

Don't wait to start succession planning

By Suzanne R. Lozano, CPA, CVA

This summer an infuriated flight attendant made a quick exit using a plane's emergency chute. His exit was impulsive and it cost him his job. It wasn't the best idea in his situation, and a quick exit without a plan isn't the best idea when you own a business, either.

Business owners eventually step down or leave their company for a variety of reasons. They may want to work fewer hours and enjoy a better work-life balance, or there may be an unfortunate health issue, disability or even an unexpected death. Whatever the reason, it is important to start the succession planning process years before the owner(s) would like to leave the company. Realize that it took more than a year to make the business successful, so it is going to take more than a year to plan a successful exit strategy. Five years in advance is good; ten years is even better. The more effort spent on succession planning, the smoother the transition is likely to be.

Without proper succession and estate planning, the best intentions of business owners can be ruined in an instant. For example, an owner's sudden death, with no plan in place, could result in the remaining family members being forced to sell the business and walk away from it all instead of passing along the business to a child.

Why don't companies address succession planning?

Most business owners are so absorbed in operating the business day-to-day that they fail to make plans for the future. Family business owners are often confident that children or other family members will take over the



business, but fail to ask that key question of them. It can be an emotional, difficult topic to discuss—family members often assume others will want to work in the family business when this may not be their intention.

Tips for effective planning

One of the most important things to do when preparing a succession plan for a family business is to include all family members. It is important to find out early in the planning stages which family members want to be involved in the business in the future. Then, the skills of the interested parties can be evaluated to see how they fit into the succession plan.

It is important to consult with experts when formulating a plan. The use of an attorney and a Certified Public Accountant (CPA) is critical in making sure that everyone understands the plan and how the passage of ownership will be accomplished. It is also helpful

if an attorney or a CPA leads the parties through succession planning meetings. An insurance agent and a financial planner can be beneficial as well to ensure that adequate life insurance is in place and that financial assets are being managed correctly.

With your trusted advisors, address crucial questions about a multitude of issues that will lead to clearer thinking about the company and the road ahead.

1. What is your vision of the near-term and long-term future of the company?
2. What external and internal events could happen that would jeopardize your continuation plan for the company?
3. How do your plans for the company mesh with your personal or family plans?
4. What role in the company do you contemplate for yourself over the next 5-10 years?
5. Do you plan to retire? If you

were to give up control, what role would you play in the company?

6. Is someone designated to take over the company's affairs if something suddenly happened to you?
7. Have any of your competitors talked merger or buy-out with you?
8. Do you know what your company is worth?
9. Would you consider gifting part or all of the company stock to your son/daughter, or manager?

These and many other questions can be discussed, answered, and compiled into a written plan.

Plan now for the future

Business succession planning offers many benefits and should not be delayed. It addresses concerns about the future that may be hard to talk about, and facilitates a smooth transition in passing your business to the next generation. It incorporates strategic tax planning and ensures that you will have the funds to enjoy your retirement. Finally, a solid succession plan can ensure that the business you have worked to build will continue to thrive. **e**



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