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DRAFT Succession Planning

Managing Director / Founder of Lakelet Advisory Group LLC – For 20 years, Lakelet Advisory Group LLC has been a trusted provider of independent, accredited business valuations, specializing in complex transactions and litigation support.

Selling or transitioning your small to mid-size business (“SME”) is generally the most important financial decision one makes. Such a decision should not be undertaken without serious planning and assistance from professionals. These professionals would include attorneys, tax advisors, a broker, and a business valuator.

A successful transaction, including the preparation, will take at least one year. The company needs to prepare itself, clean up its balance sheet, and optimize its strategic opportunities. The seller needs to realize that for each dollar they are able to generate during this transition. Each dollar generated during this transition time is a multiple of the potential sales price. Moreover, you need to have a solid set of financial statements with the appropriate supporting schedules. At a minimum, it is suggested that you have your Certified Public Accountant perform a formal review of your financial statements.

The first order of business should be to have an independent, accredited business valuator prepare a formal business valuation so that the seller can appreciate the market and the expected price to be earned from the SME. Once the business valuation is completed, a formal plan as to how to optimize this transaction needs to be put in place. A failure to plan is a plan for failure.

The primary goal of succession planning is to ensure that there is a smooth transition of leadership when key personnel leave their roles due to retirement, promotion, resignation, or other reasons.

Key elements of succession planning typically include:

- **Who is the Target Buyer?**

Understanding who the target market is for this transaction is paramount. For example, if the seller is interested in performing an ESOP, the transaction will include numerous other nuances. For example, the deferral of taxes associated with certain ESOPs. Generally, selling the SME to a private equity firm generates a higher gross sales price. However, one needs to take into consideration the net tax as well as numerous other factors to determine what is the best avenue for the SME and its employees.

- **Identification of Key Positions:**

Companies identify critical roles within the organization that are essential for its success. This may include executive positions, managerial roles, or other key functions.

If you wish to explore this process further, please do not hesitate to contact Mkoepfel@Lakeletag.com.

- **Identification of Successors:**

Once key positions are identified, organizations assess internal talent to determine individuals who have the potential to fill those roles in the future. This assessment may involve performance evaluations, skill assessments, and leadership potential evaluations.

- **Development Planning:**

Once potential successors are identified, organizations invest in their development through training, mentoring, coaching, and other developmental activities. The goal is to prepare these individuals for future leadership roles and ensure they have the necessary skills and experience.

- **Continual Evaluation and Adjustment:**

Succession planning is an ongoing process that requires regular review and adjustment. Due to organizational needs and priority changes, the succession plan may need to be updated to reflect these changes.

- **Emergency Succession Planning:**

In addition to planned succession for anticipated vacancies, organizations may also develop emergency succession plans to address sudden leadership vacancies due to unexpected events such as illness, accidents, or other emergencies.



- **Communication and Transparency:**

It's important for organizations to communicate their succession planning processes and decisions transparently to employees. This helps to build trust and engagement among employees and ensures that potential successors are aware of their development opportunities.

Effective succession planning can help organizations mitigate risks associated with leadership turnover, maintain continuity in operations, and ensure a pipeline of talent for future leadership positions. It's a critical aspect of talent management and organizational development.