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Succession Planning: Step-by-Step

How to build a solid future for your business

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Constructing your company's succession plan is a bit like tackling the national debt crisis: It takes forward thinking and it's hard work. But, as many entrepreneurs will tell you, it's essential in order to have a healthy company and a smooth retirement. It's also a task that naturally plays to the strengths of the industry: If we ask our clients to think with the future in mind, it stands to reason that our own lives and businesses should reflect the same preparation.

Yet, statistics show that more than 70 percent of small business owners do not have a succession plan in place — and it's not hard to understand why. In addition to the large amount of work involved, coming up with a plan for someone to take over your company is not something most thriving business owners want to think about. It's nonintuitive, and may even seem un-entrepreneurial.

So why is it important? A well-developed succession plan functions on many levels. It helps you focus and refine your company mission, clarifying your client base and your goals. It allows you to retire when and how you want to retire, without feeling pressure or necessity to continue driving company growth. And, perhaps most important, it helps sales flourish. Clients who know their agent has a plan for the future will feel more comfortable and confident establishing a long-term relationship. And, if they slowly begin to build contact with a successor, they will be more likely to stay with the firm when their trusted advisor leaves.

Convinced yet? Let's look at the blueprint of a strong succession plan.

Step 1: Consider your options

For every owner, the first step in succession planning is the same: think about who could run your company. Historically, many small agencies were family-run and had an obvious successor lined up. Today, finding someone to take your place is not always so simple. Agents who don't have a natural succession plan have two options: recruit a future leader from outside the firm or find another company to become your partner.

Whether you're looking outside your current staff or plan to promote from within, it's important to do thorough research. John Parham, founder of Legacy Wealth Strategies, has built his career educating others about the importance of a comprehensive company strategy and says that, in every case, a lot of thought is required as you begin the planning process.

“The first step in succession planning is thinking about who the successor might be,” he explained. “Whether you’re considering a long-time employee, a family member or someone from the outside, an individual’s integrity, character and skill set are the keys for a successful transition of the business.”
So, these are the things you should consider: Who on your staff or in your networking community has similar skills, values and goals to your own? Going one step farther, ask yourself: Where can this person add value to my firm?

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Step 2: Start the conversation

Once you’ve thought about who your successor might be, you should begin developing your exit strategy early. In fact, you can’t begin too soon. Parham repeatedly tells this to clients, and he walks the walk: His own succession plan was created the very day he set up shop.

“I put a succession plan in place when the firm was formed,” he said. “Planning for the future of the business should begin when the business is formed, so there is a plan in place for its continuation in the event of an owner’s retirement, death or disability.”

For family firms, early planning is equally important. J. R. Jordan, vice president of Colorado Bankers Services, learned this lesson firsthand several years ago.

Jordan is part of the second generation of a dynamic family company. Along with his brother, he has been a key player in the business since its founding more than 15 years ago. But it wasn't until 2005, when their father was diagnosed with cancer, that they truly began to talk about how they would handle the business when he was gone.

"At that time, my brother and I had already been running the day-to-day operations of our company, but we knew that in order to survive after my father's passing we needed to develop assigned roles and responsibilities," Jordan explained. "We had to adapt."

Step 3: Establish expectations

Part of the benefit of starting this process early is that you won't feel rushed to fill a gap in the company. This is important because, more than anything else, it's critical that you find someone who is a comfortable fit for your firm.

Owners looking to find an outside successor must be clear about their expectations and ask the right questions. Will the successor fit and thrive in the company's culture? Can he or she inspire current and future employees? Can he or she lead (not just manage) the company once the owner is removed from day-to-day operations?

If you have a family successor lined up, communicating expectations is also crucial, especially if there are multiple heirs involved. Parham advises his clients to communicate their timeframe as early as possible and put everything in writing. He also suggests they spend time establishing checkpoints to help determine if the plan is on track.

And keep asking questions. What are the options if the future successor is not performing in this role? Is there a Plan B? These and many other questions need to be answered to ensure a smooth transition from one generation to the next.

Step 4: Analyze strengths and weaknesses

Effective leadership starts with identifying the areas in which you should lead. If you plan to partner with another firm, it's essential that you first evaluate what each company can bring to the table. If your succession plan involves a family member, you must spend the same time and energy evaluating where each person is most effective.

When Jordan and his brother began making plans for their business, the first step they took was to assign roles.

"My brother is the president of our company," Jordan explained. "He is the utility player and can play any role that is thrown his way. He oversees the financial as well as administrative parts of our company. I am the senior vice president and my main responsibility is marketing and training. I travel the country maintaining our relationships with our field force and providing product training."

This division of labor is key in order for a business to reach its full potential. And it’s another benefit of starting your succession plan early: With more time on your hands, you won’t be forced to fill an open role with someone whose skill set doesn’t quite match up.

Step 5: Set goals

Just as you set goals for performance and profit, you should also be purposeful about setting a personal career timeline. Some business owners can’t imagine ever retiring; others know exactly when they want to pass the torch. Clarifying these personal goals should always be part of the succession planning discussion.

Parham has seen this preparation pay off immensely for a client who founded and ran his business entirely on his own. The client had a strong desire to see the business continue upon his death or retirement, and also knew exactly when he wanted to retire. In this case, choosing a successor wasn’t difficult: His vice president had devoted his career to the company and was well-respected by the other employees. But communicating all of this information to the successor and the other staff members was a key step in executing the plan smoothly.

Parham concluded: “Through clear communication of the owner’s desire to retire at 65, the new owner’s relationships with all the employees and the desire to keep the founding principles of the company, the company was able to survive and grow once the founder retired.”

Step 6: Communicate with clients

Once you’ve established the internal logistics and timeline of your succession plan, the final step is to communicate with your clients. Here again, time is your most valuable resource. Clients who have the opportunity to become acquainted with a new leader over a period of time will feel much more secure in their relationship with your firm. Involving them in the process is the best way to ensure a sustained client base during your transition.

So, how do you do this? It’s simple, says Jordan: Begin building trust from the first day you do business together.

“Loyalty is what makes what we do possible,” he said. “You must make sure that, when someone decides to do business with you, they know it isn’t just the beginning of a business relationship, it is the beginning of a long-term friendship where your loyalty to them is your No. 1 priority.”

A positive transition

As with every element of business planning, creating a succession plan is a huge investment of time and energy, but it does not have to be painful. In fact, it can be just as exciting as any other entrepreneurial mission. Adapting to a new era of corporate leadership can spur company growth, says Jordan, and it builds character.

“With my father’s passing in 2008, we adapted, overcame and prospered,” he explained. “That experience taught us how to transfer power in a positive way.”

Perhaps this is the best way to think of succession planning: as a positive transfer of power. With the right people in place, your business will have a firm foundation to grow upon for many years to come. «

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