A Teleos Partner Publication

The ROAD TO SUCCESSION

Lessons, Stories, and Wisdom

Brian Middleton and Keith Krenz

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By Brian Middleton and Keith Krenz

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Foreword

The ultimate paradox of entrepreneurs' careers is that they must face their greatest challenge at the end: succession planning and implementation. After spending years overcoming challenges imposed by the market, competitors, employee relations, and government regulations, the succession decisions, or lack thereof, made by business owners ultimately determine whether a lifetime of work will retain its economic, emotional, and psychological value. Insufficiently guided efforts frequently lead to business successions that are never completed, which in turn usually leads to unfulfilled expectations, misunderstandings, compromised relationships, and decreased value. Successful business succession requires a proven, clearly defined process.

The purpose of this book is to: (1) present key lessons we have learned over thirty years of practical experience regarding these core, rarely discussed, business succession issues and challenges; (2) explore some real-world stories that demonstrate the importance and potential impact (good and bad) of these core business succession issues and challenges; (3) highlight some important points of "wisdom" that we have collected over the decades of our business succession work capped by a clearly defined process for successful business succession.

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Chapter 1

Introduction To The Real Challenges Of Business Succession

IN THIS CHAPTER:

Are you really ready for this next step?

YOU MADE IT!! You have dedicated your life to your family, your business, your employees, and your community. Here you are, professionally successful and ready to contemplate "retiring" from your business and taking the next step in your life. All is great, right? Well, ***are you really ready to take this next step?*** Yes, you have your accountant, attorney and insurance agent ready to go regarding buy-sell agreements, key man insurance, wills, etc. But ***what about your family, the business itself, YOU*** ... are they all ready? Simply put, ***MOST ARE NOT.*** Why? Ask yourself a few simple questions:

Q: Do you have a ***meaningful identity*** outside and unrelated to the business?

Q: How ***dependent*** is your business on you really?

Q: Do the ***skills and character traits*** that make you professionally successful get in the way of you finalizing the planning and implementation of succession?

Q: How has your role in the business impacted your relationship with ***your spouse*** and/or other family members?

Q: Has your business become a ***barrier*** to you having truly effective relationships with other family members?

Q: Have you reached a point where you feel ***unappreciated*** by your family?

Business succession frequently involves making yourself ***vulnerable*** (financially, professionally, emotionally, etc.) to the very people you believe you are responsible for through the business. Can you do this?

If you can relate to one or more of these questions or some off-shoot of them, then the effectiveness of your business succession and the success of the next stage of your life beyond your business will most likely ***not hinge on buy-sell agreements funded by life insurance supported by wills***. So, stop what you are doing and read this short book immediately.

WISDOM POINT

Do not try to change people through the strength of your desires. Rather, mold your desires based on the people involved.

WISDOM POINT

Successful people have been able to assert their desire in order to overcome many obstacles in their lives. They have been able to overcome challenges imposed by competition, the marketplace and the economy through the strength of their personality and desire. This strength at succession time, paradoxically, becomes a weakness when they attempt to assert their desire over the behavior and attitudes of other people.

HAVE YOU CONSIDERED:

When does assertiveness become a weakness?

Thoughts & Notes

What have you done, so far, to prepare yourself, your company and employees, and your family and spouse for this important life transition?

Chapter 2

The Typical View

(Assumes that you will die sooner rather than later)

IN THIS CHAPTER:

Thinking beyond wills, buy-sell agreements, and estate plans.

From the beginning of time, attorneys, accountants, and life insurance agents have propagated the notion that the key to the successful succession of privately owned businesses are well drafted buy-sell agreements funded by life insurance and buttressed by well written wills and estate plans.

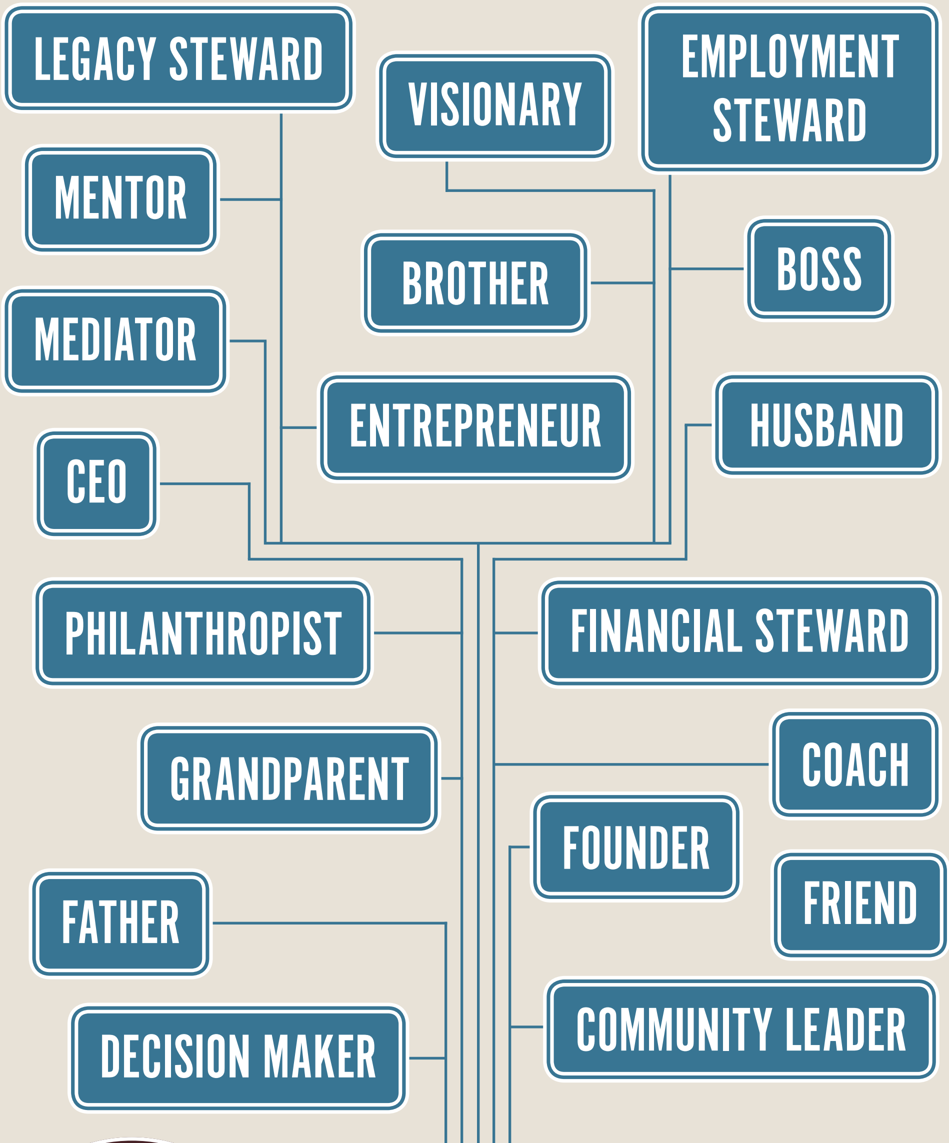
From their perspectives, everything else is secondary, outside of their areas of expertise and, therefore, to be addressed well after they are paid and gone. Unfortunately, this approach frequently leads to the "Alice in Wonderland phenomenon" for owners after the buy-sells, insurance, and wills are in place ... ***"if you don't know where you are going (next), any path will get you there."*** Why? These business succession "mechanical elements" tend to provide the most benefit once the owner dies ... "we have your family and your business financially well covered if you die ... sooner rather than later". Great, but what if you die later rather than sooner? If you succeed ownership of your business at 65 or 70, you will most likely still have at least a good strong 15 years left. Are you and your family ready to face the next 15+ years without your business being an integral part of your lives? What about the quality of your life and the lives of your family if you die later rather than sooner?

For those of us who have been through the trials and tribulations of business succession, in retrospect it is 20/20 clear. We spent years/decades developing and nurturing our businesses. So, passing our businesses on to new owners is possibly the most important single decision and implementation challenge we ever face in our lives. Why? For one reason, the emotional and psychological ***ripple effects*** this decision and its resulting implementation will have on you personally, your family, and your employees during and after succession can't begin to be imagined while you sit in your attorney's office finalizing buy-sell agreements and wills. Secondly, the ***financial security*** of you, your family, and your employees after you leave the business may hinge on details that cannot be encapsulated in legal contracts and insurance policies.

Finally, most owners dramatically underestimate the impact of no longer having their business enmeshed in their lives. For some, their business is at the center of their lives around which family, friends, community, financial security, personal schedules, vacations, etc. all revolve. For others, it clearly defines their primary role within their family (e.g., employer, boss, relationship manager, leader, mentor, counselor, primary financial resource). And yet for others, their business is the dominant and sometimes only instrument they have ever known through which to effectively exercise their personal creativity. In a nutshell, for many owners their business has, over those many years, become a key component of their personal identity. However, ***through succession the role of the business in the owner's life rapidly evaporates, frequently leaving large and unexpected personal voids.***

WISDOM POINT

Successful succession is primarily the search for truth and a coming to terms with one's mortality. How you view your mortality will impact the path that your succession plan takes.



THE MANY ROLES OF AN OWNER

Whether you believe it or not, your life is more complex than the simple label of "business owner." Your family life and business life combine to make you... you.

Chapter 3

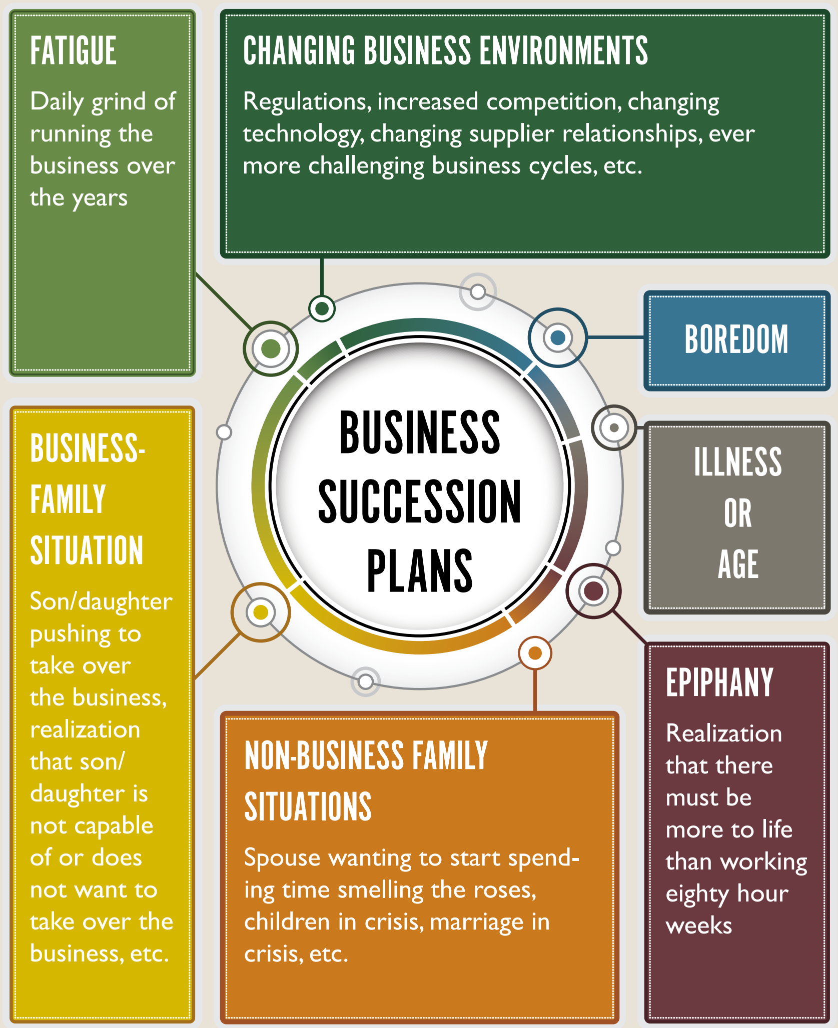
The Critical Realities of Business Succession

(But what if you live?)

IN THIS CHAPTER:

The main components of the Readiness Foundation.

Effective business succession is at least as much non-mechanical as it is mechanical. Common symptomatic reasons *why* business owners begin down the business succession path include:



WISDOM POINT

When the pain of status quo becomes greater than the pain of change, we change.

However, at some point after the buy-sells are signed and the insurance policy comes in the mail, the owner begins to realize that ***business succession is full of other unknowns***, voids, risks, fears, tons of extra work, tension, conflicts, and so on. In reality, business succession is a veritable minefield that can threaten the quality of your life and the lives of your family members if carried out without taking into account all of its core issues and challenges. Most owners launch into the traditional mechanical-centric business succession effort without evaluating "their" ***real readiness*** for effective succession. So, what are some of the realities of business succession beyond the typical mechanical issues?

Personal Financial Readiness

Wills and estate plans frequently focus on distributing assets and minimizing taxes ***once you are dead***. They tend to do little to help you maximize the quality of your life and the lives of your family members ***while you are living***. In addition, few financial planners are equipped to effectively deal with financial planning issues beyond generic personal balance sheet assets and liabilities such as cash, CDs, stocks, mutual funds, bonds, family real estate, personal loans, etc. However, for most business owners, their ***single largest financial asset is their business***. As a result, their long-term financial security depends on somehow finding an effective way to "monetize" (i.e., cash-in) their business. This kind of situation bears no resemblance to generic personal balance sheet issues, but rather is a potentially complex and risky endeavor that is unique to you and your business. Some common issues associated with post-succession personal financial security specific to you and your business include:

How financially dependent are you currently on the business?

Q: Is the current cash flow you derive from the business critical to your ability to pay your personal monthly bills and to sustaining your desired standard of living after business succession?

Q: Is your personal balance sheet (e.g., net worth and liquidity) well diversified beyond the business? If so, can it be effectively structured to provide the needed long-term monthly cash flow independent of the business?

In cases where the business must be sold in order to provide the independent financial base necessary to support your desired standard of living in the next stage of your life, two situations commonly exist:

1. The business can be realistically sold within the desired timeframe at a price equal to or greater than the minimum necessary … ***better be sure.*** ***OR***

2. The business can not realistically be sold within the desired timeframe and/or at the minimum necessary price. The implications of this condition can be dramatic and will be discussed in more detail in the next section on Business Readiness.

How financially at risk are you regarding your association with your business?

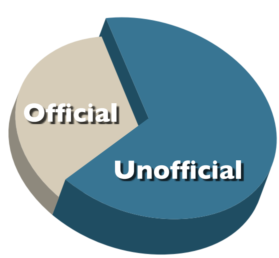
Q: To what extent do direct personal financial linkages to the business such as personal guarantees, real estate (e.g., your business is the primary tenant of your separately owned real estate), exist? Can these financial linkages be easily broken and/or transitioned to new ownership without compromising the stability of the company, its value, and your personal financial stability?

Q: How prepared and capable are your key managers to successfully operate the business without your involvement? (Don't consider a two week vacation a good test.)

Q: To what extent do owner-specific business-critical legal agreements exist with suppliers (e.g., franchise agreements), customers, and others that could adversely impact the financial value of your business, or your ability to transfer it to new owners?

Q: Are there significant business-critical "unofficial" relationships with suppliers, key customers, and others that could adversely impact the financial value of your business, or your ability to transfer it to new owners?

Analyze your level of "unoffical" business relationships



Q: Could your retirement or sale of the business lead to the departure of one or more key employees?

Q: Are there pending lawsuits facing the business?

Q: Are there any potentially large lawsuits against the business around the corner?

WISDOM POINT

A goal without a plan to achieve it is just a dream.

Business Readiness

You have been running your business a long time. You know every square inch. You know where every dollar, if not every penny, goes. Customers are like members of your extended family and suppliers like fraternity brothers. You know exactly what buttons to push, which dials to turn, and how much grease to apply in order to get the business to do anything you want it to do. However, you have ***never prepared your business to be handed over to new owners and managers***.

A reality that overshadows most business succession situations is that the business in question has been built, customized, and streamlined to operate in the manner and likeness of its owners … almost a direct extension of their personalities. As such, they are not usually structured and prepared to effectively operate without continued deep involvement from the current owner(s) let alone to be handed over to a new owner-manager team. So, a few questions that can begin to help you judge how close or far away your business is from being ready to be successfully succeeded to a new owner-manager team include the following:

Can the business operate effectively without you?

Q: Who will lead the business once you are gone?

Q: Who will fill the business management and operating gaps your absence will create?

Q: Are those who will lead the business and fill "your gaps" ready to do so confidently, effectively, and for the foreseeable future NOW? (Not just for the typical 1-2 week vacation timeframes. Could you confidently take a six to twelve month vacation today?)

Q: What will you have to do to get the business ready to operate without you and how long will this take?

How large are the risks to employees, customers, suppliers, and others without your continued active leadership in the business?

Q: If the risk to one or more of these groups is high, what do you think they might do to protect themselves once you leave? How could these possible reactions impact the performance and value of the business as well as your personal finances?

Must you sell your business in order to achieve your personal financial needs?

Answer #1: No, you are ***financially independent*** of the business.

This answer implies that your long-term personal financial security is not linked to the business ***today***. This is good news. However, don't forget that the personal financial security of most or all of your employees is likely still directly linked to the health and long-term continued good performance of your business. (In some cases, employees could include members of your family.) As a result, in this situation it is not uncommon for the owner to simply retain ownership of the business and gradually spend less and less active time in the business. In these cases, the owner frequently sees no immediate or imperative need to proactively prepare the business to continue with his limited involvement. This "boil the frog" approach can and frequently does lead to the gradual erosion of the business, its financial performance, and its potential for becoming the long-term pathway for financial security of its employees.

However, there are proven proactive steps that can be taken that enhance the overall management and leadership direction of the company which, in turn, significantly improves the long-term / ongoing chances for success for the company in this situation.

Answer #2: Yes, the ***business must be sold*** and can be sold in order to provide the necessary independent financial asset base to support your next stage of life, maybe.

A few typical resulting questions:

- "Can be" does not necessarily mean "is ready." So, is the business really ready to be sold today at the price necessary to provide you with independent financial security? If not, how much "lipstick" will your business need before it is attractive enough to be sold for a price that matches your long-term personal financial needs? What are the specific actions you must take and how long will it take to implement them?

- How long will it realistically take to sell the business once it is ready to be sold? (Many owners significantly underestimate this.

- Will the new owner(s) need/want you to stay around for some period of time?

- Will you consider more sophisticated sales arrangements such as "earn-outs," many of which will require your continued meaningful involvement for some predetermined period of time? Or are you willing to compromise in order to get a "cash-on-the-barrelhead" deal?

Answer #3: Yes, you are not financially independent of the business. But, the ***business cannot be sold*** or, at least at a price even close to the minimum you need. So, for you to move on to the next stage of your life, the business must operate with your continued ownership but without your detailed management involvement in order to provide you with necessary personal cash flow.

A few typical resulting questions:

- How comfortable are you with putting the financial security of your retirement in the hands of your subordinates?

- Are you prepared to leave retirement and jump back into your business if things begin to go badly in the business (say, in two to five years)?

- Without you there everyday, how dependent is your business on a small group of people? If highly dependent, what have you done to insure that they will stay with the business long term?

- Are you planning to implement a small number of proven actions to enhance the overall management and key decision making processes of your company?

- Over time, can you accumulate enough "savings" to gain financial independence from the business?

Basically, handling the business itself in a succession comes down to three options: (1) sell it to a third party, (2) sell it to internal management (may or may not include family members), (3) keep it and hope internal management runs it well "without you." To accomplish any one of these options typically takes much longer, much more work, and generates significantly more stress than the owner ever expected. Finally, the owner may need to implement enhanced management and decision making processes and structures within the company in order to achieve key personal goals.

WISDOM POINT

Many have heard the old saying "What's the difference between the chicken and the pig at breakfast? The chicken is casually involved while the pig is committed." Knowing which one you are to your business today is key to determining its readiness for succession to new ownership.

Family Readiness

The impact of the business on the inner workings of the owner's family can be as entangled as a bowl of spaghetti and meatballs. A few questions that highlight this reality include:

What are the intermediate and long-range expectations of specific family members (stated and unstated) regarding the business?

- Financial
  - Purchase company from you at a significant discount and/or with very friendly terms?
  - Share in business sale proceeds?
  - Share in ongoing business profits?
  - Share of your future estate?

Are family members ready for possible bad news from you regarding any or all of these questions?

- Future roles in the business
    - Is your successor your son, daughter, brother, etc.?
    - If so, is he/she capable of taking over for you now?

Answer #1: Yes, but does he/she really want to take on this new job? Do they really want to make this long term career commitment? If so, you are one of the lucky few. If not, given your family's internal relationships and dynamics, what is your plan to responsibly and lovingly liberate them from the business so they can move on with their lives?

Answer #2: No, but you think he/she has what it will take and he/she wants the opportunity. So, given your family relationship with your targeted successor, can you effectively get him/her ready in time? Have you conducted honest and professional performance reviews of him/her recently and do you have a professional development plan in place?

Answer #3: No, he/she just doesn't have the God-given talent for the job and/or the business. So, how will you tell him/her? How will you tell your spouse and other very closely affected family members? How will this reality impact these key family relationships? What is your plan to responsibly and lovingly liberate him/her from the business so he/she can move on with their lives?

Q: Do family members employed by the business think they will have a guaranteed job inside the business even after you leave?

Q: Do family members employed by the business expect you to have a role/influence in the business after you officially leave? (In some cases they may assume that you will have an ongoing role, thus providing them with "cover.")

Q: Are family members who are employed in the business prepared to lose any of the "special perks" they receive after you officially leave?

Q: How will family members who are employees react to becoming "just another employee" after you officially leave?

Q: Are family members ready for possible bad news from you regarding their future role in the business?

WISDOM POINT

If your goal has been to make sure that your children never had to deal with the hardships that you had to deal with, you maybe disappointed in who your children have become.

How will your role in the family change after you leave the business?

Q: ***What is the role of the business within the family?*** (In most cases, the business is "part" of the family, a component of the family's community social standing, schedules, and so on.)

Q: ***Is your spouse ready for you to be around much more*** than ever before in the history of your relationship?

Q: Does the day-to-day operation of ***the business help mask dysfunctional, broken, and/or poorly functioning relationships within the family***? (Once the owner "leaves" the business, this mask will be removed exposing these relationships for what they are.)

WISDOM POINT

You are the common denominator of all your broken relationships.

Like it or not, due to the major role most businesses play within a family, the manner in which business succession is carried out frequently has a large impact on family relationships, dynamics and function for the rest of the owner's life. Holidays, birthday parties, weddings and funerals can all be dramatically impacted by the "Alice In Wonderland" approach to business succession planning.

WISDOM POINT

If you keep doing what you're doing, you're going to keep getting what you're getting.

Owner Readiness

While sitting at their desks, going through the financial statements for the millionth time while simultaneously contemplating what to do about the billionth employee squabble, owners frequently adopt the "grass is greener on the other side" personal view of business succession. So, a few questions you may want to ask before starting your move to the other side include:

Q: Have you ever given significant thought to ***the role the business plays in your own life*** on a daily, weekly, monthly, and annual basis?

Q: ***Are you ready not to go to work every day?***

Q: ***What will you do next with your life?*** (There are only so many cruises you can take and so much golf you can play before you realize that you will have lots of spare time on your hands.)

Q: ***How will no longer being an owner of the business impact your position within your family, within the community, with your friends?***

WISDOM POINT

You are not what you do. Who you are cannot be defined by anything that can be taken away from you.

Q: ***Is the business your primary or secondary creative and intellectual outlet?*** If it is secondary, what is your primary creative and intellectual outlet?

Q: ***Does the business provide you with positive stress?***

Q: ***How important do you think the business is to your personal identity?***

HOW IMPORTANT IS THE BUSINESS TO YOU, REALLY?

- Center of your life?
- Mechanism that helps keep your family close?
- Just financial?
- How you measure personal success and value?
- Others?

Q: ***Are you capable of developing and grooming a successor?*** (Many successful business owners see nothing special about what they do and how they do it. This view frequently makes "grooming" a successor difficult for the owner.)

Q: ***Are you willing to share key information and ultimately decision making with selected employees?***

Q: ***Can you see "your baby" owned by someone else?***

For many, the grass looks greener on the other side. However, if your business succession planning objective is to just get to the other side, not to know what you want to do when you get over there, usually the grass turns out to be brown and full of weeds. Most owners don't truly understand the role their business plays in their lives until after business successions are completed. At that point, many experience emptiness, lack of purpose, and loss of energy. So, ***before the business is ready and even before the family is ready, the owner should be ready for business succession.***

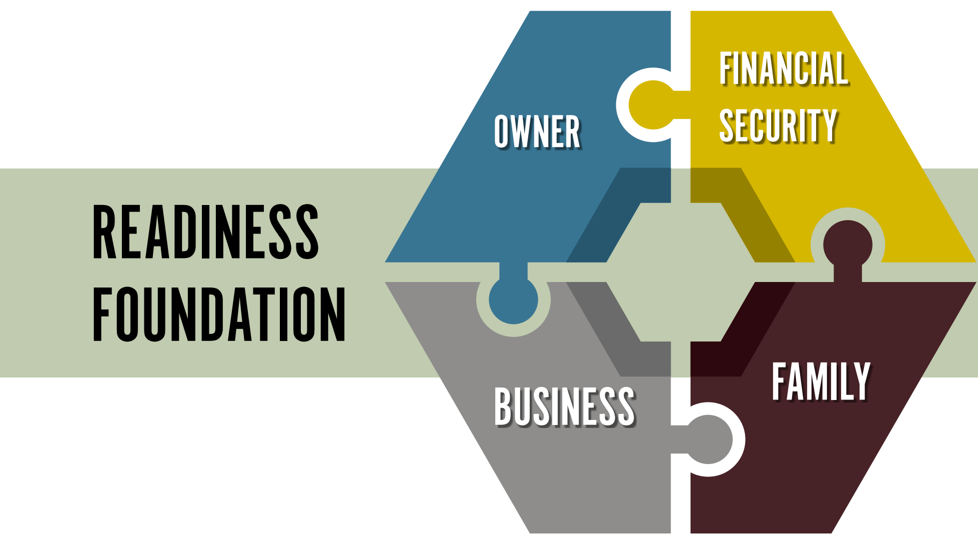
WISDOM POINT

Look at what you do day-in and day-out to find out about what you really believe in.

WISDOM POINT

Knowing what you truly believe and value in life as well as knowing what you are not yet sure about in life are important personal traits that is used frequently in successful business succession.

Clearly, there are many questions, issues, and challenges that go well beyond buy-sell agreements funded by life insurance and supported by wills and trusts. Experience tells us that the core issues that steer, drive, and motivate the vast majority of business successions hinges on the readiness of the family, personal finance, the business itself, and the owner(s) to take on the tough tasks succession demands.



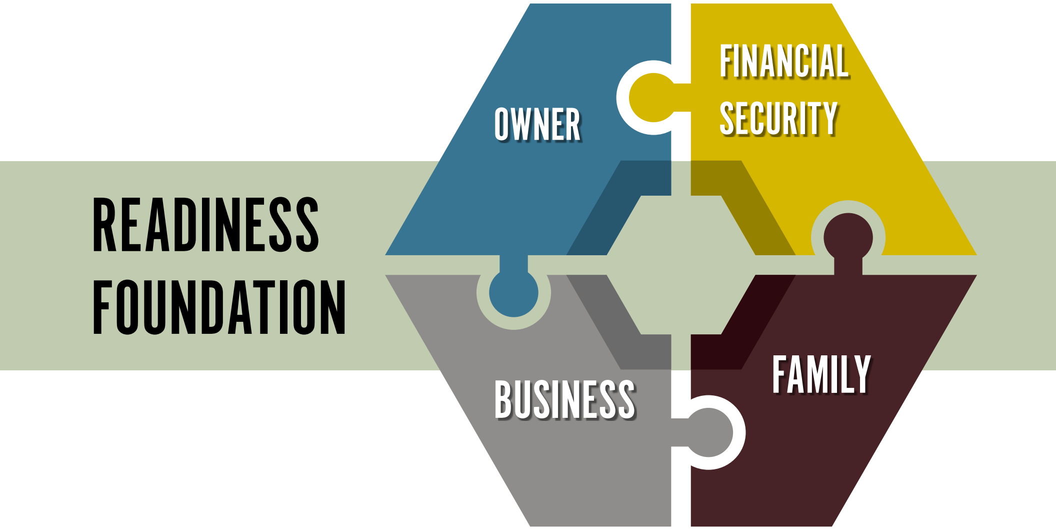
Thoughts & Notes

Chapter 4

Summary Of Key Lessons

IN THIS CHAPTER:

Going beyond the traditional approach.



Thirty years of pragmatic experience and research has led TELEOS Partners, LLC to draw two major conclusions:

Conclusion #1: The vast majority of business successions either fail or fall dramatically short of the owners' original expectations because they believe that 98% - 100% of business succession is mechanical (buy-sell agreements, life insurance, wills, trusts, and estate planning, etc.).

Conclusion #2: In reality, roughly 5% of SUCCESSFUL business succession is mechanical with the remaining 95% effectively addressing the readiness of the family, owner, business, and owner's personal finances for life after succession.

The common mechanical-centric approach to business succession frequently leads to:

- ***Within the owner's family:***
    - Open conflict and/or concealed conflict
    - Unrest and turmoil
    - Resentments
    - Unmet expectations
    - Dysfunctional and/or broken relationships unmasked
    - Reduction in social standing within the community
- ***Within the owner:***
    - Lack of necessary long-term financial security
    - Disenchantment
    - Anxiety
    - Boredom
    - Discontent
    - Feelings of: failure, inadequacy, a job not completed, lack of direction/meaning, and reduced self-esteem
    - Reduction in social standing within the community
    - Reduction in standing within family

WISDOM POINT

Your children are not created in your image and likeness.

You cannot change other people through the strength of your will.

- ***Within The Business:***
    - Failure
    - Decline
    - Sold to a poor steward
    - Layoffs
    - Successor management ill-equipped for their new role
    - Employees with high levels of fear, low levels of morale ("those who can, leave; those who can't, stay")

Usually, business succession is the most important decision owners will ever make and implement in their lives due to its wide-ranging impact and ramifications on family, employees, the business itself, and the owner.

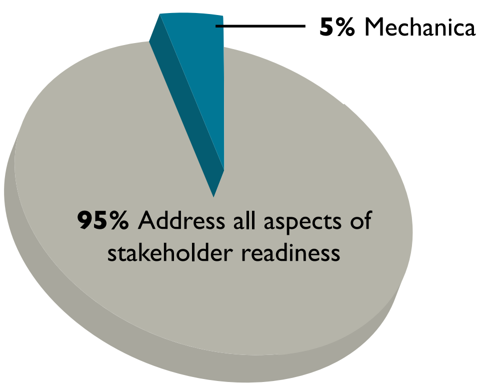
The typical result from the common 98% - 100% mechanical-centric approach is ***PAIN*** for virtually all involved.

Given these realities, there are two obvious questions:

- Is there ***HOPE*** for a business owner facing business succession?
- If so, why?

The balance of this book is dedicated to addressing these two questions.

Ratio of Succesful Business Succession

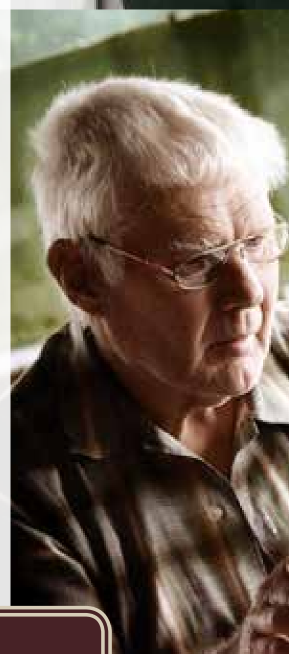


WISDOM POINT

Are you implementing the lessons that life is teaching you?

Chapter 5

Real World Stories



IN THIS CHAPTER:

A few summaries of business succession realities.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FOR
SALE


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The stories that follow are true. However, they have been summarized, simplified and sanitized in order to highlight key business succession realities.

Story 1: Outsourced

Early in our careers we were working on a succession plan with a gentleman named Max. Max was in his seventies, a self-made man. In the late fifties he started a service station and grew that service station into the largest retail truck dealership in the county. Max had two sons, Fred and Larry. Larry was the youngest and probably the more talented. We tried to persuade Max to do succession planning for three years and each year he would tell us that he wasn't ready to do it because he didn't know what to do because Larry wasn't getting along with his brother. We reminded him that we've been talking about this for three years due to Larry's lack of

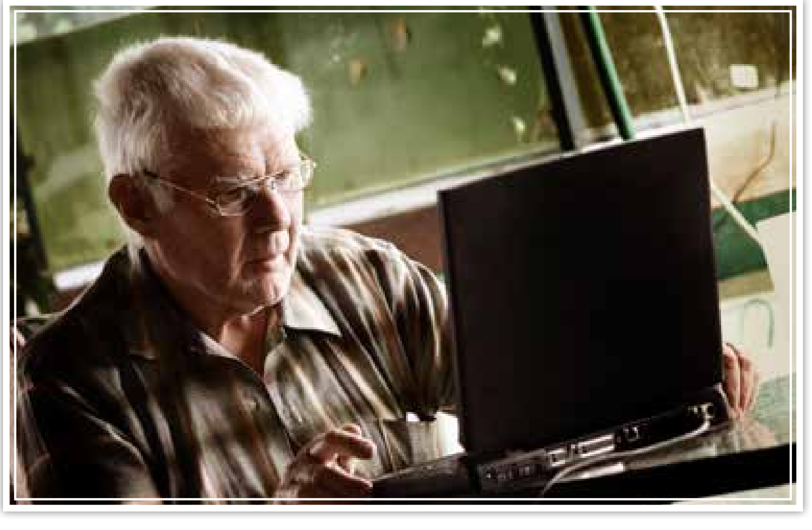
cooperation. So, we suggested that Max consider "letting Larry go" so he could move on to better professional opportunities. With that Max said, "You're right" and pressed the intercom button and invited Larry into his office. When Larry arrived, Max said, "Larry, I'm going to play golf this afternoon, Brian wants to talk to you about something." This was one of our early introductions into the complex, emotional dynamics that can exist within a family business.

Story 2: See No Evil, Speak No Evil, Hear No Evil

This is a story about a gentleman who started a small manufacturing plant after World War II, a typical depression and World War II guy. He went to school on the GI Bill, got out, and started a little machine shop in his garage. Over the years it grew into a significant business during which he had invited his two sons, Brian and Barry, to join the business. When we met him he was in his early seventies. His two sons had been underperforming for years, but the owner was feeling pressure to do some planning because Mom was ready for him to retire. The problem with Brian and Barry was they had both developed serious drinking problems. All of the members of the mechanical succession planning team (accountant, bank trust officer, attorney, and financial advisor) knew they had drinking problems. Throughout a year-long planning process, they all worked with the family pretending that they did not know the truth. A perfect mechanical estate plan was drafted and the owner began to shift stock and responsibilities over to his two sons even though he was not financially independent of the business. Within a year, the two sons were at war with each other over control of the business. Soon thereafter, Brian's drinking problem became so problematic his wife divorced him. The responsibility for the business fell on Barry. Within three years both of them had had alcoholic induced breakdowns, resulting in the business suffering to the point that it was not recoverable. In the meantime, the father had a heart attack and was in poor health. The bottom line was that the business failed and the retired business owner had to go back to work for a friend in order to pay his monthly bills.

Story 3: Any Day Now

One day while we were prospecting for new business, we stumbled upon an automobile dealership called Smith Ford. We walked in and asked for Mr. Smith and an elderly gentleman, about seventy years old, was pointed out to us. We explained to him that we had a succession planning business and started telling him a little bit about ourselves. He interrupted mid-sentence and said, "Oh, you don't want to talk to me" and, of course, we said, “You’re Mr. Smith, and it’s Smith Ford.” He said, “No, you need to talk to my father.” He took us upstairs to a gentleman who was 93 years old and we started telling him our story about succession planning and halfway through he interrupted and said, “Son, that’s a great service you’re offering but our organization can’t use you at this point in time.” We asked him to share with us why that was the case and he said, “Well, because my son’s not ready.” The son was the seventy-year-old gentleman we had met earlier. As we follow this story, the seventy-year-old son was never included in the succession plan. He had spent his whole life waiting for the opportunity to run the business. In the meantime, he had become bitter and disillusioned. Ultimately, the dealership was passed to the seventy-year-old’s son.



Story 4: Garbage In – Garbage Out

We recently ran into a situation where a business owner had the help of some very sophisticated, mechanical counselors and he created a succession plan that seemed to make sense to him. It was a complicated situation because this gentleman was remarried to a younger woman. His son from his first marriage was a minority partner in the business. His new spouse was the same age as his first son. In addition, he had two young children from his new marriage. A very complicated succession plan was structured such that someday it would put the son from his first marriage into a business partnership with the children of his second marriage. When his young children enter the business, his older son would be around 60 years old. In the meantime, if his father passed away, he would be partnered with his dad's second wife. This was a perfect example of a plan that was put together without first testing the owner's fundamental succession objectives. After careful analysis, it was concluded that his estate plan would only work well if he lived indefinitely in order to manage and control these complicated family dynamics.

Story 5: Liberation

Several years ago we went into a business and were greeted at the door for our appointment by the 55-year-old son of the owner. As we were surveying the business, we noticed some very unique art that was decorating the office. In the course of the conversation, we asked the son about the art. He told us that he was the artist. He was a shy, introverted man who seemed somewhat troubled. His 80-year-old father had started the business and sincerely believed his son would be his successor. After several interviews, it was determined that the son was suffering from depression that was impacting his physical health. It seemed that he always wanted to be an artist and, in fact, had the soul of an artist. His father did not see art as a real career. In subsequent conversations, we discovered the father had wanted to get out of the business years ago but was staying in the business because he felt he had to do so for his son. Interestingly, they had never had a conversation about this issue until then. Through our pre-succession planning process, it was decided to begin preparing the business for sale. Dad was going to share the proceeds of the sale so the son could pursue the rest of his life in art. Prior to our meeting, they had spent over $100,000 in legal bills preparing a very sophisticated estate plan. In addition, they were spending over $100,000 a year in life insurance premiums to fund the transition. If this conversation had taken place 15 years earlier, all of that money would have been saved.

Story 6: Mine, Mine, Mine

This case involved a manufacturing plant in the $15 million sales range. The founding entrepreneur was in his mid-fifties and ready to begin thinking about life beyond the business. He had a son, 22 years old, and a daughter, 27 years old, in the business. All of their lives, there had been discussions around the table about the business belonging to the children someday. The owner and his wife were very emotionally committed to the children. However, the children were not truly committed to the business. Rather, they saw the business as an entitlement and when they graduated from college were convinced they knew more about the business world than the father. Through our pre-succes-

sion planning process, we were able to have significant conversations relative to these issues prior to developing a final succession plan. As a result of these discussions, new career paths were developed for the children that they themselves had ownership in. Once they realized the father was going to initiate a succession planning process that did not involve family succession, the children got serious about their own lives. The resulting succession plan brought professional management into the company to prepare the company for sale (in order to maximize the return for the founder) and then to carry out the sale.

Story 7: It's Never Too Late … Or Can It Be?

Often times, the most difficult succession scenarios occur when an entrepreneur has waited too long to do the planning and is at the point where he is beginning to show meaningful signs of old age. For example, we were working with a business where a proud founding entrepreneur, an immigrant to this country, had built a very successful business that employed eight of his children. His oldest son worked very closely with him on a day-to-day basis. At the age of 75, Dad suffered a small stroke. After his rehabilitation, it appeared that he had made a full recovery. He seemed like his old self with his personality and energy intact. The deficit he experienced was subtle involving short-term memory loss. The son, who worked closely with him, began to see the manifestation of this deficit over a period of time. Sometimes he would pay a bill twice in one day or correct an employee for the same problem twice in one day. The son discussed this issue with his family. The rest of his family, since they did not work as closely with him, saw no manifestations of this short-term memory loss problem. The oldest son began to see the negative impact on the company and decided he had to deal with it. Unfortunately, the rest of his family, including his mother, was not supportive. They chose to stay in denial of these deficits, for understandable reasons. This situation created a schism in the family. The oldest son felt that out of love for his family and out of love for his father, he had to push this issue. Ultimately, the son did take control of the business. In some ways, it was very late in the game. The business did ultimately have to be sold to a third party at a significant discount. To this day, the oldest son is held in contempt by the rest of his family members.

Story 8: Free At Last

This is a story of Buck, a 60-year-old man who took over his father's scrap metal business. His father started the business in the backyard of his modest home. Buck built the business up to about $10 million dollars in sales. When we met Buck, he had his three children in the business: Steven, a recent college graduate; Bill, who was working his way through college; and Mary, who was 30 years old and working in the accounting side of the business. We took them through the pre-succession process and found that as a group they did not have a congruent set of values, visions, or purpose. One by one, decisions were made so that the children would be liberated from the opportunity of succession. A key objective of the father was to begin to have the business become less dependent on him in such a way that he might be able to spend more time with his wife. We initiated a project designed to do exactly that. The resulting succession plan also was designed to grow the business for the purpose of sale or attracting private equity to it and gradually reducing Buck's ownership. Well into the project, however,

it became apparent that Buck had second thoughts and was going to do everything that he could to prevent the ultimate objective from occurring. As a result, Buck still owns and operates the business.

It seems that in some ways Buck saw himself as the caretaker for his father's business. This is not an unusual situation. In fact, many second generation owners live with the thought of a meeting that will one day take place in heaven. When they get there they will be greeted by their father and their father's first question will be, "How's the business?" As a result, there's frequently a strong emotional desire by second generation business owners not to sell the business or let the business fail under their watch.

Story 9: Or Else

Bill started his technical services business when his children where 3, 1, and -1. His wife fully supported his desire to strike out on his own. So, for the next twenty years he immersed himself in developing his service offerings, cultivating new customers, enhancing the skills of his employees, taking on institutional investors, and so on. The business had become the central element of his life. His standing within the local and professional community was based on his company's reputation and his role within the company. Because his firm did business around the world, Bill would leave the house either Sunday night or Monday morning and usually returned either Thursday or Friday night. For all practical purposes, his wife had become a single mother. As a result, his relationship with his family had gradually become distant, strained/weakened, and almost businesslike.

Somewhere during the twentieth year, Bill's wife began to let him know, in various ways only a loving wife can, that she had had enough of this absentee marriage and family life. It became clear to Bill that it was either his business or his family. He chose his family and, through our process, began a business succession process that focused on the preparedness of his family, his personal finances, the business, and himself. Today, the business is owned by his management team (together with its institutional investors) and is operating well. Bill and his wife now have a strong and close marriage. Bill finally got to enjoy watching his middle and youngest children play high school and college sports and he was able to take the time to deeply participate and truly relish the wedding of his oldest. Bill enjoys his life after business succession and is professionally active through consulting and volunteer work. The experience taught Bill the importance of coming to grips with one's purpose for being here on earth and getting on with it.

Story 10: Better Than Ever

George started his business in his twenties. Thirty years later, he had developed a very successful industrial component manufacturing business. George's son, Steve, always hung around the business after school and during the summer. As a young boy, Steve was captivated by the business and never lost his fascination. George was reluctant to bring Steve into the business because he knew that the rules by which you run a business are vastly different than the rules by which a family operates. However, given Steve's interest, George made sure his son experienced various aspects of the business to test his true interest and abilities. Over Steve's teenage years and early twenties, George gave Steve every job to do, from the dirtiest and most menial to the most important and stressful. Steve excelled at all of them. So, the day came and, through our process, George sat down with his wife as well as Steve and his new bride. George laid it on the line: it was time for Steve and his wife to decide whether he was going to succeed his father over the next ten years or pursue another career. Through our process George was able to make it clear that if his son chose to stay in the business, it would involve a lot of hard work on all their parts to keep the family relationships functioning normally while having to also deal with the stresses of a family business. Furthermore, George made it clear that he preferred that Steve not come in the business for that reason and that he thought he could sell the business for a price that would financially assure his retirement. But, because of Steve's clearly demonstrated interest and talent, George had to give him the choice.

Steve and his wife chose to stay in the business. As it turns out that Steve was even more talented than his father regarding the business (which flourishes and has grown substantially). As George predicted, it takes a lot of continuous hard and focused effort for them to keep family values working well in the same environment that business values must operate. So far, so good. The extended family has dinner together at least two times a week and frequently spends weekends together. George and his wife travel, spend a lot of time with their grandchildren, and are active in their church and the community.

Story 11: Dying With Your Boots On

Hank Sr. was a rising star in a corporate world of technology when he decided to give in to his entrepreneurial streak. He founded a company that manufactured electrical and electronic components back in the early 60's and grew it to a $150 million business. When Hank Jr. was little, his parents sat around the kitchen table and talked about someday the business being his. After he graduated from college, Hank Jr. came into the business with the thought that he would one day be the successor of the business. During this time, Hank Jr. continued to grow and expand the business. As Hank Jr. reached his late thirties, family tensions grew around the question of when Hank Jr. would "get the keys to the car/business." When we met the family, there was a lot of unresolved conflict related to expectations not being met. Through our process, we were able to help the family realize that Hank Sr. was going to "die with his boots on."

Specifically, our analysis allowed us to have focused and meaningful conversations with both Hank Sr.'s wife and their son. Hank Sr.'s wife was pressuring him to begin to retire (they were in their late 60's and she wanted to spend more time at their Florida home like all of their friends). Hank Sr.

was not interested in that plan. Ultimately, the family came to terms with the fact that Hank Sr. deeply enjoyed his work and wanted to stay active in the business as long as he could. Therefore, it was decided was that the business would be expanded and Hank Jr. would take the lead in that area. He did, however, agree that he would begin to take more extended time off in the winter to be with his wife in Florida. The business expansion has been a huge success. Hank Jr. has come to terms with his reality (his father will run the business as long as he is able) and has decided that his reality is quite good. He's got a chance to run a large part of the business and still be mentored by his father. Hank Sr.'s wife is happy because they are spending more time in Florida and Hank Sr. continues to be able to live as the person that he was created to be.

Chapter 6

Is There HOPE, And If So, WHY?

IN THIS CHAPTER:

The TELEOS Process

As we have discussed, for most owners, business succession is the most important decision they will ever make in their lives because of its wide ranging impact and ramifications:

- Personal Financial Security
    - Business
    - Employees
    - Suppliers
    - Customers
    - Community
- Family
    - Expectations such as: Ownership, Financial, Position & Title, Responsibility
    - Can put relationships at risk
    - Can require broken relationships to be addressed
- Owner
    - What's next in my life … coming to grips with a substantial portion of a life spent in the business and the resulting limited time left.

As the various real world stories in Chapter 5 demonstrate, business succession frequently brings the owner face-to-face with the struggle between the core set of values that govern families and the fundamental values that drive businesses:

FOCUS

Family "inward" vs. Business "outward"

ADMITTANCE

Family "birth" vs. Business "recruitment"

ACCEPTANCE

Family "unconditional" vs. Business "performance"

REWARD

Family "equally" vs. Business "performance"

ORIENTATION

Family "emotional" vs. Business "analytical"

EDUCATION

Family "personal interest" vs. Business "practical business training"

CHANGE

Family "traditional" vs. Business "cultural"

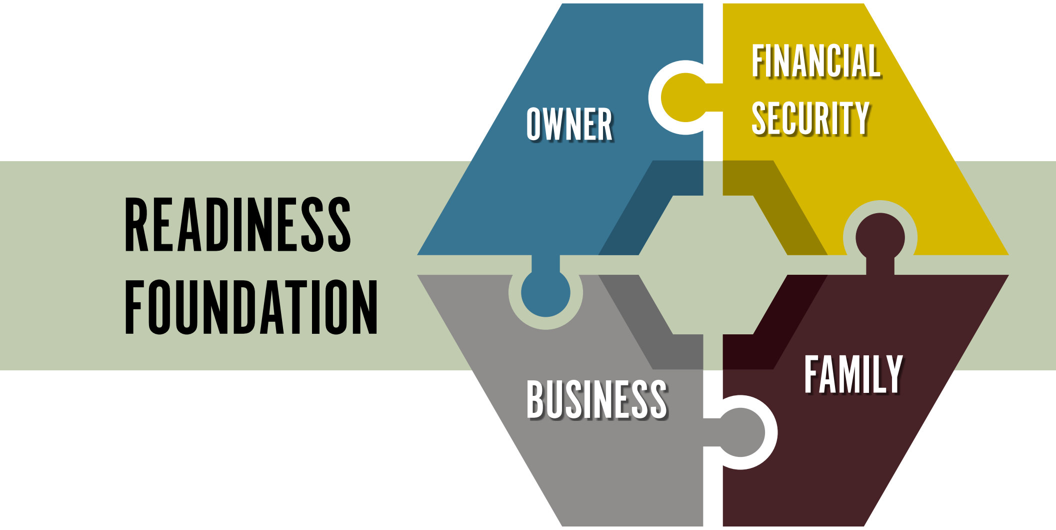
In addition to the tug-of-war between family values and business values, business succession exposes personal financial security issues of the owner as well as the fundamental needs and wants of the owner regarding the next stage of life. The mechanical-centric approach (buy-sell agreements funded by life insurance and supported by wills and estate plans) side steps all of these complicated and critically important issues. As a result, the vast majority of closely held business successions generate unnecessary amounts and levels of ***PAIN*** for virtually all involved, leading to the "failure" of many succession efforts.

WISDOM POINT

Succession planning is not just a business challenge; it is also an emotional, psychological, and for some, a spiritual challenge.

Given this sobering recap, our questions at the end of Chapter 4 were "Is there ***HOPE*** for owner(s) facing business succession?", and "If so, why?" The answers are "YES", there is HOPE because as a result of over 30 years of practical work in the field of business succession, we have developed a proven, clearly defined ***PROCESS*** with the following features:

- Addresses core readiness issues first
- Contains critical tools necessary to effectively address readiness issues
- Creates realistic action plans and approaches to span readiness gaps and overcome readiness barriers
- Appropriately links traditional mechanical components to desired readiness outcomes and objectives

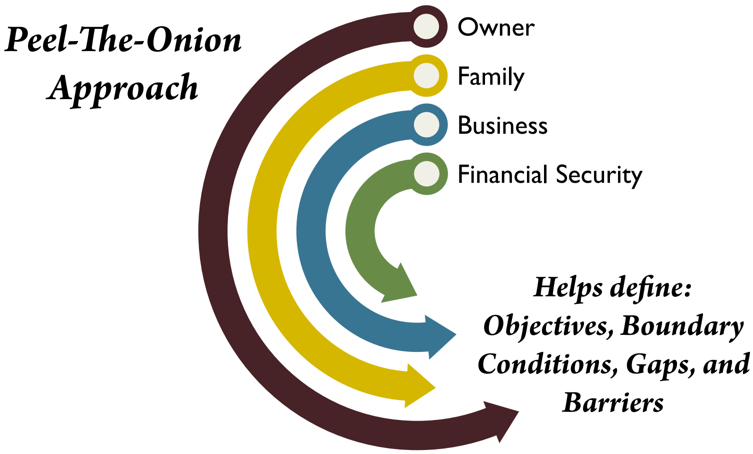


The Process

Known as the ***TELEOS Process™*** this clearly defined and highly effective four step methodology has been developed and refined exclusively for the succession of closely held businesses:

Step 1: Readiness Investigation and Assessment

A structured "peel-the-onion" approach that collects family, business, personal financial, and owner "information" for the purpose of: (1) identifying core business succession objectives, (2) specifying personal boundary conditions of all involved, and (3) determining current business succession gaps and barriers. Along the way, participants often refine personal skills that will be valuable in supporting detailed succession planning and implementation.



Step 2: Integrated Business, Family, Financial, and Owner Succession Plan Development

Taking the primary outputs from Step 1, the second step focuses on the development of an integrated succession plan that addresses current business succession gaps and barriers while remaining compliant with the objectives and boundary conditions of all involved.

Step 3: Implementation Preparation

Ideally, this is the point in the process at which the "mechanics" of business succession are addressed. In addition, as a result of Step 2, there may be other prerequisite tasks that should be completed prior to actual implementation of the business succession plan.

Step 4: Implementation

Core to this process step are oversight, accountability, coaching, adjustment, and refinement. No plan will be perfect from the beginning. Unexpected developments will occur. Therefore, Step 4 has been designed to effectively monitor and track implementation progress and facilitate necessary refinements and adjustments.

In summary, the ***TELEOS Process*™** provides an integrated framework that incorporates all aspects of business succession.

Chapter 7

Timing

IN THIS CHAPTER:

When should you start planning?

The old phrase "timing is everything" doesn't totally apply to business succession.

First, we need to distinguish between *"intentional succession planning"* and *"unintentional succession planning."* Obviously, the term "intentional" implies forethought and/or a conscious analysis that leads to a proactive decision. The term "unintentional" implies some sort of unplanned and/or not well thought through result. For many business owners, they don't realize that when their children are old enough to understand the conversations around the dinner kitchen table, they could be beginning the process of establishing business succession expectations. Almost always, conflict occurs when expectations ultimately don't match reality. Ideally, the concept of a business "exit strategy" should be considered at the same time as when deciding on an "entrance strategy." Realistically speaking, however, most people are not going to give succession planning much thought while they are at the early stages of leveraging their future to live their professional dream/vision. However, it is never too early to try to effectively and intentionally manage expectations by all involved.

Second, once you have made it over the early hump of business survival and success, practical experience tells us that it is never too early to begin thinking about the details of succeeding your business. Obviously, you maybe a decade or more away from taking the next step in your life (e.g., retirement, start the next new business, etc.). However, the proverbial "bus" does hit people every day (e.g., premature death, disability, life-changing experience, etc.) and some percentage of those people of business owners. If this were to happen to you, ask yourself a few questions:

- Are your personal finances ready ***today*** to support your family without your income from the business?
- Is your business ready ***today*** to continue successful operation without you?
- If your business would have to be sold ***today,*** who would oversee this effort and would they have the authority and ability to generate the outcome you desire?

Most of us assume that the earliest "the big one" could hit us would be in our sixties or seventies. Yet, how many of us know friends, family, neighbors who have died "young" or have contracted life-impacting illnesses? A lesson life seems to be continually trying to teach us is that regardless of age, be prepared as well as you can for those major unexpected events that can have dramatic negative impact on the people close to you (e.g., family, employees, co-owners, key customers, etc.). There's a time honored saying: ***"Begin with the end in mind"***.

When are you starting your business succession process?

On the flip-side, can you start the process of business succession too late? Again, practical experience tells us that the answer is no, ***better late than never***. However, over the course of the owner's life and the life of their business it is common for the readiness challenges associated with eventual business succession (e.g., family readiness, personal financial readiness, business readiness, and owner readiness) to grow larger and more complex. A few examples of potential challenges arising from *better late than never* business succession planning include:

- As time passes, the greater chances are for family members to become employed by the business and, therefore, the greater chances are they will develop unrealistic expectations regarding the eventual succession of the business.

- As time passes, investments made by the owner in the business, tangential to the business and outside of the business that are not guided by a clear succession roadmap can lead to asset structures that are much more difficult to deal with when succession time comes.
- Typically the older a company, its key employees, and its core business process become without a succession plan in place, the more dependent the business becomes on the owner. As a result, this can make the business more difficult to sell (if need be) and can significantly reduce the financial value of the business. Also, if the business is not to be sold, this entrenched dependency of the owner can dramatically decrease chances of continued successful business operation as the owner gradually spends less active time in the business.
- The earlier an owner begins to put in place the key elements of a business succession plan, the more confident and effective they find their own personal transition out of the business and into the next stage of their life, regardless of how many years later actual succession is implemented.

So, timing is not everything. But, the earlier you start the business succession planning process, the less stressful and risky the overall effort will likely be.

Chapter 8

Wrap-Up

IN THIS CHAPTER:

Pain, Hope, Process

In closing, traditional business succession usually leads to high levels of unnecessary and unproductive ***PAIN*** for the owner, family, and business. For example, the mechanics of establishing buy-sell agreements funded by life insurance and supporting wills and estate plans do not identify and address the fundamental readiness of the owner, the family, and the business to take on the formidable tasks of business succession. Given this reality, owners facing business succession have only three realistic options from which to choose:

Option 1:

Take the risk of ignoring the real readiness issues.

Option 2:

Take the risk of confronting the real readiness issues without a proven process as a guide.

Option 3:

Address the real readiness issues through a clearly defined and proven process.

Obviously, realistic ***HOPE*** lies in Option 3. A proven, clearly defined ***PROCESS*** exists that identifies and documents the primary readiness issues specific to the business succession situation at hand, provides critical tools necessary to effectively address the real readiness issues, generates realistic implementation plans, effectively supports implementation, and appropriately integrates traditional mechanical succession components.

YES, YOU MADE IT!! YES, you have dedicated your life to your family, your business, your employees, and your community. ***YES,*** you have achieved what the vast majority of Americans would consider success. ***YES,*** it is now time for you to begin dealing with possibly the most important and challenging set of decisions and tasks of your life … business succession. ***YES***, the stakes will be high and the ramifications deep and far reaching. ***YES***, it may be ***PAINful*** at times. But in the end, ***YES***, there is ***HOPE*** because, ***YES***, there is a proven, clearly defined ***PROCESS*** to guide you through the treacherous waters of business succession.

Thoughts & Notes

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