A Business Succession Plan in Eight Steps

One of the chief concerns facing owners of family or closely-held businesses is how to affect an orderly and affordable transfer of the business to the next generation or a key employee.

That objective, given adequate time and proper planning, can be accomplished easily and often profitably. However, as most business owners know, seldom is enough time available to accomplish day-to-day tasks, much less to plan for something unlikely to happen for years.

However, how and when to address this objective are questions that need answering, and preferably before problems arise.

Failure to plan for orderly business succession can result in both monetary losses and even the loss of the business itself.

Estate taxes alone can claim 18 percent to 55 percent of a taxable estate, frequently resulting in businesses having to liquidate or take on tremendous amounts of debt just to stay afloat following an owner's death.

For business owners who have done all that they could over the years to avoid or pay off a debt situation, the prospect of going back into debt to pay taxes is unpleasant.

Thus, one of the more important aspects of business succession planning is working out the financial pitfalls following the death of the business owner; answering questions such as: where will the money come from to pay taxes? Alternatively, if the business is a partnership: where will the money come from to buy out the deceased partner's share? Another important and even likelier scenario is: where will the money come from if the partner or you become incapacitated? In other words, no longer able to contribute but continuing to draw income?

Because clients commonly take their business elsewhere following the death of an owner or partner, how do you make sure adequate capital will be available to carry the business through what could be a slow transitional period?

Many of these questions can be answered through the proper use of such funding vehicles as life insurance, annuities, and disability insurance, and often at little or no net cost to the business. However, the time to work these things out is before the situation arises, not afterwards.

Don't think business succession planning ends with an estate plan and life insurance firmly in place either. Business succession planning must also include a plan for transferring the trust, respect and goodwill that has been built up over the years.

If the recently departed owner was a big part of the reason clients were willing to do business with the firm, these clients need to be reassured that they will continue to receive that same quality of attention and service.

One of the best ways to accomplish this goal is to begin transferring such loyalty while the owner is still around.

This can be done by introducing clients to younger associates now, and by shifting some of the responsibilities connected with such accounts to those associates. Get the clients comfortable doing business with the "next generation" of ownership, with no change in service.

Better yet, let clients see an improvement. Teach younger associates about the "power of doing the unnecessary" and doing ordinary things in an extraordinary fashion.

In this case the "doing the unnecessary" can mean anything from sending clients notes to stopping by, or calling -- not to sell something -- but just to keep in touch. Essentially, it's letting them know that they are important and that you value their business.

Little by little, the "owners-to-be" will earn clients' trust and confidence.

Another vital aspect of successful business continuation is earning the trust and confidence of not only the business's clients, but also of its employees.

This means paying attention to the details to retain good employees. Is the work environment pleasant? Do people have the support and technology they need? Do they feel appreciated and a part of things? Do they see a future there?

To do so, it might be reasonable to consider some type of performance incentive plan, including a retirement plan that makes sense for the company in terms of affordability.

So where -- and when -- should business succession planning begin? The start-up phase is obviously too early. But too often, many business owners wait until the last minute when important options, including the potential uninsurability of a principal or key employee, have ceased to be available.

Generally, setting up a successful business succession plan involves seven stages:

1. Survival -- Once the business has survived the start-up stage, the owner should consider a business succession plan.

2. Commitment -- The owner must be committed to the concept that the business must continue to create opportunity for those to come. This commitment must be communicated clearly, extensively, and often.

3. Expertise-- Select a team of qualified advisors consisting of a Certified Valuation Analyst, a Tax Attorney and a Certified Estate Planner, all of whom will work together collaboratively to help assure that your plan legally and affordably considers your needs and objectives. They will also seek input from your CPA, your financial advisor you're your business attorney, and possibly others as warranted.

4. Recruitment -- Recruiting good people always pays dividends and is vital to successful succession planning.

5. Development -- Investing time in developing family members, key employees, and management team members, and allowing them to exercise authority and control, will be critical to your success.

6. Selection -- Having developed a transition plan and recruited the right people, selecting a successor or successors becomes easier. By empowering a broad range of key people, the selection process is simplified and the owner's options are enhanced.

7. Announcement -- Once a succession plan is in place, the owner should communicate that plan. Such communication gives key management people and/or family successors a clear understanding of the path to the future, as well as any role they may play in that path. It also allows them to begin setting future goals and objectives for themselves.

8. Implementation -- In implementing the succession plan, the owner must be ready to step aside and allow the successor(s) to take over. Since this often includes a non-compete agreement, the owner must be prepared to take on new challenges in retirement, knowing that his or her financial future is secure.

If seeing your business continue into the future is important to you-- without compromising your own retirement needs -- this last step may be the most important of all.