10 Ways to Prep for Your Succession Plan

Many independent home improvement businesses are passed down through generations, but you should have a plan no matter who is taking over.

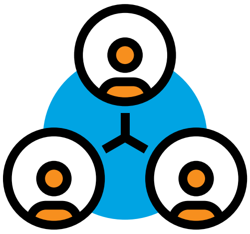
Hardware Retailing developed this list based on elements from a U.S. Small Business Administration course that addresses selling and succession planning for small businesses. For more information, visit sba.gov. To learn more about succession planning, visit **TheRedT.com/succession-timeline**.

1. Consider your options.

There may be more people who are interested in taking over your business than you think. If someone shows potential, talk to them about their career goals and their future with your business. It's better to have too many options than to be stuck without any if your family members choose a different path.

2. Meet with your financial and legal advisers.

Be sure to let your attorneys, accountants and other business advisers know when you're starting your succession plan. Not only is it good practice to keep them in the loop on large business decisions, but they can also help you manage the legal and financial adventures that come along with selling a business.



3. Perform a valuation.

The SBA defines a business's valuation as its combination of assets (cash, receivables, inventory, equipment and real estate) and its revenue stream (net profit over time). While some of these values are steady, other values fluctuate. Be sure you have an accurate representation of your business to present to potential successors.

4. Know your tax responsibilities.

Check with your financial adviser, CPA or tax attorney about what you are responsible for when you exit your business and what your successor should expect in that regard. According to the SBA, there are several types of taxes that impact closely held family businesses. Ask your adviser about income taxes, gift taxes, the generation-skipping tax and the estate tax.

5. Reach out to your wholesaler.

If you've done your research to sell your business and you think you're out of options, think again. Your wholesaler is eager to help your business continue. Talk to your sales representative about your desire to exit your business. They can help you develop your exit strategy and potentially find another business owner who is looking for a new growth opportunity.

6. Evaluate your business relationships.

Consider your myriad business relationships as you start developing your succession plan. Maybe there are vendors you're working with that don't fit anymore, or perhaps it's time to reconsider your financial institution. While it's probable that these relationships will change with a new owner, if you're already in the thick of it, you should consider how they are working for you right now.

10 Ways to Prep for Your Succession Plan

7. Develop a forward-looking business plan.

Outlining the potential growth opportunities for your business in the future could be a strong selling point, especially if you're looking outside your family for the next owner. If you're in the early stages of succession planning, look to the future to see how you can be ahead of trends to continue differentiating your business.

8. Determine your role post-sale.

If you're handing the business off to one of your children or another family member, you likely won't be able to escape questions about the operation for long. Regardless of your relationship with the buyer, discuss with your successor what they need from you before your last day. It may be sensible for you to oversee operations for several months, or even years, before you officially hand over the business, depending on your successor's knowledge of and experience in the operation and the industry.

9. Know how to spend free time.

As highly anticipated as retirement is, if you don't plan to use your time wisely, there is the possibility you could end up repeating the catchphrase of kids two weeks into summer vacation: "I'm bored." If you're used to spending your days in the business, determine before you leave what your pastimes will be so you're not left wondering what to do next.

10. Plan ahead.

No matter what stage of your career you're in, it's never too early to start thinking about what the next generation of your business looks like. If you have a few years or more before it's time to seriously consider retirement, talk to your advisers, your business partners and your family to start putting into place an action plan for succession planning. Looking ahead to your own retirement and considering your options will also help you check off the other items in this list so you're well-prepared when the time comes.