“Most small business owners are so consumed with growing and developing their business, that they don’t seriously look at succession planning,” states Stephen O. Ashley, Registered Representative for New York Life Insurance Company in Northern Ohio. “A business owner should have a plan for how their business will survive if the owner or another key person gets seriously ill, dies or otherwise leaves the company.”

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A business that loses key leadership without a succession plan could experience a significant loss in dollar value, excessive taxation, loss of key customers and a loss of wealth for the owners and their estate. A business owner who fails to have a succession plan has created a plan to fail.

What is Succession Planning?

Succession planning is the process of creating a road map for the transfer of management and ownership of a business in the future. Every business owner, from the sole proprietor to small corporations with scores of employees should have a succession plan. However, according to a 2008 PNC Bank survey of business owners, seventy seven percent said they had a will, but only thirty three percent said they had a succession plan.

Creating a Succession Plan

Because of the variety of sizes, management and ownership structures of small businesses, there is not a “one size fits all” succession plan that can be used for different businesses. However there is a process that most small business owners can use to get started in creating their succession plan. The Better Business Bureau recommends five key steps:

Meet with family members and partners - To get their thoughts and opinions on their future involvement with the business. This should help determine who wants to work directly in the business and the role of family members in the future. Also, after developing a succession plan the owner should make sure that key family members and partners are informed on the basics of the succession plan.

Get professional help - Meet with your accountant, attorney and financial planner. For most business owners, “the business” is a significant portion of their net worth. Receiving less than full value of the owner’s equity could have considerable impact on the owner’s wealth, retirement and future estate. Additionally, the transfer of ownership process could have significant tax and estate implications.

Think about the staff - A business succession plan will help assure that the management and the company run smoothly during and after transition. Depending on the size of the company, this would include assuring that key management members are properly trained and retained.

Think about the customers - Customer loyalty for many small businesses is built on the relationship between the customer and the owner. Consider how a future change in ownership might affect the customer relationship and ultimately the value of the business.

Develop the plan and make periodic updates - The owner will have to take the initiative to create a succession plan that is workable for their business and circumstances. Business succession planning is an on-going process that will need to be adjusted as key people, business conditions and family relationships change.

Start Today

For many business owners, their business represents the fulfillment of a lifetime of work, sweat and dreams. Start today to develop your businesses succession plan and make sure that your business will survive without you.

Michael G. Shinn, CFP, Registered Representative of and securities and investment advisory services offered through Financial Network Investment Corporation, member SIPC. Visit www.shinnfinancial.com for more information or to send your comments or questions to shinnm@financialnetwork.com.
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