SUCCESSION PLANNING:

KEYS TO A SUCCESSFUL HAND OFF

Every single owner of a beer distributorship is going to exit the business. It may be voluntary or involuntary. That means every owner who plans a voluntary exit by handing off to the next generation of family or to an inside employee will have a management succession problem to solve.

For many owners this is a challenging problem because if you have worked shoulder to shoulder with a son or daughter for several years, an implied family promise or personal entitlement begins to emerge. The implied promise is that active participation in the family business automatically qualifies the individual to assume the leadership of the company. Unfortunately, an investment of time on the job, though important and useful, does not necessarily mean the individual has the temperament and management skills to carry the torch.

Careful planning and an honest evaluation by the owner is imperative in developing a practical succession plan. There are four key activities that are essential in executing an effective management succession decision: 1) Personal Involvement, 2) Management Skill Assessment, 3) Real-Time Experience and 4) A Formal Exit Plan

Personal involvement

The flip side of the sense of entitlement by the son or daughter entering the business is the owner who believes that management transfers occur through some form of mental osmosis. Too often we see owners who assume that just because a child has been around the business for years, a legitimate skill transfer has occurred. Nothing is further from the truth. An effective succession plan requires direct, planned involvement of the owner(s).

Owners should be alert to every teaching moment. Teaching moments are situations that require management to weigh varying management options that may involve company policy, key brewery relationships, competitive decisions and investment issues. Rather than make the hasty decision, ask your son or daughter their thoughts, lay out the issues involved and walk them through the decision-making process. In addition, help them understand there are a variety of ways to solve business problems. Help them see different perspectives and the implications of their choices. This type of direct involvement is invaluable. It allows the owner to exit the business when the time comes with confidence in the business sensibilities of the son or daughter.

Management skills of children are honed further through the recalling stories involving historical management decisions and problems. Take the time to examine past situations. Relate similarities and differences to the current situation. Outline how the decisions could change if circumstances in the business were different.

An important key is don't do all the talking. Ask probing questions to learn how well the son or daughter thinks. See how they think when considering an issue at 5000 feet and see how their thinking changes when they are absorbed in the details at ground level. Examine how well they can dissect a problem and identify where to look for answers within the company.

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—Karl Edmunds

Karl Edmunds is a principal with DMG Financial, Inc.
kedmunds@dmgfinancial.com

Finally, at the appropriate time, owners must consciously make an effort to introduce a child you consider a prospective successor manager to suppliers. It is challenging to expect a supplier to sign off on a successor manager they have never met or had little opportunity to interact with. Some owners have assumed the approval decision by the brewers was almost a given if the child has been involved in the business. Time on the job simply does not accurately reflect the capabilities or fitness to assume complete managerial control of the business.

Management skill assessment

Active personal involvement simplifies the process of conducting a careful assessment of the successor manager's skills. Whether you are evaluating a son or daughter or a manager from outside the business, a successful succession plan must involve a thorough management skill assessment in terms of both strengths and weaknesses. A formal process is recommended.

The proposed successor manager should be evaluated in terms of background, personality, business knowledge, relationships internally and in the market, personal issues, and management acumen. Some key questions to consider that will be on the minds of virtually any brewer are:

Does the proposed successor have any criminal or civil convictions on record that may affect how the business will be operated?

Does the proposed successor have at least 5 years of active, direct management of the company or another company requiring similar skills or knowledge? Clearly, the preference would be direct management in an alcoholic beverage environment.

Does the successor demonstrate the ability to merit respect of the entire organization and make difficult decisions even when long-term friendships are involved?

Does the successor have direct experience involving the development of strategic plans, budgets, portfolio management, human resources, technology and operations? Do they have a clear understanding of financial statement analysis?

Do they have a management style or personality that is supportive and not caustic to the current culture of the company? Do they demonstrate the ability to be adaptable in new situations?

Do they have the type of diverse skills needed to motivate employees, build and sustain relationships with suppliers, retailers and community leaders?

Once you have a good picture of these and other questions, it is essential to determine if weaknesses or deficiencies can be improved with training. Determine the level of training needed. Then define the timing and establish a formal plan for the training process.

This is the time when owners can ill afford to look at children through rose-colored glasses. If an honest assessment reveals they lack the intelligence or qualities to guide the company, then face the issue head-on. Perhaps they would be more suitable in a different role, if appropriate. Perhaps they should pursue a career outside the company. Management must then determine if a suitable candidate exists within the company or whether an outside search should be initiated.

Unfortunately there are owners who cannot see through the powerful family ties involved and conduct an honest assessment. This is why an outside resource is often warranted. Some owners wait too long to face the music about the skills of children and find their son or daughter too old to find a comparable job elsewhere. In reality, the best approach to management skills assessment is an on-going process rather than a one-time event filled with potentially nasty surprises.

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Real time experience

Too often dad or grandpa wants to slow down but he just can't find the courage to relinquish control. They bestow titles that imply power to conduct business but overrule decisions and fundamentally fail to give what every manager needs—the ability to make daily management decisions, encounter personal success as well as the consequences of errors in judgement. Nothing teaches like real-time learning.

This process doesn't have to be a discreet hand-off of all authority. Begin by looking for situations and projects that you can delegate and then get out of the way and let them carry out the assignment. You can begin with limited direction and input and slowly allow full authority to complete the task.

Resist the temptation to intervene and try to fix the process or direct the outcome. This will undermine confidence and create a dependency that you will fight later on.

Formal exit plan

Finally, once you have implemented a planned process to address the future managerial roles in the company, training needs and operational plans, it is essential to formalize your personal exit plan. A formal exit plan integrates management transition decisions with the financial, estate issues, legal and tax implications and business value considerations. It also ensures you are positioning yourself to achieve your personal financial, business management and family objectives. Consider the following:

Do you have a team of advisors to assist you with decisions regarding estate planning, legal and tax issues, business valuation and brokerage and insurance?

Do you have a clear exit date in place?

Do you know the value of your business and whether this value will allow you to achieve your personal financial objectives? We recommend you examine your personal financial objectives within a range of business values since the ultimate value you receive from your business is driven by a variety of issues e.g. perceptions of the final buyer, tax issues, timing and strategy of the sale.

Do you have a plan in place, with the business structure and financial methods, to facilitate the purchase of the business by family members or employee(s)?

Developing and implementing a formal succession plan should not be an overwhelming task. However, it will seem overwhelming if you wait to consider the key management and planning issues until you are one year away from leaving the business. Our experience suggests that owners who successfully sell their business or hand-off to family members or key employees begin the planning process in a formal way within 10 years of a target exit date. Since an involuntary or voluntary exit of some type is absolutely in your future, start now and make it easier and possibly more profitable for yourself and less painful for your successors. ■