

## PLANNING FOR THE FUTURE

According to the U.S. Small Business Administration, only about forty percent of businesses survive past their first five years of operation. If you have defeated the odds, you have likely invested a lot of hard work, time and personal sacrifices into your business.

As the most significant alternative investment you own, a closely-held business is a key asset in your overall financial plan. That's why it is crucial to prepare for what will happen after you are no longer managing the day-to-day affairs. A sound business succession plan can help you ensure that your wishes for the future of your business assets are realized. A succession plan will address several questions regarding the future of your business. Among them:

- Who will manage the business when you are no longer running it day-to-day?
- Will you keep the business in the family?
- Will your business carry on or will you sell it?
- How can you help ensure a smooth transition between you and the future managers and owners of your business?
- How will ownership be structured and what is the best strategy to restructure the ownership?
- How do your retirement, tax and estate planning goals fit into the picture?
- What will happen to the business if you or another co-owner dies or becomes disabled?

### **Who Needs a Business Succession Plan?**

Eventually every business owner will face challenging decisions about what to do when he or she is no longer managing the business. And while it may seem intuitive that non-related business partners should put a plan in place, the same rule applies to family-run businesses.

Whether it is two brothers or five people who are not at all related, any business owner who cares about the future of his or her business should have a succession plan. Owners of family-run or small businesses often make the mistake of not having a clearly defined succession plan. Losing the key owner of a company — whether to retirement, death or disability — is a serious blow to the stability of the business, and you need to prepare for it. By taking emotion out of the equation at a difficult time, a solid succession plan can help ensure a smooth transition.

### **Put it in Writing.**

While you may know what you want for your business and your successors, putting your plan in writing is a big step toward improving the likelihood of achieving your objectives. A formal plan can serve as a sort of constitution for your succession efforts. It can solidify the plan

itself as well as your commitment to it, which is perhaps equally as important. In addition, a formal plan allows you to quantify results and measure them against your goals.

### **Start with an Agreement.**

By spelling out the arrangement that the owners have agreed upon for the future of the business, a buy-sell agreement may be the single most powerful tool in succession planning. Even if you are not planning to retire soon, a buy-sell agreement can help you address the impact of disability or death of a major shareholder or key owner, as well as of potential growth that may change the structure of the business. The document generally covers a broad array of issues between current and future owners, including not only the method for transferring ownership, but also the price that will be paid (or the valuation method by which the price will be determined). In the case of a death of one of the owners, for example, this agreement can establish a buyer and a seller for the decedent's shares through the proper use of insurance, provide liquidity to the decedent's family and help guarantee that a surviving owner has the opportunity to purchase the decedent's shares of the business.

### **Plan Early and Often.**

New business owners may be tempted to wait until the business gets off the ground before they initiate a succession plan. But the best time to create a succession plan is before you ever need it. It is essential to have a plan that protects your interests, especially at the early stages, when most of your assets may be tied up in the business. It is never too early to plan for the future in case things do not go as planned.

### **You May be Pleasantly Surprised.**

Recently, the fifty percent owner of a rep firm came to us with the desire to pass his share of the business to his son who had been with the firm for a number of years. He and his partner had successfully been in business together for twenty years, but his view was that a rep agency has no value to its owners once they were no longer involved in the business. Imagine his surprise when we explained to him that the firm had a value of approximately \$1,200,000, and how the firm's cash flow would allow for substantial payments to him over time, as well as some day to his partner and his son.