

Newsflash

FROM LINDA SWERLING

May 15, 2004 - Use these longer days of spring for succession planning.

PRESERVING BUSINESS EQUITY

LACK OF PLANNING HURTS

Founders and owners of private and closely held organizations create viable enterprises whose value is determined by tangible metrics such as revenues, products, and services and intangible factors such as culture, vision, and people.

Continuity planning (also known as - and ignored - as succession planning) allows you to choose how best to maximize and preserve the business equity you worked so hard to build.

Planning for Continuity & Succession

To be successful, exit strategies should be based on:

- ◆ Transfer of control to new owners (next generation, other stakeholders, or both)
- ◆ Acquisition

All too often, however, organizations must deal with the aftermath of

- ◆ Retirement funding for exiting executives (without regard to how the company is affected)
- ◆ No succession planning at all

Funding Retirement Gone Wrong

A classic example of retirement funding gone wrong is a professional services firm that became saddled with an ESOP that was too expensive to dissolve. The original owners focused on an option that gave them the most money rather than making the ESOP a benefit to the business. This left the company with a white elephant that did not act as an incentive to employees. After many rounds of research for a variety of solutions - taking both time and money away from firm business - they were finally able to get out from under it.

To develop and implement the right plan for an owner to leave the company with retirement funding could take as much as ten years. You need to:

- ◆ Identify who will replace the departing executive(s) and train and develop them
- ◆ Determine best way to buy out owner(s)
- ◆ Chart a course for building customer confidence, developing relationships between established customers and the new management team
- ◆ Solidify your vendor and banking relationships
- ◆ Communicate clearly with employees what the future of the business is and what their roles will be

No Planning = No Business

Recent statistics indicate that at least 70 percent of small and midsize businesses will close within one year of their owner's retirement or death. Lack of succession planning is a major culprit.

Here's what can go wrong:

- ◆ Customer satisfaction can decrease due to lack of confidence
- ◆ Banks, formerly willing to be partners, will tighten control and reduce lines of credit
- ◆ Employee productivity may decrease
- ◆ Suppliers may make payment and delivery terms stricter
- ◆ Profitability may tumble

Lack of planning affects the long-term success of the business, each employee, the vendors, and customers. Take the time to plan - early enough to produce the best results for all constituents.

If you want help successfully planning for your business continuity, please contact us at 617-277-0222 or linda@level2solutions.com.

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