# Preparing for the transition

As business owners plan their exit, they should ensure that all of their constituents are informed and prepared for the transition of the business.

The constituents typically include members of their family, the management team, current employees, customers and suppliers. The foundation of a smooth transition is open communication. Bringing up the idea early helps prepare everyone for change and allows them to address concerns, risks or identify issues that may arise later. In addition to open communication, there are some other strategies to consider.

## Management succession plan

A management succession plan is the best way to prepare the management team and current employees for a transition. This plan ensures that there is a smooth transition of power and leadership within the business. It ensures business stability and continuity, builds confidence in suppliers and investors, boosts workforce morale, incentivizes the best employees to stay and increases the overall value of the business.

**A few things should be considered when preparing a management succession plan.**

- Document formal job descriptions for each of the key positions in the company.
- Identify individuals within the company who have the skills and attributes to grow into leadership roles.
- Note the gaps in knowledge of prospective leaders and plan for ways to bridge those gaps.
- Communicate the plan to people within the business, lawyers, accountants and other professional advisors.

With a plan in place, your business will experience a smoother transition as you exit from the business.

## Business valuation

Many business owners do not know the value of their company at any given time. A business valuation can provide that important piece of information, which can be used as a fact check or benchmark. Additionally, it can be used for planning and negotiating the transfer strategy when exiting the business. However, be aware that a business valuation is a subjective process and the results can vary according to the approach taken.

### Nondisclosure agreements and due diligence

During the sale of the company, some sensitive business information must be disclosed to potential buyers. Information disclosed in due diligence can include financial statements, trade secrets and details of employees, customers and suppliers. The best way to protect your business is to avoid disclosing too much, too soon and by entering a nondisclosure agreement (NDA). NDAs are legal documents intended to prevent confidential information being disclosed to a third party or being used against the party disclosing the information.

As you start to think about the decision to exit your business, communicate openly with your constituents, devise a strategy to protect both you and your business and assemble a team that can assist you. Your BMO business advisor is available to support you as you look toward transitioning your business.

BMO Wealth Management

We're here to help.™



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