Good morning, everybody. Dennis Engelbrecht with the legacy series of Digging Deeper.

Today I want to talk about the five keys to successful succession. The first key is really the most important of all and probably the most neglected, and that's really setting the overarching goal for the succession process itself. And that overarching goal really doesn't vary much from situation to situation. Essentially, what everybody's trying to achieve is the long-term success for the company and for its people, including the outgoing owner or leader, and the incoming team as well. Keeping that overarching goal in mind, you'll see as we go through the next four keys to succession, number 1 is really important because if the company doesn't succeed, that's bad for everybody.

And we've seen a lot of plans over the years where perhaps the owner has extracted too much from the company and weakened it, or situations where the company simply wasn't healthy enough to sustain a transaction of the kind that they were thinking about. So, keep in mind, number one, the overarching goal, the long-term success for the company and its people.

Number two, the plan must meet the outgoing leader, owner, seller, their goals. All right? And that's an interesting one because that goal is oftentimes an uncertainty, particularly on the financial side. Ultimately, the seller or outgoing owner wants to be able to live happily ever after at the lifestyle to which they've become accustomed or perhaps even better.

In order to do that, it's important that they get a personal financial plan. All right. And why is that important? Well, that tells them, basically they can describe to a professional what living life happily ever after looks like, if that's supporting their grandkids through college, setting up some sort of legacy charity or fund, or whether it involves a lot of travel. I can tell you this, that most folks experience that they actually spend more, at least in those early years after retirement, because they have so many things they want to do and so many places they want to go. And those do cost money. So, getting a good personal financial plan.

And remember to keep that conservative. And when I say conservative, a financial planner might come in and he might take your net worth and he might project a 10% annual return forever and ever and ever. Well, of course, we've just gone through a very low interest rate environment, and of course, in the last couple of years, our stock returns haven't been that good. Right now, real estate returns might not be all that shiny either. So, when you're projecting these returns, that really projects what you're going to be able to spend and what your net worth is going to be throughout the future. Make sure those are conservative.

And the other aspect that needs to be conservative is the company profit itself that's going to support this plan. If you have this pie in the sky plan and it's based on profits that the company has never achieved before, well, that's not exactly conservative. It could be realistic if you're on the right trajectory, but it's certainly not conservative. So, making sure that your plan is based on a good personal financial plan and that it's conservative.

And then what if the dollars are not sufficient to be able to achieve happily ever after? Well, then there is no plan really for the seller. So, they might have to adjust. They may have to work longer or stay in ownership longer. So that's something to consider as part of the plan as well. If they haven't achieved enough personal financial net worth outside of the company and the company's not producing a whole lot of profit or have any excess capital to take out, well, then it's just not there for them to get there. So, it may take longer and they may have to work longer.

And then the last aspect of that plan meeting the owner and seller's needs is the biggest danger that we probably see in all succession plans is greed. If the owner's acting on greed and trying to set up a plan that's based on greed, well, that's not going to work for the incoming team or perhaps the company or the company's people. If they extract too much from the situation, it could be the new team comes in and finds they have to lay off folks or cut back on operations right away, and again, that doesn't meet the overarching goal. Going back to key number one.

COPYRIGHT © 2023 THE FAMILY BUSINESS INSTITUTE, INC. ALL RIGHTS RESERVED.

So key number three is the plan must also work for the incoming team. And well, what does that mean? Well, the incoming team, of course, ultimately wants to get the benefits of ownership or leadership, the high salary, bonuses, but probably ownership in most of these situations. And if the plan is not realistic to where they can see that coming or to see any return for too long a period into the future, they may lose heart, they may jump ship, and a lot of plans go awry because of that, because there's not a realistic return for those incoming folks to keep them there, keep them motivated and make the whole thing work. So, the plan must also work for the incoming team.

And by the way, the opposite is true. I guess if you don't start soon enough, that may not work for the team that you have either. They may be too impatient, I hope they're not, but they may be. So, timing's important for that plan to work well for that team as well.

Number four, you've got to have the right leader and the right leadership team. And this is one of the reasons that successful successions oftentimes take a period of 10 plus years because to both assess and prepare that team for leadership takes time. All right? And unfortunately, part of that time sometimes is starting over because we find that as we advance that person we had in mind, or those people that we had in mind, it doesn't work. Maybe they can't get along together, or the person we decided to put into leadership turns out to be more flawed than we expect.

And when I mentioned that flaws, all leaders have flaws. And as you look back on your own career, you may see where your flaws were and how you overcame them. Well, the team coming in is not going to be perfect either. They're going to have flaws. And during this process where you're hopefully preparing them for leadership, those flaws start to expose themselves and you're there. And the best approach, by the way, is straight on head on attacking those. Certainly, don't ignore them and put your head in the sand because going back to the overarching goal, that's not going to be good for the long-term success of the company and its people nor executing the transaction. So, you can't ignore those flaws. You have to hit them head on. And you oftentimes find out as you put people in that position, whether they're going to break through and overcome those flaws or whether they're going to fall on their own sword, so to speak.

So, that's a period that takes time. It takes testing, development. Very much, I recommend that you start involving those folks very early on before the financial transaction takes place, get them involved in the strategic works of the company, the strategic planning of the company, and the financial planning and reviews of the company so that once they get into that position, they know what it's all about. They know what it takes to run a company successfully. They know what the financial aspects of that look like. So, number four is having the right leader and the right leadership team, and that takes time and development.

And then finally, number five, and possibly equally important to number one, is a strategic plan. Make sure you have a current strategic plan that supports the succession plan. Now, what do I mean by that? Well, the strategic plan is going to give you the pathway by which the company achieves the necessary profitability, the necessary capitalization that it needs to be successful into the future.

That may mean new markets. It's definitely going to mean some changes in the organization because we have outcoming teams. That means incoming people rising to leadership. Those spaces have to be replaced. And then perhaps your plan is based on some growth. So that's new positions that have to be planned for and timed into things. And then whatever is needed on the organizational side. And we mentioned earlier, what if the company's not profitable enough to support all this? Well, your strategic plan is really your answer for changing that trajectory or changing that dynamic. If for you to live happily ever after as a exiting leader and for the incoming team and the company succeeds requires greater profitability, well, let's figure out exactly how we're going to get there, the step-by-step plan, operationally, marketing, sales, leadership-wise, organizationally, training, development, all of those things that it's going to take to make sure that this plan succeeds.

COPYRIGHT © 2023 THE FAMILY BUSINESS INSTITUTE, INC. ALL RIGHTS RESERVED.

So, number one, overarching goal, long-term success at the company, its people. Number two, the plan has to meet the owner/seller's needs. Number three, the plan has to meet the incoming team's needs. Number four, you got to have the right leader and the right leadership team. And in most cases, it takes a team in order to do that. And number five, support the plan with a strategic plan that gives you all the steps for success.

Again, Dennis Engelbrecht, Digging Deeper. Thanks for tuning in.

www.familybusinessinstitute.com • Phone: 919-783-1880 • Fax: 919-783-1892
COPYRIGHT © 2023 THE FAMILY BUSINESS INSTITUTE, INC. ALL RIGHTS RESERVED.