

# BUSINESS SENSE

## Next Level Tools for Entrepreneurs & Small Business Owners



## LEADERSHIP AND GOVERNANCE SERIES

### Succession Planning for Business Evolution

#### Why is this important?

Succession planning is a crucial aspect of running a small business. It involves developing a strategy and identifying and developing the talent to fulfill the critical roles that ensure the continuity of your business when you decide to exit, or the stability of your business in times of crisis. A well-thought-out succession plan can provide peace of mind and help protect the legacy of the business that you've built. Other benefits of succession planning include identifying your most promising future leaders, creating a structure for training and professional development, boosting morale and reducing business exposure or risk.



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*As a small business owner, you should think of succession planning with two important facets in mind - as an individual and for the business at-large. The way in which you choose to evolve and develop yourself and your business may have profound ripple effects on your life for years to come. Let's explore each of these in a bit more detail.*

#### Individual Succession

Great leaders begin planning for their successors as soon as they start in their leadership roles. And while this may feel like a silly factor to consider when you start (or take over) a business, this thought experiment can be an important one in setting the right tone for years to come within any business.

Thinking critically about who may take over the business to enable you to take on another role at the company, pursue a new project or best case, retire, are all important steps in envisioning and evolving the business in a way that supports the founders, employees, customers, stakeholders and shareholders.

Perhaps you've heard the phrase 'Give Away Your Legos' or better yet

[read the article](#). Succession planning may feel like a foreign concept given the state of your small business in this moment, yet there will come a time when you're ready (or need) to do so. Proper and proactive delegation early, rather than in dire straits, is important to a successful passing of the baton.

Here are some key points to consider when creating a succession plan for your small business:

- **Decide how to exit your business:** You can choose to transfer the business to your heirs or sell it to your business partner(s), your employees or another entity.
- **Identify one or more successors:** Determine who will take over the leadership role in your absence, whether planned or due to an unexpected circumstance.

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- **Assess the value of the business:** Assess the financial worth of your business and consider factors such as assets, liabilities, and market conditions.
- **Provide for implementation of the plan:** Develop a clear roadmap for executing the succession plan, including timelines and necessary steps.
- **Discuss communication with employees, customers, and family:** Ensure that all stakeholders are informed about the succession plan and any changes that may occur as you exit your business.
- **Include tax planning:** Consult with professionals to understand the tax implications of your succession plan and make appropriate arrangements.
- **Provide for contingencies:** Consider potential unforeseen circumstances and establish backup plans to address them.

Remember, succession planning is not just about selling your business

when you step down or retire; it's about creating an exit strategy that takes into account your community, employees, and the emotional aspects of transitioning out of a business.

### Who Steps Up to Become Your Successor?

Let's look at the ways to transition your leadership role:

#### Hire your successor

- This takes time and intention; start with writing an ideal job description for recruiting the ideal leader and when you find the right successor, be sure to onboard them well.

#### Promote and train a current employee

- This is a common route for many reasons - mainly the institutional knowledge and rapport a current employee comes with is unprecedented and unrivaled.

#### Leave it to co-founders

- If you have a co-founder or other partners this option may be a topic

for discussion when you draft your initial bylaws and operating agreements. Thinking through the succession early and often sets a good precedent for when it does happen, even though outcomes will inevitably shift.

#### Consider a family takeover

- Many entrepreneurs want to hand the reins over to their family. Again, if you discuss this option early and proactively, it can be a viable way to transition.

#### Other Pathways to Successfully Transition

##### Sale to another company/acquisition

- Whether an ideal scenario or an option when it becomes necessary to liquidate assets, this path perpetuates the brand that has been built and may create staff transition or future employment opportunities. Marketing lists and client/customer sales and distribution have value in an acquisition that can offset debt. One question to think about early in your business lifecycle is "Who would be the ideal company to acquire your business and why?" Often modeling some growth scenarios with that question in mind will better position you for a future sale.

##### IPO

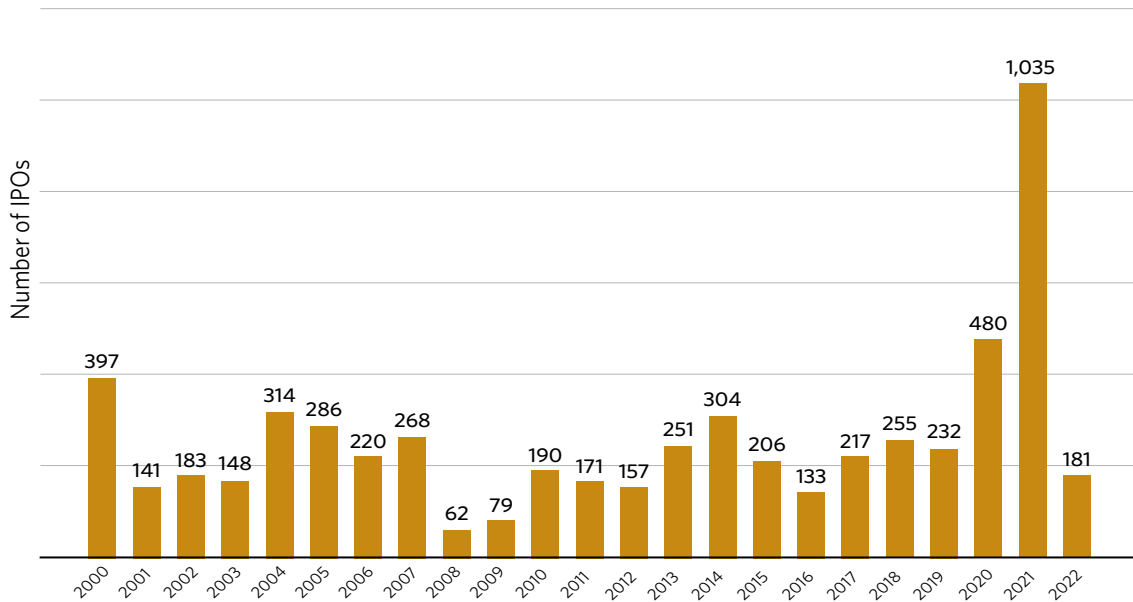
- This is incredibly rare. However if this is your dream set that course and do your best to achieve it. One statistic to keep in mind - there are roughly 30 million small businesses in the US and there have been just over 6,000 IPO's in the US since 2000!



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Number of IPOs in the United States from 2000 to 2022



### Sell to employees via an Employee Ownership, ESOP, Perpetual Trust, etc.

- More companies are considering this avenue and rightfully so - you can sell the company to current and future employees, initiate a retirement plan for departing founders and create some models of shared ownership and governance within this transition.

If you've been profitable for a fiscal year or two (or more) the idea of creating an enduring company may be a great option for you. The Vermont based Vermont Employee Ownership Center (VEOC) helps entrepreneurs to transition.

### Business cessation and closure (absent of a bankruptcy filing)

- There are any myriad of reasons

that may cause your business to cease and close. Servicing debt, shuttering the brand, communicating to customers, vendors and employees can be difficult, yet making the difficult decision to do so may be better than other alternatives.

Business Sense is a no-fluff source of information that gets right to the heart of what small business owners need: essential tools and informational resources to help their businesses grow. Written by our team of business coaches, this series shares their decades of experience in areas such as financials, operations, sales and marketing, human resources, leadership, and governance. Business Sense is designed to provide entrepreneurs and small business owners in various sectors, including agriculture, forestry, waste management, renewable energy, and environmental technology, with recommendations and practical advice to help their businesses not only survive but thrive.

Our business management coaching and Business Sense Resource Guide are designed to accelerate the growth of the enterprises we work with and expand the leadership capacity of the entrepreneurs who own and manage these businesses.

### Let Us Help You and Your Business

The Vermont Sustainable Jobs Fund provides tailored business management coaching, entrepreneurial support, and training to position Vermont-based entrepreneurs and small business owners in our designated market sectors for growth and long-term success. We partner with state government, private sector businesses and nonprofit organizations to build a thriving economic, social and ecological future for Vermont. Learn more at [VSJF.org](https://vsjf.org)



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Accelerating Sustainable Economic Development

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