

# Avoiding the 5 Mistakes of Succession Planning:

A Practical Blueprint for Doing it Right



## *A Little Bit About Me*



# *Introduction*

- One CEO's successful plan
- When to start
- Where to find help
- Stakeholders' perspectives
- 5 Major hurdles
- Executing your plan

# Goal Planning for Your Succession Plan

The Plan will be dictated by the founders and stakeholders wants and needs

## **Objectives:**

- A secure retirement nest egg
- To call my own shots and not be forced out
- Longevity of the company
- Maintaining corporate culture
- Stability for employees
- Securing great talent (rewards past compensation)
- A diverse and representative team (for broader perspective)

## **And the most important objectives:**

- Keeping clients happy, secure and not looking for another advisor
- Attracting new clients

## *Best Advice I Ever Received*

"Sometimes you have to give something up to get even more back."

"Complete annual third-party valuations."

## *Hurdle #1 – Not Starting Soon Enough*

- Mistakes happen
- Mentoring takes time
- Financial transactions may be staggered

## *Hurdle #2 – Under or Overvaluing the Company*

### **Third Party Valuations**

- Serves as a basis for applying minority discounts
- Helps avoid bargain sales or excessive overpayment
- May reduce contingency pricing
- Evidences growth for next generation
- Forces you to keep great records
- An independent resource is validating

## *Hurdle #3 – Founder and/or Successor Standing In Their Own Way*

### **Issues**

- Lacking clarity – “Start with the end in mind” – Steven Covey
- Trustworthiness
- Work ethic
- Unreasonable expectations (scope of experience/ability, knowledge)



## *Hurdle #3 – Founder and/or Successor Standing In Their Own Way*

### **We have succession in mind when we hire and we show the track to partnership**

- Knowing and having a plan helps attract great talent
  - That talent could be your best successor
- More interested in DNA (pot, soil, sun, water)
- They have to keep up their end of the bargain
- Other stakeholders opinions matter
- Doing your first deal leads to successive ones

## *Hurdle #4 – Partnership Agreement Considerations*

- Pre and Postnuptial agreements
- Covenant not to compete
- Penalties for leaving
  - Valuation haircuts
  - Internal financing in reverse
  - Same terms and conditions
- Death and Disability Financing
  - Full value – no haircuts
  - Insurance first
  - Then external
  - Then shareholder
- Creating and documenting this process
  - First guy was a little sweeter
  - Next 3 were identical

*So, here's how our plan ended up looking...*

## Ownership Transition

	Initial	Phase I	Exit
Founder	100%	70%	0%
Junior Partner #1	N/A	15%	50%
Junior Partner #2	N/A	7%	23.33%
Junior Partner #3	N/A	5%	16.67%
Junior Partner #4	N/A	3%	10%
	100%	100%	100%

*So, here's how our plan ended up looking...*

Phase I – Internal financing for 30%

Exit – External financing for 70%

Debt Service  
Cash Flow



Founders  
Salary & Profits

# *Hurdle #5 – Lack of Transparency in Announcing Your Plan*

## **Avoid the Elephant in the Room**

- Tell your employees
- Tell your clients
- Tell your prospects

## Recap

Start early (10-20 year window)

Have clarity in what you want

Find or identify the right people

Don't be greedy

Document & protect – plan for the worst and hope for the best

Always treat successors with respect

Always deal with integrity

Everybody must win. There can't be winners and losers.

# Questions?

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