

Building a Template for Transition

Four best practices to tackle transition, retirement and succession



Small business owners often combine vision and hard work to build companies that support them in their earning years but fail to plan for a business transition that will leave them financially secure in retirement. According to SunTrust Research of 532 businesses in 2018, more than half of small business owners want to use their business as their primary source of retirement funding. Yet, planning for transition, succession and retirement ranks last in their list of business priorities, and only a third of owners feel they have done well at these three tasks.

Busy business owners may find it hard to pull away from the day-to-day priorities of running a business to planning for transition. But, weak transition planning with poorly understood priorities, a missing succession strategy or an underfunded retirement savings plan can wreck retirement dreams and send the business off course.

Owners wanting to take control of their retirement need to lay out a transition journey and business succession plan. With the average age of small business owners over 50, it is critical that most business owners start that planning now.

Transition – Separation of the business owner and a business

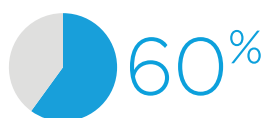
Succession – Handing the business over to a new owner and leader

Retirement – Life for the business owner after leaving the business

Transition Planning by the Numbers SunTrust Research Findings

Some owners are thinking about funding retirement

% of small business owners saying that they:



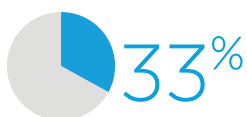
Know the funds they need for retirement



Have a formal retirement plan currently being funded



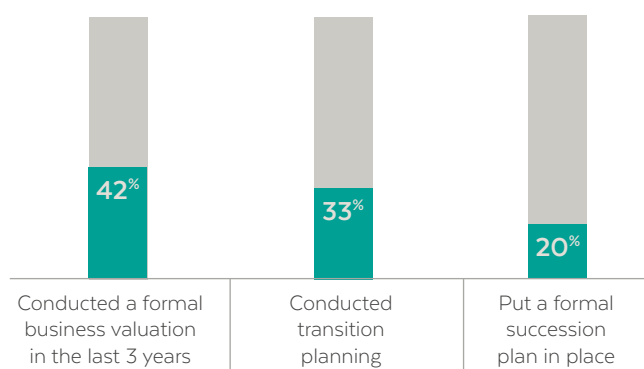
Will use the business as the main source of retirement funding



Have 40%+ of their financial assets tied up in the business

Most have not taken action on transition planning

% of small business owners who have:



Many small business owners understand the actions needed to plan for transition

(based on transition-focused owners, ratings of importance)



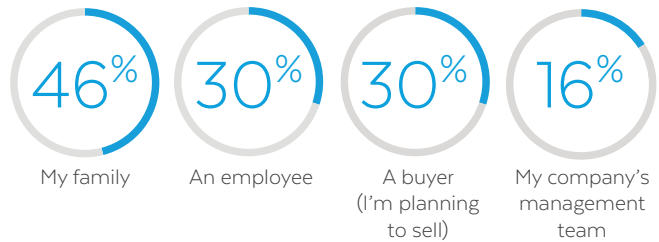
Picturing the Transition Journey

Engaging in transition planning is not easy for many small business owners. Planning means that they need to shift from today's focus on growth and profitability, the top two priorities for business owners, to thinking about longer-term topics like retirement and business succession. Transition planning requires owners to balance the interests of multiple individuals (owner, spouse/partner, family, employees, business partners, etc.) and the business itself. Owners must get comfortable with considering contingencies, shifting timelines, business variables and informed guesses inherent in planning over long time horizons.

Owners who embrace transition scenario planning can put themselves on track for a smooth transition that fulfills retirement goals. Early planning offers powerful benefits, like a well-funded pension and more time to identify and prepare successors or strategize about ways to sell at the highest valuation.

Who will succeed you?

% of small business owners who identified this option*



4 best practices for a successful transition journey to help you meet your long term-goals:

- #1. Set priorities and plan ahead** – Clearly define what you want, what's best for the business and what's best for those associated with the business.
- #2. Plan business continuity and succession** – Picture the future for your business. The right combination of leadership, management and staffing will need to be a big part of the plan.
- #3. Estimate the value of your business** – Understand the engine that must support your ongoing financial needs.
- #4. Fund your retirement plans** – Shape a retirement plan to support life after the business.

#1 Set priorities and plan ahead – far ahead

Transitioning your business starts with the end in mind. That means you need to begin with your long-term goals and priorities. Think about these three things: you and your family, the future of the business and your timing for transition.

1) You and your family – What other opportunities would you and your family like to explore? Think about charitable work, travel, recreational activities or starting a new business.

2) The future of the business – What happens to the business after you're gone?

There are three primary succession paths to consider:

- **Family.** An immediate or extended family member with the interest, passion and skills to continue the business can take over after you've moved on.
- **Employees.** An employee or manager who wants to continue to run the business and continue the owner's vision can buy into the company.
- **Sell the business.** You can find a new owner for the business, whether that's someone to invest in and operate the business as is or another company looking to merge your business into its operations.

*n=176; SunTrust research respondents who have conducted transition planning

3) Transition timing – The big questions are “when?” and “how?”

- “**When**” might be defined by a specific time, like “when I turn 70” or “when my kids are out of college”. A trigger might dictate the question of “when”, like “when my business is worth \$X” or “when my business neighborhood develops, and my building is worth \$Y.”
- “**How**” will be the unfolding story of your personal goals and your business’s future coming together. Ask yourself questions like, how long do I want to stay actively involved in the business? Will I work as an advisor in a limited role? How much control do I want? Are the company’s operations, community commitment, employee continuity or legacy important to me after I leave, or am I willing to walk away? Anticipate transition scenarios and have a sense of how you will address them to help form your plans.

Once you have your aspirations and boundaries identified, you’re ready to start shaping your transition plans.

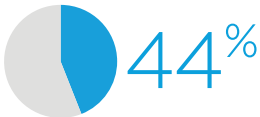
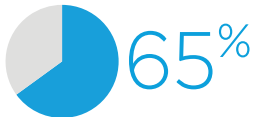
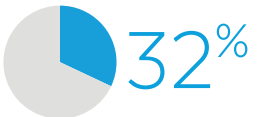

#2 Plan business continuity and succession

Your business’s continuity is often at the core of business transition planning. You can put your personal goals and dreams at the top of your list, but the catalyst for realizing them and funding them is often your business. Of the businesses who have engaged in transition planning, 60 percent have a succession plan to either transfer the business to a family member, allow an employee to buy it or sell it to a third party. Your succession choice is vital to the health and longevity of the business, bringing continued business success and ensuring a strong financial resource to support your retirement.

Start succession preparation early in the planning process. The sooner you establish a plan, the more prepared the organization will be for the change and the more time a new leader will have to develop before taking over the reins. Consider these elements as you look at succession:

Keys to a Successful Succession

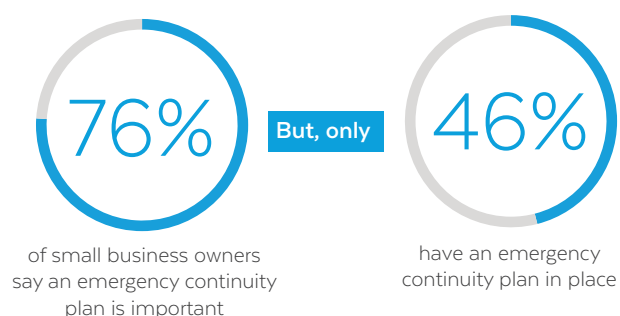
% of small business owners saying that they:

Prepare future leaders	Plan for ownership changes or sale	Consider the business impact of transition	Create a smooth transition process
 44%	 65%	 32%	 26%
have identified long-term succession leadership options	have succession plans with ownership changes	have considered impact of change on the business	have discussed plans with stakeholders
<ul style="list-style-type: none">• Are they willing to take over?• How prepared are they to lead?• Can they be mentored to cover skill gaps?	<ul style="list-style-type: none">• Are the financial books up-to-date?• Can any loans or guarantees be paid off or transferred?• Can you make it easy for a new leader to step in?	<ul style="list-style-type: none">• What is the effect on your community, customers, suppliers and partners?• How embedded are you in the business?	<ul style="list-style-type: none">• How early can you designate a successor?• How will you move a successor into new responsibilities?• How will you communicate your plans?

Preparing for the unexpected – continuity planning

It's easy to put aside thoughts of succession plans that cover the unexpected loss or disability of a leader. However, continuity plans are especially important for small businesses who typically depend on an owner and/or key managers for successful day-to-day operations. Few small businesses have back-up people or redundant functions, so owners need to think about how the business would continue should something happen to them.

Filling the gaps in continuity planning



Best practice emergency continuity plans consist of three main action items:

1) Select emergency leadership – *Identify who can best take over on the fly*

Continuity leadership differs from traditional succession leadership in that the new leader doesn't have the luxury of time to prepare for the position and must take over immediately to keep the business operating smoothly.

2) Document and communicate the transition plan – *Communicating your written plan is essential to a smooth transition*

Discussing decisions, procedures and leadership options will ensure that major players understand and buy into actions and goals.

3) Consider key person insurance – *Shoring up finances during a crisis could be a lifeline for the business*

A life insurance policy on a key owner or manager (key person insurance) can be used to cover lost revenue, productivity or other costs in the event of a loss. The peace of mind of knowing that additional funds will be available to help support the business during unexpected misfortune may outweigh the cost of funding the insurance for owners and key personnel.

#3 Estimate the value of your business

Financial planning for retirement should be straightforward: know the funds you need for retirement and plan to save them each year or secure them when you sell the business. However, only 60 percent of owners know the necessary funds they will need to retire. Yet, 84 percent of business owners say they are counting on their businesses to fund some portion of their retirement. There is a clear disconnect between, "I don't know how much I will need", and "I have high confidence of where I can find it".

Understanding the value of the business can resolve this disconnect and bring the financial picture into focus. This is particularly important for one-third of business owners who have 40 percent or more of their financial assets tied up in the business, a majority of whom will rely on the business as a primary source

of funding for retirement. Unfortunately, 58 percent of owners have not conducted a formal valuation within the last three years. How can an owner be certain that his or her retirement needs will be met through the business if they don't know its true value?

Whether your plan is to sell the business, sustain it and live off the income or pass the business on to a family member or partner, you need to know its value to determine strategies for the business going forward and to plan appropriately for retirement. An accurate business valuation can provide an impartial price for the business which allows you to create plans that sustain or maximize the company's value. You can consult with your CPA, a financial advisor or a business valuation specialist to get the valuation process started.

#4 Fund your retirement plans

Your vision is clear. You've picked a successor. You know what your business is worth. Now, how do you make your retirement a reality? The next step is funding your retirement to ensure that you and your family will be financially comfortable.

Retirement planning involves figuring out your financial needs after transition and then determining how to secure those funds to use during retirement. Only 41 percent of owners say they are doing well at ensuring that their retirement plan meshes with their personal financial needs after transition.

A variety of strategies can be used singly or in combination to make sure you reach your retirement funding goals:

58% are funding a formal retirement plan

- Provides the discipline of savings
- Offers protection against changes in business value
- Ensures a baseline of funds in retirement
- Requires owners to draw excess cash from the business on a regular basis

52% plan to sell the business to fund retirement

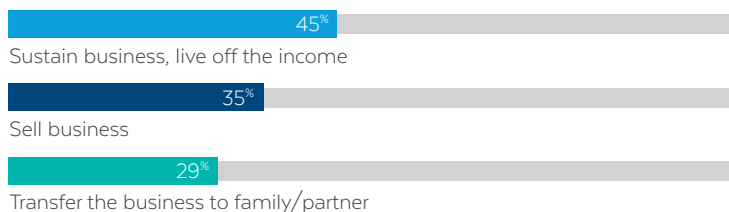
- Makes valuation and succession planning even more critical parts of your financial picture
- Exposes retirement security to the economic cycle and fluctuations in the business



Plan to use their business as primary source of retirement funding

Top three ways owners will use the business to fund retirement

% of small business owners saying that they plan to:



Create a financial plan that ensures financial security by linking your personal needs and timing with funding from your business. Enlisting advisors like your financial advisor, CPA and attorney will help you craft a plan that matches your vision for the future.

The key to extending your business's success and funding your retirement is transition planning. Start the process early to ensure a smooth transition toward a confident financial future.

Make sure you're ready for transition

Watch our webinar *Tackling Transition: A business owner's guide to securing finances for retirement* to hear two SunTrust experts discuss the keys to a successful business transition.

[Click here](#) to watch the webinar.