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When it's time to pass on the torch, will you be ready?

▶ Stepping down "stress free" from your business

The Plan
by  Investors
Group™

This Presentation

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How I Can Help

Dion Finlay
Financial Planner
Investors Group

I offer simple and realistic strategies to assist you in making sound financial decisions to build, protect and preserve your wealth.

Dion Finlay Bio

Involved in Real Estate Acquisition for over 15 yrs

Financial Planner with Investors Group for 10 yrs

Involved in the hospitality industry for 3 years

Owner Leaside Suites and Executive apts

Recently acquired Arnold's Cove Inn (Formerly Tanker Inn)

The Initial Questions

1. Is your business incorporated, partnership or sole proprietorship?
2. What is the goal for your business succession plan?
 - Sell to Market
 - Transfer to Family
 - Transfer to Employee
3. What value have you put on your Business, the assets etc.? How have you come to that value, personal or expert opinion?
4. Is your business ready to sell?
5. Do you currently have a lawyer and accountant to provide professional guidance?
6. Do you think your business is ready to sell and to what market?

Is your business incorporated, partnership or sole proprietorship?

This really defines what financing options a buyer has

Commercial

BDC

Private

Etc.

What is the goal for your business succession plan?

- Sell to Market
- Transfer to Family - Children etc
- Transfer to Employee

What value have you put on your Business, the assets etc.? How have you come to that value, personal or expert opinion?

Value is so important because you can only finance what you can prove, not future value or opportunity

Is your business ready to sell?

Do you currently have a lawyer and accountant to provide professional guidance?

Other professionals;

Financial Planner

Appraiser

Banker or Financer

Insurance Agent

Real Estate Agent

Various types of Inspectors, building

Environmental etc

An Independent trusted advisor network

Do you think your business is ready to sell and to what market?

- ▶ Who is going to buy your business? Are there things you should do to get the business ready?
- ▶ I will detail one of the options passing the Business to a family member and it will help you see the process

The Process of Transferring Your Business to a family member – your child

- ▶ The sooner you start the better your chances of success.
- ▶ Often thought is given to a succession plan, but no implementation occurs.
- ▶ Inaction can cause serious problems if you leave the business earlier than planned due to:
 - ▶ **death**
 - ▶ **disability**

The Process:

Child preparation

- ▶ Encourage your children to work outside your business before joining.
- ▶ Enhances credibility of child in eyes of non-family employees.
- ▶ Child may develop a higher level of confidence and will bring new views and ideas to the business.
- ▶ Makes the steps that follow easier...

The Process: #1

Is succession viable?

- ▶ Determine whether business succession within the family is a viable plan.
- ▶ Two important questions:
 - ▶ **Are my children capable of running the business when I retire or die?**
 - ▶ **Are my children interested in succeeding me?**
- ▶ Have you actually asked your child whether he/she wishes to succeed you.
 - ▶ **If you intimidate the child, was the answer really truthful?**
 - ▶ **The child may find it difficult to communicate he/she is not interested in succession.**

The Process: #2

Educate yourself first

- ▶ Educate yourself on the need for succession planning.
- ▶ Read articles.
- ▶ Talk with your counterparts who have successfully handled promoting children to the top management roles in companies.
- ▶ Consider joining the Canadian Association of Family Enterprise. Here is a link for contact information concerning membership:

<http://www.cafecanada.ca/membership.cfm?smocid=157>

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The Process: #3

Get professional help

- ▶ Seek outside assistance in the development of the plan from your:
 - ▶ Accountant
 - ▶ Lawyer
 - ▶ Financial Planner
- ▶ Early in the process **the outside business advisor** could facilitate information gathering within the family by interviewing each family member individually.
 - ▶ **The family may be more willing to share their feelings about the business with an independent advisor.**

The Process: #4

Consult key business contacts

- ▶ View succession as a long-term & essential process affecting the very existence of the business.
- ▶ Begin planning for it as early as possible.
- ▶ Include or consult all of those key people---family members, top company management, suppliers, customers and lenders---who have an interest in the business.
 - ▶ Have scheduled meetings away from the workplace or home to allow participants to focus on the issues.

The Process: #5

Listen to spouse & children

- ▶ Allow your spouse and children to participate in the planning process.
- ▶ Solicit their input regarding personal intent, interests, concerns, motivations and priorities regarding the business.
- ▶ Why? Their goals and objectives may not be in harmony with the founder.

The Process: #6

Assess the candidates

- ▶ Assess the capabilities of the children in the business.
 - ▶ This is not the time to act as 'the loving parent' and treat each child fairly & equally...resulting in a stalemate with no decision.
 - ▶ The reality is that you will likely have to pick one child to be your successor.
- ▶ Ask trusted others to assist you in arriving at an objective assessment of their capabilities.

The Process: #7

Look to outside board for objective advice

- ▶ If one exists, use an outside board to help make the final determination of who should take over the reins.

The Process: 7

The 'Outside Board' (cont.)

- ▶ Outside board members or a 'Board of Outside Advisors' can help to:
 - ▶ **Maintain focus on business goals**
 - ▶ **Identify new ideas and insight**
 - ▶ **Contribute impartial feedback (positive and negative)**
 - ▶ **Promote professional conduct and preparation (don't select close friends)**

The Process: #8

Select best qualified successor

- ▶ Select a successor who will move the organization forward, has independent ideas, and can contribute to its evolution and growth.
- ▶ Do not just pick someone in your own image and likeness.
- ▶ The use of the outside advisor to provide objectivity to the process may help in communicating the decision to those who have not been chosen.

The Process: 8

Select successor (cont.)

- ▶ Possible to pass control to more than one child, but success rate is not good since most successful small businesses have one strong leader who can make decisions quickly to capitalize on opportunities.
- ▶ **OPTIONS - equal ownership - requires a shared vision:**
 - a) Family Partnership...decisions by consensus
 - b) First among equals...one child handles day to day decisions; major decisions made by all.
 - c) Rotating control...always leader in training; business which has changing directions

The Process: #9

Formalize succession plan

- ▶ Develop a formal, written succession plan and training and mentoring program to bring the successor up to speed in all important areas of responsibility to provide a total perspective on the business.
- ▶ Work with tax accountant, lawyer & financial planner in developing the formal structure to:
 - ▶ Transfer wealth to you to preserve your desired lifestyle
 - ▶ Transfer control to the successor(s)These transfers need not occur at the same time.

The Process: #9

Formalize succession plan

- ▶ Communicate to each family member and non-family key employees what his or her current and future role will be under the new regime.
 - ▶ As successor gains experience and knowledge, the roles of family members & key employees may change.

The Process: 9

Formalize plan (cont.)

- ▶ Introduce the successor to all those significant contacts
 - ▶ customers,
 - ▶ key employees/management,
 - ▶ bankers,
 - ▶ lawyers,
 - ▶ accountants,
 - ▶ consultants

and give him or her sufficient time to develop their own relations/contacts.

The Process: 9

Formalize plan (cont.)

- ▶ Allow successor to work in different areas of the business...
 - ▶ to gain experience and credibility with employees
 - ▶ select work experience carefully to ensure it is a valuable learning tool

The Process: #10

Start phased-in plan

- ▶ Initiate a phased program for progressively reducing your involvement in the business.
 - ▶ You will still make major decisions initially, but allow successor to participate in decision making.
 - ▶ Pass on more responsibility gradually.
 - ▶ **Clearly define** your role and that of successor as responsibility is transferred.

The Process: #11

Retain key non-family employees

- ▶ Keeping these employees will be critical especially during phase-in.
- ▶ Fairly remunerate
- ▶ Avoid promotions of family members 'before their time' (credibility lost)
- ▶ Make effort to treat all employees (family & non-family) fairly from day to day
- ▶ Don't pay excessive salaries to inexperienced family members

The Process: #12

Find retirement activities

- ▶ Find another important activity outside the business to commit your personal attention and time to.

The Process: #13

Establish a firm timetable

- ▶ Set definite dates:
 - ▶ **for retirement (leaving)**
 - ▶ **acquisition of some or all shares by successor(s)**
 - ▶ **transfer of voting control**
 - Some business owners will wish to retain voting control until death while giving up day-to-day control.
- ▶ Stick to it or credibility of plan will suffer.
- ▶ If the plan is to work until the stress becomes too great, successor could be waiting until your disability or death.

The Process: #14

Monitor progress – important!

- ▶ The plan will be ineffective if not properly implemented.
- ▶ Monitor the implementation of the plan and make changes as necessary.

The Process: #15

Personal tax/estate planning

- ▶ Co-ordinate your succession plan with personal tax planning for retirement and the distribution of your estate
- ▶ For example:
 - ▶ In the years leading up to retirement does the founder take a larger income from the business for personal investment, leaving less in the company;
 - ▶ What is the expected after-tax income from payments received during retirement (salary, dividends, capital gains?);
 - ▶ What is to become of any shares still owned at the time of the death of both parents?
 - ▶ Is there a way to reduce taxes for the parents through the use of charitable gifts?

My recent acquisition experience

- ▶ What are some challenges your potential buyers might have.
- ▶ Depending on their individual situation and knowledge they may find it difficult to attain financing
- ▶ This is about you and your retirement, how involved do you want to be in a transition.
- ▶ Change management is a huge aspect to this especially if you are going to be involved, you along with other staff members will be challenged here.

Financing

- ▶ Bankers and the rules are your friends
- ▶ If they say no to financing it's probably for good reason, even though you're selling you want the business to continue, it has to be a good deal.
- ▶ In certain situations legislation or Government programs can help but there again will be rules and conditions that need to be adhered to

recent experience cont'd

- ▶ Networking and advisors are invaluable
- ▶ You have to be understand negotiating and putting deals together, even when using advisors
- ▶ Have a vision and work towards It

Questions?