



The importance of succession planning

According to the Canadian Federation of Independent Business, only 30% of family-owned businesses successfully survive the transition from founder to the second generation¹. A well-thought-out, comprehensive succession plan can make sure your business continues to thrive after you transition out of your business.

If you haven't started planning for succession, you're not alone. Research reveals that only 10% of owners of small and medium businesses in Canada have a written, formal succession plan, while another 40% have an informal succession plan¹. That leaves about 50% without any succession plan in place. Compare that with the fact that over half of Canadian family-owned businesses are expected to lose their leader to retirement within the next 5 years. The result is that over the next several years, most businesses will face succession considerations that will require significant planning² on 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.

- Increased opportunity to maximize value and minimize future tax liability
- Greater flexibility, choice and control
- Improved harmony among employees, clients, suppliers and business partners
- Ensures the future stability of the business
- Reduces the potential for conflict within the family
- 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.

Succession objectives

Before developing a detailed succession plan, it's important to consider some basic questions to 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?

¹ Canadian Federation of Independent Business Survey, 2006.

² CIBC Small Business Report, 2012.

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 affect 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 reassure you 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 two thirds of business owners with a succession plan expect to sell their business to a third party. Many options exist, including: A management buyout

- 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
- Strategic business plan
- Future lifestyle and income requirements
- Corporate structure
- Management development plan
- Ownership development plan
- Shareholder agreements
- Tax planning
- Estate planning
- Exit strategies and timetable
- Contingency planning

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.

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 branch | **Call** [1 800 465-CIBC \(2422\)](tel:1800465CIBC) | **Go to** [cibc.com](https://www.cibc.com)

Disclaimer:

This report is published by CIBC with information that is believed to be accurate at the time of publishing. Banking products and services are provided by CIBC. Investment products and services are offered by CIBC Securities Inc., a wholly-owned subsidiary of CIBC and a member of the Mutual Fund Dealers Association of Canada, or by CIBC Investor Services Inc., a subsidiary of CIBC, a member of the Investment Industry Regulatory Organization of Canada and the Canadian Investor Protection Fund. 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.