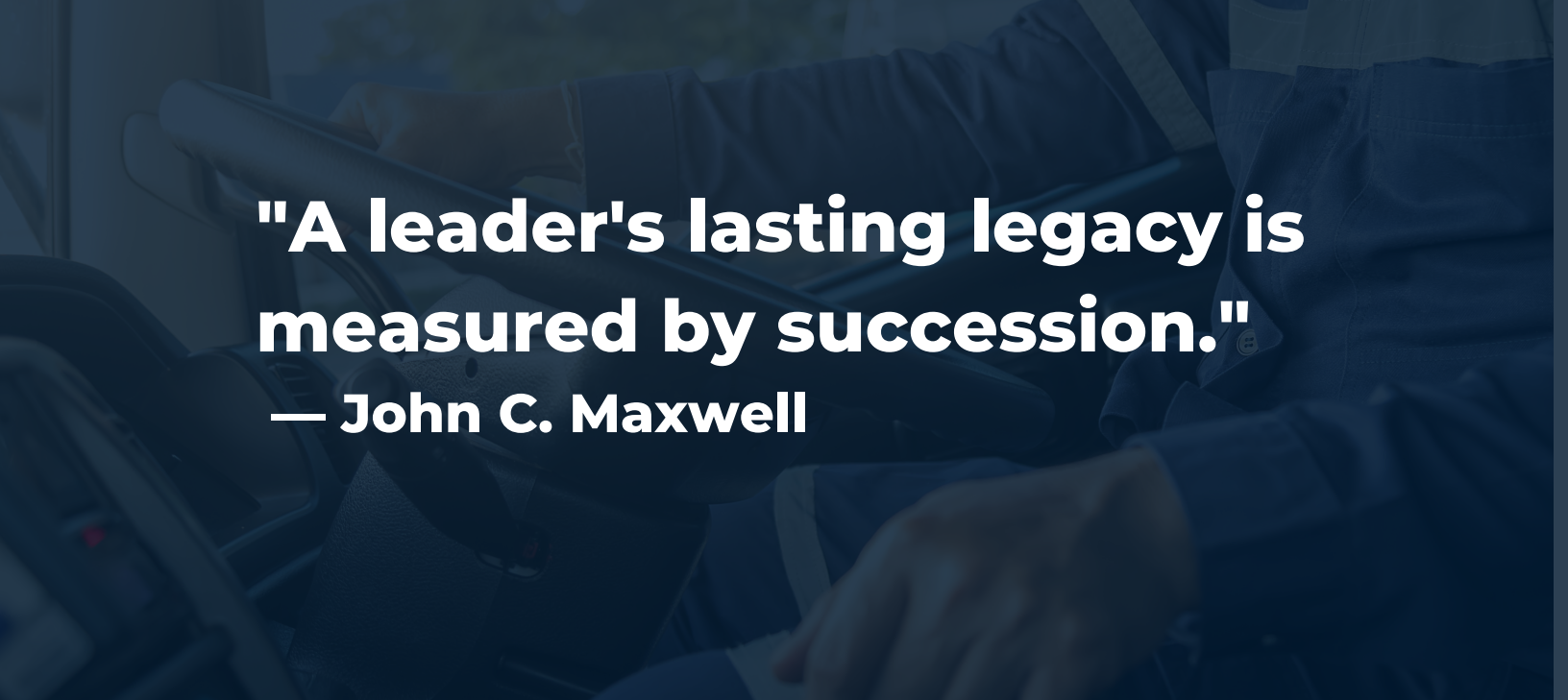


7 BEST PRACTICES

FOR SUCCESSION PLANNING



TENNEY
GROUP




**"A leader's lasting legacy is measured by succession."
— John C. Maxwell**

7 BEST PRACTICES FOR SUCCESSION PLANNING

If the world around us is constantly changing, isn't it a misuse of time to invest in succession planning? It is a fair question with a simple answer. Absolutely not. When it comes to succession planning, success is not found in a plan. It is created through a process. Executing seven best practices in the right sequence over and over is the formula for multiplying and protecting all of your available strategic options. It is also the key to honoring your family and preserving the wealth you have created through your trucking business. Below is a summary of each of the seven best practices.

#1 ESTABLISH WHERE YOU ARE

The foundation for success is a current, reliable, 3rd party valuation. This is paramount because later we will be asking people you care about to use this data to shape significant decisions that affect the future of your business. The business valuation must come from a third party (objective), and it must come from a source that understands the uniqueness of the transportation and logistics industry.



#2. SHARE

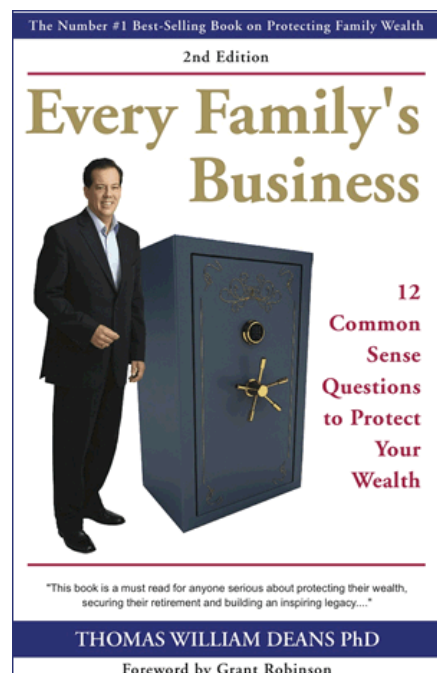
For many business owners, sharing business valuation information with family members and senior leaders seems risky. Sharing information with a potential successor is what allows you to reduce risks around a future transfer of ownership.

It also empowers your potential successors to enhance the value of the business. By educating potential successors about what is driving business value and how they can affect it, you are reducing the company's dependence on you which will ultimately lead to more control over a future exit.

This is not a one-and-done conversation. It is an ongoing commitment to one another. Many family members rarely talk to each other about what they want from the family business. In the absence of effective and regular communication, business owners can make assumptions about the future that endangers the family and the business.

"My dad used this same process as part of our succession strategy. One tool we used as we implemented best practice #2 was a book called "Every Families Business" by Tom Deans. It gave the two of us a blueprint for having tough conversations that most family-owned companies avoid."

— *Spencer Tenney*



A man wearing a plaid shirt, jeans, a cap, and sunglasses is working on the large wheel of a truck. The background is a solid blue color.

SUCCESSION PLANNING IS A PROCESS NOT AN EVENT.

#3 ESTABLISH GOALS

Once you have established where you are, you need to identify where you want to be when you transition your business to a family member or an outside buyer. Specifically, you need to define how you want to live and give following a transition and what amount of after-tax dollars will be necessary to experience that. This is a great time to loop in wealth advisors and tax advisors who will likely give you more clarity and confidence about the next chapter of life.

#4 DEFINE AND QUANTIFY GAPS

After you have established your goals, it is critical to define and quantify the gaps between where you are today and where you need to be to realize your goals. There are many ways to close a valuation gap, but almost all require some or all of the following: time, energy, risk, and capital.

Depending on your current season of life, commitments to family, and personal health, your options, and interests in closing the gap may vary greatly. Be honest with yourself about what you are willing to exchange for a better future outcome. If you are not willing to exchange any of those four requirements, then it may be in your best interest to transition the business now.

#5 EXPLORE POSSIBLE EXIT CHANNELS - BEST FIT

Many business owners don't discover an important fact until it is too late. There are many available exit channels that can allow you to transition the business in part or whole, create liquidity, and promote the interests of your family. A few examples include: a partner buyout, 100% sale, recapitalization through a private equity group that includes roll forward equity, employee stock ownership plan, management buyout, etc.

Each of these exit channels present different potential financial outcomes for the seller and very different deal structures. Educate yourself about these potential options. **Determine what channel best addresses your goals today and what preparation may be required to experience that specific outcome.** This discipline will expand your overall playbook, allow you to be more adaptable to changes in the market, and multiply your options for promoting the interests of your family and employees.

CHANNEL	METHOD	VALUE
Liquidation	Asset Market Value	\$2.4 MM
MBO	Investment Value	7.5 MM
ESOP	Fair Market Value	9.2 MM
Equity Recap	Financial Market Value	12.0 MM
Negotiated	Owner Value	15.8 MM
Auction	Synergy Market Value	16.6 MM
Public	Public Value	18.2 MM

**Example: If you're a large employer in a small town, you may want to think carefully about how a buyer's post-transaction plans could affect the employment opportunities for the people who depend on you. The plan of a private equity group and the plan of a national strategic buyer may be very different.*



#6 RINSE AND REPEAT ANNUALLY

Our lives and businesses change all the time. The problem has a solution, but it is not in a plan. It's in a process. Rinse and repeat all these steps each year. Your goals will change. Your potential successors will change.

Politics and the regulatory environment will change. Your health will change. And your business will change. As long as you are implementing these best practices, you will stay ahead of the game, bless the people you care about most, and remain in control of all of your business transfer options.

***Recommendation:** Many families arrange to have annual and biannual conversations away from their homes and businesses. Neutral ground typically extracts more constructive and authentic communication within in a family when discussing goals and risks.

#7 BE A HERO, ACT

Lastly, none of these practices matter unless one person takes action and leads. My dad modeled this wonderfully in our business. He had commitments to my mom to reduce financial risk and exposure. Scaling our M&A practice required new financial risks he was no longer comfortable taking.

He also wanted our employees to realize their full potential, and he knew that an ownership transition was necessary for that to happen. He initiated action and because of that, many lives changed for the better.





**"It takes 20 years to build a reputation
and five minutes to ruin it. If you think
about that, you'll do things differently. "**
— Warren Buffet

Transferring ownership within a family can be a beautiful thing. As a product of it, I am huge advocate of internal business transfers when they make sense. Sometimes, it's not in the cards.

This process reduces unnecessary risks, honors and elevates everyone involved in the process, and promotes the interests of both the family and business. When you follow it, you will transition the business at a time that is right for you with peace of mind and no regrets.



Spencer Tenney

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CEO, Tenney Group

About Spencer Tenney: Spencer Tenney is the President and CEO of the Tenney Group. Tenney Group is an industry-specialized merger and acquisition advisory firm that has been dedicated to transportation and logistics since 1973. Tenney Group's core business is sell-side representation services for trucking and logistics companies with annual revenues ranging from \$20M – 300M. For more information, visit www.thetenneygroup.com

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