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Succession Planning The Key To Business Survival

By: Chris Chowaniec, Northwestern Mutual Financial Network

It takes a special kind of person to turn a dream into a successful new business venture. To be your own boss and succeed as an entrepreneur is, for some, part of the American dream.

In this country, nearly 90% of all businesses got their start, as family owned enterprises. As many as 20[1] million American businesses have come to rely on the pioneering vision of their owner to keep their families and employees prospering.

That dream can be short lived if careful thought isn't given to the successor of your business. The business survival rate will diminish considerably if left to chance. All businesses, regardless of size or structure, should address the issues of succession planning.

Looking ahead to your own retirement, disability or death isn't the kind of thinking that comes easily, but to ignore these risks could be a costly mistake.

The average family-owned business lasts just 24 years, and fewer than 20% survive to a third generation.[2] You also should give consideration to your successor as your role changes with the growth of the company. These role changes typically occur years prior to a retirement, disability or death, and this planning should not be overlooked.

There are specific steps you should consider and implement if you want your business to survive. As a business owner you should develop an exit strategy, and do some long-range financial planning for the day you turn the business over to others.

The earlier that financial planning begins the better. More cost effective options are available to owners in their 40s and 50s than to those in their 60s and 70s. However, it is never too late to plan, but the cost associated with later planning will be relative to your age and insurability.

What every business owner really needs is a financial professional who can assist in identifying and setting personal goals and develop an exit strategy. With this structure, an attorney who knows the implications of tax laws and the complexities of buy-sell agreements can draft the right future for your company. Your financial professional will be key in making certain that the agreements are funded with the proper planning tools that will turn your financial dreams into reality.

The owner should step back from the emotions that often bind families, and consider strategies that address the issues regarding succession considerations for everyone involved. Family disharmony can be the ruin of successful planning. Treating all family members fairly can be accomplished, but does not mean that all family members have to be part of the business. Don't overlook the options available for those family members who chose not to be a part of the business. Also recognize that your vision and that of your successors might be very different. Deal with the issues open and honestly, to ignore them could be costly. You can eliminate the sources of potential conflict, and still give the business the liquidity it needs to survive a transition in leadership.

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The main issue in succession planning is to provide adequate funding when ownership of a business is transferred, so that it is accomplished with minimal difficulty. Life insurance, individual disability insurance and overhead disability insurance are key planning tools. These products provide the dollars needed to keep your business running smoothly. They also provide a fair share of the company's worth to all involved with minimal conflicts.

Your key employees, partners or even a knowledgeable competitor can be beneficiaries, assuring they will have the funds to purchase the business entity from the remaining interested parties and continue the business when you either retire or die.

Keep in mind that any financial planning for the business will have a direct affect on your estate. Careful consideration should be given to the estate and gift taxes associated with transferring your business interest to family members. Your financial professional should be instrumental in defining these pitfalls and helping minimize the possible transfer headaches. Your financial professional should be aware of all the pieces and can help design the most effective method for passing on your business. Don't fall into the trap that jeopardizes too many family-owned businesses – the failure to properly prepare for a transition in ownership or a lack of adequate funding to complete your financial goals.

[1] *Personal Finance Planning, September-October 1999*
[2] *Ibid*

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