

THE SURVEY SAYS: EVERYONE TALKS ABOUT SUCCESSION PLANNING, IT'S PROVEN TO BE BENEFICIAL, YET MOST OWNER MANAGERS DO NOTHING ABOUT IT

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Everyone Plans To Do It But Hardly Anyone Has A Plan

There have been some recent interesting surveys of owner managers on their intentions and succession planning. The numbers for two of the most comprehensive and relevant surveys shake out like this:¹

Most owner managers are planning to exit their business but are doing nothing about it and do not actually have a plan:

- _ 41% of Canadian owner managers are planning to exit their business in the next five years.
- _ 71% are planning to exit their business in the next ten years.
- _ Yet, only 35% of them have any sort of succession plan, and it is usually informal.
- _ In fact, only 7% of Canadian owner managers have a formal succession plan of any kind.
- _ Retirement is the number one reason owner managers wish to exit their business (82%).

Selecting a successor for the business is a key part of any succession plan or exit strategy:

- _ The most popular succession plan is to sell to a third party (37%).
- _ And although 62% of Canadian small businesses employ at least one family member, only 26% of Canadian owner managers listed selling or transitioning the business to a family member as their preferred exit strategy.
- _ Of equal importance, a full 26% have no idea at who they will sell their business to!

There are many reasons why owner managers do not have formal succession plans or exit strategies:

- _ 60% believe it's too early to plan for succession.
- _ 28% say they do not have enough time.

There are significant barriers to implementing a succession plan. Owner managers in the survey raised a number of difficulties, including:

¹ *Succession Can Breed Success: SME Succession and Canada's Economic Prosperity*; Doug Bruce and Derek Picard; Canadian Federation of Independent Business, June 2005.

2004 CIBC Small Business Outlook Poll; Canadian Imperial Bank of Commerce and Decima Research; 2004.

- _ Financing the successor (46%).
- _ Finding a suitable successor (42%).
- _ Reducing the company's dependence on the owner manager's involvement (39%).
- _ Valuing the business (32%).

On the other hand, these same owner managers reported significant benefits of having a formal succession plan:

- _ Over 60% of the businesses surveyed reported an increase in profits and business after a succession.
- _ 82% reported that the plan assisted in providing for their family's future.
- _ 76% said that have a succession plan reduced their tax liability
- _ 75% said it assisted with financial stability for the business.
- _ 73% reported that it assisted with maintaining family harmony.
- _ 72% said having a plan assisted in preparing their successor for the future (72%).
- _ 64% said it increased the value of their business.
- _ Finally, 56% reported that it improved the financial standing of the business.

There were also significant benefits for the successors:

- _ 86% reported that the plan prepared them to be a successor
- _ 69% said it assisted in stakeholder relations
- _ 68% said the plan provided financial stability for the business.
- _ 66% said it improved the financial standing of the business.
- _ 65% reported that the plan increased the value of the business.

So most owner managers are thinking about it but not planning for it, even though it offers significant benefits for those who do!

Does this sound like you or someone you know?

Just Surviving In Your Own Business Means You Are Already Successful

If your business is profitable and paying you a basic living, you are already a success.

If your business has been able to pay its bills and support you and your family for some time, you have already done much better than most owner managers.

If your business has done even more than that, you have been very, very fortunate.

Not so long ago a national survey was conducted of four thousand firms that had opened for business about ten years prior to the survey.² What made this group of businesses particularly

² *Successful Entrants: Creating the Capacity for Survival and Growth* ; Joanne Johnson, John Baldwin, Christine Hinchley; Statistics Canada, 1997; Catalogue no. 61-524-XPE.

interesting is that they opened for business during the height of a boom and then survived a particularly nasty crash. The results of this survey were very typical for owner-managed businesses in a ten-year business cycle.

The survey tried to find out why some firms prospered and grew when so many new businesses did not. After all, only twenty percent of those original start-ups were still in business ten years later – eighty percent were no longer around for one reason or another.

Being in the right industry did not seem to make much difference. The twenty percent survival rate was roughly the same across all industries.

The data resulting from the survey provided some interesting conclusions:

- _ Ten years later the typical survivor was relatively small and stable.
- _ They averaged nine employees and \$1.2 million in annual sales.
- _ They were still being managed by the same people who started them (eighty-four percent for small companies and sixty-five percent for larger companies), and these managers held equity in the company itself.
- _ By and large they did not have formalized business plans.
- _ They overwhelmingly relied upon the domestic marketplace, with only three percent of their combined revenues coming from international customers.
- _ They focused on keeping existing customers, avoided third party distributors, and were not particularly innovative.
- _ About fifty percent of their capital was permanent, consisting of retained earnings or shareholder investment.
- _ While they had survived and were stable, their average growth rate was only 6.6% per year.

These surviving owner managers had already accomplished a great deal – they were earning a good living as their own boss.

On the other hand, only 2% of the survivors, or 0.4% of the original group of start-ups, had grown to more than one hundred employees.

Don't Be Your Own Worst Enemy

After more than twenty years as an owner manager, and advising and counselling other owner managers, I have come to believe in the following basic principles:

- _ ***The strengths and weaknesses of an owner-managed business reflect the strengths and weaknesses of the owner manager.*** Not only our business strengths and weaknesses, but also our strengths and weaknesses as people. Our personal strengths and weaknesses are reflected in our businesses, including our strengths or weaknesses as business people. If you are not happy with your business and how it is performing, then look at yourself first.
- _ ***The greatest limits on performance in an owner managed business are the limitations of the owner manager.*** By our abilities, attitudes and personal performance, we either hold back our business and its employees, or propel them forward. Owner managers are the single greatest influence on their businesses. If there are weaknesses in your business, find how

you contribute to those weaknesses. If you want your business to become something better than it is, then you need to grow as a person.

- ***If an owner manager wants to improve the prospects of their business, they have to improve themselves.*** Not everyone is cut out to be an owner manager. And not every successful owner manager is cut out to be the next business superstar. Important factors include who we are as people, the industry we are in, who we know, and luck. However, much of the difference lies in our ability to grow and develop to help and guide others to do the same.
- ***At no will these truths be more evident than when you leave your business.*** And sooner or later you will leave your business. If nothing else, death is a certainty for all of us.

A well prepared and executed succession transition plan or exit strategy can be valuable for you and all your stakeholders – your family, your partners, your employees, your suppliers, your customers and your financial backers.

A poorly prepared and executed succession plan or exit strategy – or worse yet, none at all – could be a disaster for all.