

# Succession Planning for Your Precast Business

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## What is a succession plan?

- 1.0: A plan that allows for the continuation of the business in the event of a tragic event to a key person.
- 2.0: An organized approach to keeping a business functioning.
- 3.0: A company wide commitment to value.
- 4.0: A plan for the transition of leadership for the business.



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## By a show of hands...

- We have a succession plan but are looking to make it better.
- We have some things in place but are not sure what else we need to do.
- We are new to the idea of a succession plan and are looking to develop one.



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## Why do you need a succession plan?

- Severe injury or death of a key person.
- Other life event that draws a key person away from the business.
- Divorce of a partner/shareholder.



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## 1.0: The Emergency Plan

- What happens if a partner or key team member has a life altering event?
- Who takes over their role(s) in the company?
- How does the company pay their salary and expenses?
- Do you really know all of the things your partner does?



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## 1.0: The Emergency Plan

- The company can plan for these contingencies:
  - Develop a list of key tasks and responsibilities.
  - Look into the purchase of Life and Disability Insurance.
  - Develop a Buy-Sell Agreement.



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## 1.0: The Buy-Sell Agreement

- Without a Buy-Sell Agreement...
- Your partner's spouse may be your next partner...unless
- You and your partner sit down with your attorney to draw up a Buy-Sell Agreement



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## 1.0: The Buy-Sell Agreement

- Written document that does the following:
  - Details the ownership of the organization.
  - Explains the partner buy-out terms in advance and under what conditions.
  - Details the compensation to the departing shareholder or their heirs.
  - Details the return of stock shares to the company after the buy-out is completed.
  - Any other pertinent details to the agreement.
  - Agreed to by the partners and their spouses.



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## 1.0: The Buy-Sell Agreement

- How do you fund the buy-sell agreement?
  - Company cash
  - Partner cash
  - Bank loan
  - If these are not sufficient...



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## 1.0: Life and Disability Insurance

- Eases the financial burden on the company and the family.
- Premiums can be tax deductible to the company.
- Proceeds flow tax free to the beneficiary (company or spouse).
- Premiums are more affordable the earlier you obtain coverage.
- Depending on the type of policy, premiums may self fund over time.
- Important part of a Buy-Sell but you will need more...



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## 1.0: The Emergency Plan

- A succession plan provides a plan for the company remain viable in the event of the sudden absence of an owner.
  - Who runs the company in your absence?
  - Do they have the authority act on behalf of the business?
    - Who speaks to the bank, insurance & bonding company, customers & suppliers?
    - Who is able to conduct company business?
    - Are these parties aware of the authority of the new person?
    - Do they know who they are?



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## 1.0: The case of Partners Precast

- John and Emily have been partners for 15 years.
- John handles production and finance.
- Emily handles engineering and sales.
- They are married with two children each and their spouses are able to stay at home and raise their children.
- Thursday morning John has a heart attack...



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## 1.0: The Emergency Plan

- In the case of John's heart attack
  - Emily has a plan and funding to keep the business moving.
  - The plan is agreed upon so she can move forward with confidence.
  - Both families or other shareholders are protected.
  - The bank and insurance company are able to assist her with confidence.
- If you don't do anything else that we speak about today...
- You must do this.



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## 2.0: An organized approach to keep the business functioning

- Who is in charge?
  - Is there a hierarchy of manager and leaders?
  - Who can speak to vendors?
  - Who speaks to the bank, accountant, attorney, insurance company?
  - Are there Department Managers? Team Leaders?
- What systems are in place to keep the business moving if you are out of the office?
- Are these systems written down and evaluated for accuracy?



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## 2.0: An organized approach to keep the business functioning

- Are workflows written down and evaluated for accuracy?
  - Standard approaches to daily tasks.
    - Common approach to common tasks.
  - Known by all on team?
    - Clearly communicated.
  - Written down and evaluated for accuracy.
  - Least common denominator:
    - Understandable by the least experienced team member?
    - Written in their language (if multi-lingual team)?
    - Communicated through periodic meetings and trainings (< 30 min each)?



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## 2.0: An organized approach to keep the business functioning

- Why is this critical?
  - Standard approaches lead to standard predictable results.
  - Keeps costs in line and makes product quality predictable.
  - Improves staff attitude and productivity. (Leads to 3.0)
    - Gives your employees stability.
    - They gain a voice in improving the company.
    - Helps you develop new leaders in the business.
  - Gives the owners and senior leadership time to work on the business.
    - What would you do to improve your business if you had an extra two hours a week?



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## 3.0: Commitment to value

- Engaged workforce acts like an owner.
- Bottom-up approach to improving processes.
  - Finds and fixes problems on the floor and not in your office.
  - Reduces costs and improves margins.
- Engaged workforce has higher productivity and less turnover.
  - Fewer quality issues.
  - Lower overtime costs.
  - Reduced turnover.



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## 3.0: Commitment to value

- Future leaders (Developing Company Culture)
  - Future leadership can be developed.
  - They understand your values.
  - Ground up approach to culture development.
  - These could be an important part of a future transition.
    - Buyer. They could decide to buy the business from you in the future.
    - Key part of the sale of the business.
    - Provide you with value and them with security.



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## 4.0: A plan for transition

- What is a succession plan?
- A plan for the orderly transition of ownership from the current owner(s) to the next owner.
  - Next generation.
  - Team of key employees.
  - New entity making an out-right purchase of your assets and real estate.



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## 4.0: A plan for transition

- Every business has a succession plan...some are written down.
- What does your after-business life look like?
  - Retirement?
    - You deserve to plan an exit.
    - Your spouse is looking forward to life after work.
  - Sale?
    - Transition to a relative?
    - Transition to a current management team?
    - Sale to an unrelated third party?



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## 4.0: A plan for transition

- Inter-generational transition.
- Current family member in the business.
  - Has the competency and desire?
    - Precast Industry expertise?
    - Financial understanding of the business?
  - Understands the transition from employee to leader?
    - Can transition from part of the team to leading the team?
    - Has the respect of the employees and other leaders?
    - Has the respect of the vendors?
  - Has the financial ability to buy you out?



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## 4.0: A plan for transition

- Inter-generational transition
- They want the job!
  - Critical that they share your entrepreneurial spirit and strength.
  - If something goes wrong, they can't cut and run.
- They are able to buy you out.
  - Have the financial ability to execute the buy-out?
  - Remember: This transition will fund your retirement.



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## 4.0: A plan for transition

- Sale to an employee or group of employees?
- Have the competency and desire?
  - Precast Industry expertise?
  - Financial understanding of the business?
- Understands the transition from employee to leader?
  - Can transition from part of the team to leading the team?
  - Has the respect of the employees and other leaders?
  - Has the respect of the vendors?
- Have the financial ability to buy you out?



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## 4.0: A plan for transition

- Can they get bank financing to pay you.
  - Consider SBA 504 Loan or other local IDA participation.
  - If no, how much will you need to finance?
  - For how long?
- What happens if they can't make the payment?
  - How does this change your retirement?
  - Do you really want to go back into the business to sell it again?



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## 4.0: A plan for transition

- Seller Financing aka “Holding Paper”.
  - Not a good idea. If you are behind the bank, they will pay the bank and not you.
  - Expect the funds you get at the closing to be the last money you will ever see.
  - Keeps you on the hook for their poor performance.
- Co-signing to help them out.
  - Some people call a co-signer “A fool with a pen”.
  - Keeps you on the hook for their poor performance.



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## 4.0: A plan for transition

- How to market to sell to an unrelated party?
- Financial Preparation
  - Prepare your financial statements so they highlight successes.
  - Be able to explain all aspects.
- Site Preparation
  - Clean up the site, make the cosmetic repairs you have put off.
  - Get rid of obsolete equipment.
  - Update signage.
  - Polish and lipstick.



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## 4.0: A plan for transition

- Update Employee Manuals.
- Update Safety Manuals and Guidelines.
  - Site Safety Maps.
  - Safety Signage.
  - Speed limit signs.



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## 4.0: A plan for transition

- Identifying potential buyers
  - Who are the big players in the industry that are not in your market?
  - Are there friendly competitors that would have interest in expanding?
  - Vendors looking to expand their offering?
- Engage a business broker
  - Offers you a go between to interact on your behalf.
  - Allows you to run the business while still marketing it for sale.
  - Maintains confidentiality during the process.



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## Before you start 4.0...

- Talk to your CPA...
  - What are you doing now that you should change?
    - Loans to shareholders need to be addressed.
    - Personal expenses paid for by the business?
    - Others perks that you will need to curtail.
  - What are the tax implications of a sale?
    - Get an estimated net proceeds number now!
  - What legal things do you need to do
    - With the business ownership & structure.
    - Payments to former shareholders?



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## Summary

- 1.0: The Emergency Plan:
  - This is a must as it will protect your business at its most vulnerable.
  - Easier to plan if there is a good relationship with open communication.
  - Should be reviewed periodically as the business grows.
  - Is the building block for the other three (3) plans.



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## Summary

- 2.0: An organized approach to keep the business functioning
  - Establishes consistent business processes and standards.
  - Improves productivity.
  - Enhances Quality Control.
  - Builds company infrastructure that will make 3.0 and 4.0 easier.



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## Summary

- 3.0: Commitment to Value
  - Your employees will have effective input in the growth of the business.
  - Standard approaches provide certainty in outcomes.
  - Your employees are empowered to make improvements.
  - Unnecessary costs are reduced.
  - Profit margins are protected and improved.



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## Summary

- 4.0: A Plan for Transition
- Well-run businesses with standard practices are more attractive to buyers.
- Will command a higher price.
- Standard practices transition to the new owners.
- This protects your interests after the sale.



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## Summary

- Businesses that focus on the fundamentals...
  - Tend to have strong performance in all markets.
  - Maintain a strong balance sheet.
  - Have the ability to weather storms.
  - Provide owners and employees with long term stable income.
  - Drive a better value to their owners when marketed for sale.



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## Sources

- The e-Myth Revisited by Michael Gerber
- The Great Game of Business by Jack Stack
- A Stake in the Outcome by Jack Stack
- Change the Game by Jack Stack
- How to Run your Business so you can Leave it in Style by John H. Brown
- Exiting your Business & Protecting your Wealth by John Leonetti
- Overcoming the 7 Deadliest Communication Sins by Skip Weisman
- Lincoln on Leadership by Donald T. Phillips



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## Succession Planning for your Precast Business

- Questions?



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## Thank you for attending

I greatly appreciate the opportunity to have given this presentation.

If you have any questions going forward or would like to reach out to me:

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