



A Guide to Succession Planning for Small Business Owners

5 Key Considerations to Help Ensure Business Continuity & Lasting Wealth upon Exiting Your Business

Prepared by GW & Wade
A Wealth Management Firm



Table of Contents

PLAN

It's inevitable. At some point, you decide to sell your small business. Or perhaps circumstances prevent you from sustaining leadership of your business. Should any of these situations arise, how will your employees and family fare? Who will carry on your legacy? By establishing a business succession plan, loved ones will have a sense of security and your legacy will likely live on.

-
- 1 Identify Short & Long Term Objectives
 - 2 Determine How Much Money You Need

INCREASE VALUE

You've been working hard building your business these past many years, including putting in countless nights and weekends. Therefore, don't you deserve to reap the most profit from your efforts? Here are two steps that'll help you achieve the financial reward you've earned.

-
- 3 Obtain a Business Valuation
 - 4 Enhance the Value of Your Business

BLEND TWO LIVES

Business owners have two lives: business and personal, and the two are tightly interconnected. Therefore, to reap the most financial reward upon exiting your business, it's important to blend the two together, both legally and financially.

-
- 5 Obtain Professional Financial & Legal Advice

As a dedicated business owner, you're likely entrenched in the daily operations of your business. Therefore, the idea of exiting your business may just be the last thought on your mind.

In fact, in one recent study by U.S. Trust Insights¹, they found that nearly two-thirds of high-net-worth business owners lack a succession plan, which could include either a sale or transfer of the company. Since most of the owners rely on their businesses for income, the lack of such planning means *"their main source of income could be in jeopardy,"* according to the report.

Furthermore, 87 percent of business owners don't expect their children to continue the business. Interestingly, the report highlights that entrepreneurs with a financial advisor are more than **twice as likely** to have a succession plan.

Entrepreneurs with a **financial advisor** are more than
twice as likely to have a succession plan.



You're Busy

However, in order to reap the financial rewards from all your years of hard work, it's vital to create a business succession plan. More importantly, a succession plan helps to protect the ones you love in the event of your unexpected death or unforeseen illness.

Here's the Good News:

The sooner you start to plan, the more control and impact you'll have upon the exiting of your business.

What follows are 5 key steps to help transition you from being a successful business owner to a financially comfortable and relaxed retiree.

The sooner you start to **plan**, the more control and impact you'll have upon the **exiting of your business.**

1 PLAN

Identify Short & Long-Term Objectives

The first step in coordinating your business succession plan is to determine both your short and long-term goals, professionally and personally.

By answering the following questions, you'll begin to create the foundation and an exit timeline of your business succession plan.

- When do you want to retire?
- What will you do during retirement? Your answer is particularly important. Many business owners are rarely away from their businesses and, therefore, have a difficult time separating themselves emotionally from the business. Knowing how you'll spend your time when you're no longer at the helm of your business is extremely important to your long-term happiness.
- How do you envision yourself exiting the business?
- Will you seek someone from inside your business to take over the reins, or will you need to look outside the business?
- How long will it take to find your replacement, and for your successor to get up to speed on running your business?
- Will you provide financing? Many banks view owner financing as a source of credibility when providing loans to your potential buyer.
- Are you willing to provide training? If so, for how long will you make yourself available to a new owner?
- Will you transition your business to a family member? Is anyone showing interest? What about a family member who wants the business, but you have no intentions of selecting them? How will you handle hurt feelings?
- If you're intending to sell your business, what is your plan if it won't sell?

2 PLAN

Determine How Much Money You Need

When you retire, how much money will you need to cover your expenses as well as your retirement aspirations?

The answer to this question is a key component that underscores how you'll structure the sale or transition of your business.

Questions to ask yourself to determine how much money you need, include:

- How will you pay for your current business-provided benefits, such as: health, dental, life and disability insurances as well as owner's draw?
- How will you pay for discretionary benefits, such as: company vehicle, professional memberships and travel?
- Do you want to leave a legacy to your children and grandchildren?
- Do you want to start a foundation to help fund research for a special cause you believe in?
- Will you start another business, or work part-time to generate income?

3 INCREASE VALUE

Obtain a Business Valuation

For a comprehensive look at your financial future, it's imperative to obtain an objective valuation of your business from a qualified professional.

This individual will help you determine the market value of your business, including what you can hope to sell it for today and possibly years down the road.

Aside from hiring an experienced professional, an initial approach to determining the asking price of your business is to research the selling price of any similar businesses. Keep in mind that there are many ways to value a business, including weighing assets versus liabilities, what the market will bear, as well as the income your business generates.

One buyer may be more interested in the income your business generates and, therefore, willing to pay more, while another buyer may only be shopping for fire sales.

4 INCREASE VALUE

Enhance the Value of Your Business

Once you have a comprehensive understanding of your future financial needs and what your business is worth, you can now start to focus on building more value into your business enabling you potentially to reap even more financial rewards upon exit.

For example, you may want to pay down some of your liabilities, document your business processes, or consider legal protections for any unique product designs. All of these improvements could lead to increasing the value of your business, but require time and planning.

A first step in increasing the value of your business is to look at your company's overall goals and ask yourself, "Are they effective and profitable?" If not, make positive change. The key is to review your current state of business performance and potential, and then execute enhancements that should result in increased profits while decreasing expenses.

5 BLENDTWOLIVES

Obtain Professional Financial & Legal Advice



Exiting a business is a complex financial process that includes both legal and tax ramifications. Therefore, it's imperative to work with a qualified business attorney to help you coordinate your Buy-Sell Agreement, increasing the likelihood that your wishes are fulfilled.

What's more, in most cases, your successor will require a non-compete. An attorney can draft your non-compete, helping to safeguard your flexibility in pursuing your personal and professional goals.

Finally, it's smart to enlist the help of a financial advisor.

Is an Employee Stock Ownership Plan (ESOP) an effective exit strategy for business owners?

In her article, "ESOPs: A Tax Advantaged Exit Strategy for Business Owners,"² the author Sharon B. Hearn suggests that if a business owner is comfortable receiving fair market value for their business, rather than a strategic value, then an ESOP may be a viable exit strategy.

Also, beyond tax benefits, an ESOP allows an owner to reward loyal employees who were pivotal in building the business.

There are many moving financial parts to exiting your business.

An experienced financial advisor can help you understand the tax implications of selling or transferring your business. An advisor will also guide you through blending your business and personal financial lives together, both before and after your succession.

Key considerations include: coordinating life and health insurances, revising estate plans, and identifying the impact of Social Security on your income. A financial advisor is best suited to help answer many of the questions posed herein.

Now is the time to develop your succession plan.

At any point going forward, there may be no tomorrow for you. Where does that leave your employees and family?

A comprehensive succession plan encompasses the components needed to care for those you love most when you can no longer be there for them.

The exiting of your business could very well be the greatest business task you'll ever undertake. However, to receive the financial rewards you so deserve, planning needs to occur now.





GW & Wade has cohesive and long-standing relationships with many highly-trained professionals, including business and estate attorneys, CPAs, business valuation experts, and others.

If you have questions or concerns about the financial health and circumstances of your business or personal life, please contact us for a complimentary consultation. Our priority is helping families, professionals and small business owners maximize wealth and achieve lifetime goals.

[Contact us for a consultation](#)

Keep in Touch

Keep in touch with us, while receiving timely financial advice, commentary and investing strategies from GW & Wade's own experts. Sign up to receive our blog posts.

[Sign up for our blog](#)



Learn more about our team and our services at www.gwwade.com

The information provided above is general in nature and is not intended to represent specific investment or professional advice. Any results cited do not necessarily represent the experience of any GW & Wade client. No client or prospective client should assume that the above information serves as the receipt of, or a substitute for, personalized individual advice from GW & Wade, LLC, which can only be provided through a formal advisory relationship.

Clients of the firm who have specific questions should contact their GW & Wade Counselor. All other inquiries, including a potential advisory relationship with GW & Wade, should be directed to:

Laurie W. Gerber | Client Development

GW & Wade, LLC | 93 Worcester Street | Wellesley, MA 02481 | 781.239.1188

lgerber@gwwade.com

www.gwwade.com

1 <http://www.inc.com/jeremy-quittner/us-trust-survey-shows-succession-planning-fears-for-business-owners.html>

2 http://www.americanbar.org/publications/blt/2015/03/02_hearn.html