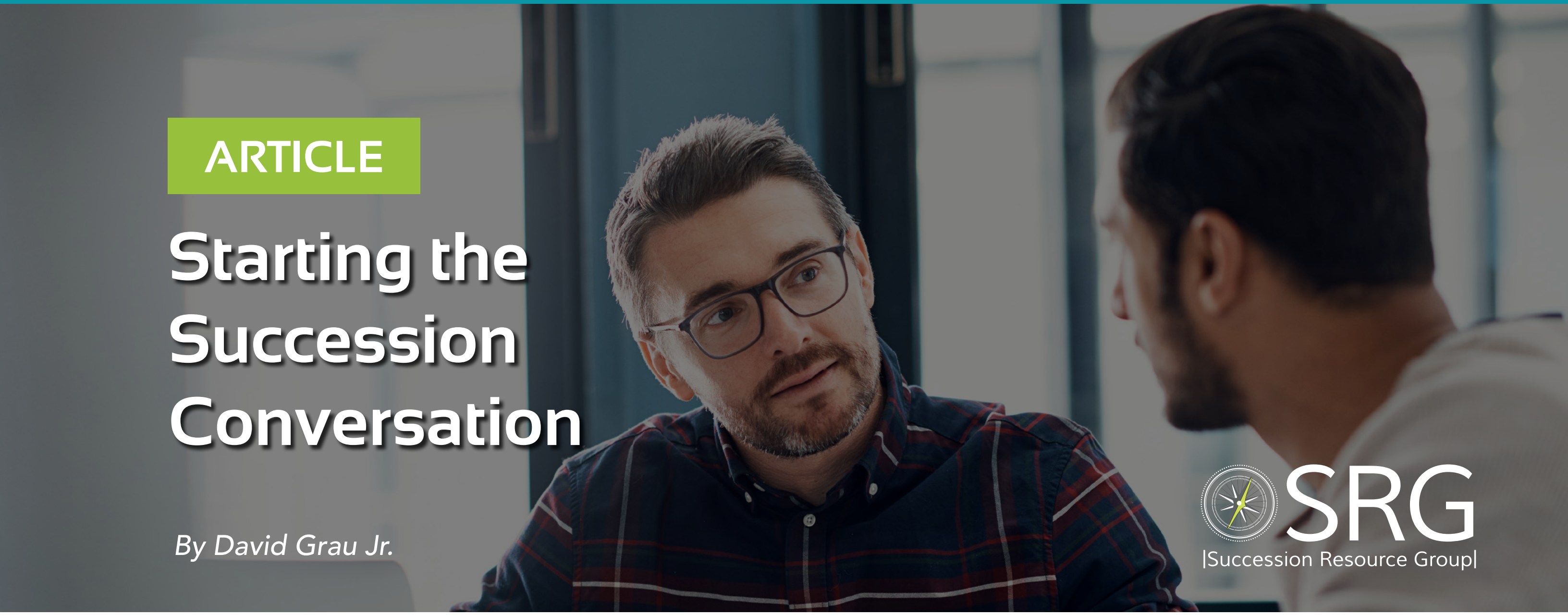

ARTICLE

Starting the Succession Conversation

By David Grau Jr.

|Succession Resource Group|

Planning for succession or the sale of a business is one of the hardest steps for a small business owner to take – and more often than not, it is a topic that is avoided for too long. For the founder (Gen 1), succession or equity sharing is a challenge because it potentially means giving up some level of control, increased transparency, sharing profits, and allowing an employee to enter the "inner circle" as an owner.

Succession planning done right has many benefits for the owner, the clients, and pretty much every other stakeholder, such as increased time to do what one is passionate about (at work and personally), sustained long-term growth, the ability to attract and retain better talent, attract a younger clientele, greater service capacity, and less disruption to the business as Gen 1 exits (which leads to a higher value).

Succession planning is not easy and it can be complicated. It is not a topic that should be taken lightly, but it is a topic that must be addressed to ensure the business is sustainable. Succession planning can also be one of the most rewarding and important steps you take as a business owner.
There are dozens of ways to build a succession plan, financing options to consider, tax implications, and much more. While there is a lot to consider, the hardest part for most advisors is:

- Knowing what questions they should be asking
- What questions they don't know to ask
- What to say, how to say it, and when to say it

Each of these questions are challenging for owners and their successors to discuss, and this is compounded by the fact that each person has unique perspectives and concerns. So, who should initiate? What to do if that person avoids the conversation? The following summary provides answers these questions and guidance from each side's perspective to help facilitate (or initiate) a meaningful conversation:

Gen 1 Perspective

In the formative years of a business, the founder's primary job is to bring in business. When the owner has enough success, the next step is to hire someone to help keep up with service obligations of their clients so the owner has time to continue prospecting. This cycle continues as the book of business grows, and before the advisor knows it, they have a business! After years of building the business and trying to make the right decisions, it is often difficult for a founder to envision doing anything else, and even more difficult to envision one of their hires being a capable successor. But successors are not hired, they are built. Rarely will an owner plan to hire, and be successful, someone with the skills to takeover and run the business. Because of this, owners are often disappointed when they have unsuccessfully tried to hire someone capable of running a business like theirs. But, it is important to think back on the early days of starting up the business - is any business owner REALLY qualified to run their business when they first start it? For most, the answer is no. First time business owners are rarely qualified when they take the leap into being an entrepreneur. If an owner is committed, they figure it out.

Training successors (Gen 2) and eventually Gen 2's successors (Gen 3), takes time, energy, and a conscientious commitment to making oneself irrelevant – as hard or scary as that may seem. This should be the goal of every business owner – build your team, systems and process so that the business can someday continue without you.

Where does one start? Talking about succession or equity sharing is something that should start at the top – with the owner of the firm. The owner should work to create an organizational structure, job descriptions, as well as creating a career path and sharing this with their staff. Make sure the team knows what the expectations are to move to the next level, and what it will take to be considered as a partner – including factors like years with the business, credentials, amount of AUM brought to the firm, etc. By virtue of sharing these details, it will become clear this is something the owner has given a lot of consideration to, and that it is a privilege, not a right. The opportunity to buy-in is something that is earned and reserved for the best and brightest. If Gen 2 and Gen 3 are willing to put in the time and effort, there may be a "seat at the table" for them. Then it is up to the owner to decide who on the team is ready and who isn't, ensure the firm is committed to a timeline for equity sharing, and for the older owner, also committing to an eventual retirement date. It is also important to note that while you may not be ready to have the "talk" (about succession), if you never address it, you can plan on your successor bringing it up. This is a conversation that most owners want to control, but by virtue of an avoidance strategy, often have the question asked of them before they are prepared to talk about it.

Gen 2 Perspective

From the next generation's perspective, asking to be considered for ownership or to be the successor is often an incredibly uncomfortable topic. So many advisors (both Gen 1 and Gen 2) try to subtly drop hints about being interested in succession planning. These folks sometimes get lucky, but more often than not, are frustrated after years of dropping hints and not getting the reaction they wanted. Unfortunately, while succession and equity sharing should start at the top and be communicated to the employees proactively, most owners have so many things going on that it is easy to forget about or put off for too long. In these cases, it is on the Gen 2 team to understand their audience and initiate the conversation. The key to success is approaching the owner(s) in a non-confrontational way and stating your goals/hopes, desire to understand their goals, and figure out if buying-in is something they would ever consider (and if so, what would need to happen for that conversation to take place). Don't be afraid to initiate the conversation – sometimes owners need a little "push" with topics like succession.

To initiate the conversation, do research. Understand options for how others have bought-in to firms they are working at. Talk to peers, consult with experts in the field, banks that can help provide capital for the buy-in or explore HELOC options you might have, and read everything on the subject. Then, ask if Gen 1 would be open to scheduling some time to talk about succession planning at the firm so you can better understand your career outlook and help Gen 1 achieve their retirement goals for the business (whatever those might be). In the meeting, share how committed you are to the firm and express a desire to understand what it would take to be considered for a buy-in someday, or eventually what it would take to sit in the "captain's chair." If Gen 1 is initially dismissive, or simply says "no," don't be discouraged. It is human nature to resist change – give it time and be patiently persistent over the next year or two. But if ownership is important, and you've put in the time and done what you think is needed to be considered, it is also important to know when to move on.

There are a multitude of ways to share equity and plan for succession. Some plans are very simple and leverage phantom equity strategies, others involve incremental bank financed buy-ins. The key to success for Gen 1 and Gen 2 is to communicate proactively and know that succession is a process, not an event. Give the topic of succession the time and effort it deserves – your firm depends on it!

Succession Blueprint

Developing a succession plan to transition your business will ensure that when you are ready to slow down and eventually retire, your business continues to thrive. While each plan is different based on the unique elements of our client, a succession plan for your business will provide you and your successors a "playbook" of what to do and when to do it, helping you retain and attract talent, sustain growth while you work less, and achieve optimum value based on your individual goals. SRG's consultants will help you develop and deploy a plan for your transition and provide all of the needed deliverables to support your plan, including pro forma models and sample agreements.

Seller Advocacy

For clients looking to find a buyer and sell their business, SRG's Transition Advocate program is designed to take the hassle out of the transition process, allowing you to focus on your clients while we work to find you the ideal succession candidate. We will leverage our knowledge, experience, resources and contracts. Working in tandem with you, SRG will market your practice confidentially, screen potential buyers, and negotiate offers for you. Once you have selected your ideal buyer, SRG will coordinate all of the needed agreements, facilitate due diligence, coordinate with lenders, and work with your professional counsel. As your advocate, SRG will ensure you get the best buyer, best price, and best terms.

Questions? Need Assistance?

Schedule Your Call with Us
https://srg.link/schedule

About Succession Resource Group

Ranked as one of the top 100 fastest growing private companies in Oregon by Portland Business Journal, Succession Resource Group, Inc. (SRG) is a boutique succession consulting firm specialized in helping financial professionals value, protect, merge/acquire, and develop exit strategies for their business.

With decades of combined industry experience, SRG possesses a unique combination of skills, resources, and expertise to help advisors understand the value of their business, develop strategies to improve that value, protect it with comprehensive contingency and succession plans, and grow through acquisition.
