



# The Missing Succession Plan

By Peter L. McCarthy, JD, CLU, ChFC, MBA

ING • Minneapolis

**B**uilding a successful business is hard. Protecting and preserving it to remain strong and viable after the owner's death can be even harder. Recent studies have shown that only about 30% of closely held businesses survive after the founder's death. That's why business succession planning is so important. It can create a bridge to help the business transition to the next generation of ownership.

Unfortunately, many business owners don't consider succession planning a critical part of their business's future success. Many founders don't have a sense of urgency to finalize a succession plan and keep it up to date. Owners like these should hear

about Mark McCormack's succession plan for his company IMG. His story shows what can happen when succession planning is all talk and no action.

#### A Marketing Genius

*"Not only didn't Mr. McCormack retire, there was something else he didn't do — he didn't finalize a succession plan."*

Many readers have heard of Mark McCormack. He was #209 on *Forbes* magazine's list of the 400 wealthiest persons in the United States in 2002. In 1993 *Sports Illustrated* named him the most powerful man in sports. This was amazing because he wasn't an athlete; rather, he was an entrepreneur who created two industries: sports marketing and sports representation.

He was the founder, chairman, and chief executive of International Man-



*Peter L. McCarthy, JD, CLU, ChFC, MBA, is the senior advanced marketing attorney for the ING national sales support team. Mr. McCarthy has spent nearly 30 years in the financial services business. He*

*has served as advanced underwriting counsel for life insurance companies and specializes in estate, business, and charitable planning.*

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agement Group (IMG). He founded the company in 1961 and built IMG into a full service agency that has handled the business affairs of some of the world's most celebrated athletes, entertainers, and other public figures. It has 62 offices in 25 countries and employs over 2,000 people. Its estimated revenue for 2003 was \$1.2 billion.

Mr. McCormack was the first sport agent, and his first client was charismatic golfer Arnold Palmer. He was the commanding general of "Arnie's Army."

Mr. McCormack was an entrepreneur with vision. He saw the potential of merging television with sports. In the process, he enhanced his athlete clients' earnings as well as those of historic sporting events such as the Wimbledon tennis tournament and the British Open golf tournament. He also created sporting events like "The Skins Game" and "The Super Stars Competition." Although Mr. McCormack built his niche in golf and tennis, he gradually broadened IMG's client base to include professional athletes from other sports, fashion models, and entertainers.

He also was a best selling author. In 1984, his book, *What They Don't Teach You at the Harvard Business School*, was on the *New York Times*' best seller list for more than 21 weeks.

### Not the Retiring Type

Mr. McCormack was the only owner IMG ever had. He scoffed at the idea of retiring. In an interview with a *London Times* reporter in 2002, Mr. McCormack was asked why he didn't retire.

He said, "Because I get to play golf with Arnold Palmer and Tiger Woods and tennis with Monica Seles, and I get to go to Wimbledon and Paul McCartney's wedding. My God, it's terrific." And surely it was.

This entrepreneurial and marketing genius passed away on May 18, 2003, at the age of 72. He suffered a heart attack on Jan. 16, 2003, and lapsed into a coma. He remained there until his death five months later.

### Almost Perfect

Not only didn't Mr. McCormack retire, there was something else he didn't do — he didn't finalize a succession plan. At his death no plan was in place for IMG's future ownership.

According to *Forbes* (July 8, 2002), IMG had no shortage of seasoned management talent. The top 20 or so executives had an average tenure with IMG of 20 years or more. Most had worked in several divisions and understood Mr. McCormack's vision of how the pieces of IMG fit together.

Succession planning apparently was discussed often at IMG. *Forbes* quotes Mr. McCormack as saying, "We spend hours and days talking about my death. We refer to it internally as 'The Event.'"

Despite all the discussions, Mr. McCormack apparently didn't sign off on a final plan. Perhaps he believed he had more time and saw no pressing need to make a decision. Perhaps he couldn't find a perfect solution. Perhaps he still was having so much fun running the company that he didn't want to imagine a time when he would be separated from it. Whatever the reasons, when "The Event" occurred, there was no plan.

### The Fallout

After Mr. McCormack's death, IMG's future wasn't clear. Many options were on the table. *The Wall Street Journal* (June 2, 2004) reported that Mr. McCormack's death left a large estate tax. It wrote that IMG had hired Rothschild North America to explore a range of options, including a possible sale. Recapitalization, fresh investment from an outside firm, and shedding individual assets were other potential strategies under consideration. *Golf World* (July 11, 2004) reported that the company was investigating several options including a management-led purchase. IMG sent an internal memo to its employees stating it was in the process of identifying "financing partners to enhance profitable expansion and provide current owners with liquidity."

To make the most of the available options, IMG made some financial changes. It did three things to improve its financial condition. First, it sold some of its assets. Second, it terminated 500 positions, about 20% of its employees. Third, it imposed management pay cuts. *Golf World* (Oct. 8, 2004) quoted an IMG source as saying, "The passing of Mark enabled us to make some difficult decisions that might not have been made otherwise because of his emotional attachment to the company."

In early October 2004, IMG announced that it had reached an agree-

ment to be purchased by the investment company Forstmann Little & Co, and that the sale would close in 2005 for \$750 million.

### His Legacy

Mark McCormack leaves a rich legacy. He was the marketing genius who helped TV sports become what is today. He was also the first and most successful sports agent.

But as shrewd as he was, Mark McCormack failed to protect the business he had spent more than 40 years building. By failing to finalize a succession plan, he left his company vulnerable. He let down the 500 employees whose jobs were eliminated after his death. He also let down the IMG managers who saw their compensation reduced.

He almost certainly would not have wanted these things to happen. What he probably wanted was for his loyal managers to take over ownership and continue to run IMG as a family. He needed a comprehensive plan to achieve this result. Unfortunately, there was no plan and IMG had to be sold.

We can learn a lot from Mark McCormack and IMG. In succession planning, talk is cheap. Only action counts. A succession plan must be in place before it is needed.

As Mark McCormack and IMG learned, the time available is limited. "The Event" doesn't wait for an appointment; it can show up at a most inopportune time.

Time and again succession plans using life insurance have kept businesses financially viable after an owner's death. Perhaps a finalized plan and life insurance death benefits could have kept IMG independent. Mark McCormack's example may help motivate other business owners to finalize and implement their own succession plans before time runs out.



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St. Louis, MO 63146  
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