Three Questions Every Business Owner Needs to Address in Their Succession Plan

By Tim Jamison

When it comes to succession planning, most business owners probably realize there are many important factors at play. But what exactly do they need to address during the process, and what questions must they answer to execute a successful transition?

1. Transition Timeframe & Value of the Business

The first question to answer is directly from the business owner's perspective—what is their timeframe? Is it immediate, 5 to 10 years or unknown? Along those lines, do they know what their business is worth? Many people think they know, but it is important to get a valuation done by an independent third-party to set a baseline for what the expectation should be.

2. Future of the Company

Another question—what do they want the future of the company and its employees to be after they're gone? Many times, we run across business owners who don't care much about what happens, while other business owners care about the culture and legacy of the company, as well as the ongoing benefit and performance for their employees. That's where an ESOP is especially handy versus a traditional third-party M&A deal.

3. Preferred Involvement

The third question we ask is how long the owner wants to stay involved with the business. Do they want to go sail the Bahamas and exit entirely? Or do they want to stay involved, either on the Board of Directors or as continuing CEO, and gradually transition the company management? If they want to move on, an ESOP is not a great option. That's when we go the M&A route. If they're willing to stay with the company in a leadership position, an ESOP is an excellent option since the owner is not going to be fully paid out for 5 to 10 years anyway. It's a gradual way for them to exit the business, both from an ownership perspective and a management perspective.

Bonus: A Team of Trusted Advisors

We always ask the owner if they have good legal counsel, either from an M&A perspective or an ESOP perspective—ESOPs in particular are highly technical and regulated. Who is their law firm? Who handles state issues within that law firm? Looking at the CPA firm, does the firm engage from a tax perspective as it relates to a potential sale? Does the business owner have a wealth manager? No matter the transaction, there is going to be an influx of cash to the owner. A bank is another one—if they have a good banking relationship, that's a phenomenal piece of the pie to be able to fund the ESOP from a banking perspective. A solid group of advisors can advise the business owner on options and eventually on the transaction itself.

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