

CONTRACTOR SUCCESSION PLANNING



Planning for Profit Workshop
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Revised 12-15-21

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Course Objectives

1. Learn the critical importance of why planning for succession is important
 - a. **Financial** - What do I need to take from the business and what will I leave behind?
 - b. **Timing** - When do I want to exit the business and how do I want to implement it?
2. Learn how to select the right successor
 - a. **Selection** - Do I have a clear leadership profile for my successor?
 - b. **Qualification** - Have I clearly qualified my successor through clear metrics?
3. Learn the importance of delegation
 - a. **Delegation** - Have I practiced delegation in my development of other leaders?
 - b. **Development** - Have I empowered my successor to take over my operational authority?
4. Learn business skills on how to evaluate the current health of your business
 - a. **Reality** - Is my business healthy enough to meet my timeline succession planning?
 - b. **Sustainability** - Is my business financial model sustainable for my exit and the businesses future success?
5. Learn about your transition and legacy
 - a. **Compensation** - What will be the compensation agreement be for your future and the businesses success?
 - b. **Relationships** - What will your relationship be with the new owner and the business operations when I leave?

Section 1

Why Succession Planning?



Section 1 - Why Succession Planning

It's not how fast you run but rather how you pass off the baton



Succession Planning is critical to the Future success of your company. You have spent a lifetime building your company and if you don't plan the transition to the next generation, all of your work could very easily go down the drain in a very short time.

Most contractors got into this industry because they liked working with their hands and fixing things but feel they could excel if they were calling the shots. At the same time, most don't want to be doing this the rest of their lives either. They want to get out of it at some time.

In order to sell your company, you need two things.

1. Some type of guaranteed monthly income.
2. It must run without you.

Without these two key elements, you can't leave!

This means you need to find a successor. Your success or can fall into one of two categories.

1. A Buyer – someone who will simply buy the company from you.
2. A Hand Picked Successor – Someone of your choosing to turn the company over to.

The first option might be faster but once the sale is done, you are likely out of the mix and no longer have a say in what happens to the company that you have spent your entire life creating. Now it is the responsibility of the new owner and they will do with it what they please.

The second option gives you the ability to have a real say in the future direction of the company. This option may take longer to accomplish but can be incredibly rewarding at the same time as you watch someone else take hold of the reigns and lead this machine that you created and continue to guide it successfully long after you are gone.

The Danger of the Next Generation

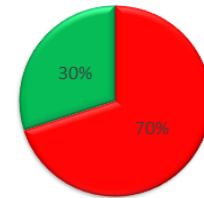
Poor succession planning can cost your company everything. You understand what it takes to keep this machine running on a daily basis. The next generation often times does not.

In fact, studies show:

- 70% of all wealth transferred to second generation is end of that generation.
- 87% of all wealth transferred to the third generation is end of that generation.

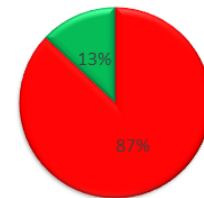
As a whole, we have done a poor job of training the next generation how to handle and grow the wealth that we have hard to create.

Wealth Lost



lost by the

2nd Generation



lost by the

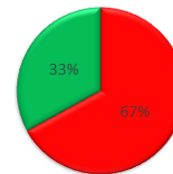
worked so

3rd Generation

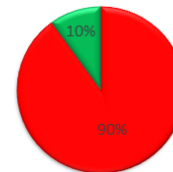
It's not just the wealth that's lost. The businesses that went along with that wealth are also at risk.

- _____% of businesses transferred to the next generation will fail by the end of that generation
- _____% of businesses that make it to the third generation will fail by the end of that generation.

Businesses Failed



2nd Generation



3rd Generation

Assumptions in Succession Planning

Look through the list of assumptions below and check the items that you are concerned about as you think about turning your company over to someone else.

- _____ 1. You want to plan the process.
- _____ 2. You want your business to succeed when you leave.
- _____ 3. You care about the people involved – especially family.
- _____ 4. You want to select your successor.
- _____ 5. You care about your customers and want to keep them.
- _____ 6. You want your team on board with the process.
- _____ 7. You have a set timeframe in mind.
- _____ 8. You know this process requires planning.
- _____ 9. You know there are things out of your control.
- _____ 10. You know that the most important person in this process is you.

If you have selected more than two or three of the assumptions above, then you need to be asking the following questions:

- Why Succession Planning
- Who will be leading in the future?
- How am I preparing now for someone else to lead in the future?
- Where is my business now in it's stages of growth and development?
- What impact will my leadership have in the future?

These are the areas we will spend the rest of the day looking into.

Succession Defined

- The act of following one thing after another.
- The process by which one person _____ another in order.
- Descent of transmission of a _____, _____ or _____.

**It's not how fast you run,
but rather how you pass off the baton.**



Lessons from the handoff

1. The race is won or lost in the _____.
2. You need to _____ for the exchange as much as the race.
3. A simple handoff is not as _____ as it appears.
4. It is not how fast you run alone but how you work _____.
5. You need to let go of the baton at just the _____.
6. You need to keep up the _____ as you run the race.
7. It is not the speed of the individual runner but the _____ of the exchange of the baton.

What's in the Baton For You?

Think about the five critical areas of succession planning. What's in the baton for you? What are areas of concern as they relate to each of these critical areas?

1. **ANTICIPATION** - Why Succession Planning -

2. **SELECTING A SUCCESSOR** - Who will be leading in the future?

3. **DELEGATION** - How am I preparing for someone else to lead in the future?

4. **ORIENTATION** - Where is my business now in it's stages of growth and development?

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Factors to Consider

Motivation: Why did you go into business in the first place?

- **Profitability** – Create more income
- **Leadership** – to be your own boss
- **Security** – Provide for your future
- **Decision Maker** – Decide how you will spend your time
- **Direction** – Set your own course

Sustainability: How long do I want to continue?

- Health
- Finances
- Family
- Time
- Freedom

Legacy: What do I want to leave behind?

- My business
- My customers
- My relationships
- My reputation
- My family
- My core values
- My beliefs

Taking Care of My Customers

- How we treat them
- Billing
- Level of Customer Service
- Services offered

Preparing Your Team

- Are they ready to follow a new leader?
- Will they accept a new leader?
- Following someone they grew up with.
 - Last week we were equals
- Transferring respect.
 - Must be earned
 - Use names
- Will they stay through the transition?
 - My loyalty is to dad

Getting on the Same Page

- Systems
 - When A happens, we do B
- Culture
 - Do you know why we do things the way we do?
 - What is your story?
- Timeframes
 - When will the official transfer happen
 - Weeks, Years, Months
 - Compensation before and after

Section 2

Selecting A Successor



Section 2 - Selecting a Successor



The single greatest factor that will guarantee the success or failure of your business is the selection, preparation and placement of the next leader.

Jim Collins

Selecting a successor may not be as easy as it might seem on the surface. There are a million questions that you might have already thought of.

- Will the person that I choose have what it takes to take over for me?
- What are the areas of weakness that I have not already noticed?
- How do I choose between my children to pick a new leader?

The challenge with choosing by “gut feel” is that your gut will likely be wrong. When making a selection for a candidate to fill a job, your gut feel is only 14% accurate. 86% of the time, you will be wrong. Can you afford to take those odds when choosing your successor?

There are three ways used to fill roles.

1. Analyze Current Top Performers

Problem: _____

1. Gut Feel

Problem: _____

2. Top Performers at one Company are only average at another

Problem: _____

Notes:

Behavioral Hierarchy

Your observable behavior and related emotions contribute to your success on the job. When matched to the job, they play a large role in enhancing your performance.

1. **COMPETITIVENESS** - *Tenacity, boldness, assertiveness and a "will to win" in all situations.*
2. **FREQUENT CHANGE** - *Moving easily from task to task or being asked to leave several tasks unfinished and easily move on to the new task with little or no notice.*
3. **URGENCY** - *Decisiveness, quick response and fast action.*
4. **FREQUENT INTERACTION WITH OTHERS** - *Dealing with multiple interruptions on a continual basis, always maintaining a friendly interface with others.*
5. **VERSATILITY** - *Bringing together a multitude of talents and a willingness to adapt the talents to changing assignments as required.*
6. **PEOPLE ORIENTED** - *Spending a high percentage of time successfully working with a wide range of people from diverse backgrounds to achieve "win-win" outcomes.*
7. **CUSTOMER RELATIONS** - *A desire to convey your sincere interest in them.*
8. **FOLLOW UP & FOLLOW THROUGH** - *A need to be thorough.*
9. **CONSISTENCY** - *The ability to do the job the same way.*
10. **FOLLOWING POLICY** - *Complying with the policy or if no policy, complying with past practices.*
11. **ANALYSIS OF DATA** - *Information is maintained accurately for repeated examination as required.*
12. **ORGANIZED WORKPLACE** - *Systems and procedures followed for success.*

Motivators Hierarchy

Your motivation to succeed in anything you do is determined by your underlying motivators. You will feel energized and successful at work when your job supports your personal motivators.

1. **UTILITARIAN/ECONOMIC** - *Rewards those who value practical accomplishments, results and rewards for their investments of time, resources and energy.*
2. **INDIVIDUALISTIC/POLITICAL** - *Rewards those who value personal recognition, freedom, and control over their own destiny and others.*
3. **THEORETICAL** - *Rewards those who value knowledge for knowledge's sake, continuing education and intellectual growth.*
4. **AESTHETIC** - *Rewards those who value balance in life, self-expression, beauty and nature.*
5. **SOCIAL** - *Rewards those who value opportunities to be of service to others and contribute to the progress and well-being of society.*
6. **TRADITIONAL/REGULATORY** - *Rewards those who value traditions inherent in social structure, rules, regulations and principles.*

Competencies Hierarchy

Your unique hierarchy of competencies is key to your success. Knowing what they are is essential to reaching your goals.

1. **GOAL ORIENTATION** - *Energetically focusing efforts on meeting a goal, mission or objective.*
2. **EMPLOYEE DEVELOPMENT/COACHING** - *Facilitating and supporting the professional growth of others.*
3. **CREATIVITY/INNOVATION** - *Adapting traditional or devising new approaches, concepts, methods, models, designs, processes, technologies and/or systems.*
4. **CONTINUOUS LEARNING** - *Taking initiative in learning and implementing new concepts, technologies and/or methods.*
5. **INTERPERSONAL SKILLS** - *Effectively communicating, building rapport and relating well to all kinds of people.*
6. **LEADERSHIP** - *Achieving extraordinary business results through people.*
7. **DECISION MAKING** - *Utilizing effective processes to make decisions.*
8. **FLEXIBILITY** - *Agility in adapting to change.*
9. **MANAGEMENT** - *Achieving extraordinary results through effective management of resources, systems and processes.*
10. **WRITTEN COMMUNICATION** - *Writing clearly, succinctly and understandably.*
11. **PERSONAL EFFECTIVENESS** - *Demonstrating initiative, self-confidence, resiliency and a willingness to take responsibility for personal actions.*
12. **DIPLOMACY** - *Effectively handling difficult or sensitive issues by utilizing tact, diplomacy and an understanding of organizational culture, climate and/or politics.*
13. **TEAMWORK** - *Working effectively and productively with others.*
14. **PRESENTING** - *Communicating effectively to groups.*
15. **CONFLICT MANAGEMENT** - *Addressing and resolving conflict constructively.*
16. **EMPATHY** - *Identifying with and caring about others.*
17. **PERSUASION** - *Convincing others to change the way they think, believe or behave.*
18. **NEGOTIATION** - *Facilitating agreements between two or more parties.*
19. **SELF-MANAGEMENT (Time and Priorities)** - *Demonstrating self-control and an ability to manage time and priorities.*
20. **ANALYTICAL PROBLEM SOLVING** - *Anticipating, analyzing, diagnosing, and resolving problems.*
21. **PLANNING/ORGANIZING** - *Utilizing logical, systematic and orderly procedures to meet objectives.*
22. **CUSTOMER SERVICE** - *Anticipating, meeting and/or exceeding customer needs, wants and expectations.*
23. **FUTURISTIC THINKING** - *Imagining, envisioning, projecting and/or predicting what has not yet been realized.*

Benchmarking for Profitable Performance - Finding the Right Person

In order to find the correct person for the role, you need to take a deeper look. There's a lot more under the surface when you know where to look.

D.I.S.C.

DISC is the **How** of a person. How you talk, walk, conduct yourself, interact with others and more. There are four styles of behavioral communication. Everyone exhibits all four styles but there is one dominant style.

The four styles are:

D - _____

I - _____

S - _____

C - _____

Key Points to remember about behavioral communication:

- DISC is the doorway to Communication.
- The uniqueness of each person extends far beyond the DISC model.
- Behavioral models should NOT be referred to as "personality tests."



D DOMINANCE	VALUE TO THE TEAM: <ul style="list-style-type: none"> •Bottom-line organizer •Forward-looking •Challenge-oriented •Initiates activity •Innovative 	TENDENCY UNDER STRESS: <ul style="list-style-type: none"> •Demanding •Nervy •Aggressive •Egotistical
	DESCRIPTORS: <p> Adventuresome Competitive Daring Decisive Direct Innovative Persistent Problem Solver Result-oriented Self-starter </p>	POSSIBLE LIMITATIONS: <ul style="list-style-type: none"> •Overuse of position •Set standards too high •Lack tact and diplomacy •Take on too much, too soon, too fast
	IDEAL ENVIRONMENT: <ul style="list-style-type: none"> •Freedom from controls, supervision and details •An innovative and futuristic-oriented environment •Forum to express ideas and viewpoints •Non-routine work •Work with challenge and opportunity 	EMOTION OF THE HIGH D: Anger

I INFLUENCE	VALUE TO THE TEAM: <ul style="list-style-type: none"> •Optimism and enthusiasm •Creative problem solving •Motivates others toward goals •Team player •Negotiates conflicts 	TENDENCY UNDER STRESS: <ul style="list-style-type: none"> •Self-promoting •Overly optimistic •Gabby •Unrealistic
	DESCRIPTORS: <p> Charming Confident Convincing Enthusiastic Inspiring Optimistic Persuasive Popular Sociable Trusting </p>	POSSIBLE LIMITATIONS: <ul style="list-style-type: none"> •Inattentive to details •Be unrealistic in appraising people •Trust people indiscriminately •Situational listener
	IDEAL ENVIRONMENT: <ul style="list-style-type: none"> •High degree of people contacts •Freedom from control and detail •Freedom of movement •Forum for ideas •Democratic supervisor 	EMOTION OF THE HIGH I: optimism

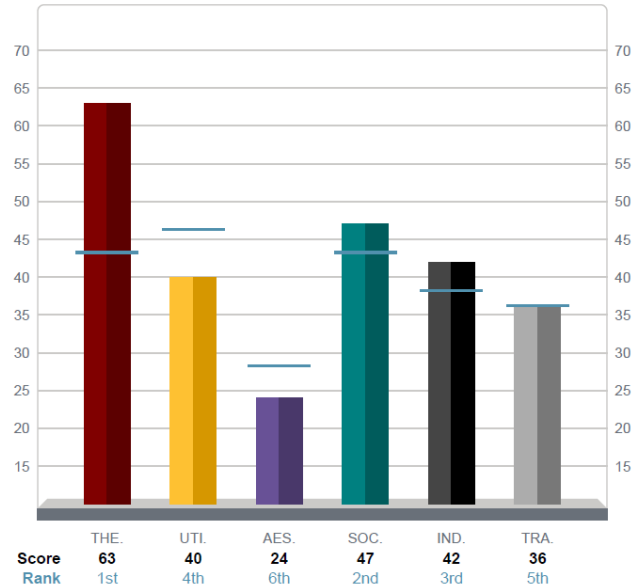
S STEADINESS	VALUE TO THE TEAM: <ul style="list-style-type: none"> •Dependable team player •Work for a leader / cause •Patient and empathetic •Logical step-wise thinker •Service-oriented 	TENDENCY UNDER STRESS: <ul style="list-style-type: none"> •Non-demonstrative •Unconcerned •Hesitant •Inflexible
	DESCRIPTORS: Amiable Friendly Good Listener Patient Relaxed Sincere Stable Steady Team Player Understanding	POSSIBLE LIMITATIONS: <ul style="list-style-type: none"> •Yield to avoid controversy •Difficulty in establishing priorities •Dislike of unwarranted change •Difficulty dealing with diverse situations
	IDEAL ENVIRONMENT: <ul style="list-style-type: none"> •Stable and predictable environment •Environment that allows time to change •Long-term work relationships •Little conflict between people •Freedom from restrictive rules 	EMOTION OF THE HIGH S: Non-emotional

C Compliance	VALUE TO THE TEAM: <ul style="list-style-type: none"> •Maintains high standards •Conscientious and steady •Defines, clarifies, gets information and tests •Objective – “the anchor of reality” •Comprehensive problem solver 	TENDENCY UNDER STRESS: <ul style="list-style-type: none"> •Pessimistic •Picky •Fussy •Overly critical
	DESCRIPTORS: Accurate Analytical Conscientious Courteous Diplomatic Fact-finder High Standards Mature Patient Precise	POSSIBLE LIMITATIONS: <ul style="list-style-type: none"> •Be defensive when criticized •Get bogged down in details •Be overly intense for the situation •Appear somewhat aloof and cool
	IDEAL ENVIRONMENT: <ul style="list-style-type: none"> •Where critical thinking is needed •Technical work or specialized areas •Close relationship with small group •Familiar work environment •Private office or work area 	EMOTION OF THE HIGH C: Fear

Motivators

There is a lot more to a person than just their behavioral communication style. Let's go deeper. There are six different motivators that will drive a person as well. In fact, a person's motivators can actually steer their behaviors in a certain direction. The six motivators are:

Utilitarian - The Utilitarian has a characteristic interest in money and what is useful. This means that an individual wants to have the security that money brings not only for themselves, but for their present and future family. This motivator includes the practical affairs of the business world - the production, marketing and consumption of goods, the use of credit, and the accumulation of tangible wealth. This individual is thoroughly practical and conforms well to the stereotype of the average business person. A person with a high score is likely to have a high need to surpass others in wealth.



Thoughts: _____

Theoretical - The primary drive with this motivator is the discovery of TRUTH. In pursuit of this drive, an individual takes a "cognitive" attitude. They are nonjudgmental regarding the beauty or utility of objects and only seek to observe and to reason. Since the interests of the theoretical person are empirical, critical and rational, the person appears to be an intellectual. The chief aim in life is to order and systematize knowledge: knowledge for the sake of knowledge.

Thoughts: _____

Individualistic - The primary interest for this motivator is POWER, not necessarily politics. Research studies indicate that leaders in most fields have a high power drive. Since competition and struggle play a large part in all areas of life, many philosophers have seen power as the most universal and most fundamental of motives.

Thoughts: _____

Social – It's all about helping other people. The social person prizes other people and as a result, is kind, sympathetic and unselfish. They are likely to find the Theoretical, Utilitarian and Aesthetic attitudes cold and inhuman. Compared to the Individualistic motivator, the Social person regards helping others as the only suitable form for human relationships. Research indicates that in its purest form, the Social interest is selfless.

Thoughts: _____

Traditional - The highest interest for this motivator may be called "unity," "order," or "tradition." Individuals with high scores for this motivator seek a system for living. This system can be found in such things as conservatism or any authority that has defined rules, regulations and principles for living.

Thoughts: _____

Aesthetic – This person has an interest in "form and harmony." Each experience is judged from the standpoint of grace, symmetry or fitness. Life may be regarded as a procession of events, and each is enjoyed for its own sake. A high score here does not necessarily mean that this person has talents in creative artistry. It simply means they will find the beauty in things and will try to leave things looking better.

Thoughts: _____

Creating a Benchmark for Your Successor



Knowing the strengths of a person is only a part of the story. The real question is “what skills does the next leader of your company need to possess in order to lead effectively?”

To find out, a benchmark needs to be created. This will become the measuring stick that you will use to find out if the person you are tapping to succeed you, has what it takes to be a superior leader.

If the job could _____, it would clearly identify its performance issues:

- Knowledge
- Hard skills
- Behaviors
- Values and motivators
- Personal Skills.

When listening to the job talk, there are three distinct voices. They are:

- How we _____ the job
- How we _____ do the job
- How the job _____ be done

Steps to creating the Benchmark

1. Define Key Accountabilities
 - a. Define 3 - 5 reasons why the job exists.
 - b. Not a task list
 - c. No right or wrong answers
 - d. What would happen if this job didn't exist?
 - e. Brainstorming Session
 - f. Agree on 3 – 5 Key accountabilities
2. Assess the Job
 - a. Contact Grandy & Associates for an online link to create your job benchmark. Complete the online assessment of the job.

3. Assess your Successor

- a. Have your potential successor complete the talent assessment. We will provide you with a link for your candidate to complete the assessment. When they are complete, we will also compare their resulting report to the benchmark and see where the gaps are.

Your Potential Successor

Do you have someone in mind today that you are considering to tap as your successor? Maybe you have a couple of people. Take a moment and answer these questions regarding each person.

1. Who is capable of being the next leader?

2. How are they being developed?

3. How much time have you spent with them?

4. Have they been tested?

5. How do they deal with stress?

6. What formal training will they need in order to be the next company leader?

Section 3

Delegation



Section 3 - Delegation



How are your Delegation skills?

Questionnaire

1. Are unexpected emergencies constantly occurring in your company? (Y/N)
2. Do you find you are so pressed for time to get daily work done that you have no time to plan? (Y/N)
3. Is there a great deal of friction or dissatisfaction among those that work for you? (Y/N)
4. Are you always bogged down in detail? (Y/N)
5. Do simple jobs take a long time to get done? (Y/N)
6. Does work slowdown, or halt, when you are gone? (Y/N)
7. Do you complain or criticize others when the work of your team does not go as you had planned? (Y/N)
8. Do those who work for you always wait for you to give the sign before they start anything? (Y/N)
9. Have your employees stopped coming to you to get your reaction to their ideas? (Y/N)
10. Are your employees poker-faced, displaying little or no humor or spontaneity in their work?

Total "Yes" answers _____

Total "No" answers _____

How am I preparing now for someone else to lead in the future?

Ten Basics of Delegation

1. Delegation is the most _____ and _____ areas of leadership
2. A leader can only delegate tasks, responsibilities and concepts to a team member when both are _____.
3. The process of building a team to which concepts can be delegated is **lengthy** but _____.
4. In order for a leader to completely delegate, they have to come to trust the team member's _____ and _____.
5. Before the selection is made, you must have created a _____ of motivation, fun, rewards and crusade.
6. The delegating leader always sets the tone for the team with integrity, _____, intensity and _____.
7. When the successor enters this culture, they are able to move past the first few _____ quickly.
8. At the start of the new position, it's impossible to _____. In those first weeks, it's not micromanaging, it's training.
9. As the person proves himself, you lengthen the _____ a little at a time until little follow-up is required.
10. Complete delegation is when the leader is only approving _____ decisions and checking results.

Five Levels of Delegation



Level 1: Do exactly what I have asked you to do.

Level 2: Research the topic and report back.

Level 3: Research the topic, outline the options, and make a recommendation.

Level 4: Make a decision and then tell me what you did.

Level 5: Make whatever decision you think is best.

As your successor comes up to speed, are they growing in the way they handle problems, people and situations? Did they look at it from all sides? A few things that they need to think about are:

1. How did the players involved _____?
2. Were _____ and problems handled right?
3. Were _____ and _____ right?
4. Were all the _____ considered?
5. Were _____ considerations for profit and cash flow considered?

Test Your Successor

1. When you feel your successor is past the initial micromanagement stage, _____ them.
2. _____ what you expect.
3. All levels of delegation require _____.



Notes:

Section 4

Business Skills



Section 4 – Business Skills

Where is my business in its stages of development?

Your business must be on solid financial ground just to be profitable on a daily basis. It is even more critical to be profitable in order to create lasting success during and after the succession process. Remember, you built this company that will provide for your future. You don't want to drain it for your successor.

Teaching the Gut Feel

There is no doubt that you do a lot of things on a daily basis based on your "gut feel". How did you learn these things? How do you teach the gut feel?

Think about things that you do by gut feel and answer the following questions:

1. How long before it became second nature?

2. How long before it became a gut feel?

3. What are two things you can do to teach the "gut feel"?

a.

b.

Planning the financial Success of the Company

Three Stages of Going Out of Business



1. Do More Work

Challenges: _____

2. Put Personal Savings Back into the business

Challenges: _____

3. Another Mortgage on house, Max line of credit, Sell Excess Inventory

Challenges: _____

Three Stages of Growth That Will Put You Out Of Business

1. Owner moves from field to office

Challenges: _____

2. Gross Sales between \$750K – \$1.2 Million

Challenges: _____

3. Any Point of Rapid Growth

Challenges: _____

Basic Required Business Tools

There are several tools that are required in order to successfully the company. Look at these tools just like any of the tools you have your tool pouch. If you never take it out of the pouch, it does nothing for you. You have to use them in order for them to be of value.



lead
in
any

Your financial tools are no different. Get the minimum basic required tools in place now.

Requirement #1 - Business Plan - A business plan is necessary for any size company. Even startup companies need to have some idea of what they are about and how they are going to get there. It is amazing what happens when you begin to think through the process of where you want to go and how you are going to get there.

Elements of your Business Plan

Executive Summary:

- History of your company
- General market conditions
- Status of competition
- Company goals

Financial Plan:

- History of company from a financial standpoint
- Current financial statements
- Capital expenditure forecast
 - What equipment will be needed and when
- Month-by-month cash flow budget
 - Next two years
- Cash flow projections for the next five years

Marketing Plan

- How you will market your company
 - Radio, TV, yellow pages, etc.
 - The cost of each
 - The expected results
- What will be done when and by whom
- What is the “cost” of the plan, your budget?

Production Needs:

- Labor needs
- Material forecast including inventory
- Assets - what equipment will be needed

Organizational Plan:

- Organizational chart
- Training - salaried and technical

Notes:

Requirement #2 - Updated Labor Pricing – When was the last time you updated your pricing? Do you know exactly what your break even rate is?

You need to teach your successor how to calculate these numbers. That means you *might* have to learn how yourself. Your labor rate and break even rates should be recalculated at least twice per year. If you are not doing this, you are likely losing money in one or more of your departments.

It's all about the _____ hours!

It Pays To Understand Your Hourly Rate

In order to stay focused on where we are going and why, let's look at a completed hourly rate and see what it tells us.

Let's assume our final hourly rate is \$133.76/hour. This rate was based on the assumption you would be able to bill out 6,000 man hours over the next year. If the company bills out exactly 6,000 man-hours, it will absorb all of its overhead costs. If it bills out less than 6,000 hours, it will NOT absorb all the overhead.

In order to know if your rate is correct as you go through the year, you need to track the billable hours.

Notes:

Requirement #3 - Cash Flow Management

The Differences

There are significant differences in cash flow and accounting. Cash flow deals with the “real” dollars that flow in and out of a company on a daily basis. Accounting, on the other hand, tends to work with paper dollars.

Accounting isn’t bad. It can tell you a lot about what is going on within the company, but when it comes to setting hourly rates and managing your company on a daily basis, you need to focus on life using cash flow dollars.

Oddly enough, you can look at an accounting report that tells you the company made a profit, when in reality the company is in the process of going out of business!

The two major differences between cash flow and accounting deal with equipment replacement costs vs. depreciation and how loan payments are handled. These two differences can paint a very different, but real, picture of what is going on in the company.



Equipment Replacement costs vs. Depreciation:

Cash Flow Shows: _____

Accounting Shows: _____

Loan Payments:

If you have a \$500 monthly loan payment, what shows up on your statements?

Cash Flow Shows: _____

Accounting Shows: _____

You need to create your budgets and labor pricing based on cash flow, not accounting.

Notes:

Requirement #4 - Budget

Most company owners do not create a budget for one of several different reasons. What's yours?

What Will A Budget Do For You?

1. A budget forces the company to look at all of its "real" costs of doing business.
2. A budget provides accountability. We strongly recommended that you involve others in the budgeting process. When individuals provide numbers for the budget, they tend to be accountable for what they provide, especially if they are *held* accountable.
3. A budget will help you make good economic decisions. Economic decisions are relatively easy to make if you have the numbers in front of you. If three trucks had an annual maintenance cost of \$400-\$600 dollars per year and the fourth had an annual maintenance cost of \$2,000, it really tells you what you need to do. Seeing the numbers will help you make good economic decisions.
4. A budget will help you plan growth of the company. When costs are broken down by department, management can easily see what is making money and what isn't. Obviously, you want to grow in the areas that are making money!

Notes:

Requirement #5 – Balance Sheet

The balance sheet helps you see the value of the company. What's changing? Why is it changing? You should be able to answer these questions at any given time.

Also, we will talk about your legacy in the next section. A part of your legacy will be how you left the company. Will you be taking out what it's worth or will you be draining every dollar out of it just to pay for the sweat equity that you put into it over the years?

Notes:

Section 5

Transition and Legacy



What impact will my leadership have in the future?

	Traditionalist 1922-1943	Baby Boomer 1943-1960	Gen X'er 1960-1980	Gen Y'er Millennial 1980-2002
Outlook	Practical	Optimistic	Skeptical	Hopeful
Work Ethic	Dedicated	Driven	Balanced	Determined
Authority	Respectful	Love/Hate	Unimpressed	Polite
Leadership	Hierarchy	Consensus	Competence	Pull Together
Relationship	Personal Sacrifice	Personal Gratification	Reluctant to Commit	Inclusive
Turnoffs	Vulgarity	Political Incorrectness	Cliché, Hype	Promiscuity

A Leader needs to be:

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Managers Vs Leaders

	Manager	Leader
Purpose	Manage Complexity	Produce Real Change
Agenda	Planning	Setting a Direction
Human Factor	Staffing & Organizing	Aligning People
Execution	Control & Solve Problems	Inspiring & Motivating
Outcome	Predictability	Lasting Change

Your Role as a Leader (and what you need to pass on)

The five functions of leadership – John Kotter

1. Leaders visualize the future

2. Leaders catalyze change

3. Leaders model core values or codify core values

4. Leaders build high performing teams

5. Leaders create organizational alignment

Preparing Your Team

Your team also needs to be a part of the transition process. If you don't get them on board, your successor will fail.

Five questions* that your team needs you to answer to prepare the way for the future

Where are we going?	Direction-vision and mission
Why is this important?	Clarity-urgency
How are we going to get there?	Strategy-methodology
What is my part in the process?	Participation-placement
How am I doing?	Evaluation- feedback

Tim Kight Focus 3

Five Levels of a Leader

1. Position - People follow you because they _____ to.
2. Permission - People follow you because they _____ to.
3. Production - People follow you because of what you have _____ for the organization
4. People Development - People follow you because of what have done for them



you

5. Pinnacle - People follow because of who you are and what you represent

Legacy – What Will Yours Be?

Leave knowing that your business is prepared to be well managed in the future.

Challenges: _____

Create a vision for yourself for life apart from the business.

Challenges: _____

Creating a compensation agreement that meets your goals and sustains the business's future.

Challenges: _____

Appendix

Action Plans

Section 1 – Why Succession Planning?

Key Questions

Financial - What do I need to take from my business and what will I leave behind?

Timing - When do I want to exit the business and how do I want to implement it?

Action Step 1

Financial: _____

Timing: _____

Complete this by: _____

Section 2 – Picking Your Successor

Key Questions

Selection – Do I have a clear leadership profile for my successor?

Qualification – Have I clearly qualified my successor through metrics?

Action Step 2

Selection: _____

Qualification: _____

Complete this by: _____

Section 3 – Delegation

Key Questions

Delegation – Have I practiced delegation in my development of other leaders?

Development – Have I empowered my successor to take over operation authority?

Action Step 3

Delegation: _____

Development: _____

Complete this by: _____

Section 4 – Business Skills

Key Questions

Reality – Is my business healthy enough to meet my timeline succession plan?

Sustainability – Is my business financial model sustainable for my exit and the business success?

Action Step 4

Reality: _____

Sustainability: _____

Complete this by: _____

Section 5 – Transition and Legacy

Key Questions

Compensation - What will be the compensation agreement for your future and the businesses success?

Relationships - What will your relationship be with the new owner and the business operations when I leave?

Action Step 5

Compensation: _____

Relationships: _____

Complete this by: _____

CRITICAL PERSONAL QUESTION

What is your vision for the next season of life?

Determining A Selling Price:

Gross Sales \$ _____ / Yr.

Net Profit \$ _____ / Yr.

Owner's Salary \$ _____ / Yr.

Owner's Benefits:

Vehicle Payment + \$ _____ / Mo.

Vehicle Insurance + \$ _____ / Mo.

Vehicle Gas/Maintenance + \$ _____ / Mo.

Life/Medical Insurance + \$ _____ / Mo.

Retirement Plan + \$ _____ / Mo.

Misc. Perks (*club dues, etc.*) + \$ _____ / Mo.

Owner's Benefits TOTAL = \$ _____ / Mo.

Owner's Benefits Total \$ _____ x 12 Mos. = \$ _____ / Yr.

Annual Company Profit

Net Profit	\$ _____ / Yr.
Owner's Base Salary	+ \$ _____ / Yr.
Owner Benefits	+ \$ _____ / Yr.
Annual Company Profit TOTAL	= \$ _____ / Yr.

Market Value

Annual Profit Total \$ _____ X 2.5 times = \$ _____

Net Assets

Vehicles / Equipment	+ \$ _____
Building	+ \$ _____
Net Assets Total	= \$ _____

Selling Price

Market Value	\$ _____
Net Assets Total	+ \$ _____
Total Selling Price	= \$ _____

TOTAL SELLING PRICE \$ _____

Compensation Agreement Options

There are many ways to take money out the company when it comes time to transfer ownership. One of the challenges is doing so in a way that doesn't negatively impact either you or the next generation from a financial or tax standpoint. Doing this wrong can create problems in several different areas. Here are several steps that you will need to work through as you determine how you are going to transfer ownership and take money out of the company.

- Establish the market value of the business through an independent business appraiser.
- Clarify for yourself the exact amount of money needed for you to exit the company.
- Communicate the exact amount you need to the new owner. Failure to get on the same page with your successor on this point can drive a wedge in the deal and in the relationship.
- Pre pay compensation to owner through pre-retirement plans prior to exiting the company.
- Establish the remaining dollar amount.
- Establish the remaining time period of payments.
- Transfer shares of stock, based on selling price, to new owners through legal transfer of business
- Receive salary as a consultant or salesman at an agreed amount over time.
- Determine any creative options needed to meet your specific circumstance.
