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## **Succeeding with succession planning**

Enhancing the value of your small business

According to a TD Waterhouse Business Succession poll, 76% of small business owners do not have succession plans. These owners are simply too busy running their companies, with 45% still trying to determine what the plan would be while the other 31% just haven't got to it.

The Canadian Federation of Independent Business has found that significant benefits accrue from succession planning, so it should be a high priority. Business owners who have undergone succession planning report that it helped provide for their families in the future, minimized future tax liabilities, and improved the financial stability of their businesses.

Succession planning is not an isolated event. It is a process that should begin as early as possible, at the very least within five to ten years prior to the targeted exit date, and it starts with value enhancement to ensure a greater valuation when it's time to sell or transfer the business. According to business advisory firm Grant Thornton, there are a number of key elements that typically drive value.

Valuation is directly affected by the historical performance of a company because it indicates how the business is likely to perform in the future. Being able to show sustainability is more than tidying up the balance sheet. It means developing a track record of sales, growth and profitability accompanied by a plan for growth.

A company's value is affected by the importance of a sector at a given point in time. Owners can't influence the state of the economy, or the selling price of similar businesses, but they can learn how they compare with others in their industry. They should look at how competitors are valued to see where they line up. Deficiencies can then be addressed and improvements put in place.

The company's value proposition must be complete and well communicated. It should be clear to any potential buyer that the business model is unique and has a sustainable advantage over its competitors. This includes building in such intangibles as goodwill, supplier relationships, patents, trademarks, and proprietary products.

Building out a proven business model with a strong management team and efficient systems shows the company can operate on a standalone basis once the founder has left. Successors will have been identified and groomed, possibly with a choice of replacements, and there may be an independent board of directors.

When it's time to do the math there are a few ways of arriving at the business valuation including asset-, market-, and income-based approaches.

The asset-based approach is essentially a calculation of assets minus liabilities. Proven businesses are generally assumed to be worth

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more than their net asset value, so this approach is typically used in conjunction with others.

The market-based approach examines valuations of similar businesses within the sector and comparisons are made with recent transactions in the industry.

The income-based approach involves substantial number crunching. Historical financial performance is projected to evaluate future performance and provide a net present value.

Business analysts use a combination of these approaches and other variables. The valuation is a

very complex calculation that should be done by someone without an emotional attachment to the business, so it is advisable to consult with professionals.

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