# Businessure Consulting

GROWTH TEAM FOR BUSINESS

## WOULD YOUR BUSINESS SURVIVE IF YOU WEREN'T THERE TOMORROW?

Abstract: While some businesses put together comprehensive continuity business plans, the majority of businesses aren't ready for a seamless transition that could happen if the leader suddenly dies, is taken out of the business due to a family emergency, is diagnosed with a serious illness or decides to retire. Most businesses need three to five years to recover from such a major leadership transition. Some will say, "I have plenty of insurance." Or others will point to an estate plan or will that may include references to the business. But are your employees ready to take the helm? Does your family approve of the plan? For many business leaders who plan every aspect of their day, helping your business and employees thrive after you leave isn't top of mind. Whether you call it planning for succession, continuity or growth, if you fail to plan for a seamless business transition, you will indeed fail to protect your loved ones, employees and your legacy. This white paper will address all the areas you need to consider if want your business to survive tomorrow.

# SECTION 1: WHO WILL LEAD THE MORNING AFTER YOU'RE GONE?

Whether your chair is empty because of a planned transition to new leaders or the victim of an accident, there will come a day in your future when you won't be pulling into your designated parking space. Having devoted a good chunk of their lives to building a business, some leaders may find it difficult to think about who will lead in their absence. Most management gurus say succession planning is one of the CEO's most important jobs.

When titan Jack Welch took the helm at General Electric in 1981, he took the company to new heights by mercilessly slashing bureaucracy, creating a legacy of unmatched tenacity. He actually had three internal finalists compete for the CEO position to replace him. Lee Iacocca at Chrysler also left a legacy of greatness, and prepared leaders to take over when he left. If they had the wisdom to prepare their teams for transition, why wouldn't you? Companies regardless of size, experience many changes in leadership, acquire companies, sell divisions and more.

If you weren't there to run your business, how would it perform? For more than half of the companies in the United States, the answer would be a question mark. Whether you're trying to pave the way for the next generation, or merely trying to strengthen your company's growth, there are many things you can do today to lead successfully.

These four examples provide some good food for thought on what to do – and what not to do to prepare your company for new leadership. The company names have been omitted to respect their privacy, but the situations are real.

## Company A

A publicly traded company with 8,000 employees. The owner wanted to sell the business due to age and health reasons. First, he asked his family if they would like to take it over. None of his children were ready or wanted the business. He chose to sell. A senior executive with good business knowledge was brought in to prepare the company for sale. He worked with existing leadership to build top- line revenue while decreasing expenses. Over the next few years, revenue grew at a steady pace while costs were reduced. More importantly, the company culture and its employee-focused beliefs remained in tact. The result: The company was acquired by another public firm for a premium share price.

## Company C

The owner wanted to step back in his responsibilities in a sales organization and wasn't sure what to do. The first step was to assess his current situation. An in-depth analysis was done with his entire staff. We used a combination of web surveys and face-to-face interviews. We uncovered many surprises. A high percentage of team members were underperforming due to workloads and training. The opportunity lost may have equaled twice the business volume the company was currently producing. Upon this discovery, the next phase of the process addressed strategic needs and to prepare leadership for a transition. Key managers were brought together to work through the issues discovered during the first phase of the process. Many of the key managers and individuals who participated in the process brought unique subject matter expertise and made recommendations to improve operations. Each person became accountable for an objective that fit within his/her talent set. The result: the company is making tremendous strides towards becoming a growth business, while giving the owner peace of mind for the future.

## Company B

A small, but growing company in the Midwest. The CEO of this privately-held company wanted to maximize growth. He wasn't concerned about selling the business or retirement. He was, however, constantly looking to build a better mousetrap. Business was good. He had several loyal employees and, like most companies, a few bad apples. The first goal was to define what his business was and why it was different. After that task, we looked at the values that drove the company. During this process, a few employees stood out as being a wrong fit. As the owner worked to further align the organization with his vision, he provided an opportunity for the wrong fits to leave and worked with his team to hire new talent. The result: double digit growth since 2007. During the worst part of the economy decline, when his competitors were hoping to break even, he continued to grow. Today, he is grooming people for partner roles and is able to spend more time with family and pursuing other interests.

## Company D

The owner of an agricultural company wanted to retire and looked to his family members who worked in the business to take on more responsibilities. Neither of the two children who worked in the business were in a position or had the desire to take a larger role in the company. A third child who didn't work for the company wasn't consulted about the opportunity. The owner looked to other long-term employees who knew the business and had leadership potential. Over the course of a year, he selected one individual to lead, drew up the legal papers and was ready to head south for a well-deserved retirement. He passed away before the legal papers were signed. The child who wasn't involved in the discussion put up a legal battle for the company as part of the estate. The family was in turmoil. The business was leaderless as key employees decided to leave rather than deal with the drama. The result: The business went into bankruptcy after it floundered for several years during the legal wrangling.

Given the complex issues involved, succession planning can be very time-consuming. In some cases, it can take a year, or more, for a business owner to draft and begin to implement a succession or growth plan. However, the absence of a plan leaves a lot to chance. The bigger question is: can you afford not to plan?

# SECTION 2: WHY IS IT SO HARD TO PLAN?

Succession planning requires discipline and the ability to talk about difficult topics that many of us would rather not face – as individuals and as organizations.

Many business owners and entrepreneurs are used to flying by the seat of their pants. Planning usually means putting objectives in writing and planning a single course. Some leaders believe planning restricts their freedom. Placing a commitment in writing means you have to do what you set. A good plan will be a fluid document that constantly evolves. It should focus the efforts of the executive team and provide direction to the staff. The plan needs to be flexible enough to allow for changes when initiatives change for various reasons (timing, aligning to company direction, barriers become greater than ROI, etc). Where the planning is crucial and unwavering is how changes align with the "Why" of their existence. Why is like your vision. It is your reason for being. It defines the company in a way that people can relate to.

It requires time and effort, both of which come at a cost. For most companies, staff capacity and financial resources are already allocated. While larger organizations may have greater capacity to invest in activities like long-term strategic planning, small organizations with limited resources have a more difficult time finding the resources to plan ahead for the future.

Planning ahead acknowledges the reality of one's limits and mortality. In short, it reveals answers to uncomfortable questions. What if the executive became disabled or encountered a personal crisis that forced him/her to leave the job? What if the individual is no longer the right person to take the organization into a growth phase? What if the individual expected to take over the company suddenly leaves and takes a different position? How about a disability that renders an owner unable to work? Questions like these can call up difficult feelings about admitting weakness, giving up – or even betrayal. They need to be addressed with the best interests of the organization in mind - and with great sensitivity to the people involved.

It challenges organizations to think strategically about what the future holds. Most companies grow organically through the vision of the founding entrepreneuer. Many focus on short-term, day-to-day challenges without taking the time to think about a longer-term strategy. Preparing for a future that may be three, five or ten years into the future is foreign, and difficult for most people to comprehend.

It pushes people out of their comfort zones, requiring them to have conversations and decisions that are sometimes difficult. During strategic planning, issues of roles, authority, responsibility, and accountability surface. These kinds of conversations are typically off the table or happen only behind closed doors. Succession planning often sheds light on issues that may be resulting in lower productivity and lost revenue.

These may seem like reasonable concerns, but business owners who fail to make decisions leave it to the fates, which can be incredibly difficult for the family, business associates, employees and all those connected to the company.

# SECTION 3: BARRIERS TO OVERCOME

The process of succession planning often uncovers barriers that need to be overcome to make a transition seamless. For instance, many successors don't have the money to buy a business outright, preferring to pay over time, which can give them the opportunity to make annual payments from company earnings. Others decide to provide financing until they're confident that the new leadership is moving the company in the right direction.

Another stumbling block is assessing what a business is actually worth. In many cases, businesses are worth far less than owners believe. Valuations are based on many factors, including hard assets (real estate and machinery), and the ongoing cash flow of the business. There are also soft costs like intellectual property, the wealth of knowledge that lives within long-time employees and relationships with customers.

For example, an owner might insist that his business is worth $3 million, but investors considering a purchase say they believe it's only worth $1 million based on their analysis of the business operation, future growth and opportunities within the marketplace. Valuation analysis can be a huge wake-up call for owners. After devoting most of their lives to the business, they discover they may not be able to support the lifestyle they want in retirement.

Obtaining a valuation from a third-party could be critical to making your business appealing to another company for acquisition, but it's also important to know as much as possible about the financial health of the organization before moving too far down the road.

## UNDERSTANDING YOUR FINANCIAL BUSINESS

Financial management consists of many actions and processes that an owner must understand to grow the business, prepare it for acquisition or future generations. Your financial planner needs to understand each of these areas to provide you with the best options for you to consider about your business.

- Accounting and Bookkeeping
- Addressing Financial Controls and Risk Management
- Activities in the Yearly Accounting Cycle
- Financial Planning
- Budgeting
- Managing Cash Flow
- Credit and Collections
- Budget Deviation Analysis
- Financial Statement Analysis and Reporting
    - Profit and Loss Statement
    - Income Statement
    - Balance Sheet
    - Financial Analysis
    - Profit Analysis
    - Break-Even Analysis

## ARE YOUR FINANCIAL MANAGEMENT PRACTICES IN ORDER?

A successful business requires effective planning and financial management. Ratio analysis is a useful tool that will improve your understanding of financial results and trends over time.

For ratios to be useful and meaningful, they must be:

- Calculated using accurate financial information
- Calculated consistently from period to period
- Used in comparison to benchmarks and goals
- Used in comparison to other companies in your industry

Ratios can be divided into several categories:

- Profitability
- Operational Efficiency
- Liquidity
- Leverage

These ratios represent some of the standard ratios used in business practice. You can also develop your own ratios and indicators based on what you consider meaningful to your organization.

## WHO IS THE KEEPER OF YOUR BUSINESS KNOWLEDGE?

The planning process may also point out gaps in the skills of your leadership team. Knowing about the weaknesses or lack of skill sets can help you prepare for the future by shoring up the skills the business needs to be successful for the long-term.

Most business owners started because they were good at something. A good example would be the plumber who starts doing side jobs then eventually quits his regular job to do plumbing on his own full time. Eventually what starts as one man (or woman) with one truck, expands to multiple vehicles and employees. As the business continues to grow, the complexity of the operation causes the owner to spend all their time running the business instead of doing what they started the business for in the first place.

The business is the owner's baby. They are often actively involved in multiple facets of their operation. It is not uncommon for the owner to be the top salesperson, key decision maker for operations, chief visionary (also usually the only one who knows the direction of the company). He/she may have people around them that fill managerial roles, but they are often not equipped to take over the operation if the owner were to quit performing duties. This is where the value of the business is tied up as intellectual property within the owner. The degree of knowledge combined with their experience and drive become the true value of the business. If the owner hasn't done a good enough job separating from the business, he/she takes the value of the company with them when they leave.

# SECTION 4: WHO KNOWS YOUR PLANS?

Communication. Simple word, but few companies invest the time and effort necessary for transparent communication as they play for the future. Sometimes it's because it's a family-run business and those conversations can be especially difficult. Other times it's because the owner wants to keep the news to him or herself, believing there is greater power in remaining private. And in some cases, it just gets overlooked.

Failure to communicate to the most important people in your business about where the company is going could weaken your brand reputation (internally and externally). Here are a couple of examples of what works – and what doesn't work when it comes to communicating with your target audiences about your intentions.

## Company X

**Four equal partners in an equipment company began to talk about the future.** Two of the partners were in their early 60s, seeking to cash out their shares so they could retire without any further ties to the business. The other two partners were in their early 50s, not near retirement, but didn't have the cash flow to buy out the other two partners. Word that the company would likely be sold began to leak, rumors started reaching customers and employees who had planned to continue at the company began to seek other employment. The four partners didn't realize that their inability to reach consensus was already costing the company revenue, clients and employee loyalty. When they finally made the decision to sell the company two years later, the valuation was considerably less than the original one because the brand's reputation was impacted because of negative perceptions that could have been avoided if they had communicated intentions early in the process and avoided two years of bad will.

## Company Z

**One leader in a major technology company secures the future.** One of the challenges that companies with dynamic leaders face is what will happen to the company when that leader retires, becomes incapacitated or dies. This is particularly critical for high tech companies that embed technology throughout client organizations that are licensed well into the future. The cost to switch out technology is significant and the decision to invest in the future requires a level of comfort that the technology will not become obsolete if the CEO leaves the company. This company knew the concerns and invested in a comprehensive succession strategy that was shared internally with employees and the board, as well as with customers. Whatever the future holds for the CEO, clients are relieved that the company will be secure for generations to come.

So who should be part of the communication strategy? Look at the most important people to your business. If you have a family business, make sure they become ambassadors for your plan. Disruption in the core ownership not only leads to hard feelings, it sends a message that you don't have your own house in order, leading to concerns about the future.

If your family isn't involved in the business, you will still need to include them in your communication strategy as they could disrupt your plan if you should die suddenly.

Here are some guidelines for communicating with key audiences.

Start internally first – employers and stakeholders (like a board) should be involved in creating the plan. How will they react if you weren't at the helm? Will they respect or know the designated leader? They become more invested in the company when they're involved, and more likely to execute the plan you prefer. As it stands right now, most employees only use between 20-50% of their potential at work. The planning process could lead to more engagement and result in more productivity.

Then, start to look at external audiences, like your customers. If you want to keep them in the future, sharing your plan with customers is just smart business. Then you should look to your community. Your business helps drive the economy in your area. If you're successful, and plan to be there for the long-term, make sure business leaders in the area are included in your communication strategy.

# SECTION 5: CHECKLIST OF "MUST DO" ACTION ITEMS FOR SUCCESSFUL PLANNING

It takes a (small) village to create a succession plan that works best for you and your company. Here are a few checklists to help you get things going.

- Develop an emergency succession plan
  - Process usually takes two to four weeks, but is critical in the event of sudden death or incapacitation
  - The plan includes:
    - Who will fill a specific vacancy in case of emergency who will serve as a backup to that individual
    - What is the authority of that individual? It should include the role of the board or oversight of the temporary leader.
    - How will this impact other roles in the company during a specific period of time?
    - Communication strategy for all target audiences (internal and external)
      - Includes holding statement for immediate release to the press to control the messages and protect the brand
- Start a full plan by assessing the current environment
    - Assess current talent and find gaps
    - Career map your talent.  Determine next moves for key leaders. Begin grooming new talent for future roles and leadership positions.Create an environment that reinforces regular communication of strategy, direction, values, company goals and individual goals
    - Focus on personal growth with your team.  Highlight talents versus position.  Develop people to make the most of what they possess instead of trying to make them into something they are not.
    - Obtain a third-party valuation to assess financial health of the company
- Define opportunities
    - Skills/talent that will be lost in transition
    - Markets – where do you want to be in 3, 5 and 10 years?
    - Willingness to invest
    - Innovation
    - Business culture
- Build action plan
- Change culture to attract new talent
- Hire the right people
- Hold accountable
- Communicate
- Follow up

Leaders must also work on Leading Indicators. Most businesses don't understand the difference between Leading Indicators and Lagging Indicators, thus they measure and track the wrong things, expecting different results.

Lagging Indicators are easier to define and easier to monitor. They include:

- Sales revenue
- Profits
- Customer growth
- Industry status

However Lagging Indicators are after the fact. To increase sales, you cannot just "will" it. You have to know what elements of your business (the Leading indicators) impact the outcomes (Lagging Indicators). For example, let's say you are trying to increase your customer retention. While measuring customer retention isn't a bad thing, you have to know what impacts it. Working with a company on this issue, we found that the number of contacts after the sale were virtually nil. We uncovered a simple solution that would require the sales staff to meet with their customers at least annually based on priority (size of customer, amount spent, opportunity for increased sales, etc.). These meetings were meant to learn more about their business to look for opportunities, make referrals to other clients, etc. In other words, the company needed to show they cared about the business. Through that fact find, eventually they would come across opportunities to increase business thus increase revenue and retention. The Leading Indicator, in this case, the meeting, resulted in the Lagging Indicator (customer retention) improving.

## SOME PARTING THOUGHTS

Whether you're planning for succession or creating a roadmap to grow your business, there has never been a better time to create YOUR plan. As George W. Bush often said, "You are the decider." Getting in front of planning while you have time to make key decisions for the business is always the best way to manage the future. Though the odds of facing an unplanned need for succession are very slim, it is worth being prepared for it. Don't be caught short without an emergency succession plan.

As a side benefit, it has been established that businesses that take the time and effort in creating growth and succession plans are more successful than those that do not. Just by putting your attention on the future you inevitably find yourself building a stronger, more successful business. So don't wait until it's too late. You'll be glad you did.

## ABOUT THE AUTHORS

Dan Paulson
President
InVision Business Development
www.invisionbusinessdevelopment.com

Barbara C. Hernandez, APR
President
BCH OnPoint
www.bchonpoint.com

William J. Sutherland
Financial Advisor
Three Pillars Wealth Management.
www.linkedin.com/in/wsutherland

InVision
Plan Coach Develop

BCH OnPoint
PUBLIC RELATIONS | CRISIS MANAGEMENT

THREE PILLARS
WEALTH MANAGEMENT