

Business Succession Planning

Business succession planning is the process of creating and implementing a strategic plan for the orderly transfer of an enterprise from the principal owner to family members or key employees. The creation of a business succession plan is not a single decision; rather, it is a process, involving advisors who can offer strategies to achieve a balance between the goals of the owner and the needs of the business as a viable going concern. Family meetings with the attorney, the accountant and, possibly, a facilitator trained in the psychological issues presented, typically lead to the greatest success in this process.

The business succession planning process should begin with clarifying and prioritizing the goals of those with the greatest stake in the outcome. Good advisors will also challenge the sincerity of the owner's stated intentions to retire or to sell. Questions such as these can prompt honest and productive reflection by the stakeholders:

- What kind of retirement income do I need/want?
- What is the true value of the company?
- What would be left of the business if I retire?
- When do I want to begin the transition?
- Do I wish to preserve the business or maximize my wealth?
- Do I sell or give the business to my children? Or some of both?
- Do I desire equality or fairness as among the children?

The answers to these questions set the focus for the strategy sessions to follow. The first task is to identify the business considerations such as the nature of the enterprise, the cash flow and capital needs, the present and future (transitional) management structure, and the availability of a suitable successor.

The financial and retirement demands of the owner always figure prominently in the early stages. Family business succession plans often call for an "easing out" of the owner as a consultant, perhaps using a salary continuation plan (indirectly funded with life insurance owned by the company). If the business is sold to a child or key employee, the payments can provide a regular cash flow for the selling owner (although many such sellers end up back in the business before too long, believing their involvement is required to ensure the security of their retirement!).

If death should occur before the owner retires, then their estate plan is the succession plan.

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Is the stock governed by a specific bequest under the owner's will or trust? What are the estate tax implications? Does father's appointed trustee run the business now? Or does his second wife take over? Clearly, an honest assessment of the costs of complacency should motivate the business owner to address the challenges of implementing a business succession plan – so that, come what may, there will be peace of mind for all concerned.

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