Strategies for Success—Billings Business News

Succession Planning— How to get started—Part 2

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Last month we discussed the need and idea for succession planning. How do you get started? Here are the beginning steps to initiate the process.

The first step in the transition/succession planning process is to ask your child, if a family owned business or your key employee if a non-family owned business if they want to continue on with your legacy and own/operate the business. This question has to be focused and direct--- there cannot be any ambiguity when you ask this question. Assuming that your child or key employee will want to carry on the business without asking this question may provide you a surprise that you were not expecting. Ask this question TODAY! It is better to know the answer today, when you are in the planning and preparation stages of succession planning than when you are ready to change and find out that nobody is interested in carrying on the business.

The second step in the transition/succession planning process is to develop a very detailed and comprehensive transition/succession planning plan. In this plan, the WHO, WHAT, WHEN, WHERE, WHY and HOW of the transition/succession planning process should be clearly delineated. More detail is preferable to less detail—this plan should be as complete and comprehensive as possible. Every little detail, no matter how minute it may appear should be contained within this plan. This will ensure that no surprises arise later in the transition process.

A team of advisors should be selected to help with the development and execution of this transition/succession planning plan. A team should include a business consultant, Certified Public Accountant, Life Insurance Underwriter/Financial Adviser as well as a business attorney. Your banker may also be a member of this transition team. Each of these individuals brings specialized expertise that is invaluable as you plan the succession of your business. The fees for each of these individuals will be insignificant when compared to the detail and knowledge that each brings to the team. This is one time where you need to pay for professional advice.

Clear identification of your business successor is paramount. He/she should be given ever-increasing duties and responsibilities as you begin to develop the transition/succession plan. He/she should assume increased managerial/leadership duties as you, the owner, elect to delegate more responsibility to he/she.

When delegation of duties begins to occur, your designated successor will probably not do everything the way that you would. This is only natural. However, this is now the time that you must begin to "relinquish control" to the next generation of owner. Change, for many, is very difficult. However, if the business is to grow and increase, some change is both healthy and beneficial. Do not get all upset if your new successor elects to make some changes. Normally, he/she will not make significant changes until you have fully left the business. Your designated successor should discuss major changes with you before they are made. This one item can be contained in the succession plan.

A comprehensive timeline of complete transition is another element of a successful transition/succession planning plan. The timeline should identify key milestones when specific actions will be accomplished. When that milestone date occurs, the specific action associated should be initiated/completed, depending upon the type of milestone. This is one time where you cannot procrastinate. You have made the decision to transition to retired status. Although this may be a tough emotional decision and can cause you much doubt and worry, there is no reason to delay whatever action the plan identifies.

The life insurance underwrite/financial adviser brings a wealth of expertise for estate planning purposes. Depending upon the size of the business, the amount of money involved with a business sale/transition may be very significant. Improper planning or failure to address a myriad of estate planning issues may preclude your heirs from receiving what you desire them to have. The life insurance underwriter/financial adviser can also help with tax matters that may be incurred during a business sale. He/she may have specialized financial products, which will help mitigate excessive tax consequences for a business sale/transition.

Next month, we will address more issues necessary when you plan for business succession planning.

Pull Quote: "88% of current family business owners believe the same family or families will control their business in five years, but succession statistics undermine this belief. Only about 30% of family and businesses survive into the second generation, 12% are still viable into the third generation, and only about 3% of all family businesses operate into the fourth generation or beyond." Family Business Institute