

Debunking the Myths of Succession Planning

As most business owners will attest to, starting and running a business involves a combination of conviction/passion, perseverance, stress and personal sacrifice. Owners invest a significant amount of themselves and capital into running these businesses, and as a result, most have a substantial portion of their net worth tied-up in their business. The vast majority of owners/founders we've worked with here at Succession Resource Group have communicated that their business is not just a valuable asset, but their most valuable asset. So, why do so few owners have an answer for their key stakeholder about when they will retire from their business and who will succeed them? Because the common myths of succession planning give them a sense that they can or should be dealing with this topic tomorrow (in the proverbial sense). Here are the most common myths that our clients come to us with that hold owners back from effectively tackling this important topic:



Myth #1) Succession planning is about retirement, and I'm not ready to retire.

Reality: Succession planning should be more about developing a strategy for the business to continue to operate and grow beyond its current owner(s). The owner's retirement is an eventual component of any succession plan, but more important is the development of a timeline, identification of the key successors, the role development of those successors, and how to finance the transition. Done right, the owner(s) will be able to extract a fair value on their terms and ensure the business and successors are setup to continue to grow.

Myth #2) It's easier just to sell it.

Reality: While there is some truth to this statement because succession planning can be challenging and time consuming, there are trade-offs that must be considered. An outright sale to a peer or competitor assumes there is or will be a ready and willing market for you. For some businesses, like financial advisors, dentists, CPAs, or other competitive industries, this may be possible. But, for more niche businesses, this may not always be the case and the owner would be leaving a substantial amount of value to chance. It is also important to consider what is best for the client/customer/patient – an outright sale at your retirement can work in a retail business, but where there are ongoing relationships an internal succession will often produce a better outcome. Whether the owner plans to transition internally, or wait till they are ready to retire and sell to a peer/competitor, the value will be substantially better if the transition event is planned for at least 3-5 years in advance.

Myth #3) I can deal with it when I am ready to retire.

Reality: Succession planning is not a singular event. It is a gradual process that when done right, creates a seamless transition from one generation to the next and allows the business to outlast its founder(s). Between finding a successor and the role development to put them in a position to succeed, a succession plan may take years to develop. It is also important to consider your contingency plan – what will happen to the business in the event of your premature demise? Developing the next generation of ownership internally may provide you a simple answer.

Myth #4) The next generation of ownership isn't ready.

Reality: Most business owners weren't ready to be owners when they first started their business. It is a gradual process of learning and adapting. The key is to identify someone with the core skills you deem necessary for your business/industry, that has a strong work ethic, and a desire to learn – then work to develop them over time. Too many owners tell us their plan is to try to hire their successor when they are ready — we call this the “hail mary” succession plan.

Myth #5) Giving up ownership means giving up control and income.

Reality: Succession planning is often viewed as an analog option – either the owner runs the business, or they sell it. While these are options, succession planning can happen much more gradually, shifting equity over time, but allowing the founder/owner to maintain control until the next generation has proven their competence. But, don't be afraid to give up some control at some point before you completely exit.

Whether you plan to sell your business to a peer or internally, in the next 5 to 10 years – having a succession plan and preparing will ensure you and your key stakeholders (employees, clients, family, etc.) enjoy the process and get the most value out of the experience. Done right, owners will only sell their business once, so invest the time needed to do it right and make every decision with full information. Sell when you want to, not when you need to.

About Us

Succession Resource Group (SRG) is a succession consulting firm dedicated to helping financial advisors value, protect, grow and transition their businesses.

Our mission is simple – provide our clients with the expertise and resources they need to value, protect, grow or transition their business efficiently and effectively while building lasting relationships through outstanding service. We help our clients find simple solutions to complex issues.

As a consulting company specialized in helping financial advisors, broker-dealers/custodians, SRG is uniquely positioned to help advisors manage the value of their business. Founder, David Grau Jr., MBA has helped hundreds of advisors, CPAs, insurance professionals, and other professional service providers over the last decade with their acquisition and succession planning needs and started SRG to provide clients with personalized and customizable solutions. Our team has completed thousands of valuations, hundreds of acquisitions/sales, death and disability plans, and have developed more than 100 succession plans for advisors. We work directly with advisors, as well as providing system-wide solutions for broker-dealers and custodians to help stabilize/keep more advisors as well as attract new ones through acquisition.

As succession/acquisition experts, we work collaboratively with the owner(s), broker-dealer/custodians, next generation of owners, spouses, lenders, and the owner's counsel (CPA, attorney, and/or financial advisor) to build comprehensive solutions.