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Business Succession Planning: an Introduction

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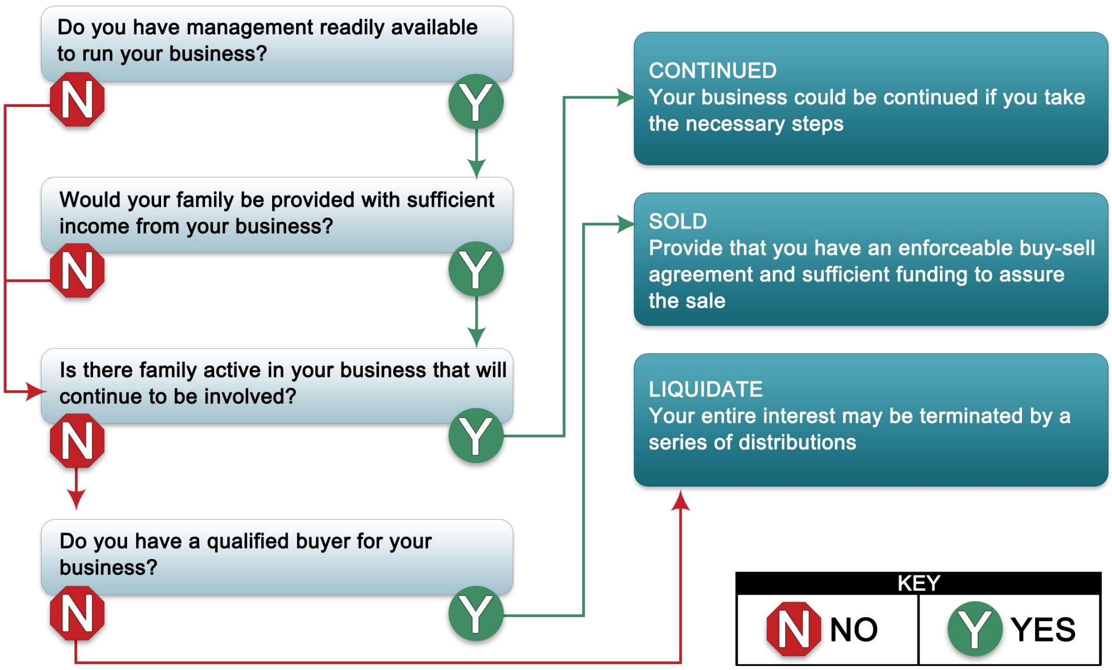
Planning for Succession of a Business Interest



Business Succession Planning Alternatives

	Lifetime gifts	Bequest	Lifetime sale	Estate sale	Buy-sell agreement
If you want to: Sell your business interest	Not appropriate	Not appropriate	You may be able to sell your business outright-but there is no guarantee	Your estate may be able to sell your business outright-but there is no guarantee	Buy-sell agreement can be used to guarantee the sale of your business
If you want to: Give business to your children	You can control the timing and size of the gifts	You control the size of the gift through your will	Not appropriate	Not appropriate	Not appropriate
If you want to: Sell business to your children	Can be used in conjunction with sale	Not appropriate	You can control timing of sale-but sale is not guaranteed	Your child could buy from your estate-but sale is not guaranteed	Buy-sell can be used to guarantee your child's option to buy your interest
If you want to: Minimize value of your estate	Can be used to reduce the value of your estate and maximize gift tax exclusion	Will not minimize value of your estate	You can control timing of sale-but sale is not guaranteed	Value of business must be included in your estate	Value of business must be included in your estate, but the buy-sell can help establish that value

Working with an Advisory Team

What is working with an advisory team?

Mismanagement is often the reason for new business failure. Therefore, a wise business owner surrounds himself or herself with the talented and experienced people it takes to make a business survive, grow, and prosper.

To run a business properly, you need to have expertise in a number of areas--financial planning, accounting, law, taxation, insurance, and investment management, to name a few. Because it is often impossible for a professional in one of these areas to be an expert in all of the other areas as well, it is often desirable for business owners to work with a team of advisors. Naturally, however, you'll need a quarterback to direct and coordinate the advisory team. Typically, this person is your financial planner. What is the first thing a new president of the United States does after being sworn in to office? He builds his cabinet, selecting the most qualified persons to advise him on matters in which he himself is not qualified. The secretary of defense counsels the president on military matters, the secretary of state counsels him on worldwide political matters, and the secretary of the interior counsels him on the environment. Thus, the president generally makes no decision until he is fully apprised by the experts. That's what you need to do. You need to build your own cabinet or team of professional advisors who can help develop and implement your business plans most effectively.

Tip: *Banks are more likely to lend money to a business that is managed by people with extensive experience in the type of business you own. An advisory team that provides management assistance on a regular basis may help you get money more easily.*

Who are the members of your team?

May come from inside and outside your business

Your team may be made up of people from both inside and outside your company. The insiders may be part of your salaried management staff, while the number of outside advisors is largely a function of cost. When selecting advisors, you should be aware of their various professional designations (such as certified public accountant and certified financial planner), as well as the scope of their expertise.

The inside team--key full-time employees

Like any sports team, you need your basic players out on the field at all times. These are the people who know what needs to be done and do their jobs well. For example, budgets need to be prepared by those who know how to analyze sales and profits, and pricing will need to be determined by those who know the market. These decision-makers are your key employees and are generally hired on a full-time, salaried basis.

Special players--the outside advisors

Although your business may need a variety of advisors for different purposes, some typical advisors include the following:

Temporary, or for a particular purpose

Certain players (like the football kicker) are only needed at particular key moments. You may need a player to do only specific things (e.g., a CPA to do the taxes each year), or you may need to assemble a special team to handle a particular game (e.g., you are expanding or selling your business). Architects, attorneys, CPAs, and brokers are some types of independent contractors that you can hire in those cases.

Associates and colleagues

Don't forget to pick the brains of your associates and colleagues. As a business owner, you have probably joined groups of others who have similar experiences (e.g., Rotary, Small Business Administration). Take advantage of these opportunities to get advice from these "unofficial" team players.

Accredited accountant

An accredited accountant is an individual who has passed an examination prepared by the Accreditation Council of Accountancy and Taxation, which is a national accounting accreditation board affiliated with the National Society of Public Accountants and the College for Financial Planning. Typically, accredited accountants specialize in small business accounting.

Attorney

An attorney is an individual who has obtained a Juris Doctor (J.D.) degree from an accredited law school and has received a license to practice law from a state bar organization. Attorneys are required to take a broad range of courses in law school, typically encompassing such areas as corporations, contracts, commercial law, and wills and trusts. Attorneys are particularly necessary when first establishing your business and when designing contracts and other legally enforceable documents.

CERTIFIED FINANCIAL PLANNER professional

A CERTIFIED FINANCIAL PLANNER™ (CFP®) professional has passed various courses in such areas as investments and estate planning, and has passed a comprehensive examination on these topics. Additionally, he or she is required to have three years of work experience and to participate in continuing education courses.

Certified Public Accountant

A Certified Public Accountant (CPA) is an individual who has passed the American Institute of Certified Public Accountants (AICPA) national examination, which tests an individual's ability in accounting, auditing, business law, and taxation. A CPA is licensed in the state where he or she practices.

Chartered Financial Consultant®

A Chartered Financial Consultant® (ChFC®) has passed a financial services curriculum, with emphasis on life insurance. A ChFC® must have three years of work experience and participate in continuing education courses.

Chartered Life Underwriter®

A Chartered Life Underwriter® (CLU®) is specifically trained in life insurance. He or she must have three years of work experience and participate in continuing education courses.

Personal financial specialist

A personal financial specialist (PFS) is a CPA who concentrates on financial planning issues and has met certain educational requirements, including continuing education courses. A test must be passed to obtain this designation.

Stockbroker

A stockbroker is trained in the basics of investment analysis, and the mechanics of trading. Stockbrokers must pass the Series 7 licensing exam (six hours, approximately 250 questions) administered under the Financial Industry Regulatory Authority, Inc. (FINRA), which allows them to advise you, solicit your business, and execute transactions on your behalf. Most states also require the Series 63 exam.

Investment advisor

An investment advisor is anyone who is paid to offer financial advice.

How do you build a good team?

Choosing your professional advisors can be one of your most critical business decisions. How much advice you need, want, and can afford are some of the issues you should consider when forming a team. Only you can decide the best mix of advisors for your team. You may also want to follow these steps:

Define your needs and the roles of the advisors

Break down your particular needs into component parts. Do you need a highly specialized sales force? How about a marketing department? Do you need legal advice? How about a financial and tax expert? Determining what you need will make it easier to conduct your search. You need to define each advisor's role and communicate this information to all parties involved. Specify the conditions when one professional should defer to the judgment of another. You may want to appoint your quarterback--one advisor who coordinates the overall efforts of all parties to ensure that the "big picture" is kept in mind. Typically, the coordinator will be a financial planner with a strong tax background, or perhaps an accountant with a financial planning credential. This person is likely to be the one you'll be dealing with most frequently.

Find the players

Now that you understand the roles of the potential players on your team, it's time to find the players. Credentials, experience, reputation, expertise, and cost are the most important factors in selecting an advisor. When composing a team, however, there are some additional considerations. A qualified player is one who is ready and able to join the team. Ability can only be determined by asking probing questions.

Check their credentials

- Education: Be sure the candidate has the proper degree
- Training: Be sure the candidate has an appropriate number of years of recent experience and the appropriate professional designations
- Licenses: Be sure the candidate has all necessary licenses
- References: Ask for and follow up on at least three business references
- Proven track record: Ask for client or customer lists, if appropriate

Check their other traits

- Willingness to work with other financial specialists--To get different specialists to function as one unit, you need team players. Although your attorney is the expert on legal matters, he or she should be willing to discuss the legal ramifications of a decision with other professionals. This remains true even if another advisor prefers a different approach. Be up-front about the team approach; make sure that each advisor is aware of the names, business addresses, and telephone numbers of the other advisors. In fact, one way to build a successful team is to let one advisor refer you to other professionals with whom he or she has dealt in the past.
- Ability to communicate ideas to you clearly and simply--It is also vital for you to understand your advisors. Make sure that he or she can explain complex topics in simple language and is willing to provide such explanations until you feel comfortable with a particular decision. Set any ground rules before you hire an advisor; make sure that he or she knows just what you expect.
- Personal accessibility-- If your accountant is too busy to take your phone calls or pay attention to the other advisors, he or she is probably not the best choice for your team. In terms of personality, you'll want to deal with people with whom you feel comfortable.
- Your own "gut feelings"--Your own instincts also play a part in your decision. Do you like the candidate? Will the candidate be a good fit? These questions can really only be answered by your gut.

Huddle

Now that the team is assembled, the game plan should be fully understood by each player. Make sure your goals and any ground rules are clear. You should have occasional group meetings to review progress toward your financial goals and to discuss major events that have impacted your overall plan.

What's the downside?

Fees due to professional advisors may be relatively high

Commissions paid to business brokers, merger and acquisition specialists, investment bankers, and other experts can be high. However, the old adage remains true: You get what you pay for.

Is it ever advisable to retain only one advisor?

Cash flow is often a problem for start-up businesses. For these businesses, the only affordable option may be to hire one experienced business financial planner to provide a wide range of advice, and plan to employ an attorney and an accountant only when they are absolutely necessary. For growing businesses and liquid start-ups, the wisest course is to work with a team of advisors, with each advisor serving as an expert in his or her own area. In this way, you can be sure of receiving the most up-to-date strategies and the most legally accurate methods. Furthermore, by employing the team approach, financial decisions will be made with the "big picture" or overview in mind. In other words, advice will be coordinated among the professionals to ensure that only the best business decisions are made.

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