5e lesson plan template

A business succession plan includes step-by-step instructions setting out procedures in case a key entrepreneur or employee leaves the company. Our succession planning model helps entrepreneurs answer questions such as who will take control of the company, how long it takes, and what standard operating procedures need to be transmitted. There are five common steps involved in succession planning: Download Succession Planning Template Click below to download our succession plan template such as DOCX or PDF: Downloading as PDF Download as DOCX How Succession Planning Works Succession planning is the set of standard events, timelines, and operating procedures established before a change of ownership in a business. Entrepreneurs can create a succession plan in different ways, including by following this succession planning model, as well as engaging a professional experienced in the process. Who should create a succession plan? Any entrepreneur with a thriving 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 a critical tool in the event of premature death or illness. A properly constructed succession plan acts as a will for your business, ensuring that the best interests of the company are executed. When to create a succession plan Business owners wondering when to use this succession planning template to create a plan may wonder when to start. Just like a personal will, the answer depends on a variety of factors, but generally comes down as soon as possible. Creating a succession plan takes time and effort, and answering questions accurately is not easy. For this reason, many entrepreneurs begin to plan succession at least five or six years before a transition. The creation of a succession plan should be considered a contingency in the event of death, illness or other circumstances that create an unexpected need for transition. Probate planning resources Finding probate planning assistance can mean working with the current accounting firm (as long as they have experience in helping develop succession plans). The amount of help you need will likely scale up with the urgency of your succession planning needs, as well as with the size and complexity of the business. Consider bringing a temporary accounting and finance professional or hiring an accounting firm to assist you. Some resources you can leverage to in succession planning are: PwC As one of the Big Four in the accounting industry, PricewaterhouseCoopers (now doing business like PwC) is a company with extensive experience in succession planning. The company's self-described focus on small private businesses minimizes the risk of becoming just another number and means that it commonly deals with sort of obstacles you'll encounter. SCORE SCORE, the nation's largest network that provides mentoring to small businesses, has developed a quick guide to succession planning. The real value is that small business owners can apply to be paired with mentors who offer their assistance on a voluntary basis. For entrepreneurs who need simple help with succession planning, this option deserves to be considered. Owners of small local accounting firms may consider working with a local accountant (provided the accountant is experienced in succession planning). Entrepreneurs who choose this route can ask around in their personal network, tap into the local chamber of commerce or other local business support groups, or look for a certified public accountant in the directory provided by the American Institute of Certified Public Accountants. The five steps to write a succession plan Writing a succession plan can be a daunting task. In fact, many entrepreneurs postpone it because they are not ready to face the complexities. We've reduced the process to five simple steps to direct you along the way, including choosing your successor and determining whether to sell your business using life insurance, acquisition loan, or other methods. The five common steps to prepare a business succession plan template are: 1. Succession timeline There are two key types of succession plans: an exit succession plan and a succession plan for deaths or accidents. You may want to write a death or accident succession plan well in advance of when you think you need it to protect your business and successors in the event of unforeseen events. An exit succession plan must be written when you have a specific plan to transfer ownership of the small business. The two most common types of succession plans are: Exit succession plan: A plan to transfer ownership to a specific date, for example at retirement time. Death or injury succession plan: a plan for your business in case of death or disability. While an injury plan should be considered at any age, an exit succession plan should be written when you are within several years of retirement or otherwise want to leave the business. When you write an exit succession plan, you must have a specific date on which you want to transfer the business and indicate whether you will remain involved in the corporate post-succession or prefer a clean separation. Tip In the succession planning model, answer all questions in the first section. If you're writing this succession plan to exit your business on a given note, fill out all the remaining details, including the expected transition time. 2. Determining your successor A very important aspect of drafting a succession plan is choosing who will take control of the company. Many entrepreneurs plan to have a family member, such as a child, child, in the course of the business. Other common choices include a business partner or key employee in the company. And, of course, an outside buyer is always a possibility. The common successors that entrepreneurs choose are: Co-owners Family members Key employees External Buyers Choosing a successor can be difficult and requires you to consider 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 entrepreneurs choose instead to sell the company and provide a cash inheritance for their family. Template Tip Consider profiling for at least three potential candidates. This will give you a good preliminary comparison between skill and everyone's experience. Even if you're already set to a candidate, you might want to have a backup plan in case the person leaves your business or doesn't want to become an owner. 3. Formalise standard operating procedures (SOPs) As a small business owner, you need to understand the importance of registering and formalizing daily functions. Standard operating procedures must be documented for managers and employees to be referenced, as well as for any future owners of the company. Important items to document can include a daily checklist of opening and closing procedures, training for new employees, and a performance management system. SOPs vary from business to business, but often include the following elements: Common standard operating procedures Although they are not required, many companies include standard operating procedures when writing the initial business plan and regularly updating them 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 cope with growth and change. Template Tip In our succession plan template, we've provided a checklist for these items: Don't hesitate to add or remove them if needed. When you have completed an updated document, attach it to the succession plan and select it from the list. 4. Appreciate your business Understanding the value of your business should take place in advance and regularly. It is a pity that many entrepreneurs tend to overestimate their business, and these misvaluations can lead to financial errors when planning their pension. There are several ways to determine the value of your business, from using a simple business valuation calculator to providing a to follow more advanced methods on how to evaluate a company, as well as hire a professional expert. You can also use a company that offers business valuation services, such as BizEquity or Guidant Financial. Model tip A good practice is to consider the lowest company price of the company sell for. When the company is finally listed for sale, it may take a long time to find a buyer willing to pay the asking price. The succession plan should provide provisions on how long to wait before lowering the price, how much to lower the price and the lowest acceptable offer. 5. Fund your succession plan Few buyers out there have enough cash to pay for your business upfront. This is why each succession plan needs a specific plan for how the buyer will make the purchase, whether it's loans, accrual payments, or other options. The last thing you want is to reach your retirement date, or trigger the event, and find that your chosen successor has no way to afford your business. This is also why your financing plan will often need a buy-to-sell agreement. This is a legal document in which the buyer accepts a specific course of action (such as the disapplication of a loan or life insurance policy) in order to afford the purchase. Once you've established a specific financing method, make sure you meet a legal professional to draft your purchase-sale contract. Common Succession Plan Funding Options Here are the most common ways succession plans are funded: Life insurance Most commonly used when a family member or co-owner is taking over the business, a life insurance policy can help your successor buy the business from you or your heirs. Contrary to what it sounds like, life insurance is not only used in the event of premature death. Permanent life insurance creates a cash value that can be withdrawn at any time, so it can also be used in case of retirement, disability or any other triggering event. Life insurance agreements are common in family inheritances, especially when you can have multiple children, but only one is taking control of the company. With the successor chosen as the beneficiary, a life insurance payment can allow them to buy shares from the other children, thus leaving everyone with compensation and a financial guarantee. Acquisition loan An acquisition loan is money borrowed from the buyer to buy the company. This is common when a key employee or external party is taking control and they need some funding to afford the purchase. Buyers can typically get 70% to 80% of the purchase price funded by a bank or small business administration (SBA), which is great news for sellers want to be paid in advance. Acquisition loans are secured against the company's future profits. While this makes them a generally reliable option, it also means some work for the seller. Before purchasing, you'll need to provide plenty of details about your bank due diligence business. Again, however, the loan is not guaranteed. Pre-approval can provide some security, but it should be submitted regularly (every six to 12 months) until the transfer date or or Event. Seller financing is when the buyer gradually pays you back over time. This is one of the easiest and most flexible arrangements, as the owner and buyer of the company can establish whatever conditions they like. Most agreements result in a down payment of 10% or more, followed by monthly or quarterly payments with interest until the purchase is fully paid. Again, however, the exact terms can vary greatly. The main disadvantage of seller financing is the time it takes to get paid. Especially if you rely on the sale to fund your pension, a 20-year period may be less than ideal. However, given the flexibility of seller financing, it may be possible to find an agreement that works for everyone. Business Succession Planning Tips From Professionals We asked industry experts in succession planning to provide some tips for entrepreneurs thinking about creating a succession plan. Choosing the right successor is a key step, as is ensuring realistic expectations throughout the process. Many entrepreneurs also wonder whether they should consider creating a succession plan. Some tips when creating a business succession plan are: Most companies don't have a formal business succession plan and never expect it to be necessary. The most common mistake made by business owners is that they store and store information only for themselves. These can be signer rights, passwords, logins, or key phrases. Review your business succession plan every six months and every time a critical employee leaves the company. The biggest mistake small business owners make in their succession plans (as well as not having them) is having unrealistic expectations. Firstly, entrepreneurs regularly have an unrealistic conception of the value of their business. It is their child, and they have an emotional connection with it, but this connection cannot be established in a profit and loss account. Secondly, data from the Family Business Institute showed that 88% of small business owners believe that transferring the business to their children is a viable probate option. The reality is that only 30% of small businesses will switch to a second generation and only 12% to a third generation. Having a business succession plan becomes more important if your business has valuable assets or has employees. If you only run your business with yourself and no business assets, the downsides of not having a plan may be smaller. If you have employees, consider who able to make payments to those employees and who will continue operations after your death. Machinery, equipment, materials, intellectual property, and customer listings can all be valuable assets— the brand and reputation associated with your business— that can disappear if you don't have a plan to manage those resources. One of the most mistakes that entrepreneurs make in success planning fail to review their plan regularly. Time changes many things, and for your succession plan to be effective, it needs to be reviewed regularly and updated to reflect any changes. These could be business changes, tax law updates, changes in valuation, or new industry developments, among other things. For family businesses, you'll also need to consider aspects like changing family dynamics: Do all members have the same desire for what to do in the future or are they all still key players with the company? It is essential that entrepreneurs update and adapt their business plan to reflect changes like these. In conclusion Often, the hardest part of succession planning is answering difficult questions. What unforeseen events should you prepare for? Who will take control of your business? How will you compensate yourself, your spouse or your children? You can answer these questions with the help of our succession planning model. You may also want to engage legal or financial experts with experience in succession planning. Planning.