

WHO'LL TAKE OVER?

BY: NEIL R. G. YOUNG

EYE ON THE ENTREPRENEUR

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Bob Locke, Executive Vice President of The Columbia Bank (www.thecolumbiabank.com) remembers the visit he made ten years ago to a potential customer.

"Everything about this business looked great," Locke recalls. "The company had a great product, great financials, and looked like the ideal lending customer for our bank. I asked myself, 'What's not to like about this company?' One thing. The owner of the company was in his sixties, and while that alone didn't preclude him as a customer, the fact that he had no succession strategy did. If something happened to this guy, there was no guarantee that the company would be able to pay us back."

The company Locke turned down is not unique. The vast majority of privately owned businesses in America have no strategy for passing the company on to the next generation. It's a fundamental fact of life that if you own a business, sooner or later you're going to have to leave it behind. The condition in which you leave it will depend on the planning you do.

Allen Stott, a principal at the **Executive Sounding Board** (www.executivesoundingboard.com), a corporate development advisory services firm, specializing in mergers, acquisitions and divestures of middle-market businesses, has had a lot of experience helping entrepreneurs come to grips with the thorny (and emotional) issues of planning a succession strategy.

"Most business owners have committed their life's work to building a successful company," explains Stott, "but only a relatively small percentage of owners take the time and effort necessary to fully prepare an exit strategy or succession plan for their company."



Allen Stott--Executive Sounding Board, LLC

Stott is careful to point out the difference between an exit strategy and a succession plan.

"An exit strategy is a broader term," he says, "referring to a range of alternatives for a

business owner to exit his or her business. Succession planning typically refers more specifically to keeping control of the business primarily within the family or among some collection of existing related shareholders."

Stott explains that for many business owners, the company represents a large portion of their total net worth, and without proper planning the value of the business will not be maximized. Furthermore, Federal, Estate, and other taxes can erode the wealth and income created by the business. Stott points out that there exist a variety of strategies and tools to help entrepreneurs maximize and

preserve their wealth that is created by their company. Sadly, the planning is too little, too late.

"Frequently, entrepreneurs wait too long to relinquish control of the company," he explains. "They begin to plan only after an unforeseen negative event occurs, and sadly find themselves without the energy or desire to effectively transfer management and ownership."

Waiting too long to pass ownership to the next generation can also create what I have referred to in a previous article as "the Prince Charles Syndrome," where the heirs apparent begin to lose heart, and then lose hope, then lose interest.

If you have decided to develop an exit strategy or succession plan, what steps should you take?

Vince Zirpoli, President of Mega Marketing and confidant and coach of many successful entrepreneurs in Maryland and nationwide, recommends a strategy encompassed by the acronym DOME.

Diagnose: Take a hard look at the present situation. Who within the organization has or could develop the desire and qualities necessary to assume the leadership role that will be vacant at some future date?

Objective: After identifying the potential market of willing prospects, gain their commitment to a goal of preparing themselves for greater leadership responsibility.

Methods: Develop a program that requires them to participate in higher level and measurable leadership

activities without alleviating any of their current responsibilities or accepting less than top performance in their current jobs.

Evaluation: Periodically evaluate progress toward the objective and coach to utilize strengths and strengthen weaknesses.

Zirpoli explains that depending on the size of the company, the DOME approach should be ongoing and not just for one anticipated opening.

Art Jacoby, President of Acceleration Strategies helps entrepreneurs identify those who will eventually take over.

“The best time to put together an exit strategy is well before you need one,” he advises. “If your children are not capable of running the company when you step down, either have someone else in place who is, or sell the company.”

Any well thought-out exit or succession strategy requires a well-crafted legal document that covers all of the contingencies.

Michael Stanley, a partner in the firm of Wright, Constable & Skeen (www.wcslaw.com), stresses the importance of good legal advice.

“A properly crafted buy-sell agreement not only provides an exit

strategy for dealing with a disgruntled stockholder/member of a business entity,” he advises, “but it can also be a crucial ingredient in a business succession planning recipe, especially in those situations where the company is not a family-owned enterprise.” By putting everything in writing while everyone is still smiling, you can avoid a lot of heartache later on.

Allen Stott agrees.

“Taking the time to plan now will ensure that an owner will not be surprised or disappointed when the time comes to exit gracefully,” he says. “The exit strategy process will provide a roadmap for the company’s future direction.” “A critical step,” he warns, “is to determine what the company is worth today, thus providing a starting point for long term planning.”

“A business valuation provides the means to quantify the value of the business so that other professionals have something to work with to maximize the ultimate value of the business,” explains Mark Norris, CPA,CVA, a partner with the

accounting firm of Naden/Lean in Timonium. “An initial business valuation can be prepared for the company, and then updated every two to three years.”

If you’re an entrepreneur, try to put aside all the feelings you have that the company is your baby. Someday, one way or the other, you’re going to step down. You can stick your head in the sand and ignore the problem, or you can tackle the issues and ensure that your company will survive beyond you.

Bob Locke, of The Columbia Bank knows how important a well-orchestrated exit plan or succession strategy is. “A good strategy is of paramount importance to any banker,” he advises. “What good is a well-run company if no one is being groomed to assume the helm?”

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