

Business Continuation **Planning for Succession**

Successful business owners invest a great deal of time and effort in building their companies. With the day-to-day demands, it is often difficult to imagine stepping down for retirement. Yet, in order to help build financial security for retirement and ensure business continuation, it is important to *plan ahead*. **Business succession planning** can establish retirement income for a retiring business owner, as well as smooth the transfer of operations and/or ownership to family or another entity. In addition, a succession plan can also provide structure for unforeseen events, such as death or disability.

Laying the Groundwork

It is never too early to begin planning for succession. An early start can help you develop an appropriate exit strategy and allow you the time to choose the right person to eventually run your business. It could take many years to groom a successor to manage the intricacies of your company. With this in mind, here are some basic considerations to help lay the foundation for a successful plan:

Value Your Business. A key aspect of planning for continuation is calculating the worth of your business. There are a variety of techniques for business valuation. A qualified professional can help you choose the appropriate strategies.

Plan Your Exit Strategy. It is important for retiring business owners to thoroughly plot out their scheduled departures. A sound plan can help ensure smooth operations during the time of transition, as well as facilitate the transfer of ownership.

Meet with Potential Successors. If you wish to keep ownership and control of your business within your family, you will need to assess your family members' interests and qualifications and how well they match the needs of the business. Discuss with family members *who* will participate in the company and in *what* capacity. Then, determine how working members will be compensated and what nonparticipating members will receive.

If you expect unrelated parties to carry on the business, you will need to meet with the key people involved for in-depth discussions about the company and its future. If succession involves the **sale** of the business, be prepared to address such issues as *what* the purchase price will be, *how* it will be paid, and *when* the succession plan will be activated

Develop a Business Plan for the Future. You should outline clear-cut, short-, medium-, and long-term business goals for your successor, along with an action plan for achieving them. The business plan should include budgets and financial forecasts that can adapt to changing conditions in both the industry and the economy.

Choose a Transfer Strategy. Depending on the type of business, its value, and your personal financial situation and goals, you'll need to determine the best transfer strategy

for your business. There are a variety of ways to structure and fund **buy-sell agreements**. For transfers to family members or charity, **gifting** may be a viable option. Consult your tax and legal professionals for specific guidance.

Plan for Contingencies. Regardless of your ultimate intentions for succession, it is wise to have an updated package of basic information on hand in case an emergency, such as death or disability, should occur before you have finalized your succession plan. This should include:

- a copy of your current business plan;
- updated job descriptions of all positions within the company, including details regarding areas of responsibility and delegation of duties;
- a list of potential successors;
- a plan to ensure extensive "hands-on" training for your designated successor;
- an estate plan to ensure the availability of cash to help fulfill federal and state estate tax obligations.

Other Considerations

There are a number of financial, legal, and tax issues that a thorough succession plan will need to take into account. For instance, how will a successor secure funds to buy out a retiring, deceased, or disabled owner's share of the business? What are the estate planning issues? And, how can an owner minimize gift taxes resulting from the transfer of company stock to family members? Answers to these and other questions can be addressed in a succession plan, which is often the result of a coordinated effort by qualified legal, tax, financial, and insurance professionals.

A Parting Thought

You owe it to yourself to ensure that your business will continue to flourish after your retirement, as well as in the event of death or disability. Proper planning can help provide long-term security for your retirement, your company's future, and your family.