



Succession Planning for the Closely-Held Business Owner

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Semper Paratus". For decades, this motto has instructed the Boy Scouts of America to always be prepared. As a result, many Scouts have enlisted the help of the Swiss Army knife. A mainstay in many a Boy Scout's backpack, this compact instrument has long been used to solve camping's many unforeseen problems. Open a can, dig a hole, cut wood, unscrew a cork, clean a fish. . . In short, the Swiss Army knife allows the Scout to prepare for the unforeseen.

Succession planning for a family-owned business is no camping trip, but it, like camping, requires that the business owner prepare for the unexpected. A formal succession plan is the business owner's Swiss Army knife: it forces the owner to prepare for the many issues involved in this crucial transition.

Unfortunately, establishing a successful succession plan is not as easy as making a trip to the local sporting goods store. Likewise, implementation of the plan is not as easy as putting the knife in your back pack. This might explain that while about 50% of family business owners want the next generation to manage and own the business, only 30% of family-owned busi-

nesses actually continue to the second generation and only 10% continue into the third. Obviously, there is a gap between succession desires and succession realities. This gap can, at least in part, be explained by a lack of preparation and implementation.

Lack of planning for a successor in a closely-held business is one of the most prevalent mistakes of a business owner. Excuses for not planning or implementing a plan for succession include; "I don't have the time", "Nobody else can run the company", "I don't plan on dying in the near future (or ever)", and "I can't afford to groom a successor". "Can't my business own itself?", is another question that suggests that owners assume that the business will simply keep going without any planning. These excuses become lame, however, when compared to the damage that can be done by not planning for succession.

As a business appraiser, I have seen all too many times when a business owner has died and left nobody as a successor. The family is forced, in a time of great emotional distraught, to find a way to keep the company going. Offers to buy the company at firesale prices may come in, clients may go to competitors fearing a possible loss of a reliable source of product or service, and creditors may try to exert greater control. The value of

the company, due to the loss of a key man, may fall precipitously. And since the largest portion of a business owner's estate is normally the business, the family must find a way to pay estate taxes.

Succession planning is crucial to the long-term viability of a closely-held business. By establishing and implementing a formal plan, owners can greatly enhance the long-term success of their business for future generations. This article highlights the succession planning process, its pitfalls and some of the many options available to business owners.

The steps to effectively "pass the baton" to a successor are simple: Determine the successor, establish a plan to transfer control and ownership, and implement the plan. However, each step can be fraught with problems.

Determining a Successor

Essentially, the business owner has three options in determining a successor. He can appoint a family member to run the business, he can hire a manager from the outside or he can sell the business. This determination should be made by weighing the ability of the family members to manage the business, the availability and cost of capable