VALMARK FINANCIAL GROUP®

BUSINESS SUCCESSION PLANNING

PLANNING FOR CERTAINTY IN UNCERTAIN TIMES

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The past few weeks have caused a lot of people to slow down and reflect on their life, their family, their health and in some cases, their businesses. If you are a business owner, you may be asking yourself "what will happen to my business if something happens to me?" In a 2013 study the American Bar Association revealed the top reasons businesses fail.[1] Reasons highlighted in the study include: 1) Undercapitalization, 2) Disputes over control of Assets, 3) Loss of Key People, 4) No Plan, 5) No written plan. Addressing each of these barriers to business succession can seem a bit overwhelming. A qualified professional experienced in business succession planning can help guide you through the process.

Many, if not most, business owners have given at least some thought to whom they would like to take over their business. Some business owners plan to leave their business to the next generation, others have a desire to sell to a key employee and others may take their chances on selling in the open market. Regardless of your plan for succession, the first step should be to **identify your goals and objectives for succession.** When determining your goals and objectives, some considerations may be whether you want to transfer the business during your lifetime or after your death. If you plan to make the transfer during life, do you want to remain active in the business, or do you want to complete the transfer and "ride off into the sunset" so to speak?

Next, you will need to **determine the fair market value (FMV) of the business.** It is unusual for a business owner to have no idea the value of their business. It is also true that business owners may have different answers depending upon who asks the question. For instance if the IRS wants to know the value (and they will for estate and transfer purposes), the business owner may have one idea, but if there is a ready buyer reaching for a checkbook, they might have a different answer. There are professional valuation services who can accurately establish the value of the business. In some circumstances, it is critical that you engage a qualified valuation service to determine the true market value of your business. However, the time and expense involved may be a deterrent. In such circumstances, a planning professional can leverage other resources that will provide an estimated value based on commonly accepted business valuation methods. A Valmark financial professional can work with you to provide a valuation of your business. You can engage us for this service by providing information including Profit and Loss statements and balance sheets for the last 3 years. With this information, a Valmark financial professional can calculate the value of your business using several methods.

Once the calculations have been done, your Valmark financial professional will help determine which method is most appropriate for your business. These resources are not an adequate replacement for a professional valuation, but they can be helpful for purpose of business planning.

Once you have determined a range of acceptable values, you should **consider viable options** based on your preference. As mentioned earlier, some business owners would like their business to pass on to the next generation. Even if you have a built-in successor, you still need to make sure the plan to transfer control is clear. Many times, the current owner will have children who are involved in the business and other children who are not involved in the business. If this is the case, a plan for equalization across the children may be an important consideration.

But what about situations where either there are no children or no children involved in the business? In these situations, it may be possible to find a key employee who is both capable of and interested in ownership. As previously mentioned, loss of key people is one of the top reasons businesses fail. A good way to keep key people engaged is to provide them with an ownership path.

Finally, how do you address situations where neither a second generation nor a qualified/interested key employee are available? If you find yourself in this situation, you still have options. You could consider a sale to a competitor, even going as far as implementing a buy-sell arrangement with them to outline the terms of the transaction. Another option is to consider an employee stock ownership plan (ESOP) which allows you to establish a market for the business and plan for continued operation. Finally, a sale in the open market can be considered, though this option provides less certainty and, depending on the economic conditions at the time of sale, may take a long time to complete. Your financial professional may be able to explore those strategies with you.

After you have considered and chosen your options for business succession, you should **choose a plan and execute the documents** necessary to implement the plan. It is recommended that you consult with an attorney to have your customized documents created and executed. The best plan for you has absolutely no value to you or anyone else until it has been written down and implemented.

Whether you are planning to transfer the business to a family member, a key person, or another option, you need to **fund the plan.** As pointed out in the beginning of this discussion, undercapitalization has been identified as one of the most common reasons businesses fail. Consider the scenario above where there are both active and non-active children and the current owner wants to equalize inheritance. In some cases, there are adequate assets available to transfer the business to an active child (or children) and equalize by leaving non-business assets to the other children. However, if the value of the business far outweighs other assets, an alternative solution may be warranted. One such alternative may be to allow the active child a purchase option guaranteeing them all, or a majority, of the value so they can continue to run and manage the business without interference. If this alternative is the right answer, there should also be a way for that child to have the necessary capital available to acquired majority ownership. Your advisor can discuss the funding options available to you and suggest the one that is best suited to your situation.

The final and often overlooked step to business succession is to **review the plan** frequently and adjust reflect your current circumstances. A succession plan that was implemented early in the life of a business often falls short of the realities of the present day. Your financial professional can help you determine the right review schedule for your business.

In summary the six steps of business succession planning are as follows:

1. Set goals and objectives

2. Determine FMV of company

3. Consider viable options

4. Choose a plan/execute the documents

5. Fund the plan

6. Review the plan periodically

As important as it is to take time to ask the above questions to your business, do not expect to know all the answers immediately. In fact, most business owners cannot clearly answer each of these questions. Sometimes, knowing where to go for answers is more important than knowing the answers. The professionals at Valmark can help you navigate these questions, explore options and create a plan that is right for you. You can take comfort in knowing that you are working with skilled professionals who have experience not just as advisors, but also as business owners. The professionals at Valmark understand that to fully serve their clients, they need to make sure that their business will be around for generations to come.

ABOUT THE AUTHOR

Scott Ervin is the Vice President of Insurance Marketing and Sales for Valmark Financial Group. In his role, Scott works to identify insurance opportunities for Valmark Member Firms and their clients. He also assists in the promotion and development of Valmark's various tools to increase efficiency and identify new sales opportunities. Scott attended Wabash College in Crawfordsville, Indiana graduating with a bachelor's degree in History. Currently, he holds Series 7, 24, and 66 registrations, Ohio Life, Health, and Variable licenses, and is a CERTIFIED FINANCIAL PLANNER™ (CFP®) professional and a Chartered Financial Consultant® (ChFC®).

1 Closely Held Business Committee, ABA Tax Sec., Planning for the Successful Transition of a Family Business to the Next Generation: A Family Business Survival Guide for Owners and Advisors p. 7-10 (2013)