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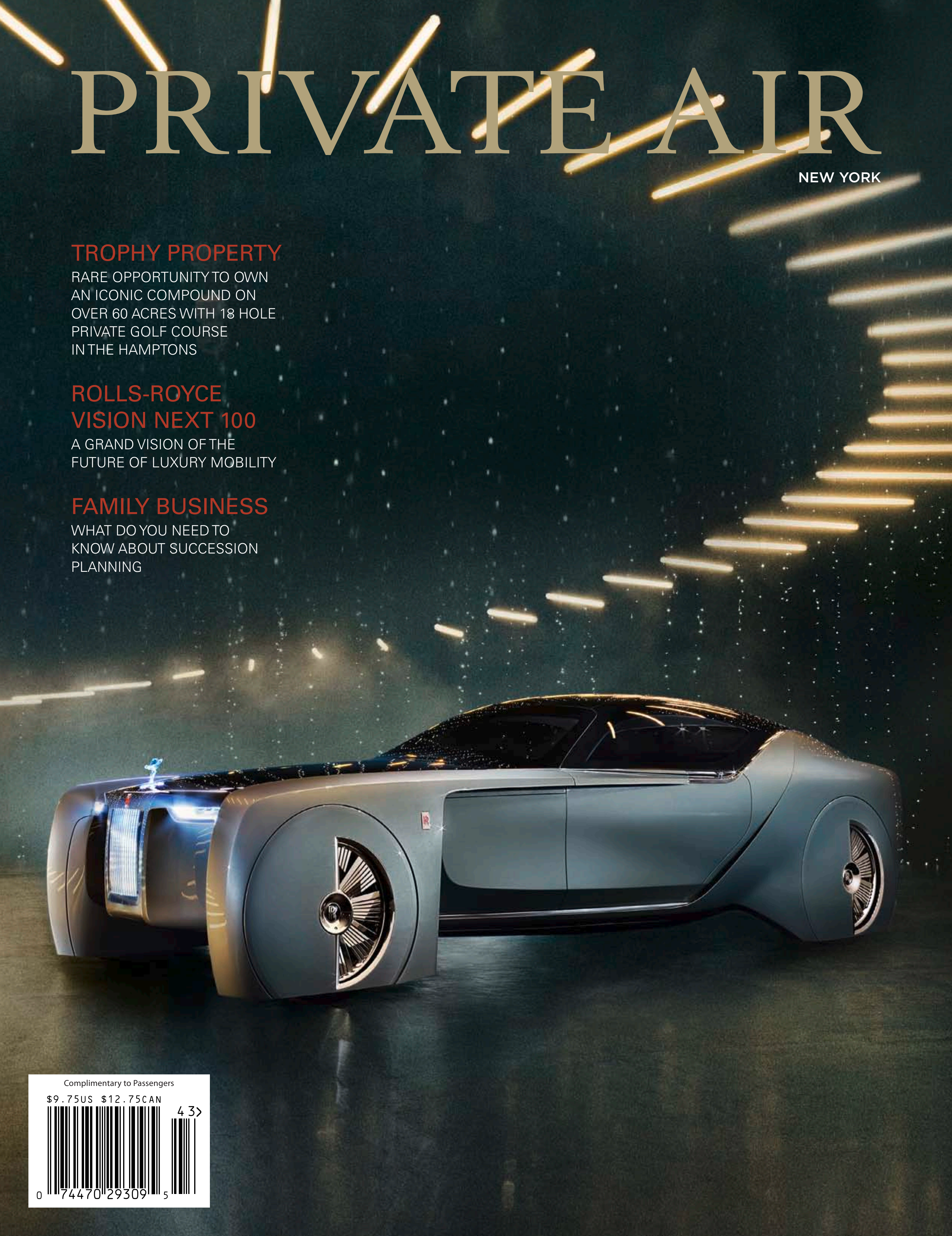
WHAT DO YOU NEED TO KNOW ABOUT SUCCESSION PLANNING



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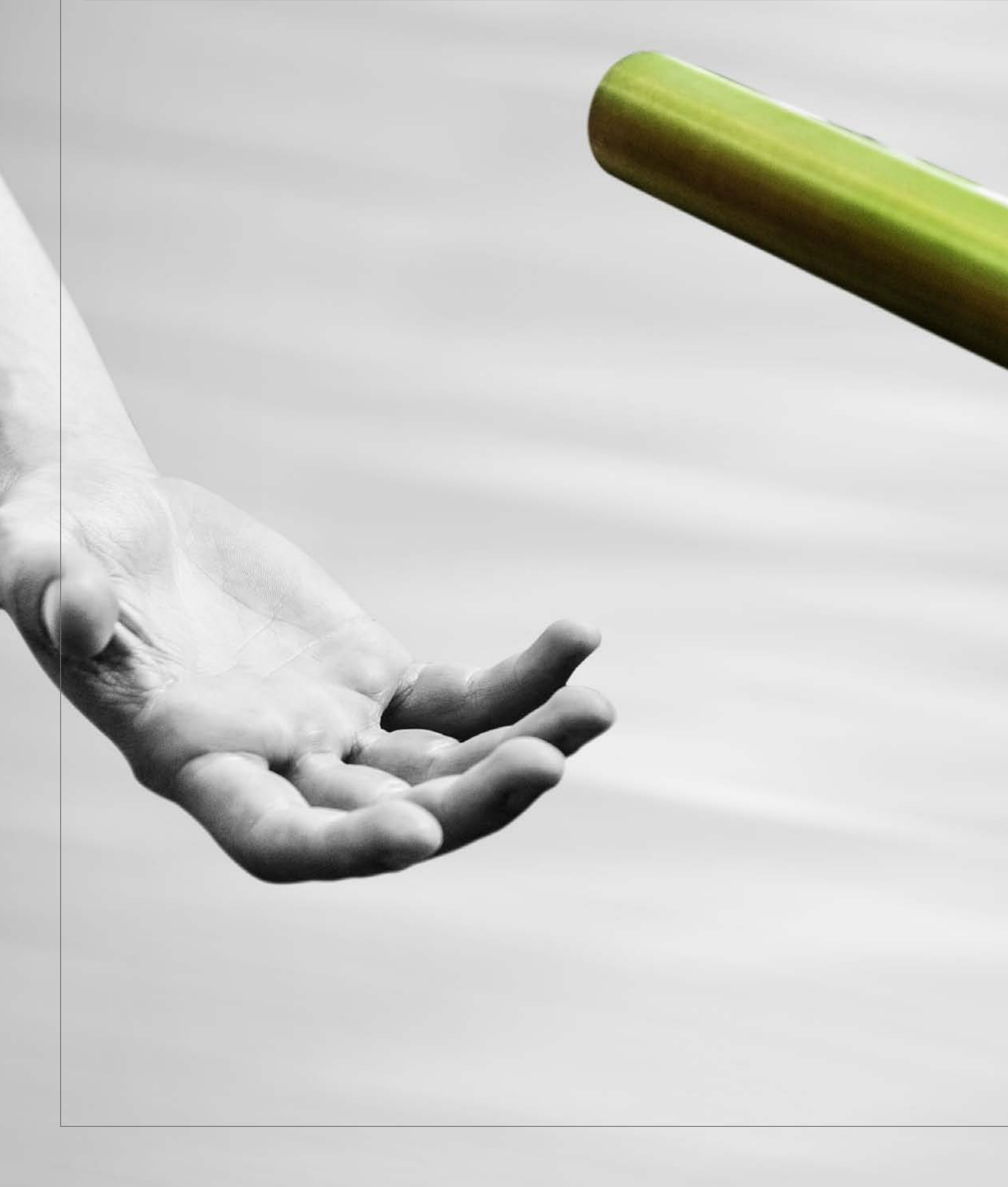


WHAT DOES YOUR FAMILY BUSINESS NEED TO KNOW ABOUT SUCCESSION PLANNING?

By: Steven Abernathy

Business owners may be masterful at growing their businesses, however, succession planning is rarely considered until it's time to sell the company or pass the reins to others. Generally business owners (and management) focus on the immediacy of issues at hand as well as general business planning. This could include serving clients, facilities upgrades, or other considerations directly linked to the business' ability to thrive. Owners generally do not consider what leaving the "baby" they have worked so hard to build will look like once they sell the company or pass 100% of their responsibilities to other people. When it is time to make a succession plan, here is what we recommend you consider:

Be ready for unexpected outcomes.
Even when an owner chooses to pass a business to family members, or, management names those who'll take over, it's strongly advisable to have contingency plans as alternatives. Changes in financial circumstances, business prospects or sudden life events could dramatically alter even the best laid plans. Consider alternate scenarios (i.e., potential successors if the named heir apparent doesn't work out). Be prepared to have a transition plan that is flexible and adaptive. This allows an owner to transition business operations in a different manner than anticipated (i.e., short sale, quicker shift than planned or other alternative). Realities (the economy, seasonality, weather, downturns in the market, etc.) might impact a business owner's path—positively or negatively—so a nimble stance will help.

During the process it's important not only to factor in the family's concerns but to be aware of the interests of partners, business associates and key employees.

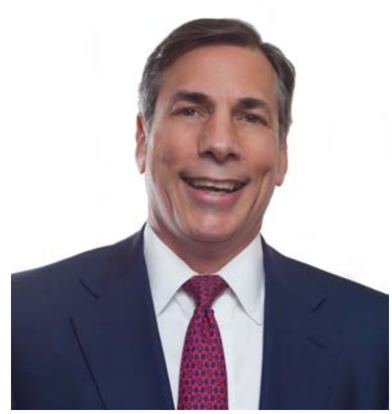
Timing is everything.
In addition to knowing which agreements will require attention and review (non-disclosures, partnerships, buy-sell contracts and the like) this is the group most likely to hold the institutional knowledge to best support business continuity. It is likely to take, under normal circumstances, at least one or two years for a business to be made ready for a deal or succession. Owners generally make sure financial records and transactions are sound, vital agreements are up-to-date and arrangements with key staff are reviewed. Buyers generally ask for years' worth of audited financials. In addition, depending on timing, an owner may opt to have the business evaluated by outside management to recommend upgrades and identify changes to unlock the business' value. Such alterations might take time to put in place.

Identify leaders at the company and within the family—and talk to them.
Key employees as well as family members who'll assume leadership roles are best identified early in the process. Discussing facets of the succession plan as appropriate empowers them and thus increases the likelihood of buy-in and a seamless transition to what's next. As the owner prepares for his or her successors to take over, open conversations should be strongly encouraged particularly among the next generation. This will empower them to consider the company's governance as well as formulate their own management culture to address future challenges including who ranks above whom. This can be tense and not every child of a successful business owner envisions himself or herself as the heir apparent for a variety of reasons. In such circumstances people outside the family are likely to make the best buyers. However, if a transition to family members is possible, the owner is wise to reflect on what responsibilities and roles each family member-owner is best suited to do. Broadly handing over the reins of ownership to heirs without defined roles and a road map for the business' governance once the transition is finalized is a recipe for disaster.

It's never too early to plan.
Business owners today are advised to begin considering the succession process' starting point as years before their earliest intended exit point. This "pre-plan" builds in ample time to determine a course of action (and change it if necessary), apply recommended tax or estate changes and maximize the projected financial benefits of the transition. The other advantage of starting such planning early is addressing any unexpected changes within the industry, economy or family whilst accomplishing the exiting owner's desired goals.

Estate planning is not succession planning.
However, one plan reflects the goals of the other for both to work. Estate and tax planning strategies can provide a tax-efficient transition of ownership and properly using these techniques early on (as opposed to when a transaction is pending) could potential benefits for both the owner and his or her family. These could take many forms including gifts to family members, investments to their trusts or other wealth- shifting techniques which are more complex, such as the use of a grantor-retained annuity trusts (GRAT) or other trust structured to mitigate tax consequences.

We strongly recommend business owners, particularly those owned and controlled by baby boomers on the verge of retirement or the next phase of life, dedicate ample resources and time to the transition. This allows not only for a smooth journey out of the business well in advance of its anticipated sale or succession, but, consideration of the options and opportunities available that will maximize financial gain and pave the way for peace of mind.



Steven Abernathy counsels affluent families on multi-generational wealth management strategies. This includes: succession planning, asset protection, wealth management, estate and tax planning, and Heritage Planning. He can be reached at sabernathy@abbygroup.com or (888) 422.2947.