



Succession/Continuation Planning

Joe Becker, CPA

How to introduce this subject? A Dilemma. As you see, I have chosen to title this article "Succession/Continuation Planning". The Random House Webster's definitions are as follows:

Succession – 1) the coming of one person or thing after another in order or in the course of events. 2) a number of persons or things following one another in order. 3) the right, act, or process by which one person succeeds to the office, rank, estate, or one another. 4) the descent or transmission of a throne, dignity, estate, or the like. 5) the progressive replacement of one ecological community by another until a climax community is established.

Continuation – 1) the act of continuing the state of being continued. 2) extension or carrying on to a further point. 3) something that continues a preceding thing by being of the same or a similar kind; supplement; sequel.

I am not, nor never was an English major. However, the definitions seem pretty much the same, don't you think? Yet the most common perception of the meaning of "succession planning" is the end of one era and the beginning of another. Planning for such an event can be very emotional, maddening, exasperating, time consuming – even fun (but not often).

The planning process should include the following:

- Objective
- Timing
- Financial
- People
- Assessment
- "The Plan"
- What if it won't work?

Let's examine the process.

Objective:

An objective needs to be formulated. Why go through the process? What is it that the owners of the business want? What are their personal goals, objectives? Do they want to retire? Do they just want to make a lot of money? Do they want the business to be passed on to the family member(s) or to long tenured employee(s)? After all, the purpose of engaging in the succession/
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“the purpose of ... the succession ...process should be to achieve the personal goals...of the printing company’s owner.”



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continuation process should be to achieve the personal goals/objectives of the printing company's owner.

The Zero Printers (Zippo), Inc. will be our case study throughout this article. Fred, the owner of Zippo, wants his son Barney and daughter Wilma to succeed him in "running" the company. So here we go.

Timing:

Fred is 62 and wants to retire in 3 years, but continue to be paid in retirement at least 75% of his average salary of those 3 years. "Barney" is 38 years old and is Vice President of Operations after working at Zippo for 15 years. "Wilma" is 35 years old and is Sales Manager (4 salespersons) and personally sells \$2,000,000.

Zippo's Profile:

Zippo is a \$10,000,000 sheetfed company with digital and mailing capabilities. Fred as President, sells \$1,500,000 and is financially astute. There are three other key players: Bob, who has 20 years with the company and assists Barney in manufacturing; Jane, a 10 year veteran selling \$2,700,000 a year; and Stuart, the Comptroller, who has six years with the company.

There are a 5-color press and a 6-color press, both 40", two 2-color 40", a color and a black and white and digital press, up to date, bindery and mailing departments. All the equipment is relatively new with most of the latest technology.

Financial Profile: Some financial information

Current Ratio	1.5 to 1
Debt to Equity	2.0 to 1
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	\$1,500,000
EBITDA as a percentage to Sales	15%
Cash Flow Coverage:	
Net Income	\$ 600,000
Depreciation	700,000
Interest	<u>200,000</u>
(Same as EBITDA)	\$1,500,000
Debt Service	
Principle Payments	\$ 300,000
Interest	<u>200,000</u>
	500,000
1,500,000/500,000	3 to 1
Sales per Employee	\$ 175,440
Value Added (64%)	\$ 112,280

Not Bad, Huh? We'll see!

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People:

Besides Fred (the owner), Barney (his son), Wilma (his daughter), and employees Bob, Jane and Stuart, there are two other important people:

- Max, a young (29 year old) IT person, 2 years with the Company.
- Molly, 35 years old, an RIT graduate prepress supervisor, 7 years on staff.

The question arises, who should participate in the planning process? After much discussion, it was decided to include all of the above. That could present a problem. Is it too many? Will it be distracting? Stay tuned!

Assessment:

The "team" is gathered to prepare for the process. Preferably, but not necessarily, a facilitator should lead the process. At this first session, each participant should be made aware of the owner(s) objectives.

As you recall, Fred, Zippo's owner, wants to retire in 3 years and continue to be paid at least 75% of his current salary. With the owners' goals clearly defined, the participants will need to formulate a plan to accomplish those objectives.

- What are the issues?
- Who will succeed as President?
- What will happen to Fred's long relationship based customers/sales?
- Without Fred, does the company have enough financial expertise (remember Stuart, the Controller)?
- Is the company financially secure enough to withstand temporary setbacks?
- Can the company afford Fred's lifestyle (salary, a car, the country club, etc.)?
- Can the team work together without Fred?

In order to answer these questions and formulate a plan, the members of the team need to assess the company's and the team members' Strengths, Weaknesses, Opportunities and Threats, or SWOT. Before the next session, each member should fill out forms that list his/her opinions on the SWOT analysis. A sample completed SWOT analysis might look like this:

Internal Strengths:

- Strong sales staff
- Adequate financial condition
- Digital capability
- Mailing capability

Internal Weaknesses:

- Inadequate financial reporting
- The 5-color Press is old technology.
- The next leader will need extensive training.
- Family issues

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External Opportunities:

- Weak competition
- Availability of Training Consultants
- Strong economy

External Threats:

- Terrorist attack
- Government regulations

The facilitator, or leader, should receive the above analyses. He (she) then compiles the information into a report, eliminating duplication and interpreting unclear comments (after discussion with author). The planning session should take place offsite. For Zippo, 1½ to 2 days will probably be necessary.

These sessions can sometimes be very stressful. Not all members of the team may "survive" the process. But if there is a fall-out, the sooner it becomes apparent, the best for all concerned. The objective of this off-site meeting is to formulate a plan.

The plan should be carefully constructed. The members of the team have to understand that not all of their concerns, ideas, etc., will be satisfied or part of the final plan.

The facilitator/leader needs to be firm but sensitive to the emotions that will inevitably arise out of this very difficult process.

The Plan

The result of the process should be documented in a written plan. It should include the agreed upon decisions. Along with the "Plan", action items should be prioritized and assigned to individuals in the meeting. All action plans should have dates that are realistic and achievable.

For Zippo, here is an abbreviated description of the "Plan".

- It was determined that Fred's son, Barney, would replace Fred as President. Issue that needs an action plan: Barney will need to be trained in two areas; leadership and finances.
- Wilma will take over Fred's client base. Issue: The Company will have to hire a new sales trainee and another CSR support person.
- Stuart will need to step up and be a Chief Financial Officer. Issues: The Company will have to hire an assistant comptroller and Stuart needs to go to graduate school.
- EBITDA as a percentage of sales needs to be increased from 15% to 17%. Issues: Sales per employee needs to increase to \$185,000 and value added to 66%. In order to achieve these goals, mailing and digital sales need to increase significantly.
- The cost and probability of buying a 5-year term life insurance on Fred should be investigated. Issue: It may not be possible.
- An industrial psychologist needs to be engaged to work with the "team's" communication sensitivity and teamwork skills.

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What If It Won't Work?

If during or after the process has been conducted, it is determined that the succession/continuation plan won't work, then Fred has important decisions to make.

- Will retirement have to wait?
- Should the company be prepared for sale?
- What about Fred's son and daughter, who have been with Zippo for a long time?
- Should Fred bring in a leader from outside of the company?

It should be clear by now that the process of developing a plan can be overwhelming. The planning process is absolutely necessary. All kinds of situations, hidden agendas, etc. are disclosed. It requires a great deal of understanding, patience and commitment.

You may be curious what were the results of the Zippo planning processes. Well, you may be surprised.

- Fred had to postpone his retirement for 2 more years.
- Son Barney decided to leave the company, emotionally unstable.
- Stuart did not make it. He was not committed to enhancing his education.
- Wilma became President and hired 2 sales trainees.
- After 6 years, Fred was able to retire.
- The psychologist continues to work with the company.

As you can imagine, the process can lead you into many unexpected situations. But, hey, it can be fun, too!

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Joe Becker, CPA