

GROWERTALKS

Features

12/1/2018

Filling Your Shoes

Chris Beytes



“Succession is a fact. It’s going to happen sooner or later to every family business,” Matthias says. That includes those that don’t have a next generation to take over. But fear not: the process for that kind of succession plan is almost identical to family succession. The big difference is that you get to choose your replacement.

The three stages

There are three stages of succession: the period before the succession, the period during the succession and the period after the succession.

Before the succession, you (the senior) have to make a few big decisions. First, do you already have somebody in mind to whom you want to hand the business? It might be a key manager or long-time employee who’s expressed interest in owning the business. Perhaps you’re large enough to consider a management buyout or ESOP (employee stock ownership

plan).

The second decision is determining a hierarchy of your priorities. Do you want to find a successor for financial reasons? To keep the business going? Is it job security for your staff? Defining your priorities will help you determine the type of successor you bring in.

For instance, if your top priority is getting as much money out of the business as possible, a strategic investor who wants to add your operation to their portfolio of businesses will be more lucrative than making a long-term deal with an eager, but cash-strapped, young entrepreneur.

The period during the succession could consist of several years of training and mentoring, or it could be a quick “Here are the keys, see ya!” moment. If you have a great internal candidate who wants to take over, it’s perfectly appropriate to do the transition in steps (clearly defined) to make sure it will work out.

“A good handover process has certain milestones,” Matthias says. “You come together regularly and reflect on how it’s going. It’s like ‘breakaway’ possibilities. Not only for the senior, but also for the junior.”

That gives each of you a chance to talk about the process and progress. In addition, that period should be long enough so the junior has time to go through some conflict, which is a good test.

Lastly, after the succession, what will your role be?

“Especially in an emotional industry like horticulture, you’ve put all your lifeblood into that company,” Matthias says. “What do you turn towards? Because otherwise it just feels like you’re turning away from your family business and that’s painful. If you’ve got something you turn towards, then it’s much easier because you have something new that keeps you busy and excited.”

Matthias has one more task before you begin the actual search for your successor: identifying the company values you’d like to see preserved.

“Is it money? Is it the people? Is it certain customers or certain products? Certain locations? A regional heritage? You should have it very clear for yourself: What are the values that carry this company. Those should be the values that should not be compromised in a transition.”

Don’t look for a “Mini-Me”

Every example of a successful business succession seems to show a diversity between the senior who left and the junior who took over, says Matthias. He mentions how different Anna Ball is from her father, Carl Ball.

Your successor should share your values. But it’s fine—maybe even desirable—if they live those values in a different way than you do. For instance, if you’re an introvert, don’t be afraid of finding a successor who’s loud, colorful and outspoken, and vice-versa.

“Otherwise, [your business is] a museum because the successor will just do more of the same and you miss the opportunity of taking the business to the next level.” Which is one of the biggest challenges in succession planning: the senior has a hard time letting go. Says Matthias, “There’s this old saying: ‘Running a family business is not to worship the ashes, but to keep the fire burning.’”

As for where to find your successor, the obvious answer would be a key manager or long-time employee. But if those aren’t right, Matthias recommends tapping into your network of trusted industry contacts, professional organizations or peer groups who know your business. They might know of a young person eager for an earn-in or buy-in opportunity. Or perhaps an area business that you admire might like to add your business as a second location.

There are also headhunters who specialize in succession ownership. Matthias says that business succession is such a fundamental and important part of the business lifecycle, you should be willing to spend a few dollars on a good consultant and the network they can provide.

When should you begin the process?

“I would say five to eight years before you want to hand over [the business],” answers Matthias. That gives you time to answer the questions above and begin the search process. He adds that, as the senior ages, the staff, especially younger ones, is already thinking about his successor, even if the senior isn’t. “Any family business where the senior has passed 60, usually that’s when the staff is starting to wonder what’s going to happen.”

Pitfalls

What is the biggest pitfall in any succession plan? Unexpressed expectations.

“Maybe sometimes even subconscious expectations. That’s why it’s important to engage with it, speak about it openly. Go somewhere outside the business where you can talk with each other on equal terms, as partners. What’s going well, what’s going wrong, what do we want to do as we move forward? What things that we did not foresee have suddenly popped up?”

Also, Matthias says juniors often will, out of respect or fear of conflict, agree to a transition period that’s longer than

what they really would like. “That’s where I, in my consulting business, always provoked, ‘Are you sure you want to go for five years? Do you know how long five years can be? Do you know how many sleepless nights that is?’”

Another pitfall is when the senior waits until the business is perfect before handing it over to his successor—“Like a package,” Matthias says, “with wrapping paper and ribbon all done up nice.”

But actually, it’s more effective—and in the long run more successful—if the junior takes over in a situation when there’s still a need to change.

“If there’s a strategic challenge on the horizon that everyone sees, but the senior isn’t willing to grab by the horns, that is often a great opportunity for the junior to prove his leadership capabilities, and at the same time it’s a good situation for the business to be shaped according to his needs.”

Lastly, the junior should know that there’s a post-succession period of three to five years, which offers a unique opportunity to change the business—strategy, structure, processes and so on.

“With a new captain on the bridge, people are more willing to accept change,” Matthias says. “It’s a window of opportunity. You have enough credibility, since you’ve been around for a while, but people are still ready for change.”

If you let that opportunity pass, employees will have settled into the “new normal” and it will be harder for them to accept the change.

Think like a butterfly

Succession planning is a challenge and it can be tempting to put it off until tomorrow, especially if you don’t yet have a successor in mind. But as Matthias reminds us, succession is a fact. One tip for getting over your fear is to see succession as an opportunity for your business to develop—“Like going into a cocooning stage and coming out as a butterfly,” Matthias illustrates.

“Once you engage in that positive spirit of succession, it’s no longer something that you grieve about; it’s more like making your masterpiece towards the very end. If a senior has that kind of motivation, then usually [succession] turns out to be something really good.”

Bringing in a Consultant

Did you know that 80% of business successions are unplanned? Don’t take that as a license to avoid the process. Instead, be part of the 20% who do it the right way and that should start with a consultant. Why?

“There’s a higher chance of success for happiness after selling, for reduction of taxation and increasing of purchase price when you bring a consultant in,” says Amy Wirtz, a Certified Exit-Planning Advisor (CEPA) with The Family Business Consulting Group in Chicago.

“I have met people who have successfully done it on their own,” Amy admits. “[But] it’s rare. Your chances of failure and being unhappy dramatically increase when you don’t have the right professional team surrounding you.”

What questions should you ask a potential consultant? Suggests Amy: “What are your qualifications? How long have you been in the business? What makes you special? What unique qualities do you have as a consultant in this industry? What is your succession plan—who’s going to back me up if something happens to you?”

As for cost, Amy points out that a good consultant can actually save you money over working with your

regular professional advisors (attorney, accountant, tax advisor, etc.) individually.

“It’s hard for a client to explain to their accountant the advice of the lawyer ... and explain to the lawyer the advice of the accountant,” she says. “But when you get all these professionals in a room with a facilitator like myself, it dramatically decreases the timeline and cost to the owner.”

Amy agrees with Matthias that it’s a long process. “You can’t decide to sell your business like you do your house. There’s a lot of thought, planning and institutional change that has to be processed,” both for the business and the owner.

“Doing this work is like another part-time to full-time job,” she concludes. “The energy of the owner is very important. You don’t hand it off to a consultant and they do all the work. The consultant defines and guides you through the work that you have to do.” **GT**

Resources:

- Amy Wirtz—(440) 695-0941, wirtz@theFPCG.com
- Family Planning Consulting Group—theFBCG.com
- Exit Planning Institute—exit-planning-institute.org