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It's never too soon to plan for the future of your business

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We often find that business owners are so busy working on the day-to-day operations of their business that they don't take the time to plan for its future. As baby-boomers deal with the realities of building their estates and funds for retirement, they typically neglect what may be their largest and most important asset...their business!

Jodi Mersinger is a partner in the tax services department at Wolf & Company LLP. In addition to traditional tax planning and consulting services, Jodi provides business succession planning and estate planning services to closely held businesses.

Whether you choose to pass the business on to family members or sell it, you need to plan for the orderly transition of ownership and management. Known as *succession planning,* this is often a difficult process, for both financial and emotional reasons. The reality is, however, that by planning early you have much greater control of your future.

What to do first? Make a plan. Now. When should you create a succession plan? Some would say that you should start planning how to get out of your company the day you open its doors. At a minimum, you'll want at least two or three years. You need to give yourself enough time to get the business in shape for sale or transition, identify a new owner, and get the deal done.

The first step is to define your objectives in leaving the business. For example, when do you want to leave? Do you have someone in mind to succeed you as owner? How much income do you need after you leave?

Retiring with enough money to sustain your lifestyle and attain your goals may mean making different decisions about how and when you exit.

What's it worth? Although you may have some idea of its value, it is imperative that you get an objective, independent business valuation. Your exit plan will depend on how much the company is worth now and how much you want it to be worth when you want to leave.

You might be surprised at how much you will find out about your company through the valuation process, including information about your place in the market, opportunities, risks, and industry trends. Be sure to hire a professional valuation analyst with experience in your industry.

Who's the buyer? Many business owners prefer to transition their companies to family members or employees rather than selling to an outside buyer. However, both strategies take careful planning.

If you are transitioning to employees or family members, you will need to take careful steps to identify and groom your successor to assure that the business continues for the long term as a funding source for the next phase of your life.

You may also need to fund the transition. It's unlikely that family members or a group of employees will have cash available to buy you out, which means they must turn to a bank or rely on owner financing.

Alternatively, simply transferring the company ownership to the next generation of family members has its own set of issues. Among the most pressing is implementing strategies to minimize taxes to both you and the next generation. One of the most tax-effective strategies is to transfer by gift minority interests in the company.

In the right circumstances, an ESOP can be an excellent transition strategy. The ESOP (typically a group of existing employees) simply buys company stock from the owner. This gives the owner the opportunity to sell the stock to a ready market, diversify holdings outside the business, and gradually step out of the company with his or her wealth preserved. As with any exit strategy, you will want to carefully investigate how an ESOP would work in your company.

Finally, there is also the option of selling your company to an outside buyer. Gregory A. Lafin, Managing Director of Wolf Capital LLC, assists many closely held companies in growing their business through acquisitions and exiting through sale to a third party.

Lafin emphasizes that working with a merger and acquisition specialist who understands the dynamics of your industry and the opportunity for finding potential purchasers and has the expertise in due diligence, valuation and financial structuring, is essential to the success of the transaction.

Buy-sell agreements: The key to continuity. In planning for the succession of your business, a buy-sell agreement is one tool used to provide a continuity plan in the event of an owner's death, disability, or retirement and contains mechanisms for valuation and funding of a buy-out.

Preparing to leave your business may feel like a risky endeavor, but by putting just a fraction as much time and effort into leaving your company as you did in building it, you'll be well equipped for whatever comes next.

Quick Facts

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