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A business succession plan includes step-by-step instructions that set out procedures for the departure of a business owner or key employee. Our succession planning model helps business owners answer questions such as who will take over the business, how long it will take and what standard operating procedures need to be communicated. There are five common steps involved in succession planning: Download the Succession Planning Model Click below to download our succession plan model as DOCX or PDF: Download IN PDF How docx How succession planning works Succession planning is the set of events, timelines and standard operating procedures that are established before a change of ownership in a business. Business owners can create a succession plan in a number of ways, including following this succession planning model, as well as using a professional who is familiar with the process. Who should create a succession plan? Any business owner with a successful and successful business should consider creating a succession plan. Often thought of in the context of retirement or the sale of a business, a succession plan is also an essential tool in case of premature death or illness. A well-constructed succession plan acts as a will for your business, ensuring that the best interests of the company are realized. When to create a succession plan Business owners who are wondering when to use this succession planning model to create a plan may wonder when they should start. Just like a personal will, the answer depends on a variety of factors, but usually boils down to as soon as possible. Creating a succession plan takes time and effort, and it is not easy to answer questions accurately. For this reason, many business owners begin to plan their succession at least five to six years before a transition. The creation of a succession plan should be considered as a possibility in the event of death, illness or other circumstances that create an unexpected need for transition. Succession Planning Resources Finding help with succession planning can mean working with your current accounting firm (provided they have experience in developing succession plans). The amount of help you need will likely increase due to the urgency of your succession planning needs, as well as the size and complexity of the business. Consider whether a temporary accounting and finance or hire an accounting firm to help you. Here are a few resources you can use to help you with succession planning: PwC As one of the Big Four in the accounting industry, PricewaterhouseCoopers (now pwC) is a firm with extensive experience in succession planning. The company's self-described focus on small private businesses minimizes the risk of becoming another number and means that it routinely deals kind of obstacles you'll encounter. SCORE SCORE, the largest network in the country offering mentoring to small businesses, has developed a quick guide to succession planning. The real value is that small business owners can ask to be paired with mentors who offer their help on a volunteer basis. For business owners who need simple succession planning assistance, this option is worth considering. Local Accountant Small business owners may consider working with a local accountant (provided the accountant is well versed in succession planning). Entrepreneurs who choose this route can apply in their personal network, tap into their local chamber of commerce or other local business support groups, or look for a certified accountant in the directory provided by the American Institute of Certified Public Accountants. The Five Steps to Writing a Succession Plan Writing a succession plan can be a daunting task. Many business owners put it off because they are not ready to tackle complexity. We've narrowed the process down to five simple steps to direct you along the way, including choosing your successor and determining whether to sell your business using life insurance, a loan acquisition, or other methods. The five common steps in preparing a business succession plan model are: 1. Succession timeline There are two key types of succession plans: an exit succession plan and a succession plan in the event of a death or accident. You may want to write a succession plan in the event of a death or accident well before you think you need it to protect your business and successors in the event of unforeseen events. An exit succession plan should be written when you have a specific plan to transfer ownership of your small business. The two most common types of succession plans are: the exit succession plan: a property transfer plan on a specific date, e.g., in retirement. Succession plan in the event of death or accident: A plan for your business in the event of death or disability. While an accident plan should be considered at any age, an exit succession plan should be drafted when you are in the years that have retired or want to leave the company otherwise. When writing an exit succession plan, you must have a specific date that you want to transfer the business, and indicate whether you will remain involved in the business after the succession or prefer a clean separation. Model Advice On the model answer all the questions in the first section. If you are writing this succession plan to leave your business on a known date, fill out all the remaining details, including how long you expect the transition to take. 2. Determining your successor A very important aspect of drafting a succession plan is choosing who will take over the company. Many business owners plan to have a family member, such as a child, child, about the company. Other common choices include a business partner or key employee in the business. And of course, an outside buyer is always a possibility. Common Business Owners' Successors Choose are: Co-owners members of the Family Key Employees Outdoors Employees Choosing a successor can be difficult, and requires considering what is in everyone's interest, including the company. While keeping the business in the family may seem like a clear choice, keep in mind that second-generation companies have a high failure rate. For this reason, many business owners choose instead to sell the business and provide a cash inheritance for their family. Model Advice Consider filling out profiles for at least three potential candidates. This will give you a good preliminary comparison of each individual's skills and experience. Even if you are already set on a candidate, you can have a backup plan in case the person leaves your business or does not want to become a homeowner. 3. Officialize Your Standard Operating Procedures (SSP) As a small business owner, you need to understand the importance of registering and formalizing day-to-day functions. Standardized operating procedures must be documented for your managers and employees to be referenced, as well as for all future business owners. Important items to document may include a daily checklist of opening and closing procedures, training for new employees, and a performance management system. PSS varies from company to company, but often includes common standard operating procedures Although not required, many companies include standardized operating procedures when writing their initial business plan, and update them regularly as procedures change and the business becomes more complex. It's a good idea to have these SOPs in place before succession planning, as they will help your business struggling with growth and change. Model Tip In our succession plan model, we have provided a checklist for these items — please add or remove them, if necessary. Once you've filled out an updated document, attach it to your succession plan and check it on the list. 4. Enjoy your business By calculating the value of your business should occur early and regularly. It's an unfortunate fact that many business owners tend to overvalue their business, and these errors of judgment can hurt financial errors when planning for retirement. There are several ways to determine the value of your business, from using a simple business valuation calculator to provide an approximate estimate, to following more advanced methods for how to value a business, as well as hiring a professional appraiser. You may also want to consider working with a company that offers business valuation services, such as BizEquity or Guidant Financial. Model Advice A good practice is to consider the lowest price of the company the company sell for. When the company is eventually listed for sale, it can take a long time to find a buyer who is willing to pay your asking price. The succession plan should provide stipulations as to how long to wait before lowering the price, how much to lower the price, and the lowest acceptable offer. 5. Finance your succession plan Few buyers have enough cash to pay for your business in advance. That's why each succession plan needs a specific plan for how the buyer will make the purchase, whether it's a loan, staggered payments or another option. The last thing you want is to reach your retirement date, or trigger an event, and find that your chosen successor has no way to afford your business. This is also why your financing plan will often require a buy-sell agreement. This is a legal document in which your buyer accepts a specific course of action (such as taking a loan or life insurance policy) in order to afford the purchase. Once you've settled on a specific financing method, be sure to meet with a legal professional to write your purchase-sale contract. Common Succession Plan Financing Options These are the most common ways to fund respite plans: Life insurance Most commonly used when a family member or co-owner takes control of the business, a life insurance policy can help your successor buy the business from you or your heirs. Contrary to what it seems, life insurance is not only used in the event of premature death. Permanent life insurance establishes a cash value that can be underestimated at any time, so it can also be used in the event of retirement, disability or any other triggering event. Life insurance plans are common in family estates, especially when you have multiple children, but only one takes over the business. With your successor chosen as a beneficiary, a life insurance payment can allow them to buy shares in your other children, leaving everyone with some compensation and financial security. Acquisition Loan A loan of acquisition is money borrowed by the buyer in order to buy the business. This is common when a key employee or third party takes over and needs some financing to pay for the purchase. Buyers can usually get 70% to 80% of the purchase price financed by a bank or small business administration (SBA) - which is great news for sellers who want to be paid in full in advance. Acquisition loans are guaranteed against company's future. While this makes it a generally reliable option, it also means a bit of work for the seller. Before purchase, you will need to provide a lot of details about your business for the bank's due diligence. Even then, however, the loan is not guaranteed. Pre-approval may provide some security, but should be experienced regularly (every six to 12 months) until the transfer date or or Event. Seller Financing The seller's financing is when the buyer gradually repays you over time. This is one of the easiest and most flexible arrangements, as the business owner and buyer can set the terms they like. Most agreements have a down payment of 10% or more, followed by monthly or quarterly payments with interest until the purchase is paid in full. Again, however, the exact terms can vary considerably. The main drawback of selling the seller's financing is the time it takes to be reimbursed. Especially if you rely on the sale to finance your retirement, a 20-year term may be far from ideal. However, given the flexibility of sellers' financing, it may be possible to find an arrangement that works for everyone. Pros Business Succession Planning Tips We asked industry experts in succession planning to provide some advice to business owners considering creating a succession plan. Choosing the right successor is a crucial step, as is making sure you have realistic expectations throughout the process. Many business owners are also considering whether they should consider creating a succession plan. Here are some tips for creating a business succession plan: Most companies don't have a formal succession plan and never expect it to be necessary. The most common mistake of business owners is that they keep and keep the information only for themselves. These may include signatory rights, passwords, access or key phrases. Review your business succession plan every six months and every time an essential employee leaves the company. The biggest mistake small business owners make in their succession plans (in addition to not having one) is to have unrealistic expectations. First, business owners regularly have an unrealistic view of the value of their business. It is their baby, and they have an emotional connection with it, but this bond cannot be established in a declaration of profit and loss. Second, data from the Family Business Institute showed that 88% of small business owners believe that transferring the business to their children is a viable succession option. The reality is that only 30% of small businesses will move to a second generation, and only 12% to a third generation. Having a succession plan becomes more important if your company has valuable assets or employees. If you run your own business with just yourself no business assets, the disadvantages of having no plans may be smaller. If you have employees, consider who will be able to make payments to these employees and who will continue to operate after your death. Machines, equipment, materials, intellectual property and customer lists can all be valuable assets — the brand and reputation associated with your business — all of which can disappear if you don't have a plan in place to deal with these assets. One of the most mistakes made by business owners in succession planning not to review their plan regularly. Time changes a lot, and for your succession plan to be effective, it needs to be reviewed regularly and updated to reflect any changes. These may include business changes, tax law updates, valuation changes or new developments in the industry. For family businesses, you will also need to consider things such as changing family dynamics — do all members have the same desire to know what to do in the future, or are all the key players still in the business? It is essential that business owners update and adjust their business plans to reflect changes like these. Result Often, the most difficult part of succession planning is answering difficult questions. What unexpected events should you be preparing for? Who will take over your business? How will you, your spouse or your children compensate yourself? You can answer these questions using our succession planning model. You can also call on legal or financial experts with experience in succession planning. Planning.