



Succession Planning: What Legacy Will You Leave Behind?

As a business leader, your natural focus is on the success of your company. It has been proven in study after study that the quality of leadership provided in an organization is directly related to the growth and performance of that company.

Providing key leadership through critical strategic projects such as succession planning is important not only to the short-term success of the company, but also for the long-term success in achieving the objectives of ownership.

One of the greatest concerns facing the ownership of closely held businesses is how to establish and develop an appropriate succession plan. What legacy will remain after the transfer has occurred?

Accomplishing these objectives takes a proper amount of planning, experience and time. Yet, in the end, the process and results can prove valuable and, yes, even profitable to the business.

However, as noted above, time is one of the required elements to develop a plan. And as most business owners realize, there is rarely enough time to accomplish day-to-day activities, much less the time to develop a succession plan. Ultimately, one of two options exists for every business owner. Either the succession of your business will be an event controlled and planned by you, or it will be an unplanned occurrence brought on by outside forces.

As you probably realize, more often than not, scenario No. 1 results in a much more successful transition, both financially and emotionally. Failure to plan for an orderly business succession often results in financial losses and sometimes even the loss of the business itself.

Making a Choice

So what is succession planning? Well it is not simply the transfer of the operating business from one generation to the next. This certainly can be one strategic route chosen by ownership, but it is simply that – one choice among many.

Succession planning is a process. It is an element of working "ON" your business and not simply "IN" your business.

Succession planning involves determining the choices you have to make with your business, the objectives of ownership (particularly personal objectives) in developing the succession plan, transaction and taxation planning, asset protection planning, and yes, finally, estate planning.





Because every action has a reaction within the process, the initial planning and development of the plan require technical expertise and experience.

Every successful succession plan begins with determining the objectives of the owners. With the objectives of the owners established, then the remainder of the plan can be developed. It begins with the old saying, "Begin with the end in mind." Succession planning is not simply a plan that sits on a shelf and implements itself. As you realize, you and your business are constantly changing. Eventually, the needs and requirements of the business conflict with personal desires.

Before that occurs, the owner has to decide which path he or she chooses to follow. Do I want to sell my business? Do I want to develop a plan whereby I can transfer the business to family members or key management inside the business? Is my business a candidate to go public?

Or, finally, maybe I want to continue to grow and run the business and proceed under a strategic plan by which my business is the consolidator. Yet even with this final choice, we all realize at some point that current ownership will have to address one of the first three choices.

Business Valuation

Once the choice has been made as to which road to follow, another phase of the planning process may begin. A business valuation of the business entity is a critical piece of establishing the financial portion of the plan. The business valuation "sets the bar" regarding what value needs to be transferred.

The objectives of the owner and the purpose of the business valuation determine the appropriate standard by which to value the business.

It is critical to employ the skills of an experienced valuation analyst to ensure the process has a solid base from which to begin. Once the value of the business has been determined, the remaining portion of the financial plan may be addressed.

This is often the most critical step in the financial process. The structure of the transaction in terms of income tax, gift tax, estate tax and financing are critical to the success of the plan. As you can imagine, not all situations fit all possible solutions.

So it is critical to evaluate each option as it relates to the overall objective to the owners. There are many traditional methods by which this can be accomplished. In addition, there are newer methodologies and practices that will allow for the transfer of the business and often in a tax-





free or highly tax-advantaged situation. The various elements of the financial plan ultimately can define the success or failure of the succession plan.

Within this financial plan, the professional must consider the structure of the transaction, a plan to address asset protection, financing, and income and estate tax situations. Ultimately, it is a combination of all these items that addresses the owner's goals and desires.

A Common Mistake

A mistake we often see is the plan overlooks the area of financing. Some succession plans simply incorporate life insurance and assume they have covered all their various needs.

While life insurance may play a critical role in the succession plan, it is important to remember the objectives of the owner. If an objective is to have financial payout during his or her lifetime, then this element must be considered as well.

Finally, how do the objectives, as well as the elements of the plan, impact the owner's estate. We all have heard the horror stories of how a person works all his life to build a business and, upon his death, his successors have to sell the business to pay the tax. A properly structured plan can avoid that situation as well.

In the end, succession planning ultimately comes down to making a choice. You must make a choice to take the time to design and implement a plan that allows you to control the circumstances and results surrounding the transfer of your business.

This allows you to make the choices that are most beneficial for you and your family.

What will be your legacy going forward?

If you are thinking about or currently working on your business succession plan and are in need of assistance, please contact Rick Gendemann, one of our business succession leaders. We look forward to the opportunity to connect with you to discuss your transition planning issues and address how we may be able to work with you and your family on developing and implementing your successful business transition plan.

Rick can be reached at 604-557-5760 or via email at rickg@manningelliott.com

