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# Business Succession and Selling



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**Volume 15 Issue 1**

## **Exit Strategies for Small Business**

**The Use of Succession to Increase the Value of Your Business**

### **What Do Owners and Successor Need to Know If They Are To Have a Successful Succession?**

By Michael Podolny, President, The Podolny Group, Inc.

#### **Why Consider Succession?**

Most owners when they think about exiting from their business think about selling their business to someone else, an outsider. Succession, passing it on to one or more inside the business, is an option considered less frequently. The perception is that succession is harder, more likely to fail, puts more risk on the owner, and leads to a lower value. And there is some truth to these assumptions. Certainly succession does take a lot of work and effort. There are a many factors that can lead to a succession plan not working. Certainly there can be risk to owners as a result of using succession. And the value could possibly be lower.

However, the opposite can also be true. A succession, while it takes time and work, can be much less stressful, intense and disruptive than going through the process of selling the business. If all the parties know and understand the risk factors, the

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...knowledge of the succession process being reduced substantially. Since many business sales to outsiders require owner financing, a succession transaction can be no more risky to the owner than a sale, but the owner can build many more mechanisms to protect their position in a succession transaction with insiders than they can in a sale. Finally, succession transactions offer owners an opportunity to build returns (value) greater than could result from a sale. In fact for many, many businesses a well conceived succession plan could result in a much more rewarding exit and transition both financially and emotionally.

### **What do successors need to know if they are to be part of a successful succession?**

Owners have an interesting perspective on the world. Most who become owners end up spending the majority of their work life in that role. As such they tend to forget what it was like to be an employee or even what the employee mentality is like. This can be a real impediment if one wants to implement succession. Employees generally are employees because their psyches and talents are most comfortable in that role. Some may express a desire to be part of ownership; many won't. Even those that do will have significant misconceptions on what is going on with you, the owner.

*So from the very beginning of the process, it is imperative that the potential successors become aware of what ownership requires – the positives, the negatives, the generalities, and the specifics.*

One of the first things I ask an owner interested in succession to do is an honest assessment of all the things that go into being the owner of their business. If the owner takes his or her time and truly reflects on the role, they find there's a lot more to it than they would probably acknowledge in the course of day-to-day reflection.

My clients typically find they are doing a host of tasks large and small. Thinking about the role brings to the front of their consciousness some of the significant responsibilities they shoulder that they may take for granted since they're just part of the owner's role. Always the burden of the financial risk comes up and that there are times you don't get paid or have to put money into the business. And there are all the positives of ownership including the psychological rewards such as accomplishment and the tangible rewards as well.

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Successful candidates need to get as accurate an idea of what ownership will entail from the owner as soon as possible in the process. Then if they find the combination of pluses and minuses doesn't suit them, they can exit themselves from the process saving the owner and them a lot of time and effort.

### **What do owners need to know if they are to be part of a successful succession?**

First, owners need to be aware that they, frequently, are the source of succession failure. This is because:

- Expectations are created with successors that can't be fulfilled
- There is a lack of knowledge as to how to execute the succession process
- Owners can have an inability to let go and actually allow the succession to happen

Entrepreneurs are an easily excitable lot – and I mean that in a complementary way. They have visions for how things can turn out. They get excited. They are enthusiastic. This provides them with the drive to make things happen. Unfortunately they also have a tendency to talk about these ideas before they are fully thought through. Then when information comes that does not support the idea, they're just as quick to change direction. This often leads to confusion on the part of people who work for them.

This type of behavior frequently happens when owners are thinking about succession. They're excited about the prospects for themselves, for the company, and for their people and they will express those ideas to the proposed successors. But lack of knowledge of how to execute a succession process can lead to little action taking place with a result that potential successors become discouraged and disbelieving.

Owners also tend to underestimate how important their role of owner is to their personal self-image and life. Those who become owners immerse themselves in that role often to the extent it is hard for them to even remember what life was like without it. Succession requires an owner give up their role. It doesn't happen all at once but it happens. It is not unusual for owners to have the shocking realization that succession really means they can't control or manage things as before. They

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They become passive aggressive and don't follow through on the commitments they've made to successors.

Owners need to be aware of this and do their homework. They need to understand how to execute the succession process *and be prepared to follow through* before they begin to discuss the possibilities with their proposed successors. They need to do serious introspection on what their life will be if they do complete a succession process. Only then should they engage their people and begin the succession process in earnest.

I specialize in business succession. If you are thinking about or have client who is thinking about succession, call me, **Michael Podolny**, at **(505) 856-2646** or email me at [michael@podolny.com](mailto:michael@podolny.com) for a free initial consultation.

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