

# Succession Planning: How to Stop Worrying and Take Control of Your Future

**M**ention the topic “Succession Planning” and most women business owners slip into feelings of either dread or denial. Women are so focused on doing an outstanding job for their customers, and providing a solid company for their employees, that we don’t always make time for the long-term strategy that succession planning requires.

If you are among those who have not, you are not alone. Studies show that only 30% of small businesses have a succession plan.

Yet the same qualities that enable women business owners to build dynamic, innovative and growing companies are also those that will help any business owner to frame out a succession plan that will ensure her company a longer life and a more lucrative outcome for her and her employees.

Most women business owners start their companies with an idea for filling a gap in the marketplace, and then apply themselves with persistence and hard work to implement that plan.

Your succession plan is similar: it starts with your vision for the future and then is implemented strategically over time. The earlier you become aware of the variables in a succession plan, the longer you will have to decide on the elements that shape it.

Most business owners have a **team of experts** to support them in their business development. Similarly, this team can be built out and tapped into to guide you through succession planning. A good rule of thumb is to include an **accountant** to do the financial analysis and tax implications, an **attorney** for employment contracts and trust and estate issues, an **executive search firm** to identify executives and prospective partners, and a **financial planner or advisor** to ensure that you are planning to put aside the resources you will need to achieve your goal.

We find that the most successful transitions occur when you have one of

these team members serve as a trusted quarterback to direct and manage it.

In terms of timing, ideally the first day a business owner turns a profit is the day she should start thinking about the long term. This gives you ample time to prepare, research, experiment and determine the best route for you over the long haul.

The following are key considerations in constructing your succession plan:

## **Know your company’s value.**

Start by assessing the financial value of your company. Since women tend to be their own toughest critics, many women business owners can benefit from an external resource to assess their company’s value.

It is important to do this early in the process so that you can seek out advice on ways to add value to the company if needed. This may require you to make the decision to invest more in the business or make strategic development or expansion plans.

It also can reframe a business owner’s mindset. Sometimes a business owner may change her goals, starting out with the business as an income-generator to support her family, and then changing focus as the business adds employees and builds intrinsic value.

**Articulate your vision.** Just as you started your company with a vision, so too do you need to imagine its next phase. Think about the growth opportunities for the business: where is your industry headed and what tools will you need to serve your clients in the future?

A key element in this vision is how you would like to see the company run. For many business owners, their successor is not a clear-cut decision.

This can help set the stage for a discussion of your options, to include selling the company, partnering with another company or grooming a successor to take over when you are ready to step down and do other things. Additionally, private equity or venture capital

infusions, which typically require the business owner to cede control, can also be considered.

This is a good time to bring in your team of outside advisors to brainstorm and advise you on the possibilities.

You may also want to begin by considering is there someone in your company with the business knowledge, management skills and imagination to steer the company forward? Alternatively, what kind of executive would be ideal for the role? Are there any current employees that can be groomed for this future leadership role?

When hiring or promoting, it’s advisable not to share the possibility of this person being a successor, but rather to work with the person for a few years to make sure it’s a good fit.

This is another reason to begin the succession planning process early, to give you time to cultivate the right team.

**Research the financial options of a succession plan.** Consider the financial implications of your decision on both the company finances, your retirement and your estate.

- What part of the equity in the company do you plan to take out, and in what time frame?
- Are you willing to continue working in the business to maintain its value after you have given up control?
- If you are considering a PE or VC infusion, be sure to get your balance sheet clean – eliminate any lifestyle assets, such as automobiles or other property on the company’s books.
- If your equity is part of your estate, determine the role of your heirs in company ownership.
- In the case of a family business, if a non-family executive will take over control, consider what equity she will have in the company and how she will interact with the other passive family member owners.

**Protect the company in the case**

**of your death.** Strongly consider key person insurance and buy-sell agreements. The key person insurance is put in place to provide the company income to hire another senior executive in the event that a principal dies. With this insurance, the company absorbs the late principal's stock interest, rather than have it pass to the estate.

Through buy-sell agreements, companies can also specify an outcome that passes some of the insurance policy proceeds to the estate in exchange for the stock.

**All in the family.** Some women's businesses have family members in mind to take over the company. If that is your priority, involve family members early on so that they are seasoned in the industry and amply experienced to earn the respect of the company's employees and clients.

Your goal in this case is to identify a family member who is clearly interested in leading and has proven him or herself to be capable of assuming the role and keeping the company together.

In the case of a younger generation member or child, you can lay the groundwork for them to be interested by hiring them to work part-time in the business while they get their undergraduate or graduate degrees. Then they can work at other firms to establish their professional independence, before returning to work full time in an executive capacity.

**Use open communications to advantage.** As with any other major life transition, the transfer of ownership can be conflicting, even for the most stable executives and their staff.

Owners who have invested their life's work in the company must learn to let go, while their successors must step up and lead decisively. Employee and client communications can go a long way in setting up a successful transition and positioning the new leader optimally.

Family members not involved in the company must learn to respect the person who is taking responsibility for the company's welfare and their equity. This groundwork can be laid in family meetings early on in this process so

that any territorial issues are dealt with by an expert trained to usher families through transition.

In summary, succession planning requires the strategy of a business plan with the emotional delicacy of an estate plan. Both play to our strengths as women business owners. It is up to us to embrace succession planning as an opportunity for sustainable growth. ☺

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