INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

Succeeding in Succession

A guide to keeping family harmony through your business transition

Business Families Foundation

RBC Wealth Management

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Introduction

You own a business. You've worked hard to get it to where it is today. One day – whether in one year, 10 years, when you pass away, or at some other time – someone else will run this business. If you'd like to decide in advance who that "someone else" will be, you need a succession plan.

If you don't have such a plan, you're not alone. Many business owners don't adequately plan their succession, if at all. There are many reasons for this complacency – from their reluctance to "let go," to fear of creating family disharmony.

Ironically, the best time to create a succession plan is when you're too busy managing your growing business. Planning a business exit can be emotional – there are often personal and family dynamics that may conflict with a business's well-being. For this and other practical reasons, planning an exit requires an owner to think strategically, preferably with a professional's help.

The purpose of this type of planning is to create a clear exit path that is simple yet effective in meeting personal and business goals while preserving family harmony during what is often an emotional and conflict-triggering process.

No two families are the same and a plan has to address a family's unique situation. While this is true, proper planning strategies make the process significantly more effective.

This report covers many of these strategies that use simple concepts to aide with the understanding of the process. The first issue families struggle with most is whether they should pass on the family business to their children. Families will frequently defer making a decision because of the fear of making the wrong decision. Another issue that often causes unnecessary procrastination in succession planning is the fear of conflict. While we generally dislike conflict, some conflict can be healthy if managed – as the saying goes a broken bone is stronger after it heals. This report outlines tools and ideas to manage and/or avoid unnecessary and damaging conflicts when planning a material change in the family business such as succession. Proper planning of this type takes time, sometimes several years. Protecting business continuity during this critical planning period (often referred to as "contingency planning") is therefore timely and is addressed in the report. The report concludes with a framework to start your planning and to stay in control of it.

No two families are the same and a plan has to address a family's unique (business) situation.

To my children or not to my children? . . . That is the question.

Business owners often struggle with the question of whether they should transition their business to their children or whether they should sell it to a third party.

We need to go back to one of the first principles of succession planning: in order for a succession plan to be successful, the plan has to balance the needs and goals of family and business. Many families do not recognize the importance of balance between family and business and as a consequence don't achieve the results they hoped for. For example, it is not uncommon that owners have a strong and natural desire to pass on their business to successive generations. However what families often don't give enough consideration to is the fact that personal business and economic circumstances may not align with this goal. A family transition without such due consideration is the primary reason why statistically speaking, there are few multi-generational family businesses today – hence the proverb "shirt sleeves to shirt sleeves in three generations."

It is seldom clear cut whether a family should pass on their family business to the next generation. This is where having open and constructive family meetings to discuss not just the future ownership of the family business, but every other important aspect that concerns both family and business. In these meetings, conflicting goals that exist between family and business, and between family members, are discussed and weighed. This ensures that any significant decision that affects the future ownership of the business, on balance meets both family and business goals.

Some families use external facilitators to moderate the meetings with stated objectives in mind including ensuring that these meetings are principally "business-matter" meetings and that extraneous family matters are brought forward in private family meetings.

"... a very rich person should leave his kids enough to do anything but not enough to do nothing..." *Warren Buffet*

It should also be clear that the answer to whether to "keep or sell" is not mutually exclusive. In fact, families can sometimes retain some family ownership while protecting family wealth through a partial sale.

On the issue of future ownership, the story of the Spalding's frequently plays out. Jack and Nancy Spalding (not their real names) are entrepreneurs in the food distribution industry who started contemplating the issue of future ownership when their son, Adam graduated from university and started working in the family business.

Adam's entry to the business was unfortunately during challenging times. Despite investing heavily in marketing, the growth of the business had leveled off. "Competitors are definitely affecting us and to make things worse, I am not sure if I have the energy, the social media savvy, or the financial inclination to continue driving this business," Jack would lament to friends.

When asked about Adam, Jack would admit that he and Nancy have been struggling with the decision of whether to keep the business in the family for Adam or to sell it to a third party. They naturally wish for a bright and successful career for Adam but the recent decline of the business highlighted the fact that external factors may have a stronger influence on the decision. The question of whether they should keep the business or cut their losses by exiting became very acute. The question of whether Adam has the wherewithal to navigate through turbulent times also became relevant. Unfortunately, families faced with such decisions, often revert to a state of indecision which in many ways is not the most ideal thing to do.

The critical point came when the business lost its biggest account. Adam took the loss badly even though it was not entirely his fault. As Nancy would point out, "He has been great at the shop and gets along with everyone but we do worry about him stepping into the family business. The business may have gotten too challenging, even for Adam. We are just not sure if it's the best thing for him." The question is: how long should Jack and Nancy wait for fortunes to turn before they ultimately make a decision?

The decision of whether to keep or sell the family business is just one of many decisions a succession planning framework addresses. Specifically on this issue, the Spaldings should initiate the following four key assessments:

- **An assessment of Adam's desire and aptitude to take over the business.** It is often assumed that children want to participate in the business. This may not be the case and it is therefore one of the first matters to be flushed out. The more difficult step is assessing whether Adam has the aptitude for the business. It's sometimes impossible for parents to assess their own children, but there are independent firms that can help. As sensitive and emotional as this type of assessment can be, it needs to be done, even at a high level.

- **An assessment of the future viability of the business.** A top-down approach to this assessment is to start with an assessment of the industry where the business exists and then of the business itself. The assessment should include understanding threats such as future competition and opportunities such as those presented by shifting demographics. Armed with a clear understanding of the business landscape, the assessment should turn to the "tools" that the business have or should have to ensure long term viability – that is, what are the company's strengths and weaknesses? This type of analysis should help Jack and Nancy understand the risks, challenges, and merits of keeping or selling the family business.

- **A valuation of the business.** A business valuation is a very useful exercise. The valuation not only will help Jack and determine value prior to exit but also puts a financial context to their succession. The latter sheds light on the financial viability of their retirement and how much risk they can afford to take to achieve their retirement goals.

- **An assessment of the saleability of the business.** Factors beyond owners' control can sometimes prevent the sale of a business even though keeping the business may not be the preferred alternative. In such cases, the family's broader objective of maximizing wealth from the business would dictate the decision.

The results of the above assessments will help determine if retaining ownership or selling the family business is prudent. Families should not be boxed into feeling it is an "all or nothing" decision and instead that it is fine to explore combinations of family retention and partial sale of the business. Granted, a partial sale can be more complicated to implement but the outcome can be rewarding. The following is an example how you can use the results of the four key assessments to decide on whether to keep or sell the family business.

Is the next generation capable of leading the family business? → What is the long term outlook for the business and industry? → Can we afford to retire? → How saleable is the business or should we keep it and run it out?

Outcome and possible actions

Pass on to next generation

- Next generation is capable
- Good long term outlook
- Retirement is secure
- Challenging to sell business

Action
- Groom successor
- Hire additional management team to supplement successor
- Pass on ownership but limit management role
- Consider wealth planning strategies such as estate freeze, retirement planning, tax planning, etc.

Sell to non-family buyer

- Next generation not interested
- Uncertain future
- Retirement financially at risk if passed on to next generation

Action
- Determine value before exit
- Select strategic time to exit
- Implement solution to mitigate tax on sale of business
- Engage sale of business professionals

Hybrid

- Next generation is capable
- Business is too large to risk
- Capable management that is interested in ownership

Action
- Partial or gradual sale
- Hire potential future buyer
- Combine Management Buy-Out with transition to next generation
- Consider wealth planning strategies

How do I maintain family harmony and cohesion?

Business owners often think that maintaining family harmony in a family business setting is an important, if not the most important, objective of running a business. In fact, maintaining this harmony is often a significant reason why parents postpone transferring the family business. Parents are often overly sensitive to their children's reactions to the steps towards business transition. A business owner may also be biased by his or her own prejudices of the family members' private goals, desires and objectives.

Harmony and family cohesion comes when the views of all family members, regardless of gender, age, and involvement in the business are considered, respected and are woven into the family's value system. From this value system comes common family goals. Such common vision can only come from regular family communication conducted in family meetings.

Families should adhere to certain principles that will facilitate communication that eventually builds trust:

- Communication must be open and transparent.
- Communication must build respect, trust, and the ability for all family members to share their opinions.
- Communication should be facilitated by a dedicated and competent family leader, whether it be a parent, respected child, or independent facilitator.

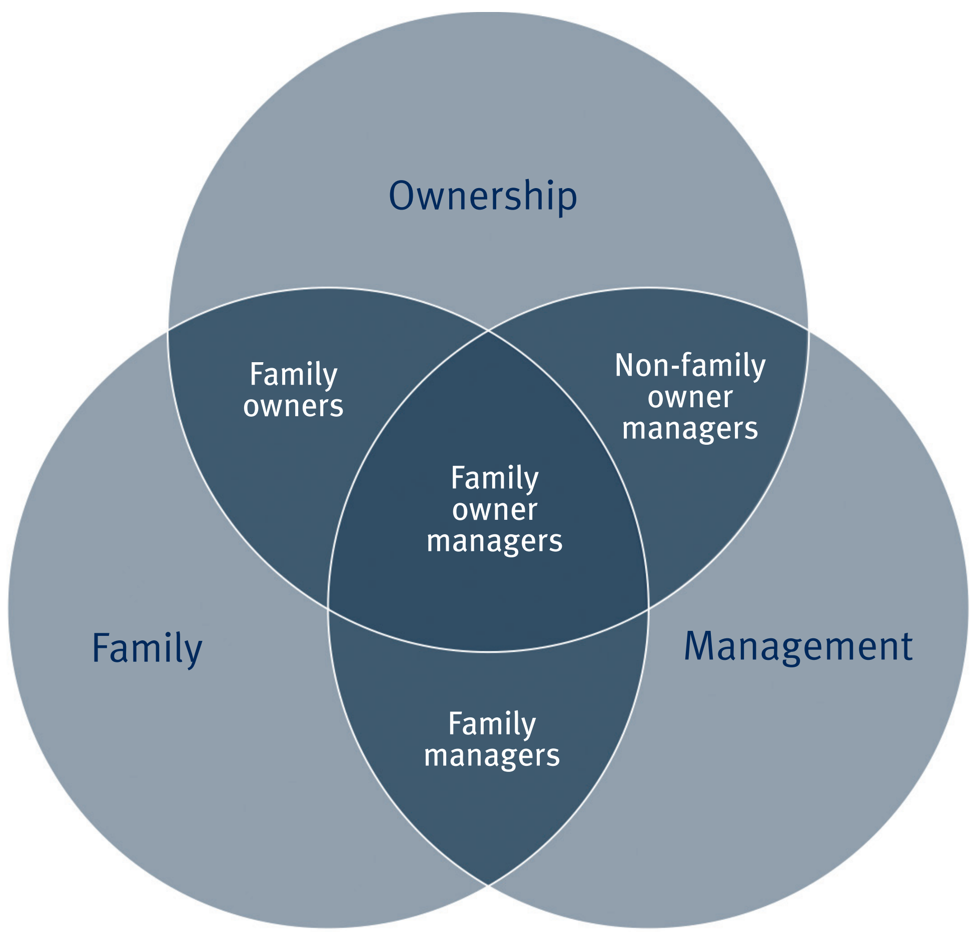
Let's face it, every member of the family may have his or her personal agendas depending on his or her circumstances – for instance being involved in the family business creates very different needs than when you were not involved. Likewise, having an ownership stake in the business can change your view on what the family business represents. The following three circle model[1] is a useful tool to map out differences in needs and views.

The three circles represent the three groups family members and non-family members can fit into. The circles overlap to illustrate that individuals can be part of several groups.

Once mapped, it should become clearer how different needs and views could exist depending on where a family member fits into the structure.

Harmony and family cohesion comes when the views of all family members are considered and respected...

1) Adapted from "Bivalent Attributes of the Family Firm" 1982 by Renato Taguiri and John A. Davis



To illustrate this point, consider the following conversation between a daughter who has wholeheartedly stepped into managing her family's business, ownership of which was left to her and her siblings after her father passed away.

Daughter: I understand why dad chose me to run the business. I showed the most interest in the business and became the most logical choice to lead the family business into the next generation. I have a vision to expand the business through strategic reinvestment of earnings. However I share the business with my brother and sister and I don't believe they would agree with my vision. Besides I would only be partially rewarded for my efforts and risk taking.

Family Advisor: *Why don't you explain to your brother and sister about the benefits of reinvesting in the business? After all, you can't expect the golden hen to continue laying golden eggs if you don't feed it once in awhile!*

Daughter: My brother and sister have different interests and to be honest, I'm sure they are really only interested in receiving as much income as possible from the business.

Family Advisor: *Well, I guess that is understandable, it is after all their legacy too. However, I still believe that they too could benefit from the short term pain of reinvestment in the form of future growth of income and a prolonged source of income from the business.*

Daughter: I wish I had the means to buy their shares and take total control of the business.

Family Advisor: *If you're really serious, speak to your bank but keep in mind this still requires a frank discussion with your family. Have you considered discussing with your family the concept of balancing a reasonable return to shareholders with the retention of sufficient funds to expand the business, albeit in a more conversative fashion? That way, everyone benefits in the long term.*

Daughter: It's a source of never-ending discussions over the merits of reinvestment. I wish I could find some way to formalize the discussions around this.

Family Advisor: *Perhaps it's time to consider setting up better channels of communication and what could be better than setting up regular family meetings. I think it's important that the others understand why family meetings are important, particularly to ensure that everyone shares a common vision for the business and not individual agendas that eventually hurts families.*

The discussion between the daughter and her advisor illustrates the dilemma family businesses face when trying to balance the long term interest of members who are part of management (i.e. family owner manager in the three circle model) with those who aren't involved but who have an ownership stake in the business (i.e. family owners in the model). Although her views seem reasonable, it is also equally important to hear the views of her siblings.

The next conversation illustrates a similar point to the previous conversation but this time from the perspective of the son (brother) who by choice or by circumstances is not involved in the business that is run by his sister.

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Family Advisor: *I recently spoke to your sister about her views on the future of the family business. You know, she is very passionate about the business that your parents built. She has very strong views on expansion and wants to reinvest more of the earnings back in the business. Her dilemma is that she doesn't believe you and your other sister share her view.*

Brother: Believe it or not, I'm not opposed to reinvesting back in the business. Don't forget I grew up in the business too and while I'm not involved now, I still have strong emotional ties to it. Why hasn't she ever brought this up to us?

Family Advisor: *I guess she always assumed you were only interested in what could be distributed from the business. I sense you and your sister do not discuss business affairs very often?*

Brother: The only time we discuss business matters is at the year end when my sister briefly presents to us the performance of the business and the proposed distribution to us. Quite frankly, I'd like to know more about what's happening in the business and there have been occasions when I've been frustrated by the lack of information. That said, I don't want to have any issues with my sister and I feel if I insisted on more information, it could strain our relationship.

Family Advisor: *Yes, I think it's important that there should be more transparency. Not only could the lack of transparency breed distrust, it's could also lead to less than optimal decisions. It's also difficult for an advisor like me to advise the family when I don't have all the pieces. I think its time we agree to regular family meetings. There will be formal agendas and if you and the rest agree, I can chair the meetings.*

Brother: I'm glad you are reaching out to us. I don't mind saying that I have enjoyed whatever I've received from the business but I may like to pursue other things in life. I haven't brought this up but perhaps it's time that as a family we lay all our concerns and wishes out. I am a little apprehensive about doing so, but I think it would help if we have an outsider facilitator like you managing the meetings.

The second conversation illustrates that although a family member involved in the business may feel they are working for the rest of the family, a family member outside the business may develop a feeling of exclusion that later could turn to resentment. Developing regular family communication habits is one important way to guard against misunderstanding and distrust that are often seen as part of family businesses.

There are certain steps a family can implement to achieve open and trustful communications:

- Bring family members together to consider all possible options and consequences of a particular decision.
- Always keep the door open to unpopular opinions.
- Bring an outside facilitator to initiate and lead the process. This leads to more efficient and objective discussions.
- Create a commonly agreed upon code of conduct for family meetings that will help keep discussions on lower emotional grounds.

Family meetings are more effective when properly planned with agendas tailored to the family's circumstances. The three common agendas that concern family succession are summarized as follows:

Participation

- What is the prerequisite education and experience to joining the family business?
- When can family members join and is it a privilege or an entitlement?
- What are the roles and responsibilities of each family member in the business?
- How is compensation set for family members?
- How is performance evaluation performed?
- Can and how are family members terminated?

Succession and Ownership

- Who will take over leadership of the business?
- At what point are family members eligible for ownership participation?
- How will ownership transition to the successive generation?
- Is ownership transferred or sold?
- Can the business be divided amongst the next generation?
- What are the exit rules and how is price set?

Governance

- What are the family's guiding principles and are they reflected in our family mission statement?
- Should we have a family participation agreement?
- How often are family meetings and who can call one?
- What should be included in a shareholders' agreement?
- How are conflicts and objections resolved?
- Should we have external members in the board of directors?

A more comprehensive list of family meeting agenda items is set out in Appendix 1.

Contingency planning

Successful businesses succeed not because their owners are lucky to avoid disasters but because they were prepared for unplanned events.

Contingency planning, or planning for the unexpected, is an integral part of business planning and is used to protect business owners from unexpected disastrous events.

Business owners can implement strategic planning for the unexpected. The degree or level of contingency planning is the amount of risk exposure an owner is willing to accept should the unexpected occur.

Some of the key components of a properly structured contingency plan are as follows:

Leadership succession

It is not financially feasible for small or start-up businesses to have adequate leadership ready to take over if the owner isn't able to lead. However, as businesses grow, the ability to reduce leadership concentration increases as well. Grooming your successor(s) and having a broad management team that can eventually function autonomously with minimal input from the owner not only mitigates its operational risk but can also significantly increase the value of the business. Steps should be taken to keep your key employees compensated appropriately and engaged.

Updated Will and estate planning

An owner's Will and estate plan should be up to date and consistent with and support his/her business succession plan. If the owner were to pass away prematurely without proper planning and communication, there could be a dispute between the children on who steps into the leadership position.

Death unfortunately is often a tax-triggering event and could put a family in the position of an untimely sale of assets to fund tax liabilities.

Life insurance for liquidity protection

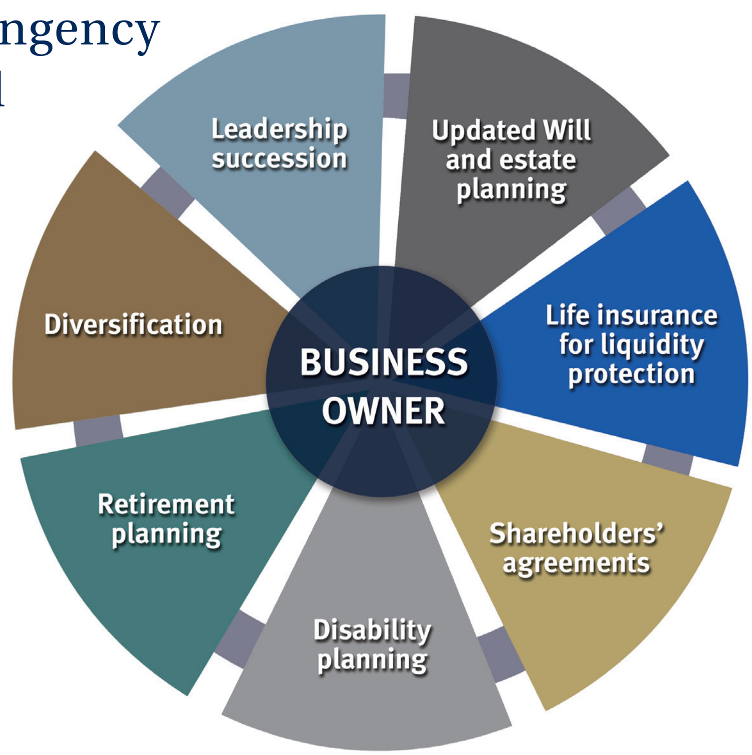
Death, unfortunately, is often a tax-triggering event and could put a family in the position of an untimely sale of assets to fund tax liabilities. Life insurance protects against this liquidity call and also ensures that shareholders and estates don't awkwardly continue jointly owning the business. One could also consider estate freeze planning to limit the owner's taxes at death.

Shareholders' agreements

This agreement governs the business relationship between shareholders. Three key areas that the agreement should cover are:

- Voting and other control provisions
- Buy and sell options between shareholders
- The entry of new shareholders, including children, into the business.

Contingency wheel



Disability planning

It's important to create a management team that is aware of the critical functions of the business and who can effectively cover the owner's responsibilities if the owner is disabled or incapacitated. It is also important to have an updated Power of Attorney and appropriate disability and critical illness insurance coverage.

Retirement planning

Protecting the value of the business ultimately protects the wealth the owner has built in the business. However, the risk exposure represented by the business means that wealth is far from assured in the long term. This risk can be mitigated by a well structured retirement plan. Consider having a written financial plan prepared to start the process.

Diversification

Many business owners have all their wealth tied up in one asset – their business. Unexpected economic or industry downturns can dramatically impact the owner's wealth and future lifestyle. During good times when the business is growing and is profitable, consider "taking some money off the table" and diversify into other non-business assets (i.e. marketable securities, real estate, life insurance, etc).

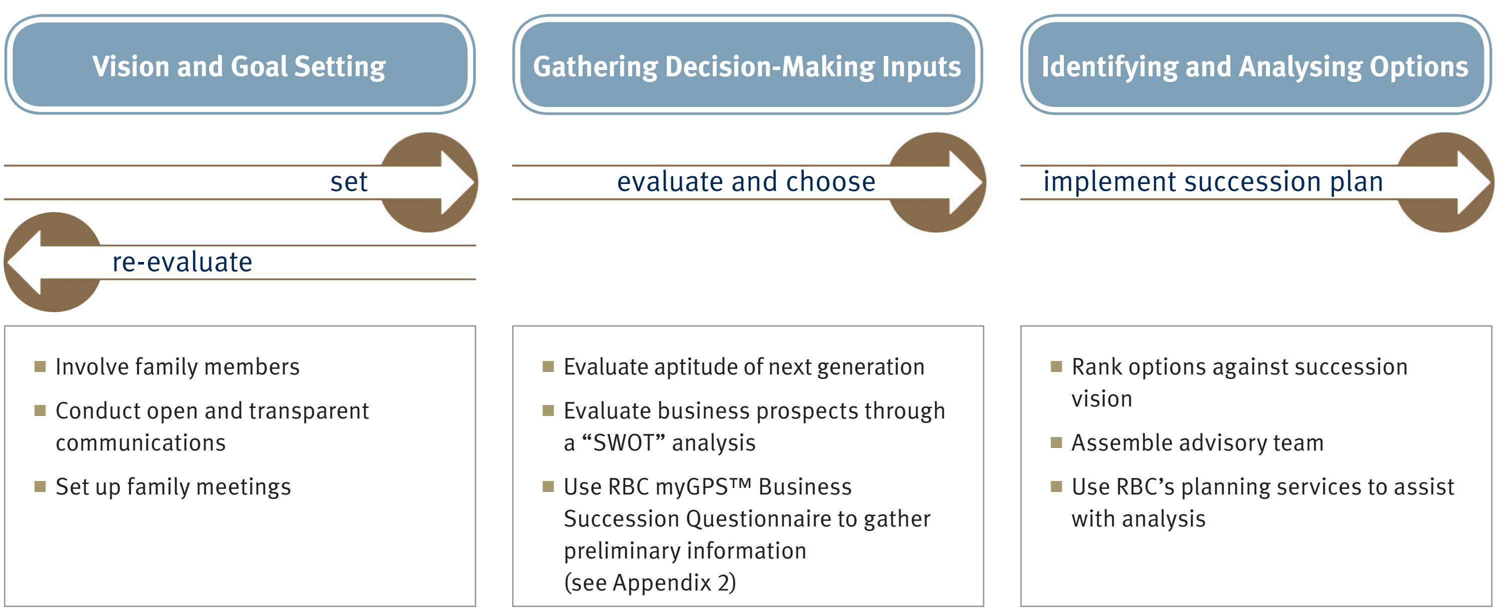
Families should openly discuss these risks and contingencies to be properly prepared. These business issues can become family issues very quickly. ■

How do I start?

> "He who fails to plan is planning to fail." *Winston Churchill*

We have addressed some of the more common topics that business owners and their families face when contemplating their succession. Ideally, addressing these issues should happen in an organized planning framework. One of the main reasons owners inadequately plan their succession is the absence of this framework to which they can follow and refer to. Starting with a framework ensures that important aspects of family business are properly addressed. It also inspires commitment from the family once they see the big picture of what is planned.

The following diagram illustrates a process to start your succession planning.



How do I start? continued from previous page

- The framework breaks out the planning into three distinct yet closely related steps.
- The first step speaks to understanding your goals through inclusive inter-generational discussions, something that has been emphasized throughout this report. Family (business) meetings are an effective medium to conduct these discussions.
- Use clear and defined goals to act as your compass to what you (your family) hope to achieve with the family business. Goals start as general statements and evolve as you better understand your personal, family and business circumstances.
- For gathering preliminary information that is relevant to your planning, the RBC myGPS™ Business Owner Questionnaire lists five questions you should ask yourself when contemplating your succession – see Appendix 2. Not only does the questionnaire act as a reference of information you will have to gather for your succession plan, but more importantly, to provoke you to think about your goals.
- We discussed earlier in this report the importance of achieving a balance between family and business goals. Understanding how realistic these goals are is gained through an evaluation of both family and business in terms of their strengths, weaknesses, opportunities and threats analysis (the acronym "SWOT" is often used). Included in this report – Appendix 3 – is a checklist of common issues that a SWOT analysis should address.
- The feedback gained from the family and business evaluation should assist you to (i) refine your goals and (ii) identify succession options that you and family could consider.
- We recommend that you use your trusted advisors to evaluate each option based on its merits and risks/disadvantages as it affects the family.
- This process of evaluating each identified succession option is an iterative process between goal setting and choice of succession path. Evaluations should reflect material changes in family and business situations as they occur.
- Do not rush your planning and give yourself plenty of time to plan. Just like you need to create a thorough plan to get into a business, you shouldn't rush your exit plan. We recommend giving yourself three to five years to plan when and how you'll exit. You'll need that time to set your vision and goals, to properly develop important inputs that could influence your succession, and to evaluate and choose your succession path.

Your RBC advisor's role

RBC works with clients and their independent legal or tax advisors to help achieve objectives and maximize overall wealth. Our specialized financial advice includes estate planning solutions, succession planning from a business and personal perspective, borrowing and credit, cash management, wealth management, investment management, financial planning, personal retirement planning, trustee service, philanthropy and insurance. Please contact your RBC advisor for more information or visit http://www.rbcwealthmanagement.com/canada.html for an introduction to an RBC advisor.

The difference between a vision and goals

Defining your vision for the future and developing your succession goals are effective ways to ensure your succession plans are achieved. Your succession vision articulates how you see yourself, your family and your business in the future. Your goals are measurable targets towards achieving your vision.

Your goals should be aligned with and support your vision. For example, your vision might be to reward your employees for their years of support and dedication by ensuring their financial and job security with long term employment. Your goal in support of that vision would be to sell your business to a new owner committed to continuing to treat employees the same way.

Conclusion

Business owners and entrepreneurs are so passionately attached to the business they have created, bought, or inherited that it's hard to envision ever selling it or leaving it in someone else's hands. This report highlights important examples of the challenges that come with the succession planning process, but the glass is half full, not half empty.

While the process may trigger conflict, it can also boost family alignment around common goals. Also, while the dynamics in some families may conflict with their business's well-being, other families can be a great source of strength to their business.

One common concern is how to maintain family harmony during the process. The "soft" (non-technical) aspects account for two-thirds of the success of a smooth business transition from one generation to the next. The keys include insightful personal reflection and fostering family discussion at an early stage.

The planning process will take time and effort, and involve many stakeholders besides the next generation, but the outcome will eventually be well accepted and a cause for lasting pride.

Deciding whether to pass on the business to the children is another important question. There are actually two aspects that can be passed on: ownership and management. Children may choose to remain responsible and proud owners while talented external managers are selected to run the business. Or the children could own and run the business. Will transitioning the business to other family members create more value than selling it? Judge by criteria that include not only financial value but also emotional capital and a family legacy. The ability and desire to ask this question is what differentiates family business leaders from entrepreneurs.

The most fundamental question is when and how to start planning the exit from a business. For "when," it's never too early to start the thought process. For "how," this report has outlined a range of options. We have included a framework for open, inclusive communication that starts you along the path towards succession and hopefully sets you, your business, and your family up for success.

Appendix 1

Family business meeting agendas

Ground rules

- Attendance
- Chair and facilitator of the meetings
- Conduct and communication policies
- Conflict resolution policies
- Confidentiality policies

Family business vision

- Preservation of traditions and family values
- Family Mission Statement
- Family support policies – financial and non-financial

Succession

- Leadership succession
- Ownership succession
- Successor grooming

Family employment policies

- Education and experience requirements
- Family compensation policies
- Work-life balance

Ownership policies

- Criteria
- Prenuptial agreements
- Exit and sale of ownership

Business updates

- Business results and performance trends
- New business ventures and expansion opportunities
- Budgets, including major capital expenditure

Distribution policies

- Entitlement policies
- Minimum and maximum distributions
- Responsible wealth planning

Community responsibilities

- Charity and foundations
- Supporting local community events
- Preservation of good public image
- Social media policies

Contingency planning

- Alternate leadership (and for other key roles)
- Insurance coverage for key management and shareholders
- Business continuity policies

Critical family business agreements

- Drafting and updating of shareholders agreement

Appendix 2

myGPS™

BUSINESS OWNER QUESTIONNAIRE

RBC Wealth Management

Company Name	
Description	*(Include a brief description of the business including such things as its purpose, business segment, relevant history, significant upcoming events, current challenges...)*

1. How do you own your business?

a) Is your business incorporated?	☐ Yes ☐ No
b) Do you and/or your spouse own 100% of your business directly or indirectly (e.g. through a Holding Company or Trust)?	☐ Yes ☐ No
c) If you and/or your spouse do not own 100% of your business directly or indirectly, who is ownership shared with? *(check all that apply)*	☐ Children ☐ Other family members ☐ Unrelated partner(s)
d) Is there a Holding Company as part of your business structure?	☐ Yes ☐ No
e) Is there a Family Trust as part of your business structure?	☐ Yes ☐ No
f) Have you done an estate freeze of your shares?	☐ Yes ☐ No ☐ I don't know

2. Do you know what your business is worth?

a) What is the estimated value of your business?	☐ Under \$500,000 ☐ \$500,000 – \$1MM ☐ \$1MM – \$5MM ☐ \$5MM – \$10MM ☐ Over \$10MM
b) Do you have a current business valuation?	☐ Yes ☐ No
c) Does your business value include real estate?	☐ Yes ☐ No
d) What is the estimated annual profit of your business?	☐ Under \$200,000 ☐ \$200,000 – \$500,000 ☐ \$500,000 – \$1MM ☐ Over \$1MM

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myGPS™ BUSINESS OWNER QUESTIONNAIRE

3. What happens if there is an unexpected tragedy?

a) Do you have an up-to-date Will that ensures your business is left to those that you choose?		☐ Yes ☐ No
b) Do you have a Shareholder's/Partnership Agreement?		☐ Yes ☐ No
c) Do you have life insurance coverage? *(check all that apply)*	☐ Owned personally ☐ Owned by business ☐ Group plan	☐ Yes ☐ No
d) Do you have critical illness insurance coverage? *(check all that apply)*	☐ Owned personally ☐ Owned by business ☐ Group plan	☐ Yes ☐ No
e) Do you have disability insurance coverage)? *(check all that apply)*	☐ Owned personally ☐ Owned by business ☐ Group plan	☐ Yes ☐ No

4. Have you considered your exit options?

a) When would you like to exit your business?	☐ Within 1 year ☐ Within 5 years ☐ Within 10 years ☐ After 10 years ☐ Not yet decided
b) Who will you transition your business to?	☐ Children (equal interest amongst all children) ☐ Children (disproportionate interest amongst children) ☐ Your business partner ☐ Management ☐ Key employee ☐ Third party buyer ☐ Wind down ☐ Not yet decided

5. What does your retirement look like?

a) Do you have a financial plan?	☐ Yes ☐ No ☐ I don't know
b) Do you plan to stay involved in the business after transition?	☐ Yes –temporarily ☐ Yes – ongoing ☐ No ☐ Not yet decided

Appendix 3

Strengths, weaknesses, opportunities and threats analysis

A useful tool to gauge your business' future viability is a strengths, weaknesses, opportunities and threats ("SWOT") analysis.

Strengths and weaknesses are internal analysis whereas opportunities and threats are external factors. The internal analysis addresses the question, "how good are we?" and the external analysis addresses the question, "can we survive out there?" Sometimes identifying strengths and weaknesses could lead to identifying opportunities and threats.

This is not intended to be an exhaustive checklist of areas to address but only critical areas that could have important implications on your succession planning.

Internal factors

Strengths	Weaknesses
1. Established and respected reputation	1. Dependence on owners or key staff
2. Young, driven and reasonably experienced management	2. Concentration in customer and supplier base
3. Exclusive access to critical supplies	3. Concentration in product base
4. Savvy marketing team	4. Poor leadership in terms of unfocused and distracted management team
5. "Sticky" and returning customer base	5. History of legal and other disputes
6. Strong internal systems	6. Obsolete (old) production facilities
7. Contracts, licences and patents that limit competition	7. Poor working capital management (high inventory and slow collections)
8. Strong "R&D" culture	8. Obsolete product range
9. Accreditations	9. Poor relationship with employees/union
10. Strong financial position	10. Distance to market

External factors

Opportunities	Threats
1. New technology	1. Rising domestic and foreign competition
2. New geographical markets	2. Changing (adverse) government policies
3. New product lines	3. Rising cost of supplies
4. Complacent competitors	4. Fast pace of technological changes
5. First to market	5. Changes in exchange rate
6. Shifting demographics that prompt stronger demand	6. Industry with low barrier to entry
7. Lower trade barriers in target markets	7. Changes in customer trends and depleting demand
8. Expansion through acquisitions	8. Volatile commodity prices
9. New source of affordable funding	9. Season and weather effect
10. Natural events that create new demand	10. Economic downturns

Wealth Management