

# The DAILY PLAN-IT<sup>TM</sup>

## ***Help clients who own family businesses to understand succession planning***

Family businesses - from mom-and-pop stores to home-based businesses - power our nation's economy, from job creation to gross domestic product. They provide 60 percent of American jobs and nearly 80 percent of new jobs created, according to [Forbes](#). In addition, family businesses produce 50 percent of America's GDP.

Mapping out your clients' succession plan takes time and effort, but the payoff comes when the family's next generation maintains and grows the business after your clients are gone.

### **Doubts linger**

The melding of business and family creates obstacles to the management, growth and sustainability of family companies. Unclear boundaries between ownership and management can lead to conflicts, jeopardizing your clients' company's future.

Successful succession plans aren't guaranteed, of course, and your clients might have doubts about whether their children can (or should) really take over. *Forbes* cites a survey that found only 52 percent of business owners believe that the next generation can handle running the business on their own. Your clients' fears may be well-founded because only one-third of family businesses successfully transition to the second generation.

Even the best of intentions doesn't guarantee success in transferring a family business to the next generation, but a properly prepared succession plan can help turn the odds in your clients' favor.

### **Considerations**

The key issues your clients should consider are alignment of family interests, interfamily disputes, balancing financial returns, and estate and inheritance issues. The factors that work against succession plans for family-owned businesses can include a reluctance to let go of control by a parent, the unwillingness of the intended successor to take over, accusations of nepotism and sibling rivalry.

Successfully working through these issues - a daunting task - can help your clients better prepare the next generation for taking over.

## Step by step

Here is a suggested roadmap for clients to follow:

- Establish goals and objectives. Your clients need to have a collective vision, goals and objectives for their business before confident succession can take place. If they're not sure of their family's commitment, they might consider bringing in a professional manager to take over. When they're turning the business over, help them to determine their retirement goals and cash flow needs going forward.
- Agree on a decision-making process. This includes the process by which family members are involved in making decisions, and it spells out a method for dispute resolution. Make sure your clients put the succession plan in writing and that they talk about the plan to family stakeholders.
- Work with an estate planning attorney who is experienced in creating family-owned succession plans to draft the necessary documents. This includes identifying successors, which means company managers and owners. Your clients should identify active and non-active roles for family members, and they should identify support systems for the family successors.
- Create a business and owner estate plan. You need to help your clients address tax implications upon sale or transfer of the business, divorce or death of one of your clients. Minimizing taxes and avoiding delays in transferring stock to the remaining owner or spouse are also critical, and this means creating a buy/sell agreement that's fair and that reflects the business's value.
- Establish a transition plan. Your clients need to pick a timeline and stick to it as closely as possible. Succession could be by outright purchase of the business, as a gift or bequest - or a combination.

Of course, just creating a written plan isn't enough. Actively training the successors, giving them increasing responsibilities and measuring the outcomes help increase the likelihood of a successful transition of a family business to your clients' next generation.

We hope this information is useful to you and helps your client and their families. If you have a specific case or question, please don't hesitate to call our office.

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