Succession Planning – It's Never Too Early

By Gary Papay, M&AMI

There are more than 15 million family businesses in the United States, ranging from giants like Wrigley and Marriott to the local corner grocery store. Yet, history tells us that less than one-third of family owned companies will make it to a second generation.

One reason for the disheartening statistic may be that business owners tend to forget about succession planning. It's often not a priority and it definitely can be an emotional issue. Many owners just can't imagine the business succeeding if they aren't involved or they may be too busy with day-to-day operations to take the time to adequately plan for someone else to take the reigns when it's time to step aside.

But as more and more baby boomers approach retirement age, the time for succession planning is today. Tomorrow may bring a serious illness, disability or even death. Having a well thought out plan is critical to the continuation of a business, particularly for a small, family-run operation.

Plan early. Developing a succession plan early will help to smooth the transition. You may think the plan won't be implemented for years, but unexpected factors may move up the timeline.

Bring in outside experts. As you've grown the business, you no doubt have had some help along the way. Hiring the right professionals – attorneys, accountants, financial advisors and business intermediaries – will help you ensure you have the best possible succession plan when it is needed. Their expertise will be invaluable as you develop and plan while continuing your every day tasks in running the company. They will look more objectively at the business and the goals you've set and help you ensure that everything is in place.

Involve family members in the planning process. Developing a succession plan and simply announcing it to the family will only bring discontent when you unveil the plan. You may come up with the same plan, but bringing the family into the process will certainly create goodwill and support.

Train your successors and work with them. Take the time to work with the person you've selected to take over so he or she knows and understands what it takes to run the business and keep it successful. Help your successor understand the big picture in running the entire operation, not just the duties he or she is currently handling.

Look at all options. Pay particular attention to three areas when putting your financial plan together; management, ownership and taxes. As you work on your succession plan, consider that management and ownership aren't necessarily one and the same. You may look to one family member for the management of the company, but transfer ownership of the firm equally to several members of the family.

Look carefully at the financial impact. Be sure to develop a financial plan as part of the overall succession plan. You don't want your heirs hit by heavy gift taxes that they cannot bear. And no matter who takes over the business, be sure the valuation of the firm is accurate.

Be realistic. Of course you want to turn the business over to your eldest son or daughter so they can follow in your footsteps. But it's important to carefully consider whether he or she is really the right person to take over the operations of the company. Consider another family member, or someone else within the company, if that person is the best qualified and has the business skills and desire to run the firm. Ultimately, selling to an outside party may be the best option. A business intermediary can guide you through that process, identifying potential buyers and advising you on options for structuring a transaction.

The time for succession planning is now. Don't delay starting the planning process. It is one important way for you to ensure that you have the funds you will need in retirement, while helping to ensure that your company will continue on after you leave.

Gary Papay, M&AMI, President of CK Business Consultants, Inc. is a professional intermediary and business appraiser with more than 33 years of experience in the sale and transfer of privately held mid-market companies. Gary has attained the designation of Merger and Acquisition Master Intermediary with the International Business Brokers Association and M&A Source. Gary can be reached at www.ckbc.net.

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