



The importance of succession planning

May 2024

According to the Canadian Federation of Independent Business, nearly half of business owners (47%) plan to sell or transfer their business to one or more of their family members or employees.¹ A well-thought-out, comprehensive succession plan can make sure your business continues to thrive after you transition out of it.

If you haven't started planning for succession, you're not alone. Research reveals that only 9% of owners of small and medium businesses in Canada have a written, formal succession plan, while another 45% have an informal succession plan². In fact, 46% of business owners have no succession plan in place at all. Compare that with the fact that 76% of Canadian family-owned businesses are expected to lose their leader to retirement within the next 5 to 10 years. The result is that over the next several years, most businesses will face succession considerations that will require significant planning for whether they should hold, sell or consolidate ownership of the family business.

Why do I need a succession plan?

When you have a succession plan, you're in control of the future direction and legacy of your business. Planning for succession can reduce the effect of untimely events that could change your ability to operate the business. Having a succession plan:

- Increases your opportunity to maximize value and minimize future tax liability
- Enables greater flexibility, choice and control
- Improves harmony among employees, clients, suppliers and business partners
- Ensures the future stability of the business
- Reduces the potential for conflict within the family
- Gives you peace of mind

In short, a succession plan will greatly improve your chances of getting what you want for your future, your family and your business. Having a process in place for necessary discussions and decisions helps ensure a unified family and ownership group.

¹ [Succession Tsunami: Preparing for a decade of small business transitions in Canada](#), Canadian Federation of Independent Business, January 2023.

² Ibid.

Succession objectives

Before developing a detailed succession plan, it's important to consider some basic questions to help you decide your objectives for transitioning your business:

- When do you want to retire?
- Who will take over management and ownership of the business when you leave?
- Do you want to transfer ownership to the next generation of your family or a third party?
- What value do you expect to receive for the business when you decide to leave?
- What does the business need from the next leader?

The answers to these and other important questions can help you find your key objectives that will ultimately shape the succession plan for your business. It's important to note that succession planning is a long-term process that changes as your family objectives and business change over time.

An effective succession plan needs to address 2 key components:

- Management succession
- Ownership succession

These elements are equally important and often one affects the other.

Management succession

How important is your day-to-day involvement to the success of your business? Preparing the business to be successful after you leave is a challenge that many business owners face. Planning and executing a change in the management of your business is a process that takes years to complete.

A management team must be identified and groomed to operate the business independently of the current ownership. This team may include family members, the existing management team or a third party. If family members are part of the management succession plan, it's important to objectively evaluate how best to structure your family's involvement in the future of the business, given each person's skills and desires. You should consult each family member for their opinions and expectations to avoid making inaccurate assumptions and creating potential future conflicts.

To provide for a smooth transition and have reassurance that the business will continue to thrive beyond your departure, you must have management teams in place long enough to allow them to successfully transition into leadership roles. This is a strategic issue for the business, not a retirement issue, and can help ensure effective continuity.

Ownership succession

Many times, the decisions made about management succession of the business directly affect the direction for the ownership transition. If the next generation of family is actively involved in the operations, it may be natural to transition ownership within the family if your value expectations can be met.

Family transition is not the only option for ownership succession. More business owners are turning to outside parties to transition ownership of their business. In fact, about half of business owners with a succession plan expect to sell their business to a third party.

Many options exist, including:

- A management buyout
- A private equity buyout
- An outright sale to a strategic buyer

Elements of a succession plan

Your succession plan will be unique to your business and family circumstances. However, there are some common elements that you should consider when developing a succession plan, including:

- Short- and long-term stakeholder objectives
- A strategic business plan
- Future lifestyle and income requirements
- Corporate structure
- A management development plan
- An ownership development plan
- Shareholder agreements
- Tax planning
- Estate planning
- Exit strategies and timetable
- Contingency planning

Your needs are unique. It's important to have a team of professional advisors to help make sure that your succession plan is efficiently and effectively prepared and executed from a family, financial, legal and tax perspective. Your CIBC advisor can help you get started. However, you will need to connect with tax and legal professional to develop and execute the plan.

Ideally, you should treat succession planning like a business plan. Develop it early in the life of the business. Then, continue to revisit and update it to keep the continuity plan relevant to the current situation of the business and family objectives.

For more information

Talk to a CIBC advisor at any banking centre | **Call [1-800-465-CIBC \(2422\)](tel:1-800-465-CIBC)** | **Go to [cibc.com](https://www.cibc.com)**

This article is based on information CIBC believed to be accurate on the date shown at the top of the article.

Banking products and services are provided by CIBC. Investment products and services are offered by CIBC Securities Inc. and by CIBC Investor Services Inc. CIBC and its affiliates and agents are not liable for any errors or omissions. CIBC and its affiliates and agents are not responsible for providing updated or revised information. This article is intended to provide general information only and should not be construed as specific advice suitable for individuals. Since a consideration of individual circumstances and current events is critical, anyone wishing to act on information in this article should consult his/her CIBC Advisor. Certain articles may discuss tax, legal or insurance matters. For advice on your specific circumstances, please consult a tax, legal or insurance professional. Any references in this article to Canadian tax matters are based on federal tax laws only, unless otherwise stated. Provincial tax laws may also apply and may differ from federal tax laws.

The CIBC logo is a trademark of CIBC.