Succession Planning

In partnership with the City of Cambridge

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- What succession planning topics are most concerning to you?
- How confident are you in your Succession Planning now?

Objectives

Explore how to ensure business continuity when you're ready to step away.

Determine the goals for your exit plan, assess business readiness, evaluate succession options, and do transition planning.

Use practical tools to start your succession journey.

Why Succession Planning Matters

1 Business Continuity

Ensures your business thrives after you leave. Provides stability for employees, customers, and suppliers.

2 Financial Security

Maximizes your return on years of investment in the business. Creates structured payouts for your retirement.

3 Legacy Protection

Preserves your company culture and values. Maintains your impact on the community.

4 Peace of Mind

Reduces stress about the future. Gives you control over how and when you exit.

Setting Goals for Succession

Your goals shape your succession path. If you want full retirement, a third-party sale might work best. For steady income, consider an owner-financed management buyout. To preserve culture, employee ownership could be ideal.

Personal Goals

Full retirement or partial involvement?

Financial Goals

Lump sum payout or structured payments?

Legacy Goals

Preserve culture or focus on growth?

Succession Goals Worksheet

Toolkit Page 6:

15 Minutes

Assessing Business Readiness

Financial Stability

Analyze revenue, profitability, and cash flow to ensure a solid financial foundation for the transition.

Customer Relationships

Maintain strong relationships with key clients to ensure continued business post-transition.

Legal Structure

Review your legal and tax structure to optimize the succession plan.

Documented Processes

Ensure key operational processes are documented for smooth knowledge transfer.

Leadership Pipeline

Identify and develop internal candidates who can step up and lead the company.

Evaluate your business structure using our readiness scorecard and employee checklist to identify strengths and weaknesses before transitioning.

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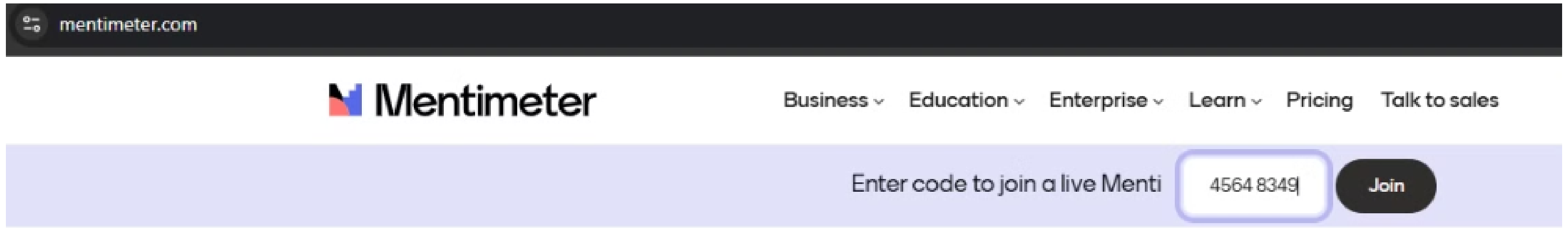


- What part of the succession planning process is most challenging for you?
- Who is best prepared to take over ownership of your business?

Business Readiness Scorecard

Toolkit Page 13

10 Minutes

Succession Options

Employee Ownership

Employee Stock Option Plans (ESOPs) and cooperatives empower employees to become owners. Preserves culture and rewards loyal staff. Requires strong financials and governance structure.

Management Buyout

Current managers purchase the business. Ensures leadership continuity and smooth transition. Often requires financing or seller financing.

Third-Party Sale

Selling to competitors, investors, or entrepreneurs. Maximizes financial return with clean exit. May change company culture and operations.

Employee Ownership Models

1

ESOP: Employee Stock Ownership Plan

An Employee Stock Ownership Plan (ESOP) gives employees an ownership stake in their company by granting them shares. This can boost engagement and align employees' interests with the company's success. ESOPs often provide tax advantages for both employees and the business.

2

Worker Cooperative

A worker cooperative is a business owned and run by its employees, who share profits and decision-making authority. This structure promotes a more democratic workplace and ensures the interests of the workers are central.

Employee Ownership Comparison Chart

Aspect	ESOP (Employee Stock Ownership Plan)	Worker Cooperative
How Ownership Transfers	Shares are gradually transferred to employees via a trust	Employees purchase and manage the business
Employee Investment Required?	✕ No – Funded by company profits or loans	✓ Yes – Employees must buy in
Governance & Decision-Making	Employees may have voting rights, but board retains control	Employee-owners elect a board of directors and vote on major business decisions
Financial Feasibility	Requires strong company profits; leveraged buyout may be used	Requires financing and employee investment
Best For	Mid-to-large businesses with stable profitability and strong financials	Small-to-mid-sized businesses with engaged employees
Challenges	High legal and administrative costs; must be structured correctly	Can be difficult to secure financing; requires a lot of planning
Exit Strategy for Owner	Gradual payout as company buys shares	Owner receives payout from employee investment or financing
Impact on Company Culture	Retains employee involvement but requires governance structure	Preserves culture, improves worker retention

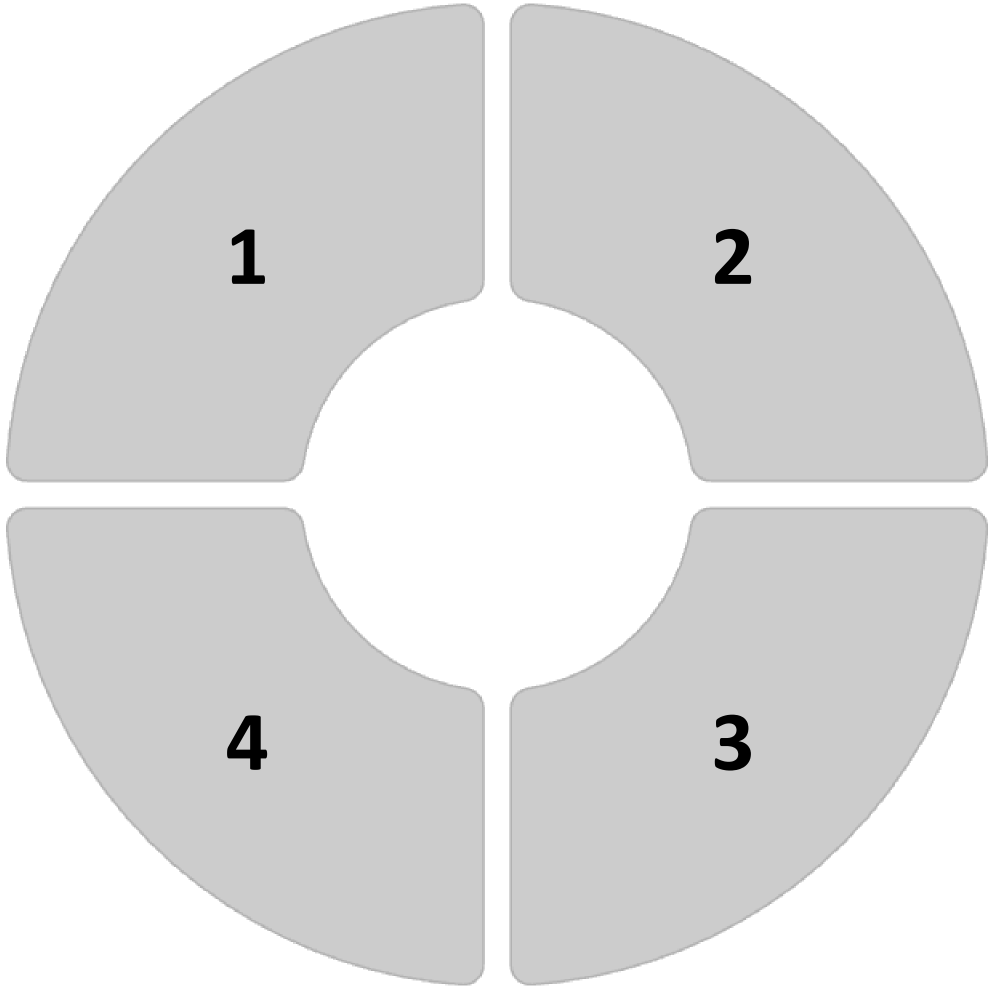
Management Buyout (MBO)

Leadership Continuity

Ensures smooth operational transition with familiar leadership

Financing Options

Bank loans, private equity, or seller financing



Ownership Transfer

Management team purchases business from owner

Family Integration

Family members in management can participate as internal buyers

An MBO allows your current management team to purchase the business, ensuring leadership continuity while keeping ownership within the company. Best for owners with a strong, capable management team willing and able to take ownership.

The MBO Readiness Assessment tool helps determine if your management team is prepared to lead ownership. Owner financing can be a key strategy, allowing the management team to pay over time while providing you with ongoing income post-exit.

Relevant toolkit items for later

Employee Readiness Checklist

Leadership Readiness Checklist

Selling to a Third-Party Buyer

Strategic Buyers

Competitors, suppliers, or industry leaders seeking to integrate your business into their existing structure, often valuing strategic partnerships and market position.

Financial Buyers

Private equity firms or investors focused on profitability and investment potential, seeking businesses with growth opportunities and strong returns.

Individual Buyers

Entrepreneurs or executives wanting to operate an established business, often valuing stable operations and existing customer relationships.

Family Succession

Family members can act as third-party buyers, negotiating structured buyouts similar to other investors while maintaining family legacy.

Selling to a third party often maximizes financial return and provides a complete exit. It requires finding the right buyer, thorough due diligence, and skilled negotiation. Owner financing can be an option for buyers without immediate access to full capital.

Some Types of Buyers

Buyer Type	Who They Are	Best For	Key Considerations
Strategic Buyers	Competitors, suppliers, or businesses looking to expand via acquisition.	Businesses with unique market positioning, proprietary technology, or strong customer base.	May integrate and restructure operations, potentially impacting company culture.
Financial Buyers (Private Equity, Investors)	Investment firms or individuals seeking a profitable business.	Businesses with strong cash flow & growth potential.	PE firms often exit within 5-7 years, possibly reselling the company.
Individual Buyers	Entrepreneurs, former executives, or high-net-worth individuals looking to run a business.	Businesses with simple structures and strong recurring revenue.	Seller financing may be required if buyers lack capital.

Now that you have found the buyer, what is the price you are giving them?

Strategic Considerations in Business Valuation

A good valuation ensures a **fair sale** and gets you the best price for your business. This is crucial for succession planning. Here are key points to remember when valuing your business. You'll need help from experts to find a price that works for you and appeals to buyers:

Understand True Business Value

Look at your company's finances, physical assets, and market position. Work with professionals like accountants or business valuators to get an accurate value.

Organize Financial Records

Keep clear financial statements, including profit and loss reports, balance sheets, and future projections. Good records build buyer confidence.

Explore Funding Options

Consider different financing options like seller financing, business loans, and private investors. These can make buying your business more doable for potential buyers.

Plan Early to Increase Value

Improve operations, cut unnecessary costs, and boost profits before selling. Early planning makes your business more attractive and valuable to buyers.

Preparing for Transition

1

Leadership Development

Train successors 1-3 years before exit. Provide mentorship and gradually increase responsibilities. Use our Leadership Development Roadmap.

2

Knowledge Transfer

Document processes and relationships. Share institutional knowledge and business secrets. Create transition manuals for key roles.

3

Stakeholder Communication

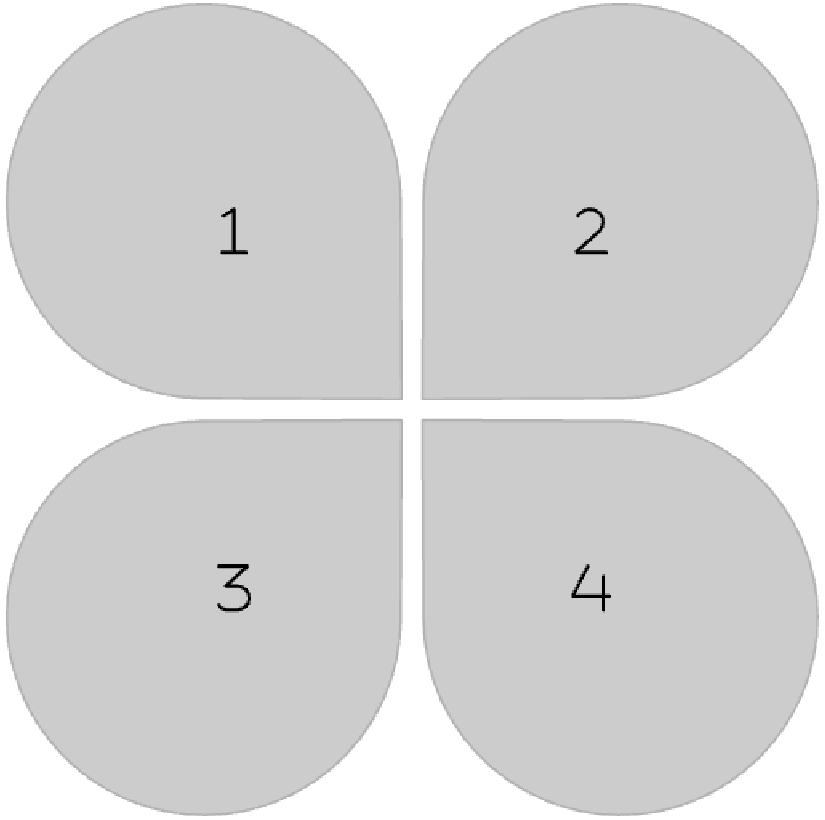
Develop a communication plan for employees, customers, and vendors. Manage expectations and address concerns proactively.

4

Legal & Financial Planning

Structure agreements for your exit type. Complete due diligence and valuation. Consult with legal and financial advisors.

Closure & Liquidation: The Last Resort



Business Valuation

Assess assets and liabilities

Employee Transition

Plan for staff severance and support

Legal Dissolution

Complete required paperwork

Debt Settlement

Negotiate with creditors

Liquidation allows owners to recover business value by selling assets when other transition options aren't viable. This approach is typically chosen when the business is no longer financially sustainable, no suitable successor can be found, market conditions prevent a profitable sale, or the owner prioritizes complete exit over continuity.

While liquidation provides capital recovery, it comes with significant challenges: loss of brand legacy, potential financial losses compared to selling the business as a going concern, job losses for employees, and complex legal and financial requirements.

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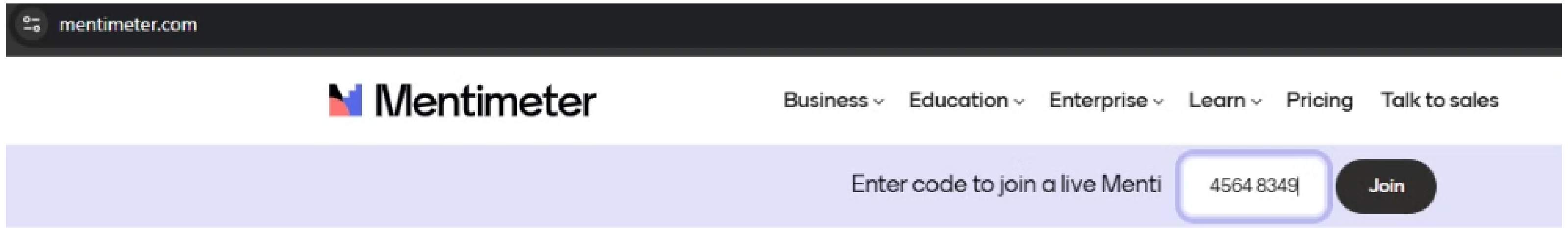

- Which business transition tactics have you considered?
- Which would be the ideal outcome for your business ownership transition?

Post-Exit Phase: Ensuring Long-Term Success

Monitor Business Performance

Track the success of the transition, address operational challenges, and provide support to new leadership where necessary. Regular check-ins during this phase help identify and resolve issues before they impact business stability.

Manage Personal Finances

Develop strategies for managing exit proceeds, whether received as a lump sum or structured payout. Work with financial advisors on investment approaches, estate planning, and wealth management to secure your future.

Reflect and Document

Review the transition process using the Exit Reflection & Lessons Learned Worksheet to document best practices and insights. This reflection helps both you and future business owners navigate succession planning more effectively.

The post-exit phase, typically 1-2 years after transition, focuses on ensuring the long-term success of both the business and your personal financial future. This period allows you to provide transition support while beginning your next chapter with confidence.

Next Steps & Resources

Access the Toolkit

Download our Succession Planning Toolkit with worksheets, checklists, and guides for each stage of your journey.

Complete Goal Assessment

Use the Succession Goals Worksheet (Appendix 1) to clarify your personal, financial, and legacy priorities.

Evaluate Business Readiness

Complete the Business Readiness Scorecard (Appendix 5) to identify areas needing improvement before transition.

Get Support

Contact Revby or the Economic Opportunity and Development Division at the City of Cambridge for personalized guidance on your succession plan.

Give us your feedback!

Succession Planning Workshop Evaluation

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