

Business Succession: Questions You Need to Ask

Do you have a business succession plan? Life-changing events or retirement can bring on some tough choices.

It's not unusual for business owners to find a majority of their wealth tied up in their company. This is often a major provider for them and their families. But when the time comes to sell their businesses, many owners often have not thought about how they would replace that important chunk of income.

Business succession can be an emotional, financial, and timing issue for business owners.

If you own your own business and are considering a business succession plan, there are five questions you should address with your Financial Advisor. Together you will want to ensure you have a plan in place to help reduce the risks associated with one of your most important assets.

What other assets have you set aside to help fund your retirement?

Should you rely on your business alone to fund retirement? Just as your investments should be diversified, so should your assets.

Though it may be difficult to do in a business climate, as a business owner, you should save and build your retirement savings plan away from the business to work toward your retirement goals.

Have you considered whether your business is an asset you can sell?

Whether or not you can find a buyer for your business depends on a variety of factors. Are there employees or partners who could continue to run the business after you retire? Will your business attract outside buyers?

For example, companies that produce tangible goods and have positive cash flows can often be sold. On the other hand, specialty firms that rely on you and your skills alone, such as boutique consulting firms, are generally not salable. The truth is most businesses fall somewhere in between.

If you were to sell your business and pay the taxes on your gains, would the proceeds be enough to last for the rest of your life?

It's important to determine if you expect a similar level of income in retirement that you now enjoy from your business.

As a business owner, you likely work very hard and your dedicated efforts are an important ingredient to your business success. The investment returns from your growing business may well exceed the investment returns from a prudent investment portfolio.

In the long run, however, the income derived from your valuable work ethic simply may not be replaceable.

Business owners are often optimists by nature, and they take risks to grow their business. The risk of putting all your eggs in one basket may not work as well, however, when it comes time to build an investment portfolio.

What happens if you cannot be involved in running your business?

Stories abound about business owners who are struck down by illness, death or disability, leaving business partners and spouses to figure out what comes next.

If more than one partner or shareholder is involved in your business, it is important to have a buy-sell agreement in place. A buy-sell is a written agreement between two or more owners of a business.

If a triggering event occurs, one or more owners will have the right or obligation to buy the business interest from the owner who is obligated to sell.

Triggering events often include the death, divorce, or disability of a partner or shareholder. The agreement may establish a funding mechanism to facilitate the purchase of an owner's interest in such cases.

Do you have a plan in place that will allow you to retire regardless of a sale?

You may not be able to sell your business at the precise time you wish to sell. Planning for succession in a small business should be a top priority.

Begin with the objectives you want to achieve, and talk through these concerns with your Financial Advisor. Together you can build a plan, then work on getting the capital and the agreements in place to transition your business when the time is right or when life events require succession in your business.

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