



Welcome to the Succession Planning Process module.

In this module be presented with steps on how to develop your succession plan you will assess where your business is in the process.



SUCCESSION PLANNING PROCESS TITLE

In this module you will:

- Identify differences between ownership and management succession
- Identify seven steps for effective succession planning
- Assess where your company is in the succession planning process



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Passing a business from one generation to the next involves transferring both ownership and management of the business from one individual to another. In this module you will learn about the differences between ownership and management succession, as well as a seven-step process for effective succession planning.

At the end of this module you will assess where your company is in the succession planning process.



OWNERSHIP VS. MANAGEMENT SUCCESSION

Review the chart to understand the differences between these two responsibilities.

OWNERSHIP		MANAGEMENT
★ Owns the assets and net worth of the business		★ Runs the day-to day operation of the business
★ Affected by the financial performance of the business		★ Responsible for the financial performance of the business
★ Requires capital		★ Requires the right skills and competencies

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There are two distinct transfers to consider during succession planning. One is the ownership of the business and the other is the management of the business.

Review the chart on screen to understand the differences between these two responsibilities.



OWNERSHIP SUCCESSION

Potential Issues include:

The Desire of the Founders to be Fair

Ensuring Adequate Capital

Covering the Needs of Other Family Members

Selecting the Mechanisms to Ensure Desired Outcomes are Achieved

The desire of the founders to be fair

This laudable objective rarely results in the intended outcome.

Each member of a family may have a different idea of what is fair.

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Transferring ownership of the family business assets can be fraught with emotional land mines and the possibility of damaged relationships.

Instructor: Click through this and the next three slides to discuss the potential issues.



OWNERSHIP SUCCESSION

Potential Issues include:

The Desire of the Founders to be Fair

Ensuring Adequate Capital

Covering the Needs of Other Family Members

Selecting the Mechanisms to Ensure Desired Outcomes are Achieved

Ensuring adequate capital

You want to make sure that the new owner(s) have enough capital to provide for the needs of the business now and in the future.

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Transferring ownership of the family business assets can be fraught with emotional land mines and the possibility of damaged relationships.



OWNERSHIP SUCCESSION

Potential Issues include:

The Desire of the Founders to be Fair

Ensuring Adequate Capital

Covering the Needs of Other Family Members

Selecting the Mechanisms to Ensure Desired Outcomes are Achieved

Covering the needs of other family members

Family members who are not included in the future ownership of the business may need to have alternative plans for their future.

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Transferring ownership of the family business assets can be fraught with emotional land mines and the possibility of damaged relationships.



OWNERSHIP SUCCESSION

Potential Issues include:

The Desire of the Founders to be Fair

Ensuring Adequate Capital

Covering the Needs of Other Family Members

Selecting the Mechanisms to Ensure Desired Outcomes are Achieved

Selecting the mechanisms to ensure desired outcomes are achieved

Family members and individuals involved in family business ventures can make an orderly transfer of ownership more likely by following a systematic method of evaluating the alternatives.

Transferring ownership of the family business assets can be fraught with emotional land mines and the possibility of damaged relationships.



OWNERSHIP TRANSFER

Several alternatives exist for transferring ownership of a family business

Gift



Founders can gift shares/parts of the business or business assets to one or more individuals.

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Several options exist for transferring the ownership of the business from one individual to another.

Let's look at each option: Gift, Liquidate, Sell a Portion, and Do Nothing.

Instructor: Click through this and the next three slides to discuss alternatives for transferring ownership.



OWNERSHIP TRANSFER

Several alternatives exist for transferring ownership of a family business

Liquidate



Where clear agreement on a course forward is not forthcoming, selling the business to an outside interest may represent a way of settling the issues without favoritism or open conflict.

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Several options exist for transferring the ownership of the business from one individual to another.

Let's look at each option



OWNERSHIP TRANSFER

Several alternatives exist for transferring ownership of a family business

Sell a Portion



Selling parts of the business either to multiple family members or to an outside interest represents another way to ensure that all family members with an interest are included in the succession plan.

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Several options exist for transferring the ownership of the business from one individual to another.

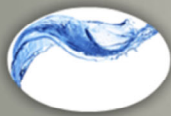
Let's look at each option



OWNERSHIP TRANSFER

Several alternatives exist for transferring ownership of a family business

Do Nothing



Many founders opt to avoid the thorny issues of transferring ownership of the family business by doing nothing.

This option may avoid open conflict or disagreement between family members while the founders are alive; however, it leaves the next generation subject to the interpretation of state and federal inheritance laws and the subsequent tax laws.

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Several options exist for transferring the ownership of the business from one individual to another.

Let's look at each option.

Instructor: Ask if anyone would like to share their experience if they were gifted their business, had to liquidate or sell a portion of the business. Briefly discuss ramifications of doing nothing.



ORDERLY TRANSFER OF OWNERSHIP

Using a systematic process for evaluating alternatives will make an orderly transfer of ownership more likely.

We recommend a three-step process that answers three key questions.

Where are we?

Where do we want to go?

How do we get there?

Where are we?

The first step of the process is to evaluate where family and business interests currently stand. In this step each individual takes note of where things currently stand from his/her point of view.

Good communication is important if all interests are to be heard and understood.

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Family members and other individuals involved in the business can increase the likelihood of an orderly transfer of ownership by using a systematic method of evaluating the alternatives.

We recommend a three-step process that answers three key questions.

Instructor: Click for the first step to display. The next two are on the next slides.



ORDERLY TRANSFER OF OWNERSHIP

Using a systematic process for evaluating alternatives will make an orderly transfer of ownership more likely.

We recommend a three-step process that answers three key questions.

Where are we?

Where do we want to go?

How do we get there?

Where do we want to go?

Next, founders, current managers, and the next generation should enter into a dialog to learn where they want to go; as individuals and as a family business.

This may include setting personal goals as well as goals for the business.

Discuss the Where do we want to go step



ORDERLY TRANSFER OF OWNERSHIP

Using a systematic process for evaluating alternatives will make an orderly transfer of ownership more likely.

We recommend a three-step process that answers three key questions.

Where are we?

Where do we want to go?

How do we get there?

How do we get there?

Finally, alternative methods for moving the family and the business forward should be investigated.

These alternatives should outline the specific actions to be taken, who will be responsible for each action, and when those actions should take place.

Alternatives should be discussed by all that may be affected and who have an interest in the outcomes.

Discuss the How do we get there step



ORDERLY TRANSFER OF OWNERSHIP

Using a systematic process for evaluating the orderly transfer of ownership more li

We recommend a three-step process:

Where are we?

Where do we want to go?

How do we get there?

Dad and I never talked about how the business was doing or the future of the business. When he was gone, I had to figure out on my own where we were and where to go from here. I really wish that I had the benefit of all of his years of experience now.



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Instructor: Click to reveal Graham's comment



MANAGEMENT SUCCESSION

- Successful transfer of management hinges on matching family member skills and interest with roles in business.
- This will ensure the strongest team to maintain the viability of the business into the future.
- It requires open channels of communication and a willingness to allow family members to try on different "hats."

I never asked Graham if he wanted to take over the business. He's my only son. Of course he was going to take it over! That's why I worked so hard to build this business in the first place; for HIS future.



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Transferring management of the family business is also challenging. In addition to the feelings and needs of everyone involved, you also have to consider the individual interests and skills.

Many founders fail to stop and consider that family members may have accepted a role in the family business only because it needed filling. They may have experience and interest in something different than what they are doing today.

Evaluating family members' interest in and skill at various management functions is key to finding the right successor.

Instructor: Click to reveal Joe's comment.



OWNERSHIP TRANSFER

Several alternatives exist for transferring management of a family business:

Appoint



Founders could appoint a family member to be the successor. This may work well if the family member has the skills needed to fulfill the new role. If they do not, it could lead to increased tensions among other members of the family business and risk the future viability of the business.

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Several options exist for transferring the management of the business from one individual to another: Appoint, Elect, choose an Outsider, Divide among recipients, and Do Nothing.

Instructor: Click through this and the next four slides to discuss options for transferring ownership. Ask for examples from the class.



OWNERSHIP TRANSFER

Several alternatives exist for transferring management of a family business:

Elect



Multiple family members, or even all members, could participate in nominating and selecting a future manager. This approach takes pressure off of the founder to please everyone and may encourage a more well-rounded view of potential successors.

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Several options exist for transferring the management of the business from one individual to another.



OWNERSHIP TRANSFER

Several alternatives exist for transferring management of a family business:



Engage an Outsider



Seeking an outsider with appropriate skills and interest may be a good solution when a clear successor is not obvious. However, selecting an outsider can lead to jealousy or resentment on the part of passed over family members.

Alternatively, you could engage an outsider to help the family evaluate and select a successor. This strategy ensures that there is an impartial third party helping to direct the decision.

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Several options exist for transferring the management of the business from one individual to another.



OWNERSHIP TRANSFER

Several alternatives exist for transferring management of a family business:

Divide and Conquer



The founder or the family may choose to divide management activities among multiple family members. This may be a good alternative if there is no family member with all the skills required, but multiple members who have applicable skills.

The challenge with this type of solution is that it requires communication, cooperation, and consensus to make business decisions when there are multiple individuals involved.

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Several options exist for transferring the management of the business from one individual to another.



OWNERSHIP TRANSFER

Several alternatives exist for transferring management of a family business:



Do Nothing



An option followed by many founders in handling the transfer of business management is to do nothing. This often occurs when the founder is reluctant to give up control of the business to someone else.

However, if the founder dies or becomes unable to manage the business without some transition of responsibilities, it leaves current managers and the next generation with little or no guidance about how to successfully run the business.

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Several options exist for transferring the management of the business from one individual to another.

Instructor: Ask which they think happens most often? And why?



A PROCESS FOR SUCCESSION PLANNING



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A big challenge in succession planning is knowing where to start.

This seven-step process defines not only how to begin, but also important actions to take throughout the entire transition.

Click each step in the diagram to learn more



A PROCESS FOR SUCCESSION PLANNING

Step 1: Establish a Timeline



Start early — succession planning is a process; not an event.

As you develop a timeline identify:

- What you would like to happen
- When the process will start
- When it should be completed
- The skill and competencies potential successors need to succeed, and how you will develop them



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The first step is to establish a timeline for succession. The key to this step is to start early. This is a process not an event. None of us knows what the future might bring, so it makes sense to have your plan ready in case something unexpected happens, such as injury, disability, death, or divorce.

Rather than waiting until the issue is forced upon you, start the process in calm circumstances when there is time to discuss issues and come to agreement. This can prevent serious damage to family relationships and the business. It will also allow potential successors to better prepare for the transition.



A PROCESS FOR SUCCESSION PLANNING

Step 2: Establish a Planning Team



The planning team is responsible for developing and implementing a transition plan.

The team should include:

- The business owner
- Appropriate family members
- Business associates
- Outside advisors



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The next step is to decide who should be involved in the development and implementation of the transition plan. The planning team should consist of family members, business associates, and/or outside advisors.

Ideally the elder generation should provide leadership while coaching and mentoring the younger generation. This will allow a shift of power in a controlled, smooth, and gradual manner.



A PROCESS FOR SUCCESSION PLANNING

Step 3: Select the appropriate successor(s)

“Watch outs!” when selecting successors:



Experts have suggested that senior family members not be responsible for selecting their successor alone. They should get input from others to identify the right individual(s) for the job.



It is not unusual in farm families for the younger generation to feel pressured or as if they have no choice about taking over management and ownership responsibilities, even when they do not have the interest or experience.

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The third step is to identify and select an appropriate successor. It is important to make sure the process for selecting a successor is clear and understandable to anyone interested in being a candidate.

Make sure the person selected is interested in the position, committed to the mission of the business, and has the right skills and experience to be successful.



A PROCESS FOR SUCCESSION PLANNING

Step 4: Develop a Written Plan

The plan should include:

- The timeline for the transition that details the owner's reduced participation and the successor's expanding roles/responsibilities
- Rules and procedures for decision-making and conflict management
- A program for developing leadership and other skills required by successors. This may include formal education, outside work experience and planned career paths within the business.



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Once you have a transition plan, it is important to put it in writing. A written plan should detail the steps for dealing with business and interpersonal aspects of the transition process.

Having a written plan will significantly reduce the potential for doubts and misunderstandings within the family.



COMPONENTS OF A WRITTEN PLAN

I. Executive Summary

II. Business Overview

III. Strategic Plan

IV. Retirement Plan

V. Management and
Ownership Transfer

VI. Financial Plan

VII. Implementation
Timeline

VIII. Contingency Plan

I. Executive Summary

Provides a short summary of the plan without having to read the full document.

Instructor: This and the next seven slides depict each component of a written plan.



COMPONENTS OF A WRITTEN PLAN

I. Executive Summary

II. Business Overview

III. Strategic Plan

IV. Retirement Plan

V. Management and
Ownership Transfer

VI. Financial Plan

VII. Implementation
Timeline

VIII. Contingency Plan

II. Business Overview

Provides a clear and concise picture of the business that sets the stage for the rest of the succession plan.



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I. Executive Summary

II. Business Overview

III. Strategic Plan

IV. Retirement Plan

V. Management and
Ownership Transfer

VI. Financial Plan

VII. Implementation
Timeline

VIII. Contingency Plan

III. Strategic Plan.

Describes the business and personal goals of the founder and the successor for the short and long-term. It explains how these goals will be met.



COMPONENTS OF A WRITTEN PLAN

I. Executive Summary

II. Business Overview

III. Strategic Plan

IV. Retirement Plan

V. Management and
Ownership Transfer

VI. Financial Plan

VII. Implementation
Timeline

VIII. Contingency Plan

IV. Retirement Plan

Describes the plan for the founder's retirement and how it will be financed. Lifestyle considerations may include desired activities of the retiree and how he/she might continue to be involved in the business. Living and lifestyle costs should be addressed in this section.



COMPONENTS OF A WRITTEN PLAN

I. Executive Summary

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III. Strategic Plan

IV. Retirement Plan

V. Management and
Ownership Transfer

VI. Financial Plan

VII. Implementation
Timeline

VIII. Contingency Plan

V. Management and Ownership Transfer

Describes how the transfer of management and ownership will take place. Includes a timetable, training and development plan, and intended business



COMPONENTS OF A WRITTEN PLAN

I. Executive Summary

II. Business Overview

III. Strategic Plan

IV. Retirement Plan

V. Management and
Ownership Transfer

VI. Financial Plan

VII. Implementation
Timeline

VIII. Contingency Plan

VI. Financial Plan

Describes how the farm business will meet the financial needs of both the retiree and the successor(s).



COMPONENTS OF A WRITTEN PLAN

I. Executive Summary

II. Business Overview

III. Strategic Plan

IV. Retirement Plan

V. Management and
Ownership Transfer

VI. Financial Plan

VII. Implementation
Timeline

VIII. Contingency Plan

VII. Implementation Timeline

Provides a list of key activities to implement and a timetable to implement them. This assists with monitoring and measuring progress.



COMPONENTS OF A WRITTEN PLAN

I. Executive Summary

II. Business Overview

III. Strategic Plan

IV. Retirement Plan

V. Management and
Ownership Transfer

VI. Financial Plan

VII. Implementation
Timeline

VIII. Contingency Plan

VIII. Contingency Plan

Outlines what will happen in the case of illness, death, disability, divorce, disagreement, disaster, business downturn or failure.

This includes risk management strategies.



A PROCESS FOR SUCCESSION PLANNING

Step 5: Communicate the Plan

How you communicate the plan to family members and other stakeholders is important.

Consider the following issues regarding communications:

- When and how should the process be communicated to:
 - The selected successor(s)
 - Family members
 - Other stakeholders in the business
- How will disputes or conflicts around the transition process be managed and resolved?
- When and how should implementation progress be communicated to stakeholders?



Once the plan is written, you should communicate the details to family, employees, and others who have interest in the continuity and success of the business. The existence of a plan will typically reassure everyone involved and allow them to align their own future plans to ensure a smooth transition.

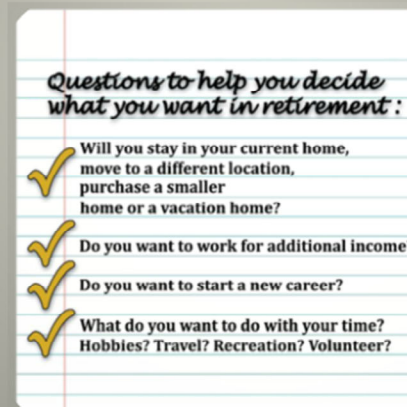


A PROCESS FOR SUCCESSION PLANNING

Step 6: Plan for Retirement

To plan for your retirement:

- Define what retirement means for you (ex: scaling back or no work)
- Estimate your financial needs
- Consider the length of retirement, living expenses, and other sources of retirement income
- Consider what you will do with your free time



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For most farm families, the farm is not only the source of current income; it is also the source of income for retirement as well.

Studies have found that retirement is often different for farm families than for those who work for an employer. Many farmers believe there is no such thing as retirement. Retirement may mean scaling back rather than not working anymore. Improved health, increased life expectancy, and advances in farming technologies enable many farmers to work much longer than was true for previous generations.



A PROCESS FOR SUCCESSION PLANNING

Step 7: Enjoy the Years Ahead

Enjoy your retirement!

- Celebrate your accomplishments.
- Discover new activities and hobbies.
- Indulge in regular strenuous exercise.
- Develop new friendships, while maintaining your lifelong friends.
- Make a bucket list of things you want to do and do them.
- Use your mind. Replace the mental challenge of running a business with other mental activities and challenges.



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The last step is to actually step back from the business and enjoy your retirement. The best laid plans will fail if you do not relinquish control and allow your successor to take the reins.

The secret to success is making sure that your life in retirement is full and satisfying.

Instructor: Review the tips on the slide.



SUCCESSION PLANNING PROCESS

THE SUCCESSION PLANNING PROCESS

ESTABLISH A TIMELINE

Our family business has documented a timeline for ownership and management succession.	Our family has had casual discussions about succession planning, but we have not documented any timelines.	Our family has not established a timeline for succession.
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7 6 5 4 3 2 1

CONTINUE

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STATE: We'll now take an assessment to evaluate where your business is in the succession planning process. Read the statements carefully and rate your level of agreement between 1 and 7, with 1 being strongly disagree and 7 being strongly agree. Once you have rated all the statements in the section sum up your entries

INSTRUCTOR: Hand out the Succession Planning Process Assessment from the PDF file found in the Resources Section of the course under Assessments. Give participants several minutes to complete the assessment and total their scores. When they have completed the assessment go to the next slide to reveal the scoring feedback.



SUCCESSION PLANNING PROCESS



Green (150 – 217) Congratulations! Your succession planning score is strong and suggests a high chance of a successful business transition.



Yellow (90 – 149) Caution! Your succession planning score indicates improvement is needed to increase the chances of a successful business transition.



Red (0-89) Alert! Your succession planning score indicates attention is needed to increase the chances of a successful business transition.

INSTRUCTOR: Review what the scores on the Succession Planning Process Assessment reveal about the business being evaluated.



MODULE SUMMARY

Key points to remember:



- It is important to plan for both ownership and management succession in your business
It is important to ensure the future managers have the right experience and skills to lead
- Steps in the succession planning process include:
 - Establish a timeline
 - Establish a planning team
 - Develop a written plan
 - Communicate the plan
 - Plan for retirement
 - Enjoy the future

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This is the end of the Succession Planning Process module. In this module you learned about ownership and management succession in a family business as well as a seven-step process for succession planning.

Review the key points listed on screen, then click the next button to select another course module.