

# Media Mention: Adam Beaudoin's Insightful Discussion on Succession Planning

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## **No matter the size of a business, every company needs a succession plan.**

These plans address the inevitable changes that occur when people die, get sick, resign or retire. The result of a good succession plan is a seamless transition with less likelihood of disruption to operations. So what should you include in an exit strategy? The Wilmington Business

Journal asked four experts about how to get started on a plan. Here is business attorney Adam Beaudoin's "Insightful Discussion on Succession Planning for a Successful Future."

### **What are the benefits of a succession plan?**

Succession planning is basically a smaller component of exit planning strategies for a business owner. Succession planning is simply an existing business plan to transfer management, ownership, and control of that company from one generation to the next within the business itself.

Such transfer doesn't necessarily have to be to family members; it just could be to a different management team. The benefit of succession planning is that it allows the owner to hand-pick the new management team members and establish the timing of the transition of the business, as well as create certainty surrounding cost. In a nutshell, the succession plan establishes who, when and how the transition of the business will take place.

### **What possible issues or problems can result from failing to plan?**

This reminds me of a basketball coach I had in high school who would say, "Failing to plan is planning to fail." I thought that was hokey and corny at the time, but the problem that develops from failing to plan is basically, worst-case scenario, you don't get any value for your business and there is nothing to pass on to your family.

So many small businesses – especially professional businesses, doctors, dentists, and orthodontists – are so dependent upon the relationship the business owner has with his or her customer or patient base that it's like a perishable commodity if you don't plan. If something happens – the owner becomes disabled, meets his or her life expectancy unexpectedly through tragedy or otherwise – the business owner's family is often times

left with something that may not be as marketable or as valuable as it could have been with proper exit planning strategies in place.

For most business owners, their business is their number-one asset. They're planning to take care of their spouse, their children, their grandchildren with that business. If they fail to plan, it's likely not going to happen that way.

Also, if a business owner waits too long, he or she is likely not going to receive as much for the business, and not going to have enough time to put a plan in place to really groom and bring in the next generation of leaders. It also may mean that, as a business owner, you end up working longer than you desire. Unfortunately, you may end up working to a point where you become disabled.

Another thing about succession planning, along the lines of exit planning - if a business doesn't have its books in order, it's very difficult to make sure it's moving in the right direction. Third-party buyers want to see a clean bill of health, and you're not going to get top dollar for your business or the buyer may walk away because things aren't as in order.

An example of a very basic thing we see all the time is failure to have a top management team under a noncompete. Buyers are probably going to walk in that situation, unless the business is able to get them under non-competes and, in order to do that, additional consideration must be offered.

So, those are a couple of issues or problems that can result from failing to have a succession or exit plan in place.

### **When should a business owner or leader begin planning for succession?**

At the beginning. I actually have these conversations with my clients even before we form or start the business. It's never too early.

The business community always talks about how going into business with other people is like a marriage. Everyone is happy at the altar and everybody is on the same page but over time, things can change. So, it's good to have a talk with the owner, even if it's a sole shareholder versus multiple, as to each of the owner's individual goals.

The very purpose of owning a business is to grow it, make a profit, sell it, and move on to something else. I believe reverse engineering an exit plan can be beneficial to my clients. I tell them, "Okay, I understand what you want to do right now, but let's talk about where you want to be five or 10 years out, then let's reverse engineer this plan, working backwards to actually help you achieve it."

And I think a lot of times, too, when someone is starting a business, it can be difficult to pay for professionals, and there is a desire to put it towards the actual vessel of the business. But the reality is that if the business owner doesn't get it right out of the starting blocks, it's going to be much more expensive to correct later, not only from a cost perspective but also from an emotional- and time-investment standpoint.

### **In your experience, what is the biggest reason business owners or leaders put off succession planning?**

I think the biggest reason is many of them think they are going to live forever. They're not thinking about meeting their life expectancy. It's the same reason business owners don't like to do their estate planning because it brings the harsh reality that, at some point, you're not going to be here anymore.

People don't like to focus on their own mortality. In my experience, it's difficult for folks, especially the older generation. Being vulnerable is not something they like to talk about. Millennials will talk about it all day long.

### **What are the different paths to succession planning?**

There are many different paths to succession planning. CPAs, attorneys, financial planners and consultants all can help business owners focus on which path is best for them.

These paths focus on goals: *Is my goal to turn this over to family members? Is my goal to have it not transfer to family but instead to people I handpicked? Is my goal to retire by a certain age? Is my goal to turn a certain amount of profit from a third party?*

There are a whole bunch of different ways to look at it, but at the end of the day, the ultimate goal is based on how the business owner wants the business to operate when they are no longer in control. Ask yourself what that looks like, then huddle up with your professionals and figure out the best path to get there.

### **What special considerations should be given when creating a succession plan for a family business?**

Factoring in whether some, all or none of your children will have a role in the business.

This forces business owners to really think about how they want to treat their children. In my experience, those children that own stock and are running the business sometimes can have resentment creep in towards siblings that own stock but don't work in the business. This can destroy relationships among siblings and can even happen between generations with aunts, uncles, nieces and nephews.

Family dynamics can be very challenging. It should just be business, right? But when you bring family in, you're bringing in emotion, you're bringing in spouses. And that's another thing to think about - *My daughter's great, but I don't want her husband touching the business. How do I navigate that? Or of my three sons, only one of them knows how to run the business but I don't have a large enough estate to give the other two cash.* Those are the types of things that family business owners really need to pay close attention to.

The ultimate question is - *Do your kids even want to run the business?* I have several clients that are in third- and fourth-generation businesses because the kids are groomed from day one to take over. They work every job in the business. They work their way up and they're all involved, knowing they will someday take over the business.

Other times, when mom or dad is about to retire, they'll reach out to the kids and say, "Hey, look, I know you're not involved in the business now, but would you like to be?" And if the kids say yes, then hopefully the parents can stay in place for three to five years to try to get the kids up to speed to make sure the succession plan is smooth.

### **What are the benefits and/or challenges of gifting a business?**

Under the current tax structure, most businesses are not really going to have to navigate gift tax issues, unless the business is worth over \$11.8 million.

Outside of the tax considerations, a business cannot really gift to employees. Owners can gift the children

who work in the business but not unrelated employees.

### **How can business owners or executives identify future leadership within an organization?**

I generally recommend to my clients that they hire an outside consultant that specializes in this area.

Consultants can help quantify the teamwork and mental attributes of the people you currently have in place and then, start a search to bring somebody in from the outside – but with enough time to have them kind of drink the Kool-Aid of your business’s culture. This way, by the time a business is ready for succession planning, the new manager is viewed as part of the team.

Sometimes, business owners don’t have a choice. They get boxed in because they haven’t done a good job of hiring at all the different generational levels. And so, they’re stuck with a bunch of people that are all ready to retire and they don’t have anybody young. So now, you’ve got a bunch of 30-year-olds and a bunch of 60-year-olds. That’s a wide chasm of generational values, which can be a big challenge to a successful succession plan.

### **Once high-potential talent is identified, what steps should business owners or executives take to develop those future leaders?**

I think the overarching theme is to make the talent feel appreciated. Millennials, for example, are more into the work-life balance than simply the amount of salary they will take home.

The idea that a business is going to find somebody who is in their 20s or early 30s who is going to walk through hot coals for you, work every weekend and not take vacations is a fiction.

There, of course, is a monetary component to attracting talent, but I always like to say that your talent is evaluating whether the juice is worth the squeeze. *Is there enough financial compensation for the position commiserate with the responsibility they are undertaking in their role? Is there loyalty to them? Do they have enough autonomy? Do they have support from the generation ahead of them?*

This is why building up camaraderie and creating a positive work culture is so vital to attracting talented people. The financial piece is easy – bonuses, phantom stock plans, as well as earning equity in the company or a place on the board of directors.

### **How do succession planning and exit planning differ? Are the two strategies compatible?**

Succession planning focuses on the transfer of management, leadership and/or ownership of the company from one generation to the next within the business itself. Exit planning is more of a comprehensive analysis of all the factors that are important to the business owner with regard to getting out of the business. I would say that succession planning is under the umbrella of exit planning.

Part of an exit planning strategy could be a succession plan, but it is possible to be a business owner who doesn’t want any succession planning, who instead wants to sell to a third party.

### **What are three basic strategies you have for successful succession planning?**

The three basic strategies I have for any business owner if they’re going to have successful succession planning is, number one, start early.

Number two is revisit the plan regularly and, third, be flexible. Make sure that you're not so wedded to the plan that you can't make changes or accommodations as the market changes or as your life goals change.

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