



TREK INSTITUTE
A BASE CAMP CO-OP FOR SUCCESS

TREKIN GUIDE BOOK

FUTURE OF THE BUSINESS

PASSING THE TORCH WITH INTENTION: SUCCESSION PLANNING





PASSING THE TORCH WITH INTENTION

SUCCESSION IS MORE THAN A BUSINESS DECISION

Succession planning is often viewed as just another business process; an item on the to-do list that can be pushed off until later. But the truth is, this is one of the most personal and financially significant decisions you will make as a business owner. Strategic succession planning is all about making sure the business you built continues to thrive while supporting your own financial goals and personal legacy.

Many advisors spend years helping their clients plan for their future, yet hesitate when it comes to their own transition. What happens to your business when you step back? Will it provide for you in retirement? Will your team and clients feel secure in the transition? These are the questions that should drive your planning, ensuring your exit aligns with both your personal and professional objectives.

Whether you are five years away from retiring or just beginning to consider a future transition, putting a plan in place now will set you up for success and peace of mind.





Defining **YOUR VISION FOR SUCCESS**

The starting point for any strong succession plan is a clear understanding of your goals—both personal and professional. This process isn't only about passing the business on to someone else. It's also about making sure that transition supports the life you want and considers the people who depend on your leadership.

What do I want my post-business life to look like? Consider what lifestyle you envision after stepping away from the day-to-day responsibilities of running your business. Do you see yourself traveling more, spending quality time with family, or pursuing a new venture or passion project? Identifying these personal goals will help shape the financial and logistical aspects of your transition.

What role (if any) do I want to maintain in my business? Some business owners prefer a clean break, stepping away entirely, while others want to stay involved in a reduced capacity; perhaps as a consultant, board member, or strategic advisor. Defining this early on will ensure a smoother transition and help set realistic expectations for both you and your successor.

How much income do I need for this transition to support my lifestyle? Your financial security is a critical piece of succession planning. Consider how your exit strategy aligns with your long-term financial needs. Will you receive a lump sum from the sale of the business, or will you structure a phased payout? Evaluating different financial models will ensure that your transition supports your future lifestyle comfortably while also providing stability for your business and successor.

Will the transition timeline allow for client and team stability? A well-structured transition timeline ensures stability for both clients and the team. A gradual handoff allows clients to build trust with the new leader, maintaining continuity and retention. For the team, a phased approach provides clarity, mentorship, and time to adjust to new leadership, reducing uncertainty. A timeline that balances structure with flexibility helps protect relationships, operations, and long-term success.

Does my successor align with the values and culture of the business? A successor isn't just a replacement, but the future leader of the business. It's essential that they share the same client service philosophy and leadership style that has been integral to your business' success. Evaluating their decision-making approach, leadership style, and client engagement strategies will help determine whether they can uphold the existing reputation and maintain trust.

Are there any critical gaps in leadership or operational knowledge that need to be addressed before transitioning? A transition should never be a trial-by-fire experience for a successor. Identifying potential weaknesses early—whether in financial acumen, business management, or client relationship-building—can help structure a training plan that equips them with the necessary skills. Mentorship, leadership development, and structured training over time can close these gaps, making for a more seamless transition.

The clearer your vision, the easier it will be to choose the best path forward. Beyond personal and financial goals, a successful transition must also ensure business continuity, client trust, and team stability. A well-structured, phased approach allows time for training, communication, and execution, preventing rushed decisions, client uncertainty, and operational disruptions.



Identifying the **RIGHT SUCCESSOR**

Once you've outlined your vision, the next critical step is selecting the right successor. Choosing who will take over your business is about alignment, leadership capability, and long-term commitment to your business' success. A well-suited successor should be someone who can uphold the values of the business, sustain client relationships, and drive future growth.

KEY CONSIDERATIONS WHEN SELECTING A SUCCESSOR

- **Experience and Leadership Ability:** Does this person have both the technical knowledge and leadership skills to run the business effectively? A strong successor needs to be more than a great advisor. They must be capable of managing a team, making executive decisions, and driving business strategy.
- **Cultural Fit and Client Trust:** Clients form relationships not just with the business but with the people behind it. A successor must align with your business' service philosophy and maintain the level of trust and integrity that clients expect.
- **Financial and Operational Readiness:** Are they prepared to take on the financial and operational responsibilities that come with ownership? Whether through mentorship, formal training, or gradual leadership transitions, they need the business acumen to manage finances, growth, and day-to-day operations.
- **Commitment to Long-Term Success:** A successor should have a clear vision for where they want to take the business. Their leadership should ensure continuity while also positioning the business for future opportunities and innovation.

Evaluating **INTERNAL VS. EXTERNAL** Successors

A common pitfall in succession planning is selecting a successor based on convenience rather than true capability. It's essential to evaluate potential candidates objectively, ensuring that the transition is built for long-term success rather than a quick fix. Regardless of which path you take, preparing your successor through structured mentorship, leadership training, and client introduction will be key to a smooth and successful transition.



Internal Successor

A team member or family member already embedded in the business.

- **Pros:** Familiar with business culture, client relationships, and operations.
- **Challenges:** May require additional mentorship in leadership and business ownership.



External Successor

A new hire brought in with the intent of taking over the business.

- **Pros:** Brings fresh perspective and potential new growth opportunities.
- **Challenges:** May require longer integration and adjustment period with clients and staff.



Transition **TIMELINES AND IMPLEMENTATION** Strategies

Once you have defined your vision and selected the right successor, the next critical step is determining the timeline and implementation strategy for the transition. A well-structured succession plan should be intentional and phased, allowing both the outgoing owner and the successor to smoothly transition responsibilities while ensuring stability for the business, team, and clients.

Short-Term vs. Long-Term Transitions

The ideal succession timeline depends on a variety of factors, including the complexity of the business, the readiness of the successor, and the financial structure of the transition. In general, succession planning follows one of two broad approaches:

LONG-TERM TRANSITION (3-7+ YEARS)

A gradual transition is often ideal when the successor is internal, such as a team member who needs additional time for mentorship and leadership development. A phased handoff allows for:

- The current owner to provide structured mentorship, guiding the successor in business management and client relationships over time.
- Clients to gradually be introduced to the successor, ensuring trust is built naturally.
- The successor to gain experience in financial management, team leadership, and decision making before taking full control.
- An extended timeframe which provides more opportunities for structured buyout agreements, financing, and tax-efficient strategies.

SHORT-TERM TRANSITION (1-3 YEARS)

A more immediate transition can be necessary if the owner needs to step away quickly or when an external successor is brought in who already has leadership experience. Key considerations include:

- If the successor is external and must be onboarded quickly, given immediate exposure to business operations and client interactions.
- Unlike a long-term transition, a shorter timeline requires swift and transparent client communication to ensure confidence in the new leadership.
- If the transition involves a buyout, financial agreements and valuation process must be expedited to avoid delays.

A shorter transition may work best when the successor is already a capable business leader or when an external buyer is acquiring the business in a sale. However, it requires intensive pre-planning and clear, documented processes to avoid disruptions.





Structuring the **FINANCIAL SIDE OF SUCCESSION**

A well-structured succession plan involves careful financial planning, valuation, and legal structuring to ensure a smooth transition. Whether you're transitioning leadership internally, selling to an external buyer, or opting for a phased ownership handoff, getting the financial side right is essential for long-term stability.

Different Business Sale Structures

The financial mechanics of your transition will depend on the type of succession plan you choose. Each option comes with its own set of benefits and challenges, making it crucial to evaluate which structure aligns best with your business goals and financial needs.

Internal Buyout

An internal buyout occurs when ownership is transferred to an existing team member, junior partner, or family successor. This method is often structured as a gradual buyout, allowing the successor to purchase equity in the business over time, reducing financial strain. From a financial standpoint, internal buyouts provide a structured payout plan for the exiting owner, ensuring a steady income stream while allowing the successor time to acquire full ownership without requiring significant upfront capital. However, this approach may require seller financing or external lending, which can introduce risk if the successor struggles with repayment.

Legally, internal buyouts necessitate well-defined buy-sell agreements to outline ownership transfer terms, dispute resolution mechanisms, and contingency plans for unforeseen circumstances. Proper documentation is crucial to avoid ambiguity and protect both the seller and buyer throughout the transition. Additionally, tax implications must be carefully planned to minimize financial burdens on both parties. Seller-financed deals, for example, may allow for tax deferral strategies that reduce immediate liabilities, whereas lump-sum transactions may carry greater capital gains tax implications.

External Sale

Selling the business to another firm, a larger organization, or an independent buyer provides an opportunity for immediate liquidity. This structure often results in a lump sum payout or structured installment payments, offering financial security for the outgoing owner while allowing for a cleaner exit than an internal buyout.

Structuring the financial terms of an external sale requires due diligence and clear contractual agreements. The deal may involve upfront cash payments, installment-based payouts, or earn-out provisions where the seller receives additional compensation based on future business performance. Each of these structures carries different risks and rewards. A lump sum payment provides immediate liquidity but could come with higher tax liabilities, while earn-out provisions can ensure continued revenue but depend on post-sale business performance, which the seller no longer controls.

From a legal standpoint, external sales require robust purchase agreements, non-compete clauses, and liability protections to safeguard both parties. Sellers should also consider representations and warranties to protect themselves from potential disputes post-sale, ensuring a smooth transition and financial security after exiting the business.



CASE STUDY: Succession



Internal Buyout at Crestwood Advisory

Crestwood Advisory faced a major transition when its founder, Michael Garrett, decided to retire. Michael had built a strong, client-focused firm, and he wanted to ensure that the business remained intact while providing financial security for his retirement. Instead of selling to an external buyer, he opted for an internal buyout, allowing his two senior advisors, Lisa and Daniel, to take over ownership gradually.

Financial Structure

Michael and his advisors worked with financial and legal experts to structure the buyout as a five-year phased ownership transition. Instead of requiring Lisa and Daniel to come up with the full purchase price upfront, they agreed to a structured installment plan, where they would buy out shares of the firm's equity each year using a percentage of firm profits.

Considerations

- Structured payments allowing successors to acquire ownership without heavy personal debt or requiring outside financing.
- Michael receives a steady stream of income from the sale, allowing him to gradually step back while remaining financially secure.
- A formal buy-sell agreement protects all parties, ensuring clear terms and preventing disputes.

The Impact

The internal buyout allowed for a smooth transition of leadership while keeping the firm's culture, values, and client relationships intact. The structured financial agreement ensured that both the buyer and seller benefited, providing stability and financial sustainability throughout the transition.



External Sale of Ridgeview Wealth

Unlike Crestwood Advisory, Ridgeview Wealth took a different approach. Founder Sarah Mitchell had built her firm over three decades but had no internal successor. When she decided to sell, she pursued an external acquisition by a larger financial firm looking to expand its presence in her region.

Financial Structure

Sarah structured the sale as a lump sum transaction with a three-year buy-out provision tied to revenue retention. She secured an upfront payment covering 70% of the sale price, while the remaining 30% was contingent upon business performance, meaning she would receive additional payments based on client retention and revenue stability. This structure allowed her to exit with financial security while also ensuring a smooth transition for the business and its new owners.

Considerations

- Lump sum payment provides Sarah with immediate liquidity, giving her financial freedom in retirement.
- Earn-out structure incentivizes Sarah to assist with client transitions, ensuring retention and maintaining Ridgeview's value.
- Formal purchase agreement and transition plan minimizes legal risks and ensures compliance with regulatory requirements.

The Impact

While the external sale provided Sarah with an immediate financial payout, it also meant faster transition and significant changes to business operations. While Sarah had to work closely with the acquiring firm to ensure a smooth client transition, the structured buy-out helped maintain business value, ultimately leading to a successful acquisition with minimal disruption.

These two examples illustrate how different financial structures impact the succession process. An internal buyout provides continuity and long-term stability but requires careful financial structuring to avoid financial strain on successors. An external sale offers immediate liquidity but comes with different risks, including client retention concerns and cultural shifts. Each approach has its benefits and challenges, and the right decision depends on the seller's financial goals, timeline, and vision for the firm's future.