Introduction

Succession Planning

Succession planning is a process through which an enterprise prepares for and implements the transition of responsibilities and the transference of ownership of its business. It is one of the most important business issues of the next decade.

In the 2000 edition of his national best-selling book *Boom, Bust & Echo*, David K. Foot declared that “the passage of the boomers into their 50’s is having profound effects on the social and economic life of Canada.” This generation “started to retire in 2009 and will do so gradually over the ensuing twenty years”.

As they retire, this dominant and aging group in our society is beginning to have an impact on many aspects of our economy, including the small- and medium-sized enterprise (SME) sector, a group in which most privately-owned businesses would qualify for membership. This sector is important to Canada’s economic prosperity and employs a majority of Canadians in the national workforce.

Research studies published in 2005, one by the Canadian Federation of Independent Business (CFIB) and another by CIBC World Markets Inc., and a survey conducted by Scotiabank in 2009, highlight the succession and retirement plans and aspirations of SME owners and Canadian entrepreneurs.

The CFIB study indicates that only a third of SME owners are planning for their succession and the majority of those that do have plans are informal – that is, the plans are not written down. This situation is described as alarming because 41% of SME owners intend to exit their business within the next five years.

Similarly, the CIBC study shows that the number of small business owners nearing retirement (age 55 to 64) is growing rapidly at a rate of 7.5% annually from the year 2000. It was estimated that by 2010, $1.2 trillion in Canadian business assets will have changed hands. This represents “the largest turnover of economic control in generations.” The demographic realities of the Canadian population suggest that “succession planning is increasingly becoming a critical issue.” Yet almost one in three SME owners do not even know when they plan to retire.

The more recent Scotiabank survey reconfirms the lack of planning on the part of SME owners for their exit from their business. The survey found:

- “Only 25% of small business owners have a succession plan as part of their business plan.”
- “About 50% of owners do not know the value of their business.”
- “One-third of small business owners have not decided how to transition themselves out of their business (whether to sell to a third party, close down, or pass to a family member).”
• “Just under half do not have a professional advisor (lawyer, accountant, financial planner, small business advisor) guiding them on succession.”

Significance

Many owners of independent insurance brokerages will be represented in the trends identified in the research studies noted above. The brokerage is a significant asset to the overall net worth of its owner/manager. The after-tax proceeds from the sale of a brokerage are an important source of retirement funding. As such, succession planning should be a priority consideration.

Process

In general terms, effective succession planning includes what Michael E. Gerber referred to in his book *The E Myth Revisited* as “systematizing your business so it works without you.” Put another way; implement a plan to develop your business so that its operations are not dependent on the personal relationships or goodwill of the founding principal(s). Rather, future profits and related value are represented by the various components and functions of the business itself. This is what is known as commercial goodwill.

When Do You Start

Any plan for succession should be developed and implemented as far in advance of retirement as possible to ensure a financially secure and worry-free retirement.

The Succession Planning Template

This book will guide you in the design and implementation of an effective succession plan for your business. It systematizes the planning process and provides practical advice and templates to assist in developing your unique plan. All templates and forms included in the text are enclosed with the book on a CD. The templates are in Microsoft Excel format and can be customized and stored on your computer.

All material contained in *The Succession Planning Template* is based on CW Consulting staff’s practical experience in advising clients over the past 25 years in “how to” seminars and hands-on coaching sessions for groups and individual owners.
ACTION ITEM: Create a Succession Plan to fit the circumstances of the brokerage.

PLANNING NOTES/SUMMARY: 

______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________

Name: Management and Key Staff

Date Started: _____________  Completion Date: ________________

Status: _____________________________________________________________

RESOURCES REQUIRED:

Training: ______________________  HR: ______________________

Time: ______________________  Money: ______________________

Authorized by: _______________________(President)

Agreed to by: _______________________(Employee Responsible)
2.3 Prepare a Business Continuity Plan (BCP)

95% of owner-operated businesses do not have a disaster recovery plan and need one.

There are more than 300 types of disasters that can interrupt your business. Insurance professionals know many of these interruptions are uninsurable. Without a business continuity plan (BCP), downtime can be considerable and, worse yet, market share may never be fully recovered after a serious loss. Business continuity plans are an important component of a good succession plan and should be in place well before the plan to transfer ownership and responsibilities.

A business recovery plan addresses the steps that must be taken to assure financial survival and a timely and cost effective return to business. Building a plan takes a little time, requires a thoughtful look at the entire organization and what the future may hold if one of the more than 300 disasters strikes. A good plan is a living document, evolving as the world around you changes. It is kept current by constant testing.

In creating a business recovery plan, it is important to think in terms of a worst-case scenario. The maximum financial loss that an organization can absorb and still endure must be quantified. Once a plan for the worst case has been developed, it can be easily adjusted when a smaller catastrophe occurs.

For example, a good BCP should include detailed activities for all of the following:

- A Business Resumption Team
- IT Coordinator
- External Communications
- Move Coordinator
- Salvage Coordinator
- Security Coordinator
- Customer Services Coordinator
- Environmental Coordinator
- Privacy Compliance Officer

Business recovery planning takes the commitment of executive officers. A good plan demands time, internal resources and potentially money for external resources. Senior executives must make it a priority or it will never get done. An effective plan also considers the input of major shareholders. Strategic thinking is required – something the individuals responsible for the corporation’s bottom line do best.

Business continuity planning contains the same elements regardless of the nature of the business, but insurance brokers are luckier than most. Immediate cash flow is rarely affected by a large physical loss. However, there are many issues that will hurt profitability and certainly cause unnecessary frustration and consume valuable time.

In preparing a continuity plan, brokers are asked to plan for many different things. One example is the loss of their existing phone system. In Canada several of our clients found that restoring service could take up to six weeks. A properly developed plan would identify that problem and find an alternate strategy to keep the replacement time as short as possible.
Another example of a challenge is relocating as a result of a physical loss. In this situation, brokers must have a wide range of information at their fingertips to ensure their realtor or leasing agent can quickly understand their needs. Without a plan, brokers will opt to recreate exactly what they have just to speed the recovery process. This, of course, is a mistake as virtually every office in Canada would benefit from a better layout, more or less space, better positioning of technology, and a host of other small details. A continuity plan forces brokers to give some consideration to this prior to suffering a loss, making their choices during a recovery better for the future.

A continuity plan also requires sustaining ongoing service to clients. Brokers faced with a major interruption as a result of a pandemic or fire or any of the hundreds of disasters that can affect business must worry about continuing to serve customers, particularly clients with needs like bid bonds, certificates or claims. How will you continue to take care of your accounts?

Probably the one area most brokers feel well prepared in is IT (Information Technology) recovery. Yet, we find the majority of clients are not nearly as squared away as they think they are. Take, for example, clients who have chosen a backup site in the U.S., a nightmare if borders are closed as a result of international security issues. What about brokers who have trusted a small local supplier with their recovery, only to discover the supplier is seriously understaffed or affected by the same problem? Of course, it is hard to believe, but there are still many offices that fail to test their backup tapes, keep accurate administration passwords, take tapes off-site, or worse: allow tapes to go off-site to an unsecured location such as an employee’s home. Building a continuity plan helps ensure you won’t be caught with key weaknesses in your IT plans.

The research required to check on the availability of various services from phones and IT to alternate sources of heat takes time. Building a good plan requires up to four months and requires a review of all aspects of operations. The plan is best put together using a template such as The Crisis Tool (see crisistool.com) to make sure no critical areas are missed. The job is easier if shared among several staff members and a workable plan will never really be finished. It must continue to be a living document, changing as your business changes. The best way to keep a plan current and viable is by frequent testing of each of the critical areas.

In an ideal world a broker would recognize the need for a BCP, make it a priority, give someone in the brokerage the power and authority to fashion it, then implement annual testing to maintain viability.

Template 2.2: Business Continuity Planning Checklist was developed to assist brokers with their BCPs.
<p>| | | |</p>
<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Template 2.2: Business Continuity Planning Checklist</strong></td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>
| **17.** | Does your communications plan address the needs of employees and their families? What about:  
- Customers  
- Insurance companies  
- Financial partners; investors, shareholders, bankers, etc.  
- Regulators  
- Media |   |   |
| **18.** | Have you an alternate arrangement to continue to meet your client needs in the event of an interruption?  
How will you issue bonds, auto liability cards, certificates, coverholder notes, etc.? |   |   |
| **19.** | Have you identified what services your customers can wait for and for how long? |   |   |
| **20.** | Do you have key customers identified and a team in place to communicate with them? |   |   |
| **21.** | Is there a logistics plan to provide guidelines in the event of a short-term or long-term relocation? |   |   |
| **22.** | Have preferred suppliers, such as moving companies, real estate agents, etc., been identified? |   |   |
| **23.** | Have you specified the requirements for a replacement property, including square footage? |   |   |
| **24.** | Have you created demographic information to allow the best selection in alternate locations? |   |   |
| **25.** | Have you identified a privacy officer to ensure you continue to meet the guidelines during a period of disruption? |   |   |
| **26.** | Have your IT suppliers been identified and availability of critical equipment been established? |   |   |
| **27.** | Is there a plan to re-route mail and couriers to the new location? |   |   |
| **28.** | Is there a plan to maintain security at the damaged location and at any new location? |   |   |
| **29.** | Is there a protocol to identify supplies and equipment that are salvageable? |   |   |
| **30.** | Has a preferred restoration contractor been pre-qualified? |   |   |
| **31.** | Is there an environmental response action plan? |   |   |
| **32.** | Have key government and regulatory contacts been determined? |   |   |
| **33.** | Is there a Damage Assessment Team to quantify the extent of damage and authorize implementation of the plan? |   |   |