



Google™

Search

Web www.nwbusinessmonthly.com

Volume 33 • Issue 5 • May 2008

Note: Online edition is only partially provided, to receive a complete issue subscribe to our print edition.

[Back to content page](#)

For sale

It's time to retire, but what's the best way to draw up a succession plan for the future of your business?



Harte Bressler and Stephanie Artino of accounting firm Metcalf Hodges share their insights on succession plans.

By Amanda Baltazar

Timing is everything, or at least it is when you're thinking of writing a succession plan to transfer your business to family members or your employees.

One of the most important things is to identify a realistic timeline for an exit strategy, to optimize the success of the transaction and the value of the business," said Harte Bressler, a principal with Metcalf Hodges accounting firm in Bellingham.

And while this timeline varies from business to business, Bressler suggested at least three to five years of planning, perhaps more. "The longer the planning period, the better the chance of success and you can react if things go wrong," he added.

However, most people tend to plan on the shorter end of the spectrum – more like one to three years, said his colleague, principal Stephanie Artino.

"And it's ironic that the people who need [planning] the most don't take the time to step back and realize it," Bressler added.

It's a sad fact that only one business in seven actually sells. This is because people

Ads by Google

[Business Law - Bellevue](#)

Small & medium-business firm in Corporate, Contract & Property Law
www.mdklaw.com

[Business List Only \\$149](#)

19mil Biz Leads- Updated for 2008! US and CDN No export limit. \$149.99
www.completefinancialmarketing.cc

[Hagen, Kurth, Perman & Co](#)

Small business accounting experts Call our expert accountants today!
www.HKPNorthwest.com

[Do Your Own Valuation](#)

Easy to use business valuation software. Based on real market data
www.valuadder.com

[Business Sale Agreement](#)

Create a professional agreement for the sale of a business.
www.LawDepot.com

hold on to them for too long, until they get to the point where the seller can no longer help a potential buyer, or the business is no longer profitable enough. So, allowing for lots of time, before you start planning to sell your business, it's a good idea to contact a lawyer, an accountant and an evaluator.

Once you've done this, the first thing to seriously consider is the value of your company and how well you can capitalize on the sale. Evaluations can cost anywhere from \$5,000 to \$15,000.

According to Bressler, sellers should look at:

- *Where their company stands in the market;*
- *Who are its competitors;*
- *What are its advantages over other companies;*
- *What are its core differentiators;*
- *What's its ability to attract staff members who will work in the business?*

Owners should also have a good idea of the role they want to play in the business after it is sold, advised Artino. "What are their expectations on a personal level so they know what they want to get out of the business?"

Sellers should also do everything they can to improve the odds that the business will succeed, which means less risk for the buyer, said Larry Morrison, president of Business Transition Network in Arlington. "And anything you can do as a seller to reduce the risk for the buyer, improves the business and its price."

If parents are selling a business to their children, they should get an appraisal because they are more likely to be audited for this type of transaction, he said.

If you are not selling to your children or your employees, you may want to hire a broker who can help you find a buyer. But you should examine whoever is the potential buyer and find out if they have talent, interest and entrepreneurship because these are more important than money, said Morrison. "[Buyers] have to have the ability to succeed."

If you are hiring from among your employees, he cautioned, you may want to start grooming someone to take over the business 10 years in advance. This may be the best choice if an owner's children are not suitable material. "If kids don't have the entrepreneurship, it should go to another party," Morrison said.

All the planning in the world doesn't avoid pitfalls in succession planning. One of the biggest problems, explained Bressler, is if the individual who is preparing to retire has ingrained himself or herself completely into the business and when he or she leaves, that person takes the necessary knowledge.

To avoid this, he advised writing everything down and working very closely with the new owners-to-be, and getting them comfortable with the business. The longer the two parties work together, the better.

Documentation is something people should do from day one in their business, Bressler said, and they should revise it as time passes. This also helps if the business owner is sick or has to take time off from work to tend to a sick relative. "It's a significant road map of all the questions that will come up in the first year of business."

Gary Jacobson, a contract attorney with Vander Wel, Jacobson, Bishop & Kim, Anacortes, who often works with Morrison (including writing a column for NWBM), called this "clarifying expectations." "This business is about people, not words and numbers. So we can clarify expectations if we write everything down and get everyone to agree to it." This should be a short, two-page document written in layman's terms. "If we get to this stage, we're home free," he said. The next step is a letter of intent, which should contain everything, so nothing can stop the sale. In effect, this means the business is off the market. This is basically a gentleman's agreement and will eventually be morphed into the contract. It also gives an attorney a track to run on. The key is getting both parties to agree on it, said Jacobson.

The human factor

Another thing that can get in the way of succession planning is emotions.

"The problem is that a business can be so all-consuming that it becomes like your

[Do-It-Yourself Legal](http://www.Do-It-YourselfLegal.c)

We Help Solve Some Of
Life's Toughest
Problems! Visit Us
Online
www.Do-It-YourselfLegal.c

child," Morrison said, "and you wouldn't sell your child."

He pointed out that psychologists have showed that selling a business can, in fact, be as traumatic as the death of a child.

And the problem that often occurs is that the price of the business can then become a yardstick of that person's life's work. "It's not about the money; it's the measure of their worth as a human being and you need to be aware of that as a buyer; so the buyer needs to focus on being fair," Morrison said.

Emotions and family ties can also hinder people from discussing every aspect of a succession plan.

People don't like to talk about certain subjects, said Bressler, such as the perceived value of the company; the relative importance of people's positions; health issues that may impact someone's ability to participate in an exit strategy; and the finances.

"Sometimes a facilitator can take the heat off," he said. "Working with a consultant seems to calm some of the concerns and helps take the emotional part out ... Often the questions we ask are questions that have never been asked before because they're too taboo or awkward, but the sooner you get this on the table then the sooner you can talk collectively."

Advisers can also ask questions the business owner is likely to forget since he or she is so ingrained in the business.

Another pitfall that arises is assuming family successions are easier and don't need contracts. Bad business deals, however, can break up families, cautioned Jacobson.

Also when dealing with families, parents sometimes try to be equal. However, all family members are not equal if one puts his heart, soul and sweat into the business and the others don't. "If it's not fair it can cause huge rifts in families," Morrison said.

Other problems: Not having a shareholders agreement, which spells out how, when and for how much a shareholder's stock will sell for, and under what conditions. A shareholders agreement needs to be updated and reviewed from time to time, said Jacobson.

It's because of all these pitfalls that time is of the essence. It allows both buyers and sellers to carefully go over every eventuality and protect themselves and their kin.

And there's no such thing as too much research or receiving too much advice, said Morrison. "If you use an attorney, you're a lot safer and the transaction is a lot clearer. People think they're going to save money by doing things without an attorney, but may end up in court."

"Listen to your gut"

In 2005, Mike and Suzanne Britsch sold their company, New Home Trends, a successful multi-state real estate research company based in Bothell (which does work in Skagit County), to a California company.

However, disaster struck quickly and the purchasing company breached its contract. So, just over a year later, the Britschs bought back the company – for half of what they sold it for.

Now, their son Todd, and three employees, are in the process of buying out the Britschs. "These were key employees, critical to the long-term success of the company," Todd Britsch said.

The problem, he said, was largely that he'd taken the California company on good faith and they didn't follow through on numerous things they'd agreed upon.

His advice is get everything in writing. "And if something doesn't look right in writing and someone says don't worry about it, do! Goodwill accounts for nothing, and if there's anything that your gut tells you isn't right, listen to your gut."

When the company was bought back, Britsch said he read through everything so many times that he started to miss things, so he had both an attorney and an uninvolved third party read through everything.

Another thing Britsch advised is not selling your business at its financial peak

because there's no future buildup for someone buying your company. In the future, he said he would allow more time to sell a business. "There was a sense of urgency and there was so much goodwill that I believed it." Moving too fast almost cost his parents their entire retirement fund, he said. "Ninety percent of the deal we'd done was great; it was just those couple of things that could destroy our entire future."

Buying back the company was faster. It took three months of hard negotiation – the most stressful three months of Britsch's career, he said. The good news is that now New Home Trends is thriving. Employees who may have left under the California ownership are not only making money, but are part owners, and the company is making more profit than ever before.

Learn from mistakes

Three years ago Shellie Eubanks purchased Smiley Insurance Services in Mount Vernon from owner Dean Smiley. The business succession took two months, she said, which was very fast. "You're in shock mode and you just jump. You go through all the steps without thinking about it. But if you have too much time maybe you can talk yourself out of it." The most difficult part was obtaining a Small Business Administration loan, she explained, which amounted to four inches of paperwork. She would try to avoid this at all costs another time, she said. "They require a lot of documentation and have very high interest rates."

Her biggest mistake was not starting a new set of books when she assumed the ownership mantle, which meant that after running the business for some time, she couldn't separate what belonged to Smiley and what belonged to her. It took two years to rectify this problem. Taking on the financial obligation was certainly the scariest part, she said.

Make most of tax benefits

Last year, Carl and Karol Weston turned their Bellingham business, Joe's Garden, over to their sons Jason and Nathan. Carl Weston advised:

- *Have a good accountant and lawyer because there are a lot of tax benefits if you do it the right way (for the buyer and the seller).*
- *Make sure everything is in writing. "I don't care if it's your own son; it's got to be in writing, and I did it to protect my sons more than anything."*

[Back to content page](#)

[Click here to subscribe to the Northwest Business Monthly Magazine](#)

[HOME](#) | [MAGAZINE](#) | [PAST ISSUES](#) | [SPECIAL EVENTS](#) | [VIP CLIENTS](#) | [EDITORIAL CALENDAR](#) | [ADVERTISING INFO](#) | [PRESS RELEASE](#) | [CONTACT INFO](#)

Northwest Business Monthly, 1732 Iowa Street, Bellingham, WA 98229 • (360) 671-3933 • Fax (360) 671-3934