# *Successions: Is Contingency Planning Enough?*


We all know the scenario: An owner wants to retire, has someone in mind to be their successor, and needs a professional to structure the transition.

So, they contact you and you set about putting together a solid plan for their succession. You help them clarify their needs. You help them value their company. You help them structure the buyout with respect to taxes and their estate. And you help them structure the transfer of ownership.

Additionally, because you have much more experience at this than they do, you include strategies to protect them if things don't go as planned.

Frequently, to protect the owner's interest and the company's value, transfer of ownership is phased in over time. This helps the owner retain control of the company as the successor takes on more and more responsibility. It also gives the successor incentive by giving him or her increasing stock ownership. This works well as long as the successor does well.

But what if the successor doesn't do well? While it's true that the owner still retains ownership, the reality is that – years after the transition plan was developed – they're left with no successor and will need to either find a new successor or sell to some outsider.

An effective way to minimize the likelihood of successor failure is to have a professional help groom and guide the successor, thereby increasing the likelihood that he or she will succeed. With so much at stake, it's a smart investment. It's why we offer **Successor Development**.

Alternatively, if the owner wants to completely step away from the company upon signing the transition papers, ownership is transferred to the successor immediately and the owner takes back a promissory note that the successor will make payments on over time. A good contingency plan provides a solution in the event that the successor defaults on his or her loan payments. Typically, the owner gets the stock back and returns to run the company.

But if that happens, there are a number of serious problems that arise. One is that the owner will have to come out of retirement (after several years of being retired) to run the company once again. The second problem is that the company will no longer be as valuable as it once was (as evidenced by the poor cash flow causing the loan default). A third problem is that, just as in the previous scenario, the owner no longer has a successor.

And the last problem is that (years after the original transition) the market will have a sizable surplus of seller over buyers, resulting in a buyer's market with lower multiples and buyers who are more demanding. (I've written about this in a previous **article**.)

Once again, an effective way to minimize the likelihood of failure is to have a professional help groom and guide the new owner, thereby increasing the likelihood that he or she will succeed. With so much at stake, it's a smart investment. It's also why we offer **Successor Development**.

Finally, even with additional guidance and grooming, the successor sometimes turns out to be a poor choice and doesn't succeed. In that case, recruiting a new successor may be the best solution for the owner because it will provide the full value of the business and will keep the business locally/privately owned. It's why we offer **Successor Recruiting**.

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