



# Succession Planning for Book Publishers: An Overview





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## Succession Planning in the Book Publishing Industry: An Overview

This guide is intended for owners, managers and employees of Canadian publishing firms who may be facing the challenge of ownership succession in the next several years. No guide could cover all cases of succession. Each is unique. This guide, however, will introduce you to the succession planning process and help you to identify resources you will need to create your own succession plan.

### What is Succession Planning?

Simply put, succession planning is the personal and financial planning you need to do so that your company can pass from you to its next generation of leaders.

The process is twofold:

- > First there is the transfer of ownership, which involves transferring shares or assets, choosing a structure for the financial transaction, and realizing personal and financial goals.
- > Then, there is the transition of leadership, which involves choosing and grooming a successor, determining appropriate decision-making structures and the level of participation you will have in decision-making once you have begun to step down, and developing a plan to communicate changes to internal and external stakeholders.

The process can take several years and requires the involvement of your family and employees as well as help from professional advisers. Careful planning is essential for a successful transition. Done properly, it will ensure continuity of both the business and your publishing program, help you realize your firm's financial value, minimize taxation, and let you get out of the business in an orderly fashion.

## Getting Started

What follows lays out the basic steps that any owner should consider when working through the succession process. Bear in mind, however, that each succession is unique. Depending on the speed of transition and the various factors at play, some of these steps may actually occur simultaneously.

### STEPS IN THE SUCCESSION PROCESS

1. Make the decision to initiate succession planning.
2. Rank your objectives, both for the firm and for yourself.
3. Assess your assets and liabilities: how much is your company worth?
4. Identify potential transferees or buyers.
5. Evaluate your potential successors.
6. Commence mutual due diligence with short-listed candidates.
7. Select your successor and negotiate the details of a transaction.
8. Announce the transaction and complete the transition period.

## Step 1: Make the Decision to Initiate Succession Planning

The first step may seem obvious, but according to research done by the Department of Canadian Heritage, it is one that more than thirty per cent of owners of Canadian publishing companies fail to take. For a variety of reasons, rather than facing the question squarely, and then coming up with a realistic, concrete timeframe to start planning, many who plan to retire neglect to think about their succession. As a result, owners might leave succession planning until it is too late and the disposition of the business becomes a matter of crisis rather than the conclusion of a carefully structured plan.

Publishers typically say that theirs is an industry like no other. In many respects, this is true. Those entering the business frequently do so for reasons of love rather than money, and the industry's rewards are frequently of an intangible nature. But whatever its unique qualities, publishing does resemble other industries in many ways. And the question of succession is one of these. More than fifty per cent of the companies in the Canadian publishing industry have owners who expect to retire in the next five to ten years.

If you are among them, once you have determined that you are ready to start thinking about your succession, and you are willing to spend the time, money and energy to do it properly, you can begin your planning. This will involve looking at all your options systematically – and honestly – and considering which one works best for all the concerned parties. Draw up a rough timeline for your succession planning, one that includes milestones and a rough budget. And draw up a list of

professional advisers whose help you may need to create your succession plan: your financial adviser, accountant, estate lawyer, business lawyer and possibly a transition consultant.

## Step 2: Rank Your Objectives

It is very important to decide what succession objectives are most important to you. Try to sort your goals into two general categories: your own financial goals and the goals you may have for your company.

### OBJECTIVES FOR THE FIRM

In terms of the company, ask yourself:

- > Do you want to leave a legacy? Is it important to you that the company you have built continue to exist with the same vision or mission you set for it?
- > How do you define continuity?
- > Do you want the company to stay within your family?
- > Have you considered realizing the value of your company through immediate sale, either of the firm or its assets, as an alternative to finding a way for the firm to continue operating with a successor?

When considering your objectives, there may be others who will influence your decisions, such as partners, family members or highly-skilled staff.

### PERSONAL OBJECTIVES

When looking at your personal objectives:

- > What plans do you have for the years following your retirement and what financial resources do you think you will need to fulfill them?
- > Are you prepared to accept the risk that some or all of the proceeds of sale of your company may be paid to you over a period of years and will be dependent on the financial success of the company after the sale?
- > In terms of a payoff, are you focused on the short term (that is, three years or less) or the longer term?
- > Would you prefer a lump-sum payment and no ongoing involvement with the company after the sale, even if it means that the amount you receive is significantly less than what you might receive over time with a deferred payment arrangement?
- > Are you prepared to stay involved in management after the sale if the purchaser requests it as a term of the sale?

Realistically, you probably want to realize several objectives, of varying degrees of importance. Some points may be non-negotiable, others less so. Try to create a list of your objectives ranked by importance.

## Step 3: Assess Your Assets and Liabilities

Once you have established your objectives, you will be better able to assess your assets and liabilities.

### WHAT ARE YOUR TANGIBLE AND INTANGIBLE ASSETS?

Put simply your firm is comprised of assets and liabilities. In order to set a realistic price for the sale of your company, you will need to take a measure of what you own – assets – and what you owe – liabilities. A publisher typically might have such tangible assets as buildings, equipment, inventory, cash in the bank and receivables. The book value of these assets can be determined simply by reviewing your balance sheet and their market value can typically be determined by a professional appraisal. Against these assets you must balance your liabilities. These would include such items as bank loans and lines of credit, equipment leases and accounts payable.

Your firm will have intangible assets as well – that is, things of value that cannot be physically touched but that provide a legal claim to some future financial benefit. Intangible assets include such things as intellectual property (*i.e.*, copyright in literary works on your list), brands (*i.e.*, imprints or series titles). Intangible assets might also include human capital – that is, the expertise, experience and organizational effectiveness of your employees. Generally accepted accounting principles do not address intangible assets in a comprehensive way, mostly due to their rather amorphous nature, but these things can all add to your company's value. Be conservative, however. Perhaps because of their strong emotional attachment to their work, owners in the publishing

business tend to overestimate the value of their assets, particularly their intangible assets. While it is true that publishers and books play a significant role in the cultural life of Canada, this role may not be directly reflected in the monetary worth of a publisher's assets. Or rather, it may not be reflected to the degree that the owner of a publishing house might like or would expect. The key question to ask in evaluating your intangible assets is this: what future financial benefit can these assets realistically produce?

### CHOOSING AN APPROACH TO VALUATION

Actually working out the valuation of your assets, tangible and intangible, is more than a case of simple addition. You and your advisers will need to make a decision about how you evaluate them. Will you use discounted cash flow, or the firm's liquidation value?

A discounted cash flow approach requires you to make some informed assumptions about how much cash your company might earn in future years and then assign a current value to those future benefits. To do this, you must consider what revenue your company will generate from both its tangible and its intangible assets in the future. Think about all the new title and backlist sales the company might make over the next several years, taking into account the pessimistic, realistic and optimistic projected results. The revenue earned in each of these future years should then be discounted to reflect the risk that the expected outcomes might not materialize. In other words, discounted cash flow asks the question: "How much would someone pay me today in one lump sum in exchange for the chance to earn the income that you expect the company to make in the future, taking into account the fact that the income is not at all guaranteed?"

Discounted cash flow analysis is more complicated than liquidation value analysis, which simply determines the current market value of the assets that comprise your company (i.e., not as a going concern but simply as a bundle of assets that can be sold). Another approach is to look at comparable transactions – that is, to monitor the market for transactions involving companies of similar size, scope and nature to yours and drawing value comparisons between the two.

Once you have conducted this evaluation, you can proceed with the next important step in your succession plan, creating what is termed a sales and disclosure document. This document provides a potential purchaser with the financial data they will need to develop their own view on the company's value, as well as offering a narrative description of the operation, and its risks and opportunities.

## Step 4: Identify Potential Transferees or Buyers

After you have ranked your objectives and completed your assessment of the assets you would like to sell, you can start listing potential buyers or transferees.

Generally these could break down into three groups:

- > Family members.
- > Employees – either an individual or a group of employees who might be interested in buying the firm.

- > Outsiders – this group might include competing or complementary publishers who might want to expand, media companies seeking crossover opportunities, suppliers who might want to consolidate part of the value chain or investors who simply seek a financial return.

Depending on your objectives, this list of potential buyers may be short or long. As you create the list, ask yourself the following questions:

- > Who might have the potential – in terms of ability and experience – to run the company?
- > Is there anyone in your family or within the company with the required skills or the potential to develop them?
- > If they have the ability, do you think they would have the interest and motivation?
- > What about their financial resources?
- > Are there any competing or complementary publishing, media or other related companies who could be interested in combining your operations or list with theirs?

You may already have some ideas about this; now is the time to write them down.

Give some thought as well to how you might approach the people you want to talk to about this, about how many people you actually want to meet with, and how urgently you want to get the process started. Don't overlook this stage just because you hope to pass the company off to family members. You should approach them beforehand, like any other potential successor, rather than unilaterally planning the succession, an action with potentially mutually unpleasant

repercussions. Surprises can arise when assumptions have not been tested.

Remember that Canadian publishing is a very small world. You are going to be revealing a lot about your business, and the people you talk to may talk to others – including people you really don't want to give information to. Who can you trust? It is not inappropriate to ask people sign a confidentiality agreement before talking to them.

## Step 5: Evaluate Your Potential Successors

Working through *Step 2*, you created a list of goals you hope to achieve through your succession. Following the questions in *Step 4*, you will have identified a number of possible successors. The next step in planning is to evaluate your potential successors in the light of those objectives. There are three areas to consider:

### VISION

If the continuity of your vision for the company's future is important to you, you must determine if potential successors share this vision. Even if you are prepared to see the company move in a new strategic direction under new leadership without your guidance, are you confident that the strategy is sound? This question is particularly important if the proceeds of sale are deferred and dependent on post-sale performance.

### ABILITY

You need to determine if the candidates have the skills required to ensure a successful transition of ownership and the effective ongoing management of the business. If their skills are inadequate,

is there a way to develop them such as formal training or by planning a longer transition period during which the successor works very closely with you?

### FINANCIAL RESOURCES

If you expect to receive all or part of the proceeds of sale at the time of closing, you need to determine if a potential successor has the financial resources to complete the transaction. If the successor's financial resources are inadequate, you must consider whether you are willing to finance all or part of the sale yourself.

No successor will be perfect. Some may have the money but lack the vision, or share your vision but be a little weak in terms of skills. But by weighing your objectives against the qualities of your possible successors, you should be able to create a workable short list.

## Step 6: Commence Mutual Due Diligence with Short-Listed Candidates

Due diligence is nothing fancy. It simply means fact-checking the claims and representations of the person or persons you are considering entering into an agreement with. In the case of planning your succession, it means finding out if your various potential successors can deliver on any promises they have made to you. And of course, by extension, they will be carrying out similar checks on you and on the business.

What due diligence entails may vary. Partly it will be determined by how many possible successors you have on your short list, and partly by how far

you want to take the process. How much time – and money – are you willing to commit to due diligence? You will probably want to look at your potential successors' financial and legal situations and run reference checks. Do you want to take it farther? Perhaps even by conducting interviews with people who can give you information that might not show up elsewhere, information about work relations, for example, or publishing savvy?

Due diligence is a key step in your succession strategy, and you will need to call on professional advisers to help you. And don't forget that your possible successors need to carry out due diligence as well. In addition to the sales and disclosure document previously mentioned in *Step 3*, you should also draw up a detailed history of your company and its publishing program. Be upfront – it is better to tell the truth than to have a potential buyer unearth things for themselves.

## Step 7: Select Your Successor and Negotiate the Details of a Transaction

Having conducted your due diligence review, you now have a solid list of potential buyers. At this point, you can begin negotiating the sale of your company on terms that are consistent with your personal objectives. Negotiation is another stage where you will need to call heavily on professional advisers, either to help you negotiate or to carry out the actual negotiations.

Professional advisers are particularly helpful where your successor is a family member or members. Past history, questions of fairness and the complex

dynamics of family relationships can all come into play in unexpected ways. Dispassionate outside experts can work with you to avoid conflicts and help to resolve them if they arise.

Before negotiations begin, it is important to have a plan.

- > What thoughts do you have about pricing?
- > Do you have an idea about how the deal is going to be structured?
- > Do you expect to receive a cash purchase price all at once, or are you prepared for the purchase price to be paid to you over a period of time?
- > Will the purchase price be fixed or will it vary depending on the results of the business for some period of time after the transaction?
- > Does your successor have access to financial resources necessary to meet your expectations?
- > Finally, is there any point or points that, as far as you are concerned, are utterly non-negotiable, that count as deal-breakers if you can't get them? Be reasonable, but stick to your objectives.

Try to keep in mind, too, what is motivating the other side and factor that into your plan. Remember that, as mentioned earlier, succession is a two-part affair. Your exit from the company and the financial benefits of the sale are important to you; but you are also concerned with the firm's future leadership.

- > What can you do to make the transition in management a smooth one?
- > How long will it take to transfer the leadership of the company from you to your successors?

- > During this period, what different roles and responsibilities will you and your successors have?
- > How will the company's reporting structure work during the transition?
- > Will the company's organization need to change?

At the same time as you are carrying out these negotiations, you may find yourself involved with another set of problems. It sounds like a cliché, but one of the most important assets of any publishing house is its people. A talented editor, a skilful designer, an experienced sales force or top-notch production people can be essential to a company's continued success, but we don't have the control over them that we have over our other assets. Can you do anything to guarantee that people who were instrumental in your company's success will stay in place, for at least part of the transition?

## Step 8: Announce the Transaction and Complete the Transition Period

Another key, and often very sensitive, point in the succession process is how to handle the announcement of the change of management, both internally and outside the company. However carefully you have planned, the news may have unexpected effects, particularly on company morale and productivity. Employees may be anxious and worried. What can you do to help them absorb this profound change in their work lives?

## Conclusion

Ultimately a successful transition should benefit everyone. Most obviously that means you, the exiting owner and manager, who in the best case will have realized all of your personal objectives, in terms of both money and other less tangible but no less important benefits. Your successors will have benefited from your proper planning, receiving a company in good order and hiding no nasty surprises. Beyond that, the industry and the culture it supports also do well. Imprints and authors stay in print rather than simply disappearing, and the diverse voices that are so important to a thriving book culture are maintained.

## List of Resources

### **Canadian Heritage**

[http://www.pch.gc.ca/progs/ac-ca/progs/pap/pubs/eameqs-sspopc/index\\_e.cfm](http://www.pch.gc.ca/progs/ac-ca/progs/pap/pubs/eameqs-sspopc/index_e.cfm)

*Survey on Succession Planning of Owners of Publishing Companies produced by Étude Économique Conseil (EEC Canada) Inc. in March 2003*

### **Government of Canada – Human Resources and Skills Development**

[http://www.hrsdc.gc.ca/en/cs/fas/as/lib/RC\\_v7\\_n3.shtml](http://www.hrsdc.gc.ca/en/cs/fas/as/lib/RC_v7_n3.shtml)

*A succession planning article first appearing in Workplace Gazette, Vol. 7, No. 3, Fall 2004 and written by Michèle Auger, Fred Longley and Edward Popoff*

### **The Business Development Bank of Canada**

[http://www.bdc.ca/en/my\\_project/Projects/articles/succession\\_plan.htm](http://www.bdc.ca/en/my_project/Projects/articles/succession_plan.htm)

*Articles on succession planning options*

### **Canadian Federation of Independent Business**

[http://www.cfib.ca/research/reports/succession\\_0405\\_e.pdf](http://www.cfib.ca/research/reports/succession_0405_e.pdf)

*An article on business transition in the Canadian Small and Medium-sized Enterprises (SMEs) sector*

### **Industry Canada**

<http://strategis.ic.gc.ca>

### **Canada Business Service Centres**

<http://www.cbcs.org/>

*First stop for information on Federal and Provincial programs and services*

