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Creating a Successful Succession Plan

By Xenia Woltmann

According to Forbes, less than 1% of the 27 million companies in the United States are publicly traded, and over 86% of U.S. firms with over 500 employees are privately held. While these figures may spark an interest in private equity investing, a topic for another article, the impact of these figures impacts not only business owners and investors, but their employees and heirs as well. The staggering results of a recent study that shows 61% of family businesses do not have a formal succession plan in place.

Business owners tend to focus on the daily activities of the business, and often delay their own planning. This may be due to lack of time, awareness, potential successor, or other uncertainties of how the business could continue without them. Questions that business owners, and anyone in general, should be asking themselves are: *"If you had passed yesterday, what would be happening today?"* and *"What does your ideal retirement look like?"* If the answers are not clear, then planning is needed.

While the list of risks to consider are lengthy, common ones include: If the business is sold at retirement, what are the tax implications of receiving a lump sum? Is the buyer a business partner, family member or key employee? Can they afford to purchase the business? While the liquidation or sale of a business is part of succession planning, if faced with an untimely event, such as death or disability, the liquidation or sale may be forced. The critical difference is forced vs. planned. If cash is not readily available to pay for estate settlement costs, taxes, or other expenses, a forced liquidation may be an only option to meet those demands. Often, the urgent need for liquidation causes the assets to be sold at a discount as opposed to the fair market value that would be expected during a planned succession. Additionally, heirs may not understand options available to them and may miss a better opportunity.

So how does one address these risks? Begin with a vision, or list of wishes. What does an ideal succession look like at retirement? How would the business continue if the succession were untimely? Next, research options by consulting with business owners in a similar field and experienced advisors to create an appropriate strategy. If there is a suitable successor, consider a planned retention of the business that would continue the business on while buying you or your heirs out in an efficient manner. A planned sale will allow the business to be sold outright, perhaps under a new name if the buyer wants to expand their current business or move in a different direction. If there is no viable successor, a planned liquidation may be the best option. Circumstances may change over time, but a succession plan can be amended. While the planning process may seem daunting, it is certainly less complicated and costly than not having one.