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BUSINESS BUILDER :: **SUCCESSION**

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Plan for inevitable by considering business succession

IF YOU ARE an owner of a family-owned or closely held business, one of your main priorities should involve planning for your own succession.

It may be years or decades before you intend to retire and pass on your business, so it is easy to put off succession planning for another day. But if an unexpected illness, disability or death happens, having a plan in place at least five years in advance greatly increases the business's odds of survival.

Lack of succession planning is one of the primary reasons why family-owned businesses don't survive a generational transition. Failure to plan for a smooth business succession may result in monetary losses, legal repercussions and endless headaches.

Estate taxes alone can claim a good portion of a taxable estate, frequently resulting in businesses having to liquidate or take on tremendous amounts of debt just to stay afloat.

Adequate planning time enables you to test potential successors in different roles and evaluate their maturity, commitment, business acumen and leadership abilities. If you have already appointed your successor, that individual can build up expertise so the passage transpires so gracefully that no one in the company even feels it happen.

First, write goals

Start by writing down your thoughts and ideas about when you would like to step away from the daily operations of the business and how you would like to spend your time. What personal goals could you achieve if you weren't running the company and what would success in a new endeavor mean to you?

Discuss these thoughts and ideas with your family, senior management team and key employees. Decide how long you would like to remain active in the company and in what capacity.

If you see retirement as an opportunity to travel, be sure to include that in your discussion as well as what role, if any, you want to play. At the same time, think about the long-term stability of the business.

Most business agreements spell out what will happen in terms of shares of stock, or the buying out of the company by remaining principals or partners. Once you have established these parameters, begin revising your business plan, or write a business plan if you do not already have one.

One of the most important responsibilities is identifying a successor who will be equally or more successful in running the business and shares similar visions of the business's future. More often than not, children or family members become the successors.

However, children and family members may not want to participate in the business or may not have the skills you're looking for in a future leader. The next logical solution might be to appoint a current employee to step in.

Employees already have an understanding of the business and are well equipped to train and work their way up the organization. If those options are exhausted, it might be wise to find a successor outside of your business.

If there is more than one successor, the successors must have equal ability, motivation and commitment. You should not confer equal authority, compensation and stock ownership to them if their contribution to the running of the business is unequal.

The successors must divide their job responsibilities according to their individual talents. Finally, the successors must share a common philosophy about the future direction they want the company to take and must have a history of resolving conflict constructively.

How to transfer

If your plan is to retain the business within the family, there are a few options for passing on your business.

- Gifting allows the owner to transfer the business to the next generation over time in a way that reduces or even eliminates any estate or gift taxes.
- Trusts come in the form of a testamentary or living trust. A testamentary trust is established in the provisions of your will and becomes effective upon your death. A living trust is created during your lifetime and can continue after your death.

If your plan is to sell the business to other business owners or key employees, a buy-sell agreement is a good option. Buy-sell agreements generally fall within two categories.

One is the cross-purchase agreements, in which remaining shareholders are obligated to buy the departing shareholder's stock.

The other is the entity purchase, in which the business, via agreements made between the company and the individual shareholders, is obligated to purchase the stock of the departing shareholder.

If you are selling the business to an outsider, some key steps include:

- Hiring a business broker to assess the value of the business, create a buyer's package and circulate it to others in the industry.
- Drafting a letter of intent outlining the terms of the sale and the price.
- Planning for transferring the trust, respect and goodwill that's been built up over the years. If the recently departed owner was a large 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.

If you are closing the business, there are many legal and financial issues to consider, including settling or paying business debts, filing final income tax returns, and canceling lease or insurance policies.

**“Ultimately, business succession planning is
about taking control of the inevitable.”**

- Gary Webb

Ultimately, business succession planning is about taking control of the inevitable. Without proper planning, the future of your business will fall into the hands of chance.

Owners should begin planning while they are still healthy and active in their enterprises. Proper planning includes working hand-in-hand with a knowledgeable attorney and a CPA with extensive experience in transitioning businesses.

Starting the planning process today will help your business succeed in the present and ensure the best outcome in the future, whether it involves transferring ownership to a family member, employee, selling to an outsider, or closing the business altogether.