligence process and shouldn't be overlooked.

Questions to ask yourself regarding staffing:

1. Which employees are hitting their KPIs consistently?
2. Which employees are in sync with the culture and, more importantly, thinking ahead?
3. What would the risk be if that **key employee left**? Do they have licenses or publications to their name that aren't easily replaced? What kind of damage could they do with a competitor?
4. Are you paying and rewarding your key employees adequately?
5. Do they know they are part of the succession plan?
6. Do you have key employees that are not meeting your standards?
7. Have you rated all of your employees' effectiveness and potential?
8. Are these key employees ready to take over the responsibility of your role?
   - What training needs to be in place?
   - How long will it take?
   - Who replaces that key employee in their current position? Is that person ready to assume those responsibilities?

Step #3: Conduct a Financial Analysis of Your Business

You've taken a snapshot of your vision. You've taken a snapshot of your key people. Now take a snapshot of your business as it stands today. Are you keeping the lights on or are you thriving?

Questions for the Analysis of Your Business:

1. What is the valuation of your business?
2. Date of last valuation:
   Keep in mind that current market conditions, cash flow, demand for product and other fluctuating factors can impact and change your valuation. It is **not a one-and-done** number.
3. What is the cash flow situation with your business? Is it consistent? Do you have a lot of debt? If you are debt-heavy, what is your repayment plan and what impact might it have on a succession plan?
4. Do you have big planned future expenses?
5. Is your cash flow growing?
6. How are you reinvesting back into the business and your key stakeholders?

Business Valuation: Times–Revenue Method

There are many different valuation methods out there – from hiring someone to give you a valuation to using formulaic approaches. Some firms even average several different valuation formulas.

The times-revenue method is a fairly simple formula for valuation. In **this model**, you take the total revenue for a year times a certain multiple to get your valuation. The multiples are specific to the industry, such as 1.06 for home furniture retail or 2.21 for a restaurant. Other more technology-driven or recurring revenue models can see significantly higher multiples, so it's very industry and client-dependent. See more **industry multiples**.

Total Revenue for a Year: ______________________

Multiple for a Particular Industry: ______________

= **Business Valuation:** ______________________

Note: Business valuation can be very complex. Your financial advisor can help you determine which approach will be effective for your business.

Make an appointment today

Step #4: Plan for Different Scenarios

Foreseen and unforeseen circumstances alike could serve as the catalyst for your succession plan. It's important to consider both.

Foreseen Circumstances:

- Retirement
- Passing on business to a chosen family member or key employee(s)
- Selling/merging the business

Unforeseen Circumstances:

- Death of owners/partners
- Divorce in which spouse has an interest in the business or is a partner
- Mental/physical incapacitation from injury or illness
- Regulatory issues

Step #5: Document and Fund the Process

If it's not documented, it didn't happen – or in this case – it likely won't happen. Your process will be unique because your company is unique, and writing it down will bring clarity to the transition. Ultimately, documentation leads to implementation. If you do all the other work but never implement and fund the plan, you have the "almost" plan, which, again, is no plan at all.

Questions to consider when documenting the process:

Timeline

1. What is your retirement date?
2. How long should the transition take?

Successor

1. Do you have a chosen successor? Or are you leaving to a group of partners?

Sell/Merger

1. Are you in negotiation with a buyer?
2. Are you willing to list your business on the marketplace?

Standard Operating Procedures

1. What operating procedures are in place for everything from payroll to IT?
2. Which manuals, computer processes and business culture items do successors need to know about?

Finances

1. What does your cash flow look like?
2. What's your current business valuation?
3. Do you have life insurance/buy-sell agreements in place?

Funding the Process

Transitions can take an extensive amount of time and money, including for hiring and training, if needed.

1. What funding measures does your succession plan have in place to cover these costs?

Buy-Sell Agreements

1. Are you covered by a buy-sell agreement?
2. Are the policies up to date?
3. Are the policies large enough?

Remember a succession plan also covers worst-case scenarios like the death of a founder, etc., that a buy-sell agreement would cover.

Executive Bonus Plan

1. If you have identified a successor, have you implemented an executive bonus plan or some other measure to ensure this person will be there?
2. Do you have any golden handcuff provisions to help keep people with the firm?
3. Are retirement savings sufficient?
4. Are you giving people true ownership and equity in the firm?
5. Do you know if the person who could step into your successor's current position is going to be there?

Step #6: Communicate

You should always communicate your plan as a living framework to need-to-know stakeholders. Companies and individuals change, and a rigid expectation of who gets to know your plan won't serve you well. Here are some people and positions you should communicate your plan to:

- Successor: ______________________
- Internal candidates for the successor's position: ______________________
- Buyer or key people at merging company: ______________________

Your Business, Your Dream

A succession plan is vital to the health and strength of your business today. Our team of advisors can help you talk through your succession plan, whether you're looking for help with valuation, documenting processes, planning funding or simply brainstorming ideas. It's your dream – let's make it last.

Make an appointment today