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THE GOOD, THE BAD AND THE UGLY OF BUSINESS SUCCESSION PLANNING & DEVELOPMENT

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THE GOOD, THE BAD, AND THE UGLY OF BUSINESS SUCCESSION PLANNING AND DEVELOPMENT

An effective business succession plan should be considered years in advance of the planned departure of the owner. Otherwise, you may be jeopardizing the continuity of your business while leaving less value for your beneficiaries to inherit.

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No matter how certain your future appears, succession planning is an essential part of doing business. It may be easy to put off planning when everything seems to be going well. However, the opportune time to begin formulating and executing an effective succession plan is when things are going well.

As a business owner, you are going to have to decide when will be the right time to step out of the family business and how you will go about doing it. Perhaps you have children or other family members who wish to continue the business after your retirement. With income, gift, and potential estate taxes, careful planning is required to transition your business to the next generation. Otherwise, you may leave less value for your beneficiaries to inherit than one had originally intended. Therefore, business succession planning must include ways not only to ensure the continuity of your business, but also to do so with the smallest possible tax consequences.

The Good: *The Pros*

One clear advantage of succession planning is that you allow your business time to grow and evolve into an even stronger entity.

When you develop plans for a successor to continue your business, you ensure that your company can succeed after you're gone. One clear advantage of succession planning is that you allow your business time to grow and evolve into an even stronger entity.

Appointing a formal successor also helps give you peace of mind while running your business. Since you, the owner, have taken the time out to carefully select your successor(s) to run your business, you can rest assured that it will be in good hands when you leave. When you decide to create a succession plan well in advance of your retirement, you have plenty of time to train this person on the day-to-day duties and larger concerns regarding the business.

Succession planning is also an important part of estate planning. It helps eliminate confusion as to who will carry on the legacy of the business when you are no longer available to make decisions. It defines the new owner and a point person for matters pertaining to the company to limit family or business associate disputes. The succession plan outlines specific details of importance, such as the transfer of ownership for business assets, for a smooth transition between owner and successor.

The Bad: *The Cons*

Appointing the wrong person can lead to a variety of problems that result in poor company performance. The wrong successor will not optimize the future of the business. Failure to determine the right successor and appropriately groom this successor could have negative impacts on the future of your business, potentially placing undue risk on your retirement income.

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A poorly conducted succession planning process will lead to poor decisions, disharmony, and, ultimately, poor company performance. The only thing worse than not doing a succession plan, is doing one poorly. Making poor decisions is never a good practice and this will happen if proper thought, time, and consideration are applied. It is essential to seek out the appropriate advisors to help guide you in developing and executing a well-planned and well-executed succession plan.

In a family-run business, succession is an extremely important issue. If something were to happen to the business owner, this could lead to confusion regarding the owner's plans regarding the future leadership of the business. If the owner favors one child over another in regards to managing the business, and, if this is not considered to be fair, it can have a catastrophic effect on the small company. Also, family rivalries can cause a business to fall apart if not addressed effectively.

The Ugly: *Succession Planning & Development Myths*

There is Plenty of Time. Procrastination is public enemy number one when it comes to planning of any kind. This is especially true when it comes to succession planning. Failure to acknowledge the reality of the lost opportunities that come with the passage of time can be disastrous. Time can be your enemy or your friend. Waiting until after an event, such as death or disability, is not planning, but crisis management. The reality is we do not always know how much time is left, so it is imperative to begin as soon as possible.

If you are not preparing your successor now, they will not be prepared to take over in the future. A longer period of quality mentoring will provide a great return on your investment.

It's Easier to Just Sell the Company. Selling a business is rarely just a matter of listing it for sale. The value of your business and the tax impact when selling can vary greatly depending on your preparation. A sale to a third-party is a viable option, but it still requires planning. Your current competition may also take advantage of this and steal away your current customers, reducing the value of the company before it can be sold.

A Successor Will Be Ready When I Am. A successor may be needed prior to the planned transition date. If you are not preparing your successor now, they will not be prepared to take over in the future. A longer period of quality mentoring will provide a great return on your investment. Prepare the person not just on the technical side of the business, but also in the relationships that are important. Remember, the quality of your retirement will likely be dependent on their success.

Equal is Synonymous With Fair. Transitioning the equity and ownership of a business to multiple family members equally may not be the best strategy. If you want the business to succeed into the next generation, it will require a different analysis that recognizes what will be required to make the business successful.

Giving Up Ownership Means Losing Control. A well-thought-out and well-timed plan will allow for a controlled transfer, while still effectively transitioning the business

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to the next generation. But remember, ultimately the goal is to transition the business to a new owner. You want to retire and you want your successor to succeed.

Succession is as much about the planning aspect as it is about developing the plan and measuring progress at predetermined intervals. Although the plan itself is very important, you shouldn't allow it to detract from the importance of measuring the plan's effectiveness as it is being employed. You should also make sure to keep the plan simple. An overly complex plan could prove burdensome to manage and could leave a greater possibility for a disharmonious transition. Therefore, it is essential to begin succession planning as early as possible to ensure the proper development of the successors, minimizing risk to your retirement, and ensuring the legacy of your business and family.

An effective business succession plan should be considered years in advance of the planned departure of the owner. For many business owners, focusing the time and attention on strategic planning to establish and grow the business often takes a back seat to addressing day to day needs. The Business Advisory team at Zinner & Co. helps to bring clarity and prioritization to this process; contact our experts to begin implementing the plan for the future of your business today.

Ready to consider a business success plan?

Contact **Michael Hermes** and the Business Advisory team at Zinner & Co. LLP.
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