

# BULLET-PROOFING FOR SUCCESSION

*and ensuring long-term viability of your business through the transition*

by **Mickey Jawa, CEO, SatiStar Management Consulting**

*The transition of your business to the next generation should not be fraught with problems. A critical part of any astute business owner's financial plans should include the creation of detailed succession plans. Retirement plans for the owners of small and medium enterprises often ignore the most important component – your business operations.*

**E**ven though some business owners have devoted thought to who will succeed them, they often have not spent any time preparing the business itself for the transition. This lack of adequate planning causes most businesses to fail as a result of the handover to the next generation. Recent studies by both the BMO Small Business Institute and by the Canadian Federation of Independent Business (CFIB) have shown that the majority of business owners have not adequately prepared their business for succession.

Clearly, succession planning benefits both the current owner and the future successors. Well thought out and implemented succession plans enable the business to remain sustainable, and allow the current owner to safeguard future viability. It also allows owners who have spent considerable time, effort and money on building their business to preserve their legacy.

**Your most important consideration in succession planning should be to ensure the sustainable viability of the business**

Succession planning should begin well in advance of your target retirement date, because it often takes several years to develop and implement a comprehensive succession plan.

## **Barriers to Succession**

There are many issues that need to be addressed during the planning of business succession, including:

- The mechanics of transferring ownership and management.
- Financing your retirement and the ongoing operations of the business.
- Minimizing the tax implications associated with the transfer of the business.
- Navigating the legal issues associated with the transfer.
- Continuity planning to ensure that the business remains robust during the transition.
- Ensuring continuity of vision to the new leadership team.
- Ensuring buy-in by all of the key stakeholders.
- Ensuring that your successors have the required competencies and skills needed to replace you.
- Ensuring that you hand-over a “healthy” business, by maximizing the overall performance of the actual operating business.
- Ensuring that organizational knowledge is safeguarded.
- Measuring the overall performance of the business to ensure that the transfer of ownership and control has been well managed.

## **The Assessment**

Succession planning should be a purposeful and multi-dimensional initiative that focuses on ensuring the sustainable viability of your business.

The best way to ensure the long-term prosperity of your business is by developing a detailed operational improvement plan that maximizes the performance of the business.

Prior to embarking on any improvement of your operations it is advisable to develop a profound understanding of the current situation and the opportunities for improvement. We recommend that you engage an outside expert who can look at your business operations with an impartial set of eyes. SatiStar's Business Performance Improvement Assessment approach accomplishes these objectives. This rapid Operational Assessment provides you with an analysis report that incorporates a fully quantified, prioritized and comprehensive action plan for improvement.

The assessment will result in highly actionable recommendations for performance improvement that can usually be achieved with little capital investment. These recommendations are integrated into a structured, high-level implementation plan.

The assessment should focus on a wide variety of business issues, including cycle time reduction, cost reduction, revenue or margin improvement, new product development, plant or office layouts, and vision alignment.

#### Assessment Inputs:

- Vision
- Strategy
- Organizational structure & capability
- Key performance indicators & trends
- Leadership and management practices
- Current business processes
- Customers / Suppliers
- IT infrastructure
- Distribution & Logistics
- Environment, Health & Safety
- Financial performance
- Potential obstacles & barriers
- Benchmarks
- Etc.

#### Assessment Outputs:

- Current state process maps
- Future state vision
- Future state process maps
- Quantified cycle time reduction potential
- Identification of Quick Hits
- Findings
- Strengths/Weaknesses/Opportunities/Threats
- Recommendations
- Benefits
- Costs
- Roadmap & timeline for implementation
- Etc.

The assessment also provides extremely pertinent information that will be used for the valuation of your business. Fair market value is often very strongly influenced by an independent assessment report that outlines the potential gains that are possible.

### **A Step-by-Step Approach**

The following three step methodology for business performance improvement reduction is simple yet effective and able to deliver rapid, dramatic and sustained results. The basic steps are:



1. Conduct a detailed improvement opportunity assessment that identifies, quantifies and prioritizes the potential gains, and provides an approach to realize each of the identified opportunities, including how best to deploy your personnel. The assessment examines both the technical aspects of your business operations as well as the social aspects.
2. Create and design solutions to address those improvement opportunities that will have the maximum return. Solutions generated address opportunities from the perspective of the overall high-level process, to avoid sub-optimizing your business processes. Develop detailed implementation plans for the improvement opportunities based on the conceptual design. Provide implementation coaching and guidance for the designed solutions. During this phase your successor received all of the coaching and mentoring that is required for him/her to be able to take over the reins of the business. This phase also usually results in the standardization of processes, capturing the knowledge of key employees and ensuring that all of the employees of the company are fully trained in those processes.
3. Develop a highly visible business performance measurement and tracking system that will ensure results. It will also help enroll your key employees in the plan by ensuring that they understand your goals, and help you implement the transition. This way everyone within your business will be able to directly measure overall performance. You'll know what's going on without even having to be there.

**The comprehensive assessment provides you with a holistic view of the health of your business by looking at both the technical and the social aspects of your business operations.**

Experience has shown that the most important area of focus for the assessment will be the identification of how to reduce cycle times in the key aspects of your business operations.

Cycle time reduction is inherently different from traditional cost cutting approaches to profit improvement. *It enables an organization's ability to compete by strengthening a company's core capabilities and by developing the dimension of time as a new strategic weapon.* Slashing cycle time is the fastest and most powerful approach to profitability improvement, especially for companies who have already realized most of their core manufacturing efficiency improvement opportunities.

**Slashing cycle time is the fastest and most powerful approach to profitability improvement.**

Cycle time reductions will directly impact almost every contributor to costs within your operations. As cycle time is reduced:

- Investment in finished goods, WIP inventory and financing of receivables decreases.
- New market opportunities based upon order fulfillment speed and flexibility are enabled, pricing can be strengthened, and customer loyalty enhanced in existing segments through improved service capabilities
- Fewer changes to orders and production schedules mean achieving higher manufacturing efficiency levels
- Operating costs decrease, and expediting, overtime, and other costs associated with "rush" orders are eliminated
- Write-offs on raw materials, WIP or finished goods inventories are reduced, as there is less damage during storage, and less risk of obsolescence.
- Quality problems are detected and resolved earlier, as inventory turns are increased.

## **Summary**

You've spent considerable energy, effort, time and money building your business over the years. As you consider retirement, your options include:

- Winding down the business and walking away.
- Selling your business to a third party.
- Selling your business to an insider (partner / management / employees).
- Transferring your business to a family member.

If you've decided to hand your business off to a successor, you need to position it for maximum long-term success. Not only does this preserve your legacy, but it also ensures that you enjoy a happy retirement.

## **Your successor needs to be able to succeed!**

The actions needed to position your business properly could take years to implement, so you need to begin as soon as possible.

The first step involves taking a hard look at all of the aspects of your business operations to identify its strengths and weaknesses. An independent business assessment provides you with a clear and unambiguous action plan for improvement.

The assessment will also identify the gain potential associated with implementing the improvement plan – something financiers often require.

It's not good enough just to develop an assessment of the current state of your business' health; you also need time to implement and follow-up on the recommended changes and ensure that everything is on track.

The personal benefits are substantial, because you'll be able to rest comfortably in the knowledge that you have safeguarded the future viability of one of your most prized assets.

**Mickey Jawa** is the CEO of SatiStar Management Consulting, and has over 25 years of experience in a wide range of industries. He has assisted companies worldwide in implementing Business Performance Improvement, especially in the area of cycle time reduction.