## Business Succession Planning: 10 Steps to Success

Business owners are often so busy with the day-to-day issues of running and growing their companies that the issue of business succession is often overlooked or left on the "back burner" until it's too late. What would happen to your business if you were to disappear from the scene tomorrow due to disability or death? Would your co-owners, managers, employees, and family members know what to do and would they have the guidelines and tools they would need to keep the business moving forward?

### 10 Steps to Success

There are many ways to approach succession planning, but there are some basic steps that should be taken, in order to create a comprehensive plan able to stand the test of time:

**1. Don't wait! Deal with the issue of succession planning now.** Your family's financial security may depend on it. Start the process now, and follow it through to completion.

**2. Assemble a team of professionals.** Because business succession planning involves a number of different disciplines, you will want to obtain assistance from your key business and estate planning professionals, including your attorney and accountant, as well as tax and insurance professionals. Meet with them, preferably together, to review your succession plan requirements, and direct them to work together as a team to achieve your objectives.

**3. If you want your business to continue after your death, choose an appropriate form for your business.** The form of business you choose has tax, liability, legal, and business implications. If your business is established as a sole proprietorship or a partnership, it most likely will not continue in existence after your death. To help ensure the continued existence of your company in the event of the death or incapacity of you or one of your partners, consider converting it to a corporation. Corporate status provides for "perpetual existence" of the business, as well as limited liability for the business owner(s).

**4. Choose and prepare your successor(s) carefully.** Deciding on—and grooming—a successor may require years to familiarize him or her with the finer points of your business. Thus, it is important to select a successor as soon as possible, one who will be able to step into your shoes easily and improve the likelihood of a successful transition. The successful transition to new company leadership will also depend on the training and experience you provide.

**5. Create a business "will" and a buy-sell agreement.** The business will is a comprehensive planning tool that can detail, in step-by-step format, your plans for the continuation of your business including the management plan. In your business will, you may also name your successor.

An important component to a business will is a buy-sell agreement. A buy-sell agreement can obligate one party to buy, and the other to sell his or her interest in the business, following a triggering event such as the seller's (owner's) death or disability. It can be structured as an entity purchase (or redemption) agreement, a cross-purchase agreement, a hybrid (combination) agreement, or a "wait-and-see" agreement. Your planning team will be able to assist you in selecting the structure that will be most effective for your buy-sell agreement.

**6. Consider funding your buy-sell agreement with insurance to enable your chosen successors to buy the business.** Although a buy-sell agreement can help ensure that your business will remain with your family or business partners in the event of your death or disability, it is essential for adequate funds to be available to fulfill the commitments of the agreement. Life insurance is a simple funding vehicle that helps to ensure that adequate liquidity will be available when a qualifying event brings about the sale of an ownership interest. Disability buy-out insurance may also be purchased on the owner(s) to fund the purchase of the business specifically in the event of a disability.

**7. Establish a dollar value for each owner's share.** For most small, closely held companies, it is not an easy task to put a dollar value on the business. You will likely need to obtain an independent appraisal of your business to help in formulating your buy-sell agreement.

**8. Develop an estate plan that assures adequate liquidity to help pay estate taxes and other final expenses.** Without prior planning, there may be no provision or funds available to pay estate taxes, which might be significant. You can avoid that fate by purchasing enough life insurance to help cover the cost of estate taxes.

You may also wish to consider transferring part of your business ownership to family members involved in the business using certain gifting or sale techniques. While turning over some control of the business may be a challenge, it can help shrink your assets, thereby reducing the estate tax liability.

**9. Discuss your plans with all affected parties.** By letting your family and management team know the basic details of your business succession plan, such as who will take over as owner and head of the company and why, you will eliminate any surprises. Going through the business succession planning process will save your successor and your family a lot of hardship.

**10. Review and update your succession plan as needed.** Once your plan is established, make sure to review your plan periodically with your team of professionals to address any changes that may be required. If you have a major change in your business or personal life, be certain to immediately review your plan and revise it as necessary.

The time and thought you take today in planning your business succession will give you peace of mind, and it will certainly be appreciated by your family and business associates.