

## GUEST ESSAYS

### Benefits of a Succession Plan for Your Business

Johnson Bank

You've worked hard to establish your business and plan to stay actively involved in its future success. So, why would you plan your exit from it now? Because, as the saying goes, if you fail to plan, plan to fail. You won't lead your company forever, and statistics show most businesses don't make it past the second generation of ownership due to the lack of a proper and thorough succession plan.

#### Not Just for Royalty

There's a reason why countries have clearly established succession plans for their leaders: it keeps everything running smoothly. People don't like uncertainty, and the same is true in business. Employees, customers, vendors and shareholders all need the reassurance that any transitions will be seamless or their confidence in your company could erode.

Every good business succession plan looks at the short term and the long. It should detail what will happen if the unforeseen occurs (e.g., disability or death), as well as how you plan to turn over ownership and management upon your eventual retirement.

There are five key reasons for creating a succession plan:

#### **1. To Address your Personal Financial Needs**

Chances are a substantial share of your personal assets are made up of your business assets. You'll be counting on them to fund your retirement. How will you turn them into cash or income? A good succession plan helps you make the most of your investment in the company, and can also reveal the need for an insurance policy to cover a potential shortfall in a buyout situation.

#### **2. To Minimize Taxes and Avoid Tax Pitfalls**

Long-term replacement planning could identify the need to help cover taxes in the event of a loss due to the death of a key member of the business. Including business succession strategies in your overall estate plan can also provide you with the opportunity to maximize return while minimizing estate and transfer taxes. Additionally, if you plan to keep the business in the family, planning a tax-efficient transfer may help reduce estate taxes when you pass.

#### **3. To Maximize the Company's Value**

Business valuation as part of succession planning can help you determine the company's current fair market value and decide if it accurately reflects the dollar amount you had in mind. If so, your succession plan can help maintain that; if not, a succession plan can help identify ways to bring that value up. It also can prevent your business from losing value during a transition in ownership or control, and could be beneficial in helping you recruit top talent by helping you answer questions about the company's stability, values and longevity.

#### **4. To Allow for Growth**

Identifying and developing future leadership for the organization will ensure its growth isn't hampered in the event of a change. You can fill your company's talent pipeline now by identifying individuals you can groom for promotion or strengthening the leadership team ahead of time by assessing areas where skills and knowledge are needed.

#### **5. To Provide Contingencies for the Unexpected**

Having a plan in place to address the unexpected will help everyone involved in the business by outlining the steps they should follow in the event of a crisis. For instance, if a key business member is incapacitated, who will take over? Does that person have the skill set in place to fill the role? Thinking through the possibilities now gives everyone guidance when they would need it most.

It is especially critical for owners of privately held businesses dependent on a limited number of people to have succession plans, and for them to review it every few years for changes in key factors like valuation or identified successors.

### **Type of Succession**

There are three kinds of business succession: transfer to a family member, selling to a third party, or transitioning to a partner.

#### **1. Transfer to a Family Member**

If you plan to have a spouse, child or other family member take over leadership of the business, a succession plan will help you assess the level of competence that person truly has for successfully running your business. Does your wife or husband have the industry experience necessary to serve your customers, vendors and employees? Does your son or daughter have the passion or desire to take over the family business?

#### **2. Sell to a Third Party**

If you want to sell to someone from the outside, how will you line up prospective buyers and at what point will you start that process? A succession plan would help you address these and other key points to ensure business continuity.

#### **3. Transition to a Partner**

If you're currently involved in a partnership, the complexities of split responsibility make the need for a plan doubly important. You and your partner need to consider what would happen if one of you left the company. What if one partner wants to sell and the other doesn't? Who decides to whom the partner's portion can be sold to? What if a spouse or child is involved? Do you want to be in business with them?

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These are only a few of the considerations that make a buy/sell agreement a valuable — and some say absolutely necessary — component of a succession plan. It outlines the future of the company should something happen to either partner; it helps negotiate the valuation of the company and what the partner will buy or sell it for; and it addresses the question of funding — how one partner will buy out the other partner, if that is the decision you reach.

(Carrying insurance policies on each other may be the answer.)

### **Building the Right Team**

You're correct to expect to work with your attorney and CPA in setting up your businesses succession plan, but you should also bring your banking, insurance and financial advisors into the discussion because of the multitude of factors at play in crafting the details. If you don't already have relationships with these professionals, ideally you should look for a company that offers all three lines and has experience in generational and succession planning. With all angles covered, you will have the experts on hand who can provide a well-rounded range of knowledge and services, a professional team approach to objectively viewing your needs and planning for the continued success of both you and your business.

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