Succession Compression™

How time pressure destroys choice before it destroys value

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The Merrick Spitters Reset Report™

Executive Summary

Succession rarely fails because an owner never heard that planning was important. It fails because decisions that could have been made gradually are postponed until an event imposes a deadline.

We use the term Succession Compression™ to describe what happens when decisions that should have been made over years are forced into months, weeks or days.

Compression can begin with illness, death, burnout, partner conflict, the loss of a key customer, a tax or regulatory change, a covenant breach, an unsolicited offer or a lender's reassessment. The owner who believed there was time suddenly faces deadlines imposed by health, family, institutions or markets.

The resulting loss is not limited to a lower sale price. Succession Compression™ can narrow tax options, increase financing costs, strengthen a buyer's negotiating position, intensify family disagreement, unsettle employees and force the family to sell what should have been retained or retain what should have been sold.

This white paper explains the mechanics of compression, the early warning signs, and a practical process for restoring time and choice. It is rooted in our lived histories and in decades of patterns Peter observed across Canada and the United States, including those represented in The King of Main Street.

Time Is a Form of Capital

Owners naturally measure capital in dollars, property and business value. Succession adds another form: time.

Time allows a successor to learn. It allows a management team to earn authority, a company to reduce customer concentration, a family to discuss fairness, a lender to review a transition, and legal and tax advisors to compare alternatives. Time makes it possible to arrange insurance while health permits, build reserves gradually, amend agreements deliberately and sell when the terms are acceptable.

When time disappears, every other form of capital becomes harder to use.

Peter learned the limits of time through personal loss as well as professional work. The death of his close friend Larry reinforced the importance of helping people recognize options, community and reasons to continue. His own book, The King of Main Street, later helped reopen a relationship with his son after more than twelve years of estrangement. Both experiences shaped a simple conviction: an important conversation is itself a succession asset, but only if it happens while the people involved can participate.

Adrian's career began during the 1987 market crash. The Dow fell 22.6% on October 19, 1987[1], one trading day after he wrote his Canadian Securities Course examination. Later market cycles reinforced the same lesson. Preparation cannot predict every shock, but it can reduce the number of decisions forced into the worst possible moment.

[1] Federal Reserve History, "Stock Market Crash of 1987."

In business succession, time is the interval in which choice can be converted into structure.

Defining Succession Compression™

Succession Compression™ has three components:

A decision backlog. Important choices about authority, successor, value, liquidity, debt, tax, family fairness and post-ownership purpose remain unresolved.

A forcing event. Health, death, conflict, regulation, credit, markets or a transaction creates a deadline.

A loss of alternatives. Options that were once available become more expensive, less credible or impossible.

The process often develops quietly. The owner remains active, the company remains profitable and the family assumes there will be time later. The backlog therefore feels harmless. Compression becomes visible only when the forcing event arrives.

At that point, the family is not beginning a normal planning process. It is trying to make years of decisions inside an institutional clock.

The Compression Clock

Phase	Available time and choice	Typical institutional response	Main risk
Open choice	Owner is healthy, business stable, no immediate deadline	Advisors and lenders can review alternatives deliberately	Complacency and delay
Emerging pressure	Burnout, conflict, health concern, concentration or unsolicited interest appears	More information, valuations and contingency planning are required	Owner treats a warning as temporary
Institutional review	Change in control, guarantee, covenant, death, incapacity or transaction becomes real	Lenders, buyers, insurers, tax authorities and courts apply formal rules and deadlines	Conditional options disappear
Forced execution	Cash, authority or sale decision is required now	The family must accept available terms rather than preferred terms	Permanent loss of value, control or relationships

The phases are not measured by fixed calendar periods. A company can move from open choice to forced execution in a day after death or a serious accident. It can also drift through emerging pressure for years as the founder’s energy, customer base and management depth decline.

The purpose of the model is to identify movement before the final phase.

What Triggers Compression

Illness or incapacity. The owner may remain the legal and practical centre of the company while losing the ability to act. Authority, banking access and management continuity become immediate questions.

Death. Ownership, control, tax, insurance, debt and family responsibilities can change at once. Grief reduces the family's capacity just as the number of decisions increases.

Burnout. A founder may accept poor terms simply to stop carrying the burden. The transaction may look voluntary while the timing is emotionally forced.

Partner or family conflict. Disagreement can activate buy-sell clauses, litigation, lender concern or employee departures. Positions harden when value and identity are both at stake.

Lost customer or key employee. A concentration that looked manageable can quickly alter cash flow, valuation and buyer confidence.

Credit pressure. A covenant breach, refinancing deadline, guarantee loss or interest-rate increase can transfer timing control from the owner to the lender.

Tax or regulatory change. New rules can shorten implementation windows or change the economics of a planned transfer. Statutory deadlines are indifferent to family readiness.

Unsolicited offer. A buyer's approach can create the illusion of urgency. The owner may begin negotiating before clarifying value, tax, management, family and life after the sale.

Market disruption. A decline in public markets, property values, commodity prices or transaction financing can weaken the alternatives that a succession plan assumed.

These events do not create every weakness. They expose dependencies that were already present.

How Compression Reduces Value

Value can be compressed even when the appraised price has not yet changed.

Negotiating leverage moves. A buyer who knows the family needs a closing can demand a lower price, longer earn-out, larger holdback, broader indemnity or more seller financing.

Transferable earnings become uncertain. If the founder is unavailable, customers and employees may leave before a successor demonstrates continuity. The company's historical results no longer provide the same confidence about future earnings.

Tax options narrow. Reorganizations, elections, ownership changes, charitable strategies and cross-border planning often require lead time, qualified advice and valid non-tax purposes. A transaction already under negotiation can limit what remains practical or appropriate.

Financing becomes conditional. After death or a transition, a lender may require a replacement guarantee, while an existing personal guarantee may remain enforceable against the founder's estate depending on its terms and applicable law. Lenders may require new equity, revised covenants, appraisals, insurance or management commitments.

Liquidity needs rise. Professional fees, temporary management, bridge financing and rushed implementation can increase costs at the same time that access to cash weakens.

Family conflict intensifies. A disagreement that could have been mediated over several meetings becomes a decision about immediate money and authority.

Operational attention declines. Management becomes consumed by the transaction or crisis, which can weaken the business precisely when a buyer or lender is examining it.

This is why Succession Compression™ should not be defined only as a forced sale discount. It is a loss of options, sequence and decision quality.

Succession Is an Underwriting Event

Owners sometimes assume that the company's existing bank relationship will continue because payments have always been made. A succession event can require the lender to examine the credit again.

The lender may ask:

- Who controls the borrower now?
- Which guarantees remain enforceable and economically meaningful?
- Does the new management team have relevant experience?
- Are cash flow, collateral and covenants still adequate?
- Will tax, redemption or purchase obligations increase leverage?
- Does the shareholder agreement restrict action or create a payment requirement?

These questions are rational. They also take time.

A family that reviews them while the founder is active can adjust debt, document management depth, diversify banking relationships, arrange committed facilities and build independent capital. A family that discovers them after death is negotiating from a different position.

Pillar Two of The Five Pillars of Succession Security™ is Reducing Refinancing Dependence. The goal is not to avoid credit. It is to prevent a future underwriting decision from becoming the only route to continuity.

Canada and the United States: Different Rules, Shared Pressure

Compression is experienced through local law and institutions.

In Canada, the Canada Revenue Agency explains that a person who dies is generally deemed to have disposed of capital property immediately before death at fair market value.[2] Available rollovers, deductions and specialized rules may change the result, but the family and advisors must still calculate, file and fund the obligations on the required timetable.

In the United States, income, basis, gift and estate tax rules differ. A closely held business interest may qualify for specialized federal estate-tax installment treatment under Internal Revenue Code section 6166 when technical requirements are met.[3] Asset sales of a trade or

[2] Canada Revenue Agency, "Taxable Capital Gains on Property, Investments, and Belongings."
[3] Internal Revenue Service, Instructions for Form 706, "Section 6166 Installment Payments."

business are generally allocated among separate assets for tax purposes.[4] These mechanisms can help in appropriate cases, but they add documentation, qualification and timing requirements.

Cross-border families can face both systems plus residency, trust, entity, insurance, withholding and reporting issues. A Toronto owner with a child in California, or a San Diego entrepreneur with Canadian shareholders or property, cannot safely assume that a domestic plan will coordinate itself across the border.

The human pressure remains constant. A spouse, child or executive must make decisions while institutions apply rules that were designed for administration, taxation, credit or market protection, not for family convenience.

What The King of Main Street Teaches About Time

In The King of Main Street, Michael Stevens and his advisor, Mitch, discuss the owner's last and often largest transaction: selling or transferring the business and deciding what follows.

Then Mitch dies suddenly from a heart attack. A meeting about Michael's exit becomes a funeral.

Mitch's death causes grief but does not add preventable financial disorder. His will is current, the estate plan is coordinated and his family is protected. The distinction matters. Planning does not prevent loss. It reduces the number of unguided decisions that loss creates.

The scene also turns the succession question back toward the advisor. No professional, founder or family controls the date at which planning assumptions will be tested.

Peter wrote the story from decades of lived patterns, not from an abstract model. The terminology Succession Compression™ came later. The human lesson came first: time waits for no owner.

Two Composite Cases

The following cases combine recurring patterns and do not describe a single family.

The profitable Canadian manufacturer. The founder is exhausted but has not prepared a management successor. An unsolicited buyer offers an attractive headline price and requests exclusivity. The family assumes the sale will solve retirement and estate planning.

During due diligence, the buyer discovers customer concentration, undocumented pricing authority and environmental obligations. The founder has already signalled a desire to leave and has no competing bidder. The price is reduced, part of the consideration becomes an earn-out and the founder must remain for two years.

The company did not become worthless. Choice was compressed. Earlier preparation could have reduced dependence, organized records, tested value and allowed the founder to negotiate from a position of financial independence.

The U.S. family company after incapacity. The founder suffers a serious health event. A child works in the company but lacks formal authority. Another child holds an equal interest through

[4] Internal Revenue Service, "Sale of a Business."

the estate plan and questions major decisions. The bank requests updated guarantees and financial information. Key employees receive calls from competitors.

Within weeks, the family must address authority, compensation, ownership, financing and customer communication. Each decision affects the others. What could have been sequenced over several years is now being attempted under medical and institutional pressure.

The primary damage is not yet a valuation loss. It is the family's inability to choose the timing and order of decisions.

Early Warning Signs

Succession Compression™ usually sends signals before the crisis phase.

- The owner has postponed a transition date repeatedly.
- One person remains the only signer, guarantor or holder of essential knowledge.
- The intended successor has a title but little real authority.
- The family avoids discussing fairness, control or the owner's retirement needs.
- The business valuation is old, informal or dependent on optimistic assumptions.
- A shareholder agreement, will, power of attorney or insurance arrangement has not been reviewed after major changes.
- Debt renewal and succession are expected to occur at the same time.
- The owner's retirement depends on one buyer paying one price.
- Important customer, supplier or employee relationships are not institutionalized.
- The owner is increasingly tired, isolated or impatient with the business.
- The professional team works in separate files with different assumptions.
- The phrase "we will deal with that later" appears in discussions about authority, liquidity or family.

One signal does not prove a crisis. Several signals together indicate that the planning window is narrowing.

A Decompression Protocol

The opposite of compression is not delay. It is deliberate sequencing.

Stabilize authority. Confirm who can act during temporary incapacity, permanent incapacity and death. Align legal authority with banking and operational reality.

Protect operations. Identify essential people, customers, suppliers, systems and knowledge. Document processes and give the management team genuine decision experience.

Create a financial floor. Determine how much capital and income the owner and spouse need outside the company. Financial independence improves negotiating freedom.

Quantify the Liquidity Gap™. Model tax, debt, payroll, redemption, equalization and transaction costs against capital available by date and entity.

Review refinancing exposure. Discuss change-of-control, guarantees, covenants and management transition with lenders before an event forces the discussion.

Clarify the route. Family transition, management buyout, employee ownership, third-party sale, professional management and orderly wind-down require different preparation. Preserve more than one route until the evidence supports a decision.

Align the family. Discuss roles, competence, fairness and purpose. Equal is not always fair, and fair is not always equal.

Coordinate the advisors. Tax, legal, insurance, investment, valuation, M&A and banking work must use the same facts, timing and intended outcome.

Rehearse the event. Ask what happens in the first 24 hours, 30 days and 90 days after incapacity or death. A rehearsal reveals missing access, authority and communication.

Set review triggers. Revisit the architecture after health changes, acquisitions, new debt, ownership changes, family events, tax reform or a serious offer.

Decompression does not require every decision to be final today. It requires the decisions that preserve tomorrow's alternatives to be made before they expire.

Relationship to the Other Frameworks

The Dual Balance Sheet Concept™ identifies structural dependencies that may become vulnerable under pressure.

The Liquidity Gap™ quantifies the cash shortfall that compression can make harder to close.

Succession Compression™ explains the timing mechanism through which those weaknesses become losses of control and choice.

Integrated Succession Architecture™ is the coordinated response. It aligns liquidity, refinancing resilience, governance, capital structure, monetary independence, custodial integrity, tax and jurisdiction, management, ownership and family stewardship.

The four frameworks form a sequence: diagnose the structural weakness, quantify the funding exposure, understand the timing pressure and build the integrated system.

Make the Important Decisions While Choice Exists

Owners do not need to know the exact date of death, retirement or sale. They need to recognize that every option has an expiry condition.

New or additional insurance generally depends on health and underwriting. Financing depends on credit and lender approval. Tax planning depends on current law, structure and lead time. A family transfer depends on a willing and capable successor. A third-party sale depends on market conditions and transferable earnings. A repaired relationship depends on people still being present.

Succession security begins by making the important decisions while those conditions can still be influenced.

Time is not merely the period before succession. It is one of the assets succession planning is meant to protect.

About the Authors

Peter J. Merrick, TEP®. Peter is an international speaker, educator and estate-planning specialist with more than three decades of experience advising business owners, professionals and family enterprises across Canada and the United States. His work now spans Toronto and San Diego. He is the author of The King of Main Street and co-author of It Starts With Gold™.

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Research Note

This paper develops a proprietary educational framework from The Merrick Spitters Reset Report™ and from lived and recurring client patterns. Composite examples are generalized to protect privacy. Legal, tax, lending and transaction conditions vary by jurisdiction and change over time. Planning options should be confirmed by qualified professionals before a forcing event or transaction.

Disclosure

This material is for educational and informational purposes only. It is not legal, tax, accounting, insurance, investment or estate-planning advice, and it is not an offer or recommendation to buy or sell any security, investment, insurance product or financial instrument. Strategies involving private investments, precious metals, insurance, trusts, corporations, leverage and cross-border structures involve costs, risks, eligibility requirements and jurisdiction-specific rules. Past decisions and market experiences do not guarantee future results. Readers should consult appropriately licensed legal, tax, accounting, insurance and investment professionals before acting.

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