



Planning for What's Next: Succession Planning for A&D Suppliers

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USCPrice

Sol Price School of Public Policy
Center for Economic Development



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*Center for Economic
Development*

Outreach arm of the Price School of Public Policy

Supports EDA's mission by

- Providing technical assistance to economically distressed and underserved communities
- Developing strategies to enhance collaborative regional innovation

Capabilities

- Planning
- Economic development and policy studies
- Feasibility and market analyses
- Needs assessments
- GIS mapping
- Consensus building
- Technical assistance workshops
- Strategy development



Presentation Overview

1. Issue overview
2. Psychology of Succession
3. Planning Process
4. Resources
5. Questions and Answers



The Unsure Entrepreneur

- Founder ready to retire after 30 years
- General manager is groomed as buyer
- Slow economic recovery derails sale
- Enter AMP SoCal
- Purchase completed June 2017
- Energized workforce, company in growth mode
- Branding and Marketing plan completed

What is Succession Planning?

Succession planning is a process for identifying and developing new leaders who can replace old leaders when they leave, retire or die.

Succession planning increases the availability of experienced and capable employees that are prepared to assume these roles as they become available.

Taken narrowly, "replacement planning" for key roles is the heart of succession planning.

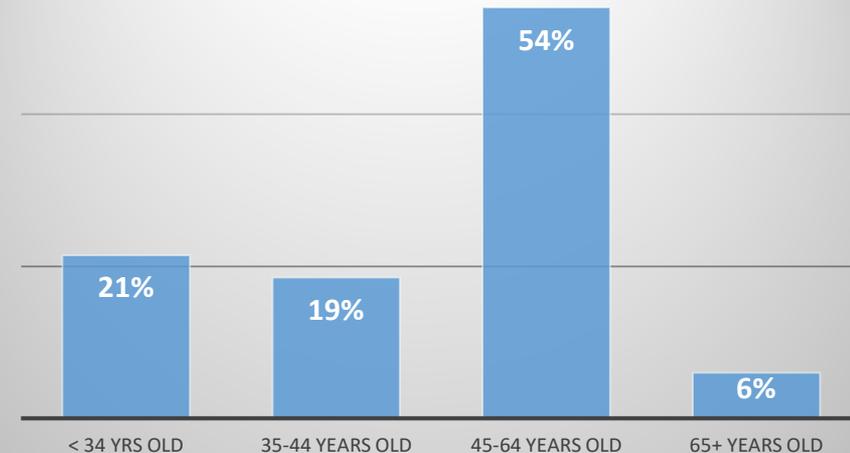
Major Industry Challenges

- Cost reductions
- Reduced capacity of aging workers
- Replacing retiring workforce
- Need for diversification
- Rapidly changing technology
- AS 9100 Rev. D update
- DFAR Cybersecurity protocols
- Cash flow, access to capital, and capital investment
- Succession planning



Age Breakdown of A&D Industry in CA (2015)

Source: Center of Excellence



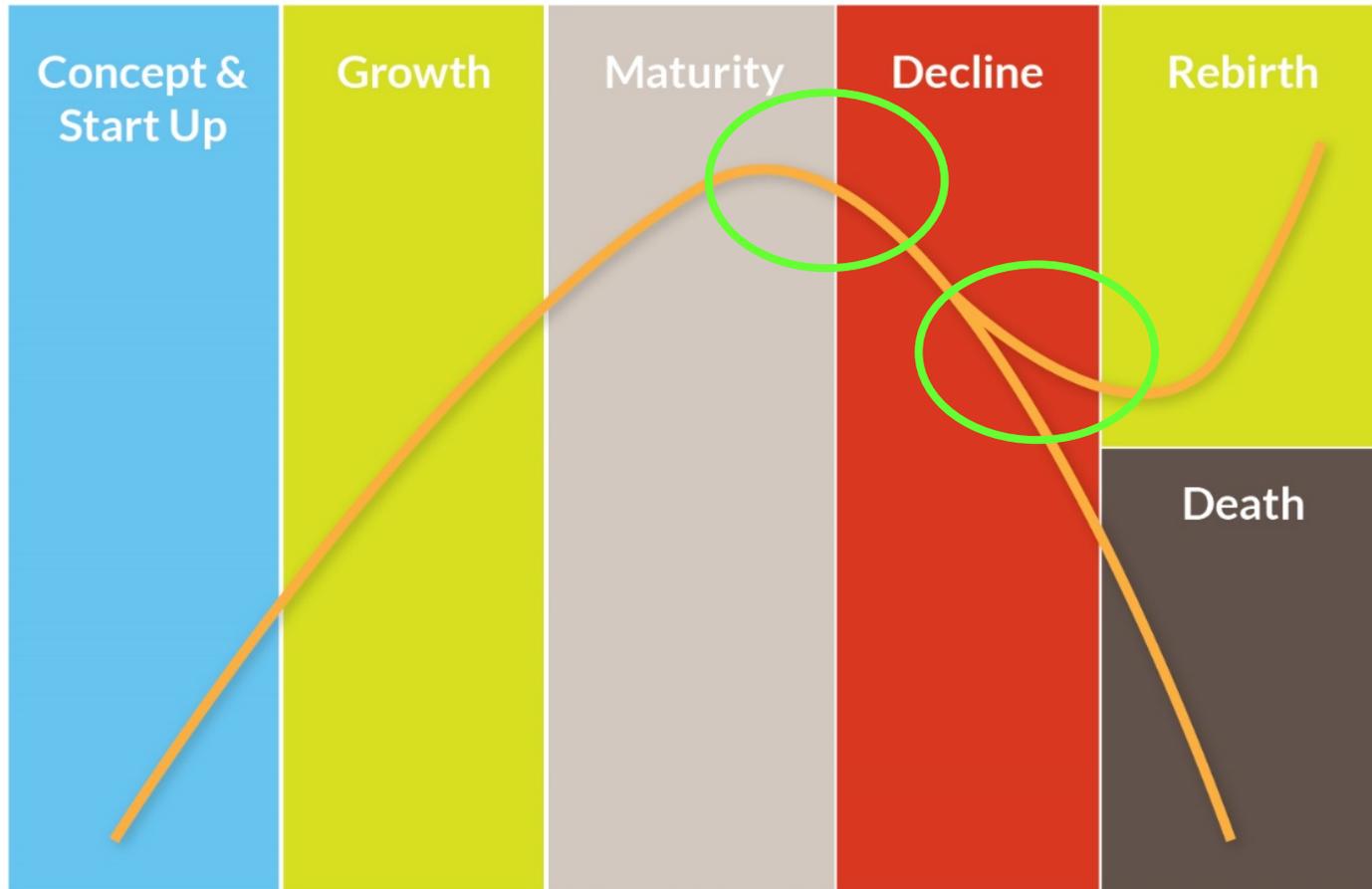
Critical Issue: Silver Tsunami



**SME CHIEF WARNS OF 'SILVER TSUNAMI' FACING
MANUFACTURING**



Business Life Cycle



Business Life Cycle: To stay in Growth, or have a successful Rebirth, brands need to 'face the market.'

The Tale of the Golden Pins

- Exclusive contract to produce brass pins
- Mature business- owned real estate and machines
- No succession plan!
- Catastrophic life event
- Ownership passed to family trust
- Business CLOSED because of counselors' choices not market forces
- 20 jobs lost

Psychology of Succession

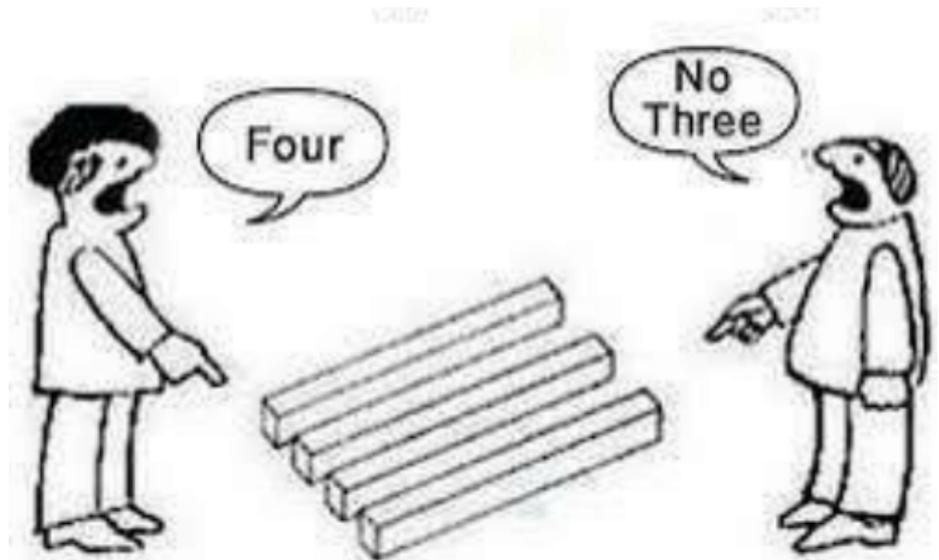
- No exit plan
- Risk Averse
- Retirement is sale of business
- Recent Investments outside of business
- Valuation heartbreak
- Legacy and workers
- Low probability of sale



Our succession plan is we don't talk about it!

Owners & Buyers– 2 Perspectives

- Business Owner is selling INTANGIBLE GOODWILL
- Third Party Buyer is Buying : PROFITS
- Employee-Buyers understand the value of GOODWILL.



Business Ownership Succession

1. Identify company ‘at risk’ due to transition issue—
age or health of owner, etc.
2. Identify reason(s) why company should stay local
– job impact and tax revenue loss
3. Valuation study- ‘Windshield’ vs ‘Full’
4. Identify resources needed: financing, research,
permit issues, business planning
5. Help assemble transition team (lawyers, lender,
accountant, etc.)

Sample Steps and Timing

- Key stakeholders **EXPLORE** the idea
VARIES → OWNER COMMITS RESOURCES
- Professionals **ASSESS** feasibility
6 MONTHS → DEAL IS DEEMED FEASIBLE
- A team **STRUCTURES** the transaction
6 MONTHS → FINANCING IS READY
- The transaction is **COMPLETED**
3 MONTHS → OWNERSHIP TRANSITION
- Operations and culture are **SUPPORTED**
VARIES → SUCCESSFUL OPERATIONS

Family Matters

- Family owned small business with plan to transition to children
- Business placed in trust
- Sticking point: founder's valuation doesn't match bank's valuation
- Seller wants ongoing income from business
- Children have to raise debt to buy out parents
- New staff will be need to replace retiring owners (Sales and quality control)
- Business can not support increased overhead

Succession Plan Components

1. ASSESS

- Significant business challenges in the next 1–5 years
- Critical positions needed to support business continuity
- Competencies, skills & institutional knowledge critical to success

2. EVALUATE

- High potential employees
- Competencies needed to successfully meet business challenges
- Categorize skill or competency gaps
- Predict the likelihood for attracting qualified candidate pool

3. DEVELOP

- Capture the knowledge that individuals possess before departing the organization
- Develop a pool of talent to step into critical positions through targeted career development strategies

Funding and Support for before and after the transition

- WIOA funding: Layoff Aversion
- SBA Loans: finance 75% of all small business acquisitions
- EDA RLFs: provided jobs are NOT relocated
- Hiring Tax Credits: WOTC, CCTC
- SBDC Counseling and Training: needed for new owners
- Assistance with plant relocation: real estate drives many older company sales

Lessons Learned

- #1: It is a highly competitive marketplace.
- #2: Employees don't know they can buy the company or even that it is for sale.
- #3: Exiting owners deplete a company of value as they wind down their involvement and head for the door.
- #4: Tax consequences can make or break a deal.
- #5: Working capital loan after purchase is easier to obtain than money to purchase the company.

Conclusion

It is not enough to solve the challenges like cybersecurity or capital access

Defense firms must begin marketing and seeking new opportunities and markets

New ideas and new energy are sometimes needed to make a firm more competitive

To keep this sector thriving in America it must also find the new business owners of tomorrow



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