CEDA
Community and Economic Development Associates

SUCCESSION PLANNING GUIDE

The Basics

What is succession planning? The process of planning for the day an owner decides to step down from their leadership role in a business.

Why should a business have a written transition plan? Small businesses are the lifeblood of rural communities. The longevity of the goods and services that those businesses provide is crucial to the overall continued success of a city. Having a succession plan in place is good for a business owner and their customers. Unplanned exits do occur for a variety of reasons (such as: divorce, death, disability, departure, or disagreement), so it makes sense to be prepared.

What Considerations Should Be Made and Included in your Succession Plan?

-**Positions that need to be filled.** Beyond ownership of the business, are there specific positions that will need to be filled for continued operation (e.g. accountant, marketing professional, receptionist, CEO)?

-**Timeline for transition.** Plans should be established at least 1-3 years prior to an anticipated transition; however, if the owner is older or in poor health, they may need to be prepared for a quicker, unexpected transition if necessary.

-**Are there candidates to take over?** This could be a family member, friend, current employee. It may be an upcoming graduate from a relevant educational program, a current co-owner of the business or even a 3rd party sale.

-**What are your standard operation procedures?** Keeping records of standard operating procedures will help a new owner be able to easily step in and replicate your expertise. Simple transitions are more attractive to buyers, so this is important. Furthermore, you do not want your clients to experience a disruption of service.

-**What is the valuation of your business?** Quite a few things go into valuation of a business. These can include but are not limited to: Net profit, growth trends, age of business, online/offline sales network, business model, niche market, competitors, and company assets. Some intangible considerations will be made as well such as whether you have listings of repeat clients that will be a part of the sale. This estimated valuation will be ongoing and require updating as necessary and appropriate.

-**Does your business have any existing debt?** If so, will it be passed on to the buyer or fulfilled prior to or at the time of the sale? The buyer will want to know how much debt they are taking on.

-**Are there funding resources out there to potentially assist a buyer?** Again, making the process of purchasing and running a business as simple as possible will increase the likelihood of a purchaser being interested. The seller can compile resources that could help finance the transition which may include City/County gap financing, small business grants, State training resources for new staff/technology, etc.

-**Consider attaching relevant documents to your plan.** This can include items such as: contracts, registrations, legal documents, business valuation statements, financial statements, and more.

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Where can businesses get help?

- SCORE. SCORE is a network of small business mentors that can assist with a variety of topics including succession planning. (www.score.org). SCORE actually even has a free webinar on how to value your business yourself. You can view that here: https://www.score.org/event/what-is-my-business-worth

- Small Business Development Center (SBDC). SBDC has many locations throughout a broad geography. They provide free, one-on-one counseling to assist with marketing transitions, increasing value and planning for the future. (www.sbdcassistance.com)

- CEDA. CEDA staff can assist with drafting and reviewing succession plans as well as offering guidance and resources to market the sale of the business and connect with potential buyers. Furthermore, CEDA has created a proprietary data tool which can calculate market demand which may be of assistance in this process. CEDA's services and tools are provided at no charge to businesses in CEDA communities. (www.cedausa.com).

- University of MN Extension Office. UMN Extension has educators throughout the State that can assist with the succession planning process. (https://extension.umn.edu/community-development/contacts-community-development)

How can business owners get ready?

-Start planning 1-3 years in advance. Sooner is better; many resources suggest at least five years. Remember, it's a good idea to have a plan in place even if you don't intend to transfer the business. Unexpected transitions do happen.

-Demonstrate 3+ years of financial profitability in records. Potential buyers will be interested in this data. They will want to ensure that the business they are purchasing is profitable and a good investment.

-Get a business valuation completed. You can hire someone or do this yourself. Keep in mind, if your valuation is not enough, you can look at how to increase business value (e.g. grow the valuation through marketing, investment etc.), save more toward retirement to prepare, consider working longer/retiring a bit longer or think about how you can decrease retirement expenses/lifestyle costs.

- **Look at how your business stacks up against others in the same industry.** As you consider your valuation, you should be thinking about and looking at how your business compares to others in the industry.

-Offer mentorship to new owners for a period of time. New owners will be excited about the opportunity to learn from the existing owner. This is a value add for the purchaser.

-Reach out to one or more of the resources mentioned for guidance

Get in Touch With Us

You and your business are important to us. We're here to help. Feel free to reach out to us for assistance!

info@cedausa.com
507-867-3164

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