



Business Succession Planning – If not now, when?

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Where do you want to be in 5 to 6 years? What are you going to do with your business – hand it over to family, sell it internally or to the highest bidder, or work it until either you or the business drops?

The numbers: Small businesses employ nearly half of America's private-sector workers yet 72% of the establishments are sole proprietorships and 60% are baby boomers. Of the 28.2 million small businesses in America, 40% are grappling with a transfer of ownership issue. Over 56% of business owners either do not have a succession plan or are not happy with the one they have. Of the 44% who do have succession plans, not all of them are funded or funded appropriately. Less than one-third of family-owned businesses survive transfer to the second generation, 12 percent to the third, and only 3 percent to the fourth. Historically, only 25% of businesses up for sale actually sell.

Is your business part of your retirement planning? While you may not intend to sell your business anytime soon, preparing to sell will increase your odds whether all goes according to your long term plans or your plans get shortened by illness or a significant change in your financial situation. Given that a good plan takes about 3 years to put together, there is no time like the present to get started.

The first and central question to ask: Is my business a transferable or lifestyle business? Do you aspire to a big paycheck when you turn over your business or are you content to “shut the doors”? What do you plan to do after you divest yourself of your business? Are you prepared for the fact that 76 - 90% of your wealth is invested in your business?

Qualities of a transferable business:

- Legacy goals
- Operating margins at or above industry standards
- Solid, diversified customer/client base
- Realistic growth strategy and/or competitive edge
- Stable, motivated employee group – management team
- Operational independent from owner's direct involvement
- Funding mechanism supports transfer of ownership

If you decide you have a lifestyle business and are content to “shut the doors”, you still need a succession plan that prepares you financially and emotionally for being a retired business owner. Working with a team – may consist of financial planner, accountant/tax advisor, attorney, insurance agent, business coach – will help you identify your financial needs, funding resources and timelines to answer these questions:

- What comes next?
- How much money will I need – do I want?
- What is my actual financial worth – with and without my business?
- What protections do I have in the event of unexpected disability and/or death?
- Are my affairs in order for my care and my estate regarding end of life?

If you decide you have a transferable business and the selling price is part of your retirement planning, you need a succession plan to help you become informed on the emotional aspects to anticipate,



educated on the numerous tactical complexities of the business sale process, and guided on financial decisions to ensure funding mechanisms are in place. Working with a team – may consist of financial planner, accountant/tax advisor, attorney, insurance agent, professional business consultants, business valuation expert – will help you create a formal succession plan, be aware of the multiple contingencies that may trigger a business succession, and set up the funding mechanisms to actualize the plan. You will need to address the following questions:

- What are the exit objectives?
- What are the personal and business financial resources?
- Who is my target purchaser – family, employees, third party?
- How do I ensure business continuity?
- What is the current and projected valuation of the business?
- How will I address personal wealth and estate planning?

The best plans should draw on a team of diverse experts to consider all contingencies. As a business owner you have spent years of blood, sweat and tears building a company. Planning how you want to end your business will help you maximize the benefit of your hard work and prepare you for what's next.

Resources:

Marvin Revoal, Insurance Broker, PBP Insurance
Megan Livermore, Attorney at Law, Hutchinson Cox Coons
Barbara Evarts, CPA, Houck Evarts & Company LLC

Research References:

John Deremo, Succession Planning, National Underwriter Life & Health
Tensie Homan, CPA, Beat the Exit Bubble
Dyanne Ross-Hanson, Business Builder: Transitions, Upsize
Brad Eriksen, Attorney, Jordan Ramis PC, Portland Business Journal
Jeff Bird or Ben Lenhart, Attorney, Lane Powell, Oregon Business
Austin Family Business Program, Oregon State University