

Business Succession Planning

Business Should Continue by Plan, Not Chance

- Fewer than 30% of family owned businesses survive to the 2nd generation.¹
- Only 26% of small business owners have some type of succession plan in place.²

What have you done to make sure your business succession goes according to your plans?

The most important thing you can do for your family and business in the succession planning process is to get it started. All business owners have “plans” in their minds about how the business will continue. A “plan” is only an idea until it is communicated. Without proper planning, banks could call in loans, key employees might leave, management may be forced to make poor decisions in response to new owner demands or the business might close all together. You’ve put a lot of effort in establishing and running your business. Make sure you’re prepared so your hard work doesn’t diminish.

When planning for the future of the business, there are a number of important issues related to a business falling under new ownership that you have to think about:

- Are the new owners ready and able to manage the company?
- How will your employees react to new management?
- Will key people stay during this transition period?
- Will your customers feel secure and remain with the business?
- Are you ready to exit?
- How will your family deal with the transition?

Each business owner has their own unique situation, but sometimes ideas don’t arise until questions are asked and possible situations are mentioned. Consider the following scenarios you may face or are current facing:

You started your business with hopes of your children taking over and now you’ve realized they are not capable or have no interest in taking over. Do you have other options? Is there one child interested and another wants nothing to do with it? How do you divide assets equally between your children who are involved and not involved with the business?

You’re not looking to retire but would like to pull back on some responsibilities. You have a key employee working for you that if they left, it would disrupt the business. What is currently keeping them working for you now and in the future? Have you thought about this key person eventually taking over your business responsibilities or becoming a partner?

You’re looking to retire within the next 5-10 years and you want to continue generating income from the business into your retirement. Like many business owners, the value of your business may be a significant portion of your retirement nest egg. The business may support your income needs currently, but have you considered what your income needs will be when you retire? Consider inflation, medical costs, post-retirement plans. How will those needs be filled? In addition, how will you ensure the well-being of your spouse, children, grandchildren, business partners, key employees, and charities?

You already have a buy-sell agreement in place and believe there’s nothing else to be done. It’s true that a buy-sell is important to have but it’s a safety net and sometimes isn’t enough. The plan only works if there’s a triggering event such as a disability or death and no one expects that to be the outcome to every business plan. It’s designed to protect against the worst case scenario but it doesn’t help you in your transition into retirement or keeping your business intact.

Continue to the next page

¹ Joseph Astrachan, Ph.D., editor, Family Business Review

² LIMRA International, Small Business Owners 2005 Report



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Business Succession Questions:

- What about your business keeps you up at night? Are any of those items within your control? Can any of those items be resolved with the assistance of a third party?
- Do you have a retirement plan in place or is the sale of your business your retirement plan?
- Do you have enough money to support the retirement you desire? Are you currently limited on contributions made to qualified plans and IRA's/Roth IRA's that are also limiting your ability to prepare for the retirement you desire? Are you aware of other tax efficient vehicles that are available to you as a business owner?
- Does your company have a buy-sell agreement or business succession plan in place? If not, why not? If yes, when was the last time it was updated?
- What do you wish to happen to your business interest in the event of your death, a disability, or your retirement?
- What will happen to business relationships that reside primarily with you?
- Do you have family in the business? What roles will they play? Will they be able to take on ownership control? Do you fear that they may be inexperienced and will interfere with management?
- Do you want to treat your children equally? Have you considered how to do that if some are in the business and some are not? Have you discussed this with your spouse?
- Would you sell the business to key employees? Are there any key employees who can afford to buy it? If not, would you consider a transition plan that assists them?
- What does your business look like in 5, 10, 15 or 20 years? Do you envision still being as active in your business as you are today?

How to Start the Process

As a specialist in working with business owners to meet their special needs, National Benefits Group will work with you and your trusted advisors through all the steps of the planning process:

- **Set real personal goals:** Establishing well defined and written objectives, within the scope of what can be done in the transition, will provide both the direction and latitude in creating and implementing a plan that can turn goals into realities.
- **Create consistencies across parties:** Disagreements between buyers and sellers have the potential to wreck an otherwise viable business.
- **Address financial, tax and legal issues:** Succession planning is a multi-disciplinary process that will include a number of factors.
- **Follow through:** It may take as few as a couple of weeks to set up the plan, but the succession process may take years to see it through to fruition. Unfortunately, plans are often drafted but never implemented.

If you have any questions on your business succession planning, please contact NBG at 952-449-4030.



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