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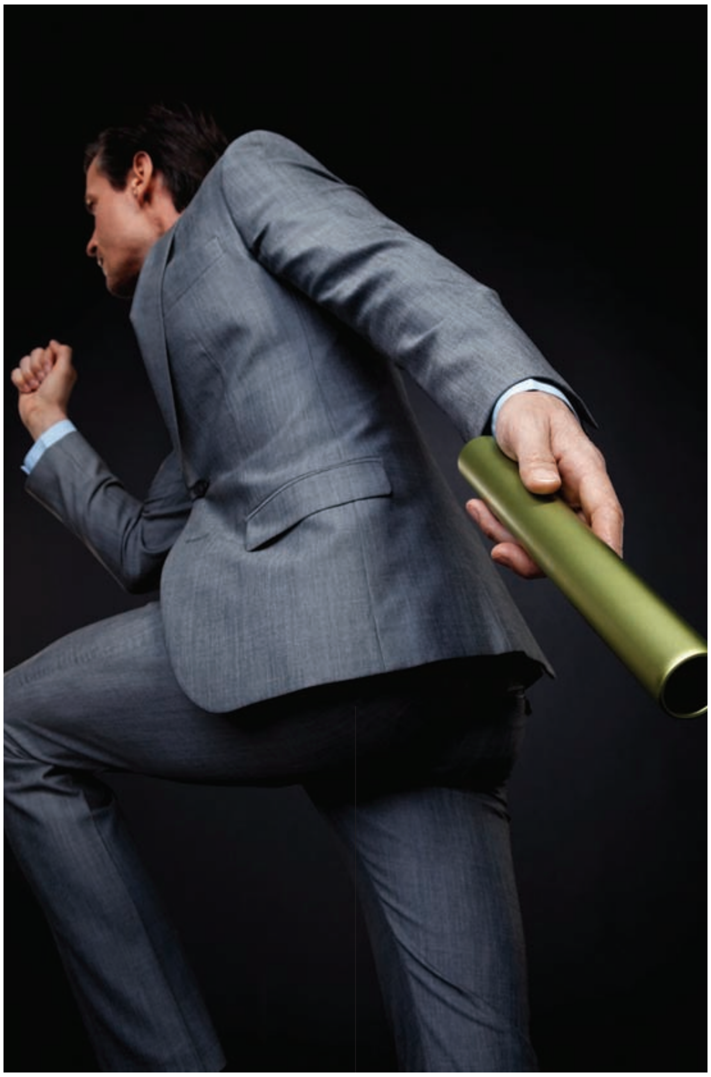
What's Next?

SUCCESSION PLANNING REQUIRES THINKING ABOUT THE ENDGAME AND THE STRATEGIES NECESSARY FOR A WIN-WIN TRANSITION.

BY KRISTEN HAMPSHIRE



PASSING THE BATON in a business is a daunting proposition for many owners, particularly in family businesses where legacy and lifestyle are wrapped into the equation.

Retiring is not as easy as cashing out or handing over the keys to the next generation. Similarly, finding an attractive buyer requires just as much forethought. But no matter what road an owner chooses, the path starts with knowing the end goal.

It's kind of like playing poker, says Gabe Adler, a certified public accountant and partner at Zinner & Co. who counsels closely held businesses on transferring ownership to the next generation. "You may play hands differently depending on where you want to end up in the game," he says.

All owners must recognize that succession will happen whether they plan for it or not.

"It's never too late to start a plan — and it's never too early either," Adler says. "I've had clients start business succession plans while their kids are in college and even before that. The younger generation learns the ropes by sweeping floors and stocking shelves, helping customers or even just from conversations at the dinner table."

Because a business is often an owner's greatest asset, succession planning is perhaps the most important activity for the what's-next stage in life, Adler says.

In general, there are three expected outcomes in the succession planning game: closing up, cashing out or passing on.

Succession planning takes time, patience and insight from outside advisers. Here, Adler provides five strategies businesses can use to prepare for succession.

Ask the tough questions.

Succession begins with knowing the finish line, but that decision will require some soul-searching.

Especially for family businesses, there's more at stake than playing a losing a hand. Building a business requires sacrifice,

Succession Planning Myths

Don't be fooled by these common misconceptions about transitioning your business.

There's plenty of time. Procrastination — putting important plans on the backburner or even assuming that this is a process best left for the future — is perhaps the biggest fault in succession planning. But while it's the biggest obstacle, it's also one of the easiest to avoid.

Selling is easier. Even if you plan to sell, you still need a plan. The more lead time you give yourself, the harder it will be for your competition to take advantage of your selling position, which can otherwise result in lost customers or a reduced valuation at the time of sale. And remember, the value of your business and the tax impact from selling varies based on preparation, so selling is not necessarily the easy way out.

A successor is waiting. Prepare your successor now. This person should not simply wait in the wings for a key and the go-ahead to start running the business, but rather ought to be prepared by learning the ins and outs of the operations and getting to know key customers and vendors. Consider the many layers of your business and ensure your successor has exposure to its deeper components as well as the surface operations.

Transferring ownership means losing control. This is not necessarily the case, especially if the business will transition with a controlled transfer. Still, keep in mind that the ultimate goal is to pass the business on to your successor.

which often get spread across a family and thus should involve those stakeholders.

An owner must consider: Is the best option to ensure the business will continue for generations to come, or is it more important to support the owner through retirement?


Gabe Adler

Consider how the business contributes to the owner's lifestyle and how that might change after the business is passed on, sold or dissolved.

"Owners need to look at their assets too," Adler says. "Say you want to live a certain lifestyle for the next 20 years: Do you have the assets to do that? How will you generate the cash to continue that lifestyle you're used to?"

The time the owner wants to continue working should also be considered, he continues. "How long do they want to continue the business? Are there family members who want to continue the business? Maybe parents want this, but the children have no desire or passion for it."

Lean on advisers. Because family dynamics are at play, making the best financial decisions for both the company and the family can be a challenge.

"Business owners should enlist in advisers that they trust and listen to," Adler says. "Advisory boards can help advise owners on what is happening in the business and give the family an objective viewpoint that can help them make decisions about the future of the business."

Independent advisers offer an objectivity that might be tough for those emotionally tied to the business to muster.

"Some in the real estate business fall love with certain properties because they built them or their parents built them," he says. "The best decision may be to divest of those assets and find others that will generate more cash or grow more in the future."

In a family business that has been passed on for several generations, the operating family members may question whether it makes more sense financially to sell or perpetuate the business, as maximizing its value should trump sentimentality. Advisers can offer objective perspective.

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Think beyond taxes. Certainly, tax considerations must be weighed into estate and succession planning. But tax implications should not rule the decision-making process.

The best succession plans are tax-efficient and much more.

"A succession plan should provide the entrepreneur and family with the results they are looking for," Adler says. "Those results can be financial wealth, gainful employment or a way of helping the community and the world."

If charitable giving is a priority, make it one in planning, Adler suggests.

"Don't let the tail wag the dog," he says. "Tax issues should not control the decision."

Communicate the plan. If succession involves passing the business on to the next generation, start communicating those ideas early on, Adler says.

"THE BEST THING IS TO BE PROACTIVE AND ENGAGE THE FAMILY MEMBERS AND ADVISORY TEAM. THE SOONER YOU START TALKING ABOUT THE PLAN, THE SOONER YOU CAN DRAFT A BLUEPRINT FOR THE SUCCESSION PROCESS."

— Gabe Adler, Zinner & Co.

"The best thing is to be proactive and engage the family members and advisory team," he says. "The sooner you start talking about the plan, the sooner you can draft a blueprint for the succession process."

Owners should establish a succession team — made up of stakeholders such as family and leaders in the organization — and talk openly about their goals when discussing the business's future.

"Communication with the succession team needs to happen over many years." he says. "It's not a situation where you just tell your son, 'I'd really like you to take over the business now,' and he's 50 years old. The most successful plans are those where family members have discussed the ideas for decades."

Keep it flexible. Of course, plans can change over the years, and that's OK. What seemed like a good idea a decade ago might not be so palatable as an owner nears retirement, or as markets change or opinions vary in how family members feel about taking on the business. For all of these reasons, a succession plan must also be nimble.

"Times change, business cycles change, industries change," Adler explains. "You need to make sure your business continues to grow and expand and change with the markets and customers."

That will require more than a passing thought to a Plan B, says Adler. "You need a secondary plan and team of advisers to help you develop a succession plan that gives you options," he says.