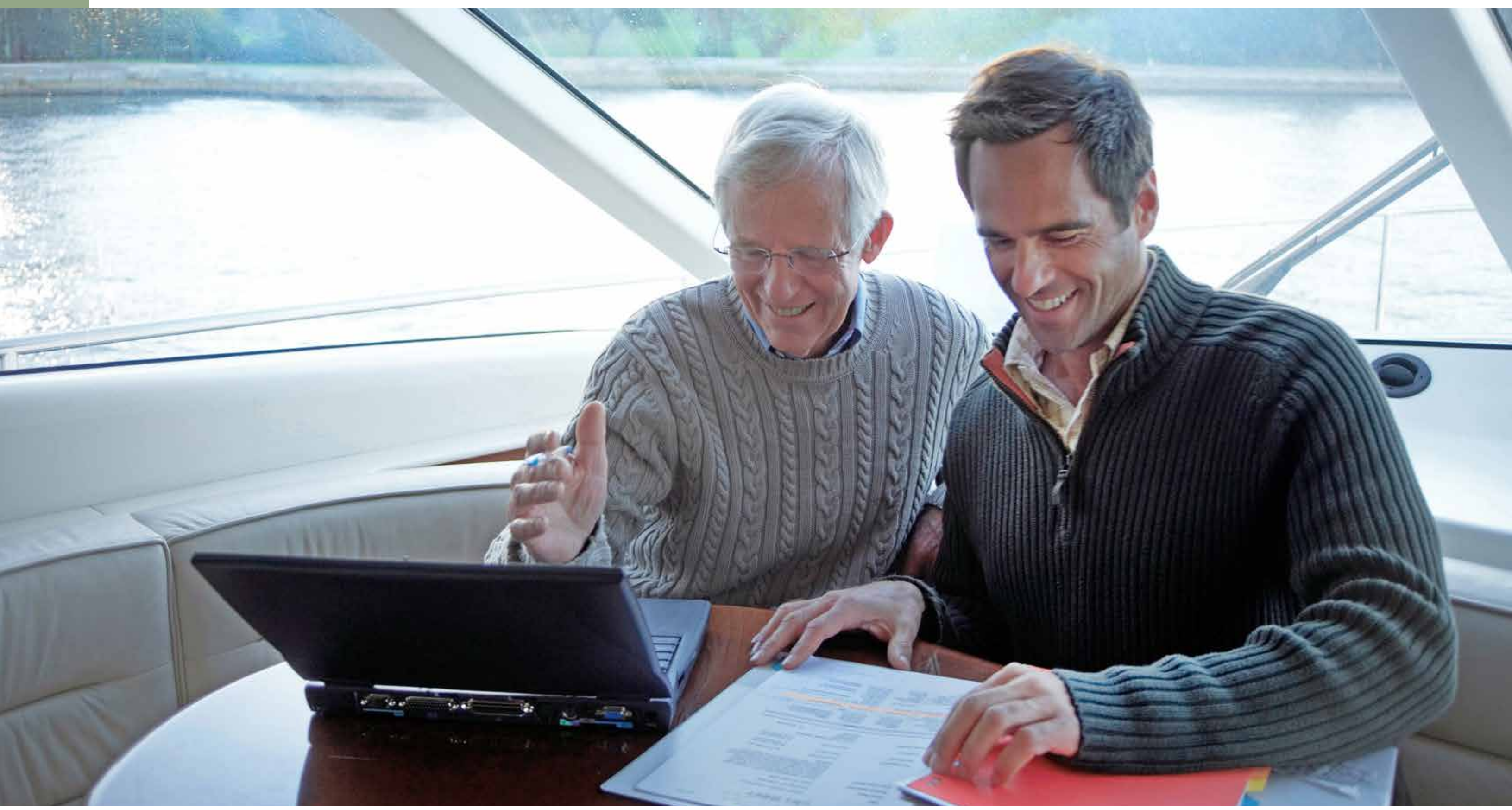
Expect **more**

Business Succession Planning 101:

What you should know before transferring, selling, or winding down a business.



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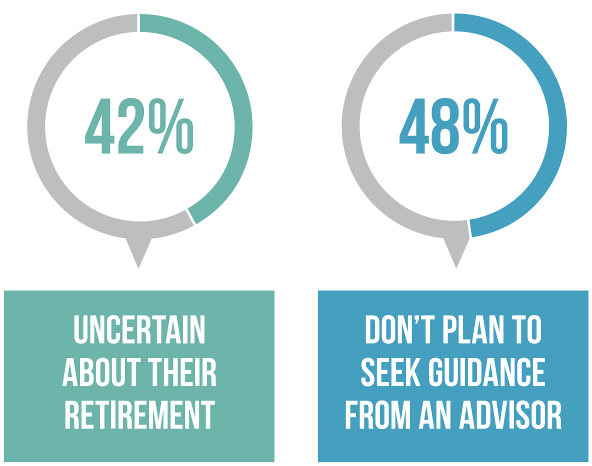
Business Succession: Are You Ready to Pass the Torch?

Real soul searching by the business owner and guidance from a knowledgeable advisor are key.



Selling a business or passing it on to the next generation can be the most important financial event in an entrepreneur's lifetime. But Canadian small-business owners are not succeeding when it comes to succession planning, reveals a new IPC Private Wealth poll.

The poll's two most startling findings are linked and, fortunately, quite solvable. According to a poll of 300 business owners with 50 or fewer full-time employees, 42 per cent are uncertain about their retirement and almost half – 48 per cent – have no plans to seek the help of a financial advisor regarding business succession planning.

Chances are, if those business owners who are unsure about their future consulted with a financial advisor, they would feel much more confident.

Creating a **Plan**

Entrepreneurs, by their very nature, are resilient self-starters. They're used to acting on their own. But when it comes to planning how to pass on, sell or wind down their business, acting alone is no longer in their best interest. This is where the true value of a financial advisor shines. By getting to know the full picture of an individual's business and personal finances, an advisor can work with an entrepreneur, their business partners and/or family members to plan for the future. And as other specialist business professionals are needed – such as lawyers, tax professionals, accountants – they can be brought to the table.

Only **36%** of the small-business owners polled informed their family about their plans.

Contrary to what many business owners think, succession planning shouldn't just take place when retirement is in sight. Most financial advisors suggest it should be done at least five years before retirement, and many believe a succession plan should always be in place – in case the business owner is unexpectedly unable to continue to work.

Having a plan in place can increase certainty around retirement for an entrepreneur and their family, but it's not something that can be created over just one meeting or a weekend-long planning session. An effective succession plan involves real soul searching on the part of the business owner, guided by a knowledgeable advisor, as well as multiple meetings with family members, and full transparency when it comes to finances and future projections.

Once a succession plan is in place, it should be shared with family members or other stakeholders. Surprisingly, after working hard on a succession plan, only 36 per cent of the small-business owners polled informed their family about it.

Passing the **Torch**

The poll also found that more than one-third (36 per cent) of business owners don't plan to give up ownership until they are too unwell to manage their own business. It's a number that's shockingly high, and it indicates that too many business owners will not be actively involved in the future of their business because they might be too ill to do so. They may be forced to sell under duress or hand over their life's work to a family member who hasn't been adequately prepared or trained.

36%

DON'T PLAN TO TO GIVE UP OWNERSHIP UNTIL THEY ARE TOO UNWELL TO MANAGE THEIR BUSINESS ON THEIR OWN

25%

SAY THEY **WILL EXIT** WHEN THEY HAVE ENOUGH MONEY TO RETIRE

SMALL BUSINESS OWNERS WITH OVER $1 MILLION IN ASSETS

PLANNED TO CONTINUE RUNNING THEIR BUSINESS UNTIL THEY ARE TOO SICK TO DO SO

WILL EXIT WHEN THEY ARE SURE THEIR SUCCESSOR IS READY TO RUN THE BUSINESS

Another 25 per cent said they would exit their business when they felt they had enough money to fund their retirement – a sum that can be difficult to assess without the help of a financial planner.

Interestingly, among small-business owners with more than $1 million in investable assets, 23 per cent planned to hold on to their business until they were too sick to run it, and 29 per cent reported they would exit their business once they were sure their successor or heir could run it successfully.

Future Business **Challenges**

When it comes to selling a business, most business owners want to get top dollar for their enterprise, which means running it profitably and growing it leading up to a sale. But there can be barriers to those goals.

When asked to identify the most significant challenge to growing and increasing the value of their business, the majority (64 per cent) of entrepreneurs who were surveyed cited new federal tax changes, while 59 per cent cited rising labour costs and 41 per cent cited creating a business that can run smoothly without them.

Again, the three most significant challenges can all be addressed with the assistance of a financial planner and his or her key contacts.

COMMON CHALLENGES

64%	59%	41%
FEDERAL TAX CHANGES	RISING LABOUR COSTS	CREATING A BUSINESS THAT WILL RUN WITHOUT THEM

Top Six Tips for **Business Succession Planning**

Often given short shrift, business succession planning is a vital part of being a business owner – even if the eventual exit from the enterprise is years or decades away. These six tips should help pave the way for a successful sale or handover.

01

Start early. Succession-planning experts advise business owners to start drawing up plans for leaving their business five to 10 years before they think they might do so. If they're considering handing down the business to a family member, the conversation should start when the kids are teenagers, and the dialogue should always be open and honest.

02

Get a plan. Divesting a higher-value business – worth $500,000 or more – involves more complexities, responsibilities, and opportunities than a lower-value business. When a valuable family business changes hands emotions can run high, so an advisor with the owner's best interest in mind, and some psychological counselling skills, is a must.

03

Put systems in place. A business is less attractive to a potential purchaser if it's too closely linked to the founder, their personality and their (sometimes quirky) way of doing things. The more a business can run itself, with systems and protocols to adhere to, the more attractive it is.

04

Increase the value. Business owners who plan to sell should take a hard look at their business and decide if and how they can increase its value as they get sale-ready. This could mean refocusing on the most profitable parts of the business or cutting segments that weigh it down.

05

Ask around. Seek out other entrepreneurs who have recently sold, passed on, or wound down their business and ask them to reflect on their experience. What did they do right? What would they have done differently?

06

Bring a financial advisor on board. Unlike a lawyer or an accountant, a financial advisor considers business succession holistically and looks at the best interest of the business owner and the family in transitioning a business. He or she can act as a trusted family advisor and look at the big picture, over the long term, and bring in other experts as needed. A worthy financial advisor not only helps with the transfer of the business, but also eases the transition into retirement for entrepreneurs, many of whom have been completely consumed by their business for decades or more.

Rely on a **Professional**

A financial advisor should be part of any business owner's team of experts from day one, as an experienced expert who has broad and deep knowledge, and access to professional counter-parts across a range of other wealth management and planning disciplines. But they play an especially important role when an entrepreneur decides to consider selling, passing down or closing out his or her business. In fact, they're a team member that no business can afford to be without.

To help you **start the conversation** with your successor, ask **your IPC Advisor for a succession planning meeting.**

Survey method: A total of 300 well-qualified respondents across Canada were interviewed using an online methodology during the period July 24 - August 2, 2018. The survey was conducted by Environics Research.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such.

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