

Your Business, Your Legacy

Tips on creating a succession plan for your company

By Kelcey Thompson

Are you ready—right now? Soon?—to either sell your business or pass it on to the next generation?

If you answered yes, you are in need of a succession plan. Do not wait until the last minute—as tempting as it may be, it is better to follow Confucius' advice: "Success depends upon previous preparation, and without such preparation there is sure to be failure."

A succession plan is a blueprint for how to get the most out of your business. As a business owner, you have devoted your time, effort, passion, knowledge and sweat into growing your business. It is part of who you are—in a way, it is your legacy. There really is no way to put a price on that. But when valuating your business, you have to take a step back and look at it from a financial point of view—you have to know its financial worth.

It makes sense to have a succession plan in place—not having one is like installing a piece of equipment without properly sizing it. When you install a water treatment system, you do not just throw something together that you hope will work—you take the time to size it, have the right employee install it and verify that it works properly. Why would you do anything less for your business?

Comprehensive Strategy

Wikipedia's definition of a succession plan is, "a process

for identifying and developing internal people with the potential to fill key business leadership positions in the company. Succession planning increases the availability of experienced and capable employees [who] are prepared to assume these roles as they become available."

This type of plan may work for you if you are planning on transferring ownership of the business to a family



member or current staff member. But what if you want to sell your business to someone else?

At Applied Management Group Inc., we believe a succession plan should be more in depth than simply asking who will fill key roles. We assist companies in looking at their entire businesses, from financials to proper pricing to creating a performance culture to benchmarking. You need to know that you are receiving the maximum amount for your investments.

To do this, you need to know the value of your business. What does your business own? What does it owe? What are your tangible assets? What are your intangible assets? Do you have reoccurring revenue? Can you quantify those numbers? Can the business run itself without you, or are you repeatedly telling people what they should be doing? Do you know what your business is worth financially? A succession plan allows you to be proactive and take control.

Create Your Plan

The steps to create a succession plan include the following items.

Financials:

- Chart of accounts: Do you have the proper accounts? Are they being used properly? Do they have the correct type of balance? Ensure that you have proper financials.
- Balance sheet: Are current versus long-term accounts updated correctly? Ensure proper quick and current ratios.
- Income statement: Does it show gross profit for each department? Ensure proper gross profit percentage.

Pricing:

- Labor pricing: Is it based off of your burdened labor cost or an estimated amount?
- Flat-rate pricing: Are you guaranteed a set profit margin or an estimated amount?
- Time and material pricing: Are you billing for all billable hours or an estimated amount?

Empowering personnel:

- Tribal culture: Do your employees hold knowledge that you do not know about?
- Performance culture: Are employees working off of processes and procedures that have been approved?
- Processes and procedures: Are they written down? Have they been approved? Are they updated?
- Training: Are employees trained on processes and procedures?

Benchmarking:

- Financials: Are you utilizing your balance sheet and income statement?
- Labor efficiencies: How efficient are your employees?
- Performance: Are your employees paying for themselves every hour of every day?

Success Plan

As you can see, a succession plan is more of a marathon than a sprint. If you take into consideration all of the items listed above, create an all-encompassing plan, utilize the plan as a living document, and manage to the plan, you will have your success plan.

But let's say that you are not at a point in your career that you are even considering an exit strategy—how does this pertain to you? Everything listed above not only will create a succession plan, but also can be used to grow, develop and increase the profitability of a business.

As stated above, success depends upon previous preparation. Take the time to put a succession plan in place, remembering that it also is your success plan. The plan should not be something that you assign to someone else or leave to its own means. The plan needs to be a living document that is referenced, trained to and monitored to ensure success.

This business is yours; you have put in the time and effort to make it what it is. Know your numbers, know your employees, know your processes and procedures, know your pricing, and know your benchmarks—make them work for you as you move forward with your succession plan to keep the momentum going. Your future depends on you. **WQP**

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