

Will your business retire when you do?

Plan now for succession and possible sale

Research by the University of North Carolina–Asheville’s Family Business Forum found that, over the next five years, 30% of family-owned companies will experience a change in leadership due to retirement. Unfortunately, many owners put off planning for this event. According to the Family Firm Institute (FFI), more than half of family-owned business CEOs nearing retirement age (61 years or older) haven’t yet chosen their replacements.

If your business is left without a successor, it could lead to organizational chaos and disputes. And if your heirs need to come up with the money to pay estate taxes, they may jump at any acquisition offer, even one that severely undervalues the company you’ve worked hard to build.

Sooner than you think

The majority of companies are family-owned — 80% to 90% of all business enterprises in North America, according to the FFI. Even when they differ by industry and size, they tend to face similar issues when it comes to succession planning.

Many experience lack of good communication among founding-generation owners and second- and third-generation owners. For example, company founders may believe that their children want to take over the company, only to find that, when they seriously discuss succession, their children turn out to have other ideas.

If you’re considering a generational change in management, sit down with your heirs and all your business’s owners to discuss your — and their — plans and expectations. Do this as early as possible because, if it turns out the succeeding generation doesn’t want to assume the mantle, you’ll need time, generally years, to prepare your company for sale to an outside party.

You’ll also require plenty of lead time if an employee or group of employees have expressed interest in buying the company. If they intend to finance the purchase with bank loans or a private-equity partnership, they’ll need solid financial statements to show to potential lenders or investors.

Expect the unexpected

Even if you’ve decided who will succeed you, your plans may not go as smoothly as you’ve anticipated. Premature death or disability can disrupt even the most carefully thought out succession plans, throwing a business into turmoil for some time.

Try to keep a lid on those factors you can control, by, for example, putting in place a buy/sell agreement that dictates the terms under which potential successors can value and buy your business. And plan for estate taxes, which can wreak havoc on transition plans if you haven’t anticipated their effect. Estate taxes typically are calculated based on the fair market value of a company upon the date of the owner’s death. The IRS will value

your company according to its own formulas — which may overvalue or undervalue your business.

Enlisting the help of financial and legal experts knowledgeable about retirement and estate planning is, therefore, essential. Your advisors can help design a plan that will enable your heirs to pay taxes associated with a business transfer. The plan could include trusts and life insurance policies.

Selling isn't a sure thing ...

Even if you've decided to sell your business when you retire, your plans can be disrupted by factors outside your control. Poorly performing capital markets, for example, could reduce the number of prospective buyers, making it difficult to sell or get what you consider a fair price for your business.

Investment bankers and brokers who specialize in small and middle-market companies can help you minimize this type of risk. They can guide you through the often-complicated process of coordinating your retirement with the company's sale, and address your retirement income, wealth management and estate planning needs.

... but retirement is inevitable

Failing to plan for succession can put your company's future — and even your financial security — at risk. Although you can't anticipate every eventuality, planning your retirement now will provide your heirs and successors with a roadmap to navigate the rocky terrain of an ownership transition.