

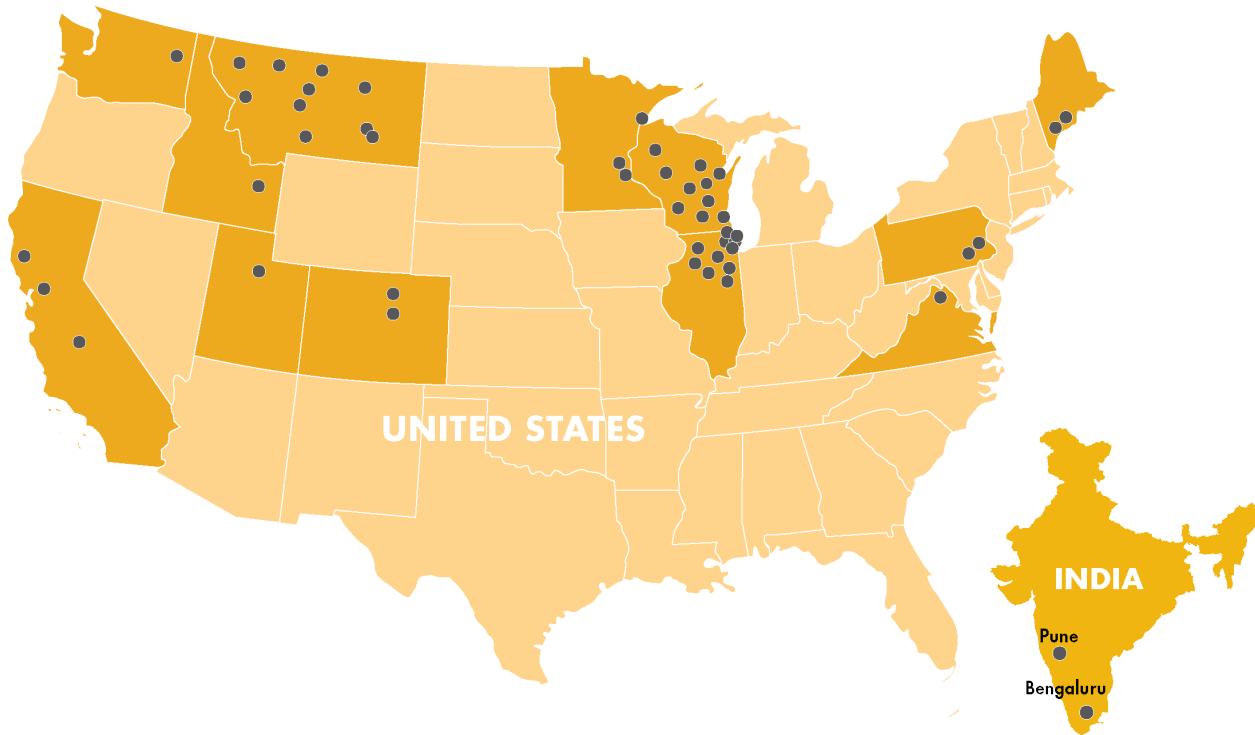


Embedding Succession Planning Into Business Strategy

Is your business transferable?

WIPFLI

Who is Wipfli?



- 2,300+ associates
- 50+ offices in the United States and 2 offices in India
- Ranks among the top 20 accounting and business consulting firms in the nation
- Proud affiliate of [Wipfli Financial Advisors, LLC](#) — specializing in a client's entire financial picture from planning to investments

Audit | Tax | Consulting | Private Wealth

Who are we?



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**Every private businesses will eventually transition,
either voluntarily or involuntarily.**

Private businesses by the numbers

- There are almost **28 million** privately owned businesses in the United States
- Approximately **80%** of business owners do not have a formal plan for transferring ownership of their companies
- A passion for their business: **92%** of business owners say their business provides a sense of purpose for their lives
- It is estimated that the business represents **up to 90%** of an entrepreneur's income and net worth
- Only **30%** of private businesses are successful in their first generational transfer, **14%** pass from second to third generation, and only **4%** make it to the fourth generation

As the saying goes, “A failure to plan, is a plan for failure.”

Most business owners do not like to face the reality that every business must change hands at some point.

Why is
succession planning
a dirty word?



What is transition planning?

- As a general definition, it is **the “process” of deciding when and how** you would like the business to be managed or transitioned in order to protect the firm, its employees, its clients, and its value against unforeseen events such as premature death or permanent disability.
- It also considers whom you would ultimately want to leave or sell the business to and how to fund the transfer or sale.
- Transition planning is a game of inches and starts with **“Is the business transferable?”**
- The transition planning decisions that you make now, or elect not to make, will be a major factor in deciding the future of your organization.

Without a written succession plan, wills and trusts become your default business succession documents.

The four stages of being an entrepreneur



Wonder



Blunder



Thunder



Plunder

Understanding the owner risk phases

Pure risk

- Found in start-up and emerging businesses
- Most business fail during this phase
- *No income or value*

Calculated risks

- Found in growing or growth businesses
- Most businesses thrive during this phase
- *Income and value creation*

Risk averse

- Found in mature businesses
- Most businesses die during this phase
- *Income maintenance and value loss*

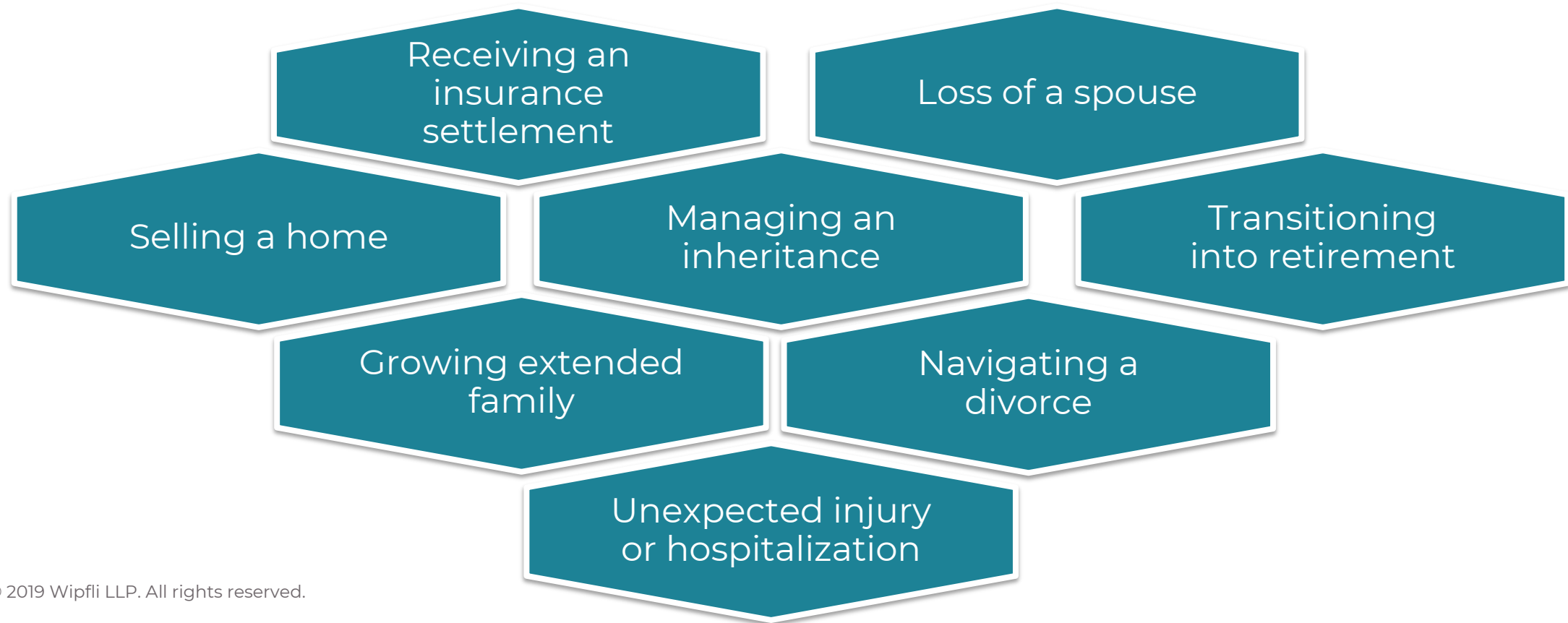
All business owners face three inevitable issues sooner or later



1. Have I properly planned for the management or perpetuation of my business in the event of an unforeseen occurrence, such as death or permanent disability?
2. How and when will I perpetuate the business into the future while realizing value for what I have built?
3. How do I continue to effectively grow and scale my business to ensure a more viable, stable and profitable firm?

Life is full of transitions

Change is inevitable in business and in life. Are you financially prepared for the next stage and the unexpected?



The most important transferability questions:

Do you have a lifestyle or a business?

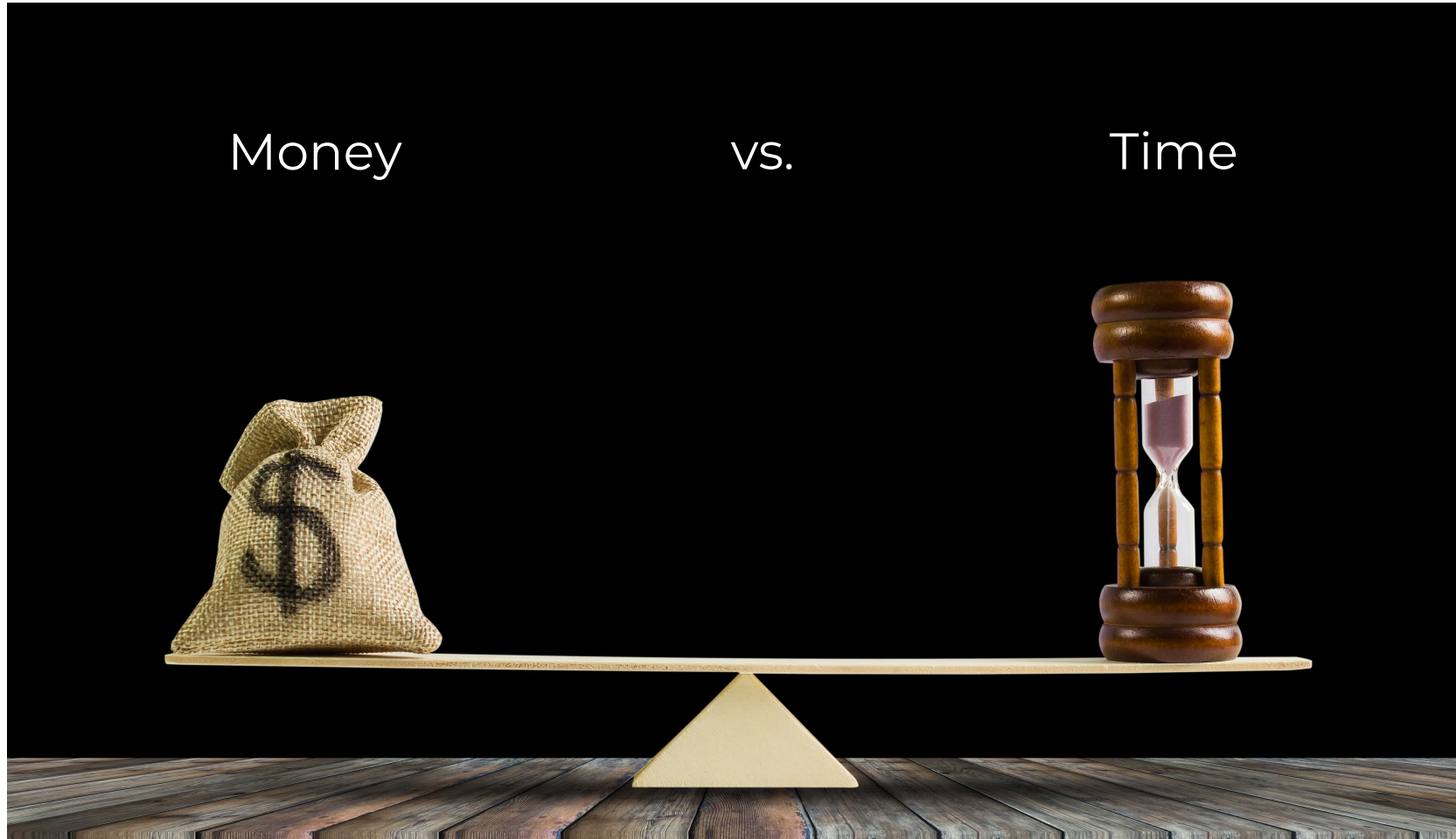
or

Have you built yourself a job or a company?

Where does the owner fall?

- Will never sell or retire
- 5 or fewer years away from retirement; no apparent exit plan
- 5 or more years until retirement; internal successors in place
- 5 or more years until retirement; no internal successor identified

Two limiting factors to a successful transition



Is the owner too vital to the business?

Remember that if the business owner is vital to the success of the company in any one of these areas, then he/she hasn't built sustainable transferable value.

- ▶ Next-level management
- ▶ Professionalized organizational structure
- ▶ Diversified and loyal customer base
- ▶ Proven growth strategy
- ▶ Good and improving cash flow
- ▶ Demonstrated scalability
- ▶ Competitive advantage
- ▶ Financial foresight and controls
- ▶ Interim succession plan – not just an ownership transition plan
- ▶ Business transparency

What excuses delay transition planning?

- ▶ Not being sure who to call for help or how to start the process
- ▶ Worry about being “fair” to all potential successors
- ▶ Fear of possibility straining interpersonal relationships
- ▶ Concern about how to acknowledge key personnel on the management team and valuable contributors to the business who should be retained, but are not in line for ownership
- ▶ Difficulty discussing financial matters and personal goals with others (or outsiders) because it is too private, somehow unpleasant, or considered taboo
- ▶ The owners may not wish to retire
- ▶ Struggles to disconnect from the day-to-day urgencies to focus on long-term planning
- ▶ The assertion that because successors are “not yet ready” to assume control, nothing can be done
- ▶ The entire process seems too daunting
- ▶ The perception that it is a cost to be incurred with no immediate benefit

How do you know you need a plan?

A negative answer to any of the below indicates the need for a succession plan:

1. Has the owner defined his/her personal goals and vision for the transfer of ownership and management?
2. Is the successor identified and in place?
3. Has the owner considered the importance of family involvement in leadership and ownership of the company?
4. Is the owner currently using techniques to maximize value while minimizing taxes?
5. Does the owner have enough liquidity to avoid the forced sale of the business?
6. Does the owner have a contingency plan should you become disabled or die?
7. Has the owner considered alternative corporate structures or share-transfer techniques to help achieve the succession goals?
8. Is the owner dependent upon the business to meet his/her retirement cash-flow needs?
9. Does the owner know exactly how much he/she needs to realize from the business sometime, in order to meet his/her own Financial Independence" goals"?
10. Has the business been valued recently?

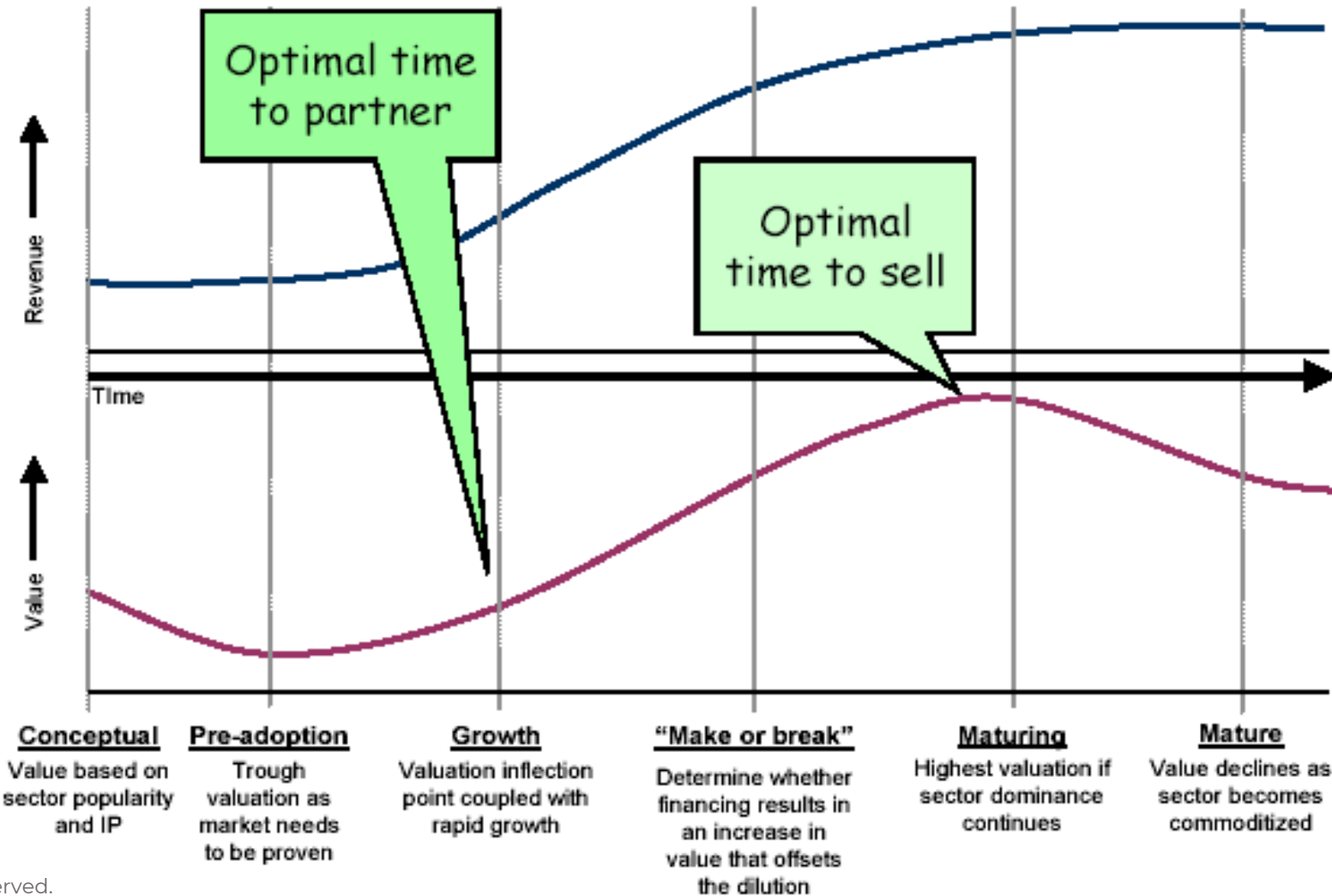
Building transferable value — it's an art, not a science

- The process of deciding to keep or sell starts with considering value
- There are different valuations for:
 - ▶ Banker
 - ▶ IRS Agent
 - ▶ Buyer
 - Internal
 - External
- All can be justified

Factors affecting valuation:

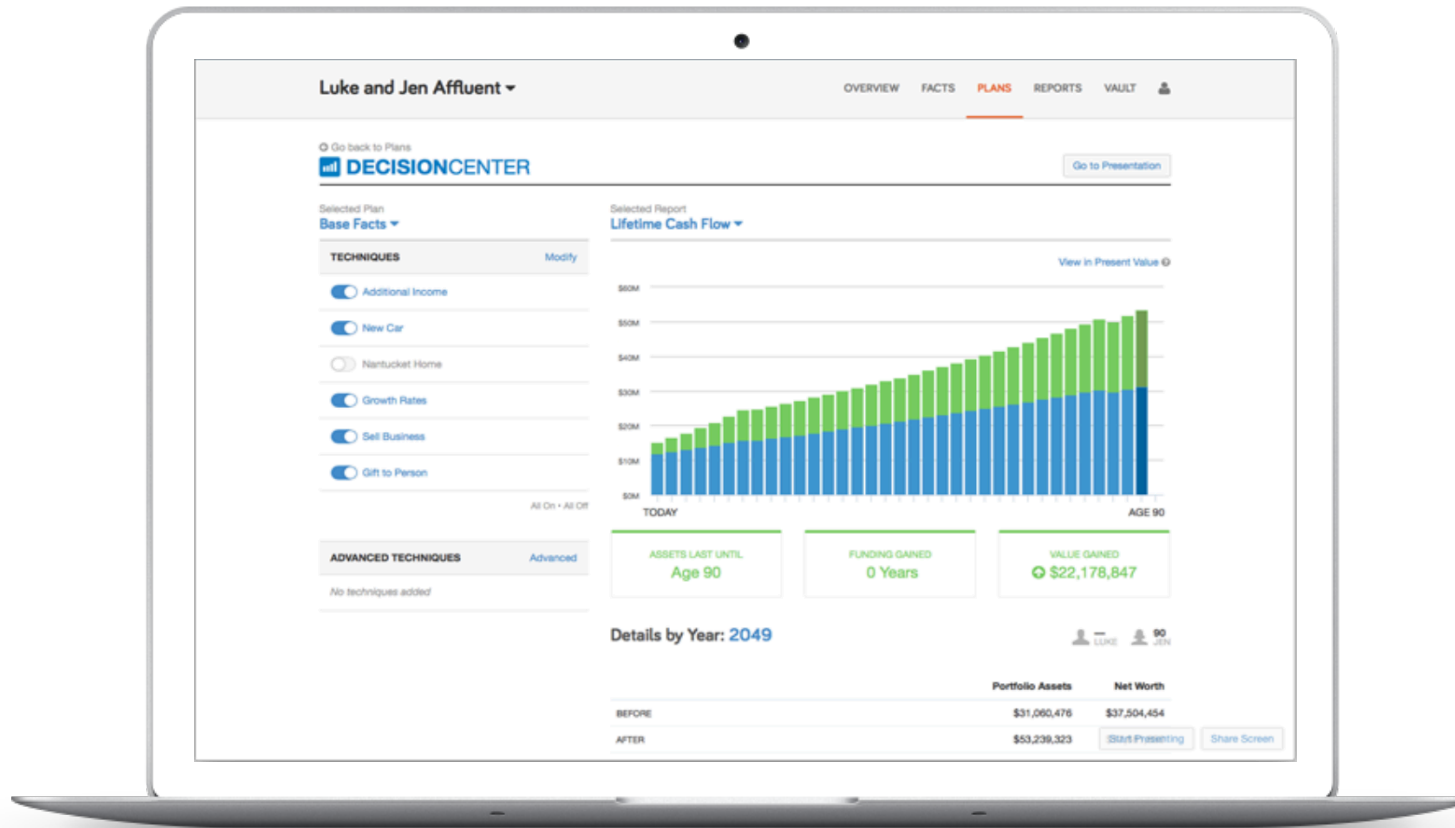
- Is the business viable without you?
 - ▶ Management team
 - ▶ Capability/intention of next generation
 - ▶ Cash flow
 - ▶ Industry status
 - ▶ Client relationships
 - ▶ Long-term demographics
- Unrealistic valuation expectation
- Corporate tax status

Timing is everything



Giving life to your goals with interactive planning

Rehearsing your financial future in real-time helps you see the possibilities.



Addressing the Issues

Personal issues

- Financial Expectations
- Non-financial objectives
- Family considerations
- Personal ongoing involvement
- Time commitment

Corporate issues

- Organizational & operational issues
- Financial preparedness
- Transition strategic planning
- Employee considerations

Start Now: A good outcome is a function of the time committed

- **Education stage**

- ▶ Attend seminars
- ▶ Get familiar with the process

- **Readiness stage**

- ▶ Assemble a team of advisors
- ▶ Design a plan to meet your needs post-transition

- **Execution stage**

- ▶ Revise the plan every 6-12 months
- ▶ Begin “stepping aside”

- **Completion stage**

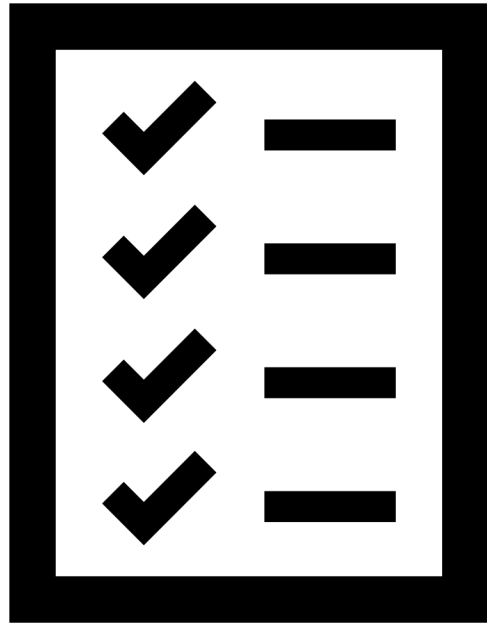
- ▶ Develop “THE GO” strategy
- ▶ Focus on implementation and “what ifs”



Keys to remember about transition planning

- This is a process, not an event.
- While the process generally remains the same – each situation is unique. A cookie-cutter approach will not get it done.
- A fly-by-the-seat-of-your-pants approach rarely is successful.
- Patience is a virtue: waking at 7am and completing a succession plan by 4pm is not likely.
- Know what you are getting yourself into.

Top 10 action steps



1. Recognize the need to plan.
2. Accept the fact that change is inevitable.
3. Know what you are getting into.
4. Determine when, where and how you will leave the business.
5. Maximize the value of the business.
6. Treat succession planning as an everyday business activity, not one more item on the firm's "to do" list.
7. Discover who and what you are beyond the business.
8. Identify your true passions and "callings."
9. Set a course for the next part of life.
10. Understand your business transition objectives and personal financial objectives are intrinsically connected

“Status quo, you know, that is Latin for **the mess we’re in.”**

Ronald Reagan - 1991 speech

Everything

starts with a

conversation



We want to hear from you



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