EXIT THIS WAY

Business Succession Planning Warrants Education

By Matt Ottinger

Indiana has $206 billion riding on the successful transition of businesses owned by people aged 55 and older. That's the amount of annual private-sector revenue generated by those companies, according to "Silver Tsunami," a March report prepared for the state by the Indiana Business Research Center.

That wave of transition is expected through 2030 – a notion that has drawn the attention of Governor Mike Braun, prompting the state's "Keep IN" initiative to help more of those companies remain open, locally owned and positioned for future growth.

To assist, the Indiana Chamber of Commerce and Indiana's new state Office of Entrepreneurship and Innovation recently launched a series of education webinars for Hoosier business owners who are considering selling their businesses or beginning the process of succession planning.

The first webinar was held over the summer and titled "Getting Started: A Practical Guide to Succession Readiness Planning." Topics to help small businesses included a roadmap to protect the company's future, strategies for identifying successors and preparing for leadership, actionable insights and more.

What to keep in mind

Lydia Henshaw spoke on the aforementioned webinar and is the founder of Louisville-based Journey Warehousing and Logistics, which was established in 1990. The company has evolved from pallet repair to become a leading provider of transloading and cross-docking solutions. It was recently acquired by New Albany-based Neace Transportation, for which Henshaw now serves as COO and partner.

She contends succession planning can depend on organizational structure. And it's not just about an owner making a grand exit but also preparing for the future in the bigger picture by developing younger employees or preparing for hypothetical leadership changes.

"Setting up the scaffolding inside of the organization so that each role can have a succession plan in and of itself – I think that is really where the succession plan conversation gets healthy because then you're looking at the nutrition, if you will, for the entire organization," Henshaw clarifies.

Debb Beck is a mergers and acquisitions (M&A) transaction advisor at Indianapolis-based Indiana Business Advisors, which has been one of the top Midwest business brokers and M&A firms for over 40 years. She also spoke on the recent webinar and has personally been involved in business acquisitions and sales herself.

As a professional in the space, Beck says today's exit planning climate is noticeably different than in the past.

"I think the mechanics of the deals haven't really changed, but the speed and the availability of information has changed," she asserts. "You just think even about Google, Yelp and Indeed, anyone can go on and comment on your business in a public way, and then you have to make a decision if I'm going to respond and how I'm going to respond."

Beck adds that artificial intelligence has also made information much more accessible.

Family matters

Not only are state leaders and business advocates getting involved, Purdue University has been offering related curricula. Professor Maria Marshall, with a doctoral degree in agricultural economics, is the director of the North Central Regional Center for Rural Development. She also is the founder and director of the Purdue Institute for Family Business and relays that in working with food and agriculture entrepreneurs, she realized how family-oriented many businesses are.

"In starting a business, there's a lot of family support, whether it's emotional, financial or labor, and even Microsoft started in a parent's garage," she reports. "It made me realize that we are probably underserving those family components and dynamics that help somebody start a business, continue a business – even on the exit part."

Marshall adds that exit planning may look different in varied industries.

"At one point, we were helping a pharmaceutical company think about transition and that has very different assets than a farm, for example," she explains. "A farm has a lot of fixed assets, and they worry sometimes a lot more about estate taxes versus other types of non-farm companies that might think more about that kind of management part."

Beck believes education, broadly, is ultimately critical as many business owners are simply not aware of options available before closing up shop.

"We do see sometimes a business owner will just decide to close their doors, which could almost make you cry," she laments. "It's so sad, not just because they're not getting value for it, but you think



Debb Beck of Indiana Business Advisors has leveraged her personal experience in exit planning to help many clients get the most out of ownership transitions. *Photo courtesy of Connie Swaim*

about their employees and their customers – and the community is suffering a loss by that business closing most of the time. So, sometimes they just don't know their options."

She contrasts, "On the other hand, sometimes they have an inflated expectation of what the value should be because they've heard stories about bigger companies selling for giant multiples."

Perhaps just beginning with a simple, realistic grasp of the hoped outcome is the best initial step, Beck surmises.

"Really start with the end in mind, asking what do you want to achieve and focusing on that goal," she suggests. "What are your most important outcomes? Is it money? Is it freedom? Is it your legacy? What happens to your team? The community? What is your role after the transition? Thinking about those things is really important."

Is everyone on board?

Navigating relationship dynamics can be a challenging aspect of exit planning – especially when family is involved.

"People may think, 'Oh, you're trying to get rid of me; I'm not dying tomorrow,' " Marshall speculates. "So, that transition can be hard in letting go of some of these decisions and also thinking about things from a business perspective versus a family perspective.

"If you're thinking about intra-family succession, it's like, 'Well, in the business we have to act like we're colleagues, but at home we might have a mother/daughter relationship. Those things are different and there needs to be different boundaries around that.' "

State of the state?

What, if anything, should governments be doing to help with ownership transitions?

Being in the Kentuckiana area, Henshaw has experience on both sides of the border and appreciates that the Hoosier state is now providing resources and hopes the momentum continues.

"I see a lot of support from Indiana for that and a lot of explicit desire for that, which I think is very helpful because it's helping make that idea concrete in the mind of sellers, and it's also helping shape expectations for buyers," she notes.



Maria Marshall (left) speaks with a family of farmers about succession. She's joined by Renee Wiatt, family business management specialist with the Purdue Institute of Family Business.

Henshaw continues, "I would say more education, more access to education and maybe even incentives, whether it's property tax or whether it's from a taxation standpoint of businesses or income levels – to support businesses that are keeping (operations) in the state post transition."

Opportunities also present themselves in agriculture especially, according to Marshall – even when it comes to connecting potential partners.

"There are some states that have tax incentives and things like that for intra-family succession or just succession from farmer to farmer, for example," she relays. "And there are also matching services that you might have. If somebody doesn't have a successor, maybe particularly in a rural community … thinking about how you can have matching services between buyers and sellers to keep those businesses open in the community, I think that could be helpful."

What should I say?

Open communication with employees and customers can be a critical component in maintaining trust in the long term.

When possible, Marshall suggests including an incumbent in business meetings, especially to introduce them to larger customers – even well in advance of when a transition process begins.

"This involves thinking about the professional development of your successor and then bringing them along so that it doesn't seem like a shock when all of a sudden you say, 'Well, I'm retiring tomorrow and my son or daughter is taking over the business,'" she illustrates, adding that ensuring proper professional development is important as well.

Another thought is that while it's important for potential successors to be visible and have relationships when possible, in some circumstances details of an impending move may be best kept completely confidential until an appropriate time.

"Part of the reason is when you start talking about something like this and you don't have the entire plan – and you really haven't planned out how you're going to communicate it – you can create a lot of uncertainty for people who have no control," Beck cautions. "And I think if there are gaps in your story, they may fill in the gaps and they may fill in the gaps with things that just aren't true but are scary."

She continues, "I think it's better to keep it confidential until you know it's going to close and then you can plan out your communication; you can control the narrative better."

When communicating externally with customers, specifically, Henshaw believes conveying an aura of stability is the key.

"The most important thing is to think about it from their perspective to start with," she offers. "And so giving them reassurance that the stability of the company is still there. … You obviously don't want to make claims that you can't support, but I think being open about a time period, '(saying) this is happening, this is the plan, this is what you can expect.' "

Plan Ahead With Free Webinars

Visit www.indianachamber.com/successionplanning for more on the succession planning webinar series from the Indiana Chamber and Indiana Office of Entrepreneurship and Innovation.

The second webinar, "Beyond the Traditional Sale: Three Unique Exit Strategies," focuses on family office, employee ownership and entrepreneurship through acquisition. It was slated for early November with a recording available soon after.

RESOURCES: Debb Beck, Indiana Business Advisors, at www.indianabusinessadvisors.com | Lydia Henshaw, Journey Warehousing, at www.journeywarehousing.com | Dr. Maria Marshall, Purdue Institute for Family Business, at purdue.ag/fambiz