



IT'S YOUR LIFE

Make Your Vision a Reality The “Who” of Business Succession Planning

You’ve put in the time to build your business and it’s finally running smoothly and successfully. Looking toward the future, you’d like your business to continue on—even when you’re no longer involved in its day-to-day operations. Have you thought about how to help make sure this happens? Have you taken any steps to ensure a smooth transition from your leadership to someone else’s?

If you don’t have a formal succession plan in place, you’re not alone. According to a recent survey of small business owners, 70 percent say they have thought about who would run their business in their absence, but only 25 percent actually have formal succession plans. And, only 35 percent have formal continuation plans in the event of a premature death.¹

So, what can you do today to help make sure your company continues to be successful into the future? One of the first questions that needs to be answered when formulating a succession plan is “who” is going to take over your business. For some, that answer is easy—the owner has a son or daughter (or more than one child) who has been working in the business every day for years, knows the operations, has a great rapport with both clients and employees, and is ready and willing to step in at any time.

But not everyone is so fortunate. Maybe your children have decided to pursue other interests or live across the country and are not interested in running the business. Or, perhaps your children are willing to run the business, but don’t have the knowledge or experience (yet) to do so. What about your business manager, who has years of service and has expressed an interest in taking over someday, but doesn’t have the resources to buy the business from you?

Finding the right person is a very important decision. If your successor is not able to keep the business operating successfully, it can mean the difference between financial security and financial hardship for you, your family, and even your employees. When looking for a successor, most business owners look to two groups for potential candidates: family members and key employees.

Family members: If you want to keep the business in the family, you obviously will be looking to your family members as potential successors. In addition to your children, you may also want to consider siblings, nieces and nephews, grandchildren, or even spouses of these individuals.

A question that often arises when considering one or more children as your successor(s), to the exclusion of others, is how to keep things “fair.” Is it in the best interest of the business to transfer equal shares to all of your children when only one will be running the business? Is it fair to the child actually managing the company to have to consult (and possibly share profits) with his or her uninvolved siblings? Oftentimes, the easiest way to handle this situation is to transfer ownership to only the child or children who plan to be involved in the business. This can be accomplished through a sale of the business or as a gift, either during your life or at your death. If you opt to give the business to a certain child (or children), consider earmarking other assets for the children who will not be inheriting the business. Life insurance on your life or on your and your spouse’s life is one way to equalize the assets being passed to your heirs.

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Key employees: If you don't have any family members who are willing or able to take over the business, identifying an interested employee may be another option to consider. A key person is often someone who has been with the business for a long time and has extensive experience with how things work. In some cases, the key person may be newer to the business, but is working closely with you to understand the everyday operations. Look to employees who share your passion for the business and ideas for the future—these individuals may be ideal candidates!

The best option for your business will depend on a variety of considerations and your individual circumstances. Identifying possible successors is a huge step toward formulating your succession plan. Communicating your plans with everyone involved and working with an attorney who specializes in business succession planning to put the plan in writing will go a long way toward making your vision for the future of your business a reality.

¹ Small Business Owners; 2009, LIMRA

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