

# Basics of Business Succession Planning

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# INSTRUCTOR

- Kenneth Surbrugg, Director of the Center for Entrepreneurship at Missouri Southern State University
- Missouri Small Business Development Center (SBDC) Consultant

# Missouri Small Business Development Center

- Statewide network funded by the state and through the SBA
- Provide educational resources to entrepreneurs that operate or plan to open a for-profit business
- Training Events
- One-on-one counseling offered at no charge
- Grow Missouri's economy one entrepreneur at a time

# TODAY

Today, we are going to identify:

- Why succession planning is important
- Different exit strategies
- Why founders exit their business
- Important components of succession planning
- Documents needed for succession planning
- Components of business value

# Succession Planning – It's Important!

According to the U.S. Census Bureau, by 2030, *all* baby boomers will be at least age 65.

(U.S. Census Bureau December 10, 2019 report)

# Succession Planning – It's Important

“Family businesses account for a staggering 50 percent of the gross domestic product of the United States, and it is not just in small storefronts or website businesses. In fact, 35 percent of Fortune 500 companies are private or public companies controlled by families”

(Michael Evans, Forbes)

# Succession Planning – It's Important

According to an article in Forbes, in the third quarter of 2020, nearly 30 million Baby Boomers left the job market and retired. About a year later, a survey by Coventry showed that over 75% of the respondents said they are planning to retire early.

# Succession Planning – It's Important

There is no emerging group of potential employees on the horizon as in past generations (e.g. baby boomers, women entering the workforce, large waves of immigrants).



# Succession Planning – It's Important

Younger managers interested in moving up do not have the skills and experience required because they have not been adequately mentored. In many cases, middle managers, who normally perform this type of coaching role, have been eliminated.

# Exit Strategies

- Selling: Third-party, family member, employee(s)
- Takeover / Gift: Family member, employees (s)
- Liquidate assets
- Close

# What do the Numbers Say?

- 1/3 HOPE to sell
- 1/3 HOPE a family member or employee will buy the business
- 1/3 will close and walk away

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# Success rates after succession

- 50% success rate for new business starts
- 70% success rate for business sales to non-family
- 30% success rates for family succession
  
- **NOTE:** Third-generation success rates are even lower. **Why?**

# Why do founder(s) exit?

- Retirement
- Health
- Divorce
- Partnership (family) disputes
- Market dynamics
- Want a change
- Planned succession

# Timing is a major issue

- When do you plan to exit?
- Average successful sale/transition takes three years
- Average family succession takes 10 years
- Anticipated shortage of buyers as baby boomers retire
- What are your financial goals?

# Team of experts

- Business Accountant
- Financial Planner
- Broker / Agent
- Insurance Agent
- Lender
- Business Consultant
- Succession or Estate Attorney
- SBDC Consultant

# Generation Gaps

- Generational differences
  - Family
  - Buyer/Seller
  - Employees
- Every generation following mine is wrong!
- Important to understand the perspective of the other party –  
***“They’re not wrong, just different!”***



# Documentation Preparation

- Tax Returns (personal and business)
- Financial Statements (minimum of three-five years)
- Contracts
- Strategic Plans
- Employee Agreements
- Partnership Agreements
- Intellectual Property
- Process Manuals
- Inventory Detail

# Documentation Preparation

- Customer Lists
- Accounts Receivable
- Aging Reports
- Leases
- Liens
- Titles
- Loans
- Judgments
- Taxes Paid (Sales, Property, etc.)

# Impact of new owner(s)

- Transition of ownership? What is the timeline?
- How will the customers react?
- What impact will the transition have on your company's culture?
- Will employees stay?
- Transfer of power from parent to child has challenges
- What impact will your transition have on family?
- What impact will it have on your financier?

# What is the value of your business?

- What has value in your business?
  - Revenue streams?
  - Equipment?
  - Land?
  - Buildings?
  - Employees?
  - Intellectual Property?
  - Cash Flow?
  - Owner?
  - Goodwill/Blue Sky?
  - Business Name?
  - Customer List

# What increases a company's value?

1. Upward growth trends in sales and profits
2. Good location for now and in the future
3. High demand product now and in the future
4. Marketing focused on defined market segments
5. Trained staff who can assume responsibility

# What increases a company's value?

6. Reliable financial statements and management reports; good controls
7. Up-to-date facilities and equipment
8. Documented standard procedures and policies
9. No regulatory threats or potential litigation
10. Transferrable customer relationships
11. Good credit/Dunn & Bradstreet rating

*Family Business Succession; The Final Test of Greatness, Second Edition.*  
Craig E. Aronoff, Ph.D.; Steven L. McClure, Ph.D.; and John L. Ward, Ph.D.

**QUESTIONS?**

# THANK YOU!

Please complete the training evaluation form that will be sent to you tomorrow via email.



MO SBDC at MSSU CONTACT  
INFORMATION  
417-625-3128

[SBDC@MSSU.EDU](mailto:SBDC@MSSU.EDU)

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