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BUSINESS SUCCESSION PLANNING

Approximately 90% of businesses in the U.S. are family owned, but less than 30% make it to the second generation, and even fewer make it to third generations. Reasons cited are poor or no business succession plan. Recent surveys indicate that only 30% of business owners have a succession plan. Whether a manufacturing, wholesale, retail or service company has been in the family for years, or recently built from the ground up, it is critical that a succession plan be developed as business owners work through the typical business life cycle (conceptual/idea stage; start-up period; growth phase; well-established maturing years; and finally exit or retirement). A common mistake business owners make is not planning far enough in advance, where succession planning should begin well in advance of any exit or retirement. Even if the notion of retirement has never arisen, a succession plan is still needed in the event something unforeseen happens such as a serious illness, disability or death. Considerations for business succession planning:

1. What is important: How you wish to spend the rest of your life and what you want to happen to your business. Consider holding a family meeting to engage in an open and honest discussion regarding goals and objectives. Otherwise, misunderstandings and or mistaken expectations may lead to situations that could tear at the family business and the family.

2. Who can run the company: A key employee with a vested interest is critical for succession and must be identified to establish that person as competent successor. If a qualified successor cannot be identified, consider selling the company to a third party.

3. Mentoring program: Grooming a successor takes time to train and to develop leadership experience. Consider a timetable to transition certain aspects of the business operations and relationships with existing customers and vendors.

4. Document the plan: With the help of an attorney, outline all details of the company transition, to include a review of insurance, valuations (discounts to reduce tax implications) and a buy-sell agreement framework, making sure the succession plan is in alignment with personal other estate planning documents (wills, trusts, titling of assets, insurance policies, etc.).

5. Regularly review the plan: Circumstances change (i.e. rapid company growth, departure of key employee, changes in laws, etc.) and so must the succession plan change.

Developing a business succession plan requires ongoing communications with trusted business advisors including your attorney. Contact me at 856-354-7700 or kdimedio@earpcohn.com to discuss and review your business succession planning.

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