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Letting Go - From the Corner Office to the Sidelines

Key Points to Consider During Succession Planning

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One way or another it always happens. Changing your lifestyle and letting go of your business is hard to do, but it is always part of every business owner's career. After spending decades building your company, letting go can be intimidating. Your business is probably the single most valuable asset you own, but developing a plan that gives you liquidity and retirement income security is important for the next phase of your life.

What will you do? Who will manage the business and continue your legacy? How do you transition the business? When? And to whom? These are questions you may be thinking about, and if you are not, then you should be. Don't feel like you are alone; most business owners have the same questions.

Being a Coach: Working With Your Family
Developing a succession plan involving some of your family members is one option. Otherwise, you may be forced to look for someone outside the family to buy the business.

If you have a strong family candidate who can take over the business, then you need to develop a three to five year plan to train that person in every facet of the company. Basically over the next three to five years you should change your position from strictly president of the company to being the "family coach."

I'm sure that over the last 30 to 40 years you have trained a lot of people in the company, some of those people have stayed with the company and some have left. Now your biggest coaching job is training one or two of your children to handle every facet of the business.

It's important that you let go a little bit and let the children come up with new ideas and run the different parts of the business. As a coach, you have to let your players get knocked down once in a while, and your job is to point out what they did wrong and help them to not make the same mistake twice. Remember now, you are not just the president or parent; you are the coach, so act like one.

At the end of the three to five year "coaching period," one of your children should be promoted to president of the company, and perhaps other children should be vice presidents of different divisions. Once the training is complete, you should step down as president and at that point possibly become chairman of the board, a consultant, a special project manager or completely retire.

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Cleaning up the Company

It's important to clean up your income statement and balance sheet. The old adage "putting your best foot forward" applies here too. You want the company to be financially strong and over the next few years look as good as possible. Whether you are selling to a family member or a stranger, the company needs to be at its peak performance.

Valuing the Company

Have you considered getting a valuation for the business? A valuation will definitely be needed if you plan to gift any stock in the company to family members. It will also be helpful if you negotiate with someone outside the family for selling the business. It will give you important cash flow and profitability information that will be needed by a potential buyer and your children.

Questions You Should Ask Yourself

What next?

When it is time to retire and stop being the coach, you do not have to necessarily go fishing or play golf everyday. You could remain on the payroll and be helpful to the company in many ways. As the retiring president, you could become chairman of the board and be paid for that position over the next five to 10 years. Also, you could be paid to be the key contact for several important customers.

One or two times per year, you could be the company ambassador, responsible for entertaining customers at lunch or at a golf game. You may agree to a consulting contract, allowing you to negotiate with vendors and for real estate leases with larger landlords.

The company could also continue to pay you to manage all of the maintenance for the properties which the company occupies. Your retirement security may also include income for several years from different compensation agreements or non-compete agreements.

It is usually helpful to stay involved for a short time after retirement. Your knowledge of the company and your experience can be vital to the new leaders. They may need you as a "company coach." During this three to five year transition period, you also want to think about what you want to do during the next phase of your life.

Some people improve their golf or tennis game, and others spend time traveling. Many retired business owners start new hobbies. There is an excellent chance, if you are 60 years old, after you transition the business to the next owner, you could live for 30 more years. What will you do with those years of freedom?

When to Start?

As I implied earlier, you should start this transition/succession plan at least three to five years before you want to leave the company. Starting the process 10 years ahead of time is even better. Give yourself as much time as possible to become a good coach in order to teach your children, or key managers, all of the facets of running a closely held business.

If you are going to sell the company to someone outside the family then I would suggest that you spend three to five years thinking about what you want to do for the next 30 years. If you spend 100 percent of your time running the company and you don't think about the next 30 years, it becomes a huge shock to your system when all of a sudden you have sold the company and the new owner says next Monday you are no longer needed.

If you are between 50 and 60 years old, now is the time to start drafting a blueprint for the future of the company. Make the company as profitable as possible, train your children to run the company or start looking for a buyer.

What you do for the company and yourself over the next three to five years will have a huge impact on the following:

1. How much you will sell the company for.
2. How prepared you are to become a good family coach.
3. What you plan to do for the next 30 years.
4. Increasing retirement security.
5. Reducing the income taxes when you sell the business.

Why Start Now?

Why should you start thinking about a succession plan at this time? Because it is important for your next 30 years, and it is also important to your children, all of your employees, and to the value you receive from selling the business.

This plan for the future is like a blueprint. When someone remodels your home, a blueprint is always prepared by an architect or contractor. It is only logical that a blueprint is needed when developing a succession plan for your company, so start developing that blueprint and making it a reality.

You want to protect the company and the employees. And you want to maximize your retirement income and security for all of your family members inside and outside of the business. In order to protect everyone, you need to start designing that blueprint now.

Where Do I Start?

You have two primary areas to focus on to start designing a new succession plan. As I implied before, step one is

to decide who will be the next owner of the company. Will it be one or more of your children, or will it be someone outside the family?

If you decide to involve your children then you should become a coach over the next three to five years. If the new owner will be someone outside the family, then you should start looking for potential buyers. You do not need to contact them today, but you need to make a list so you know who the potential buyers might be later.

While you are thinking about the new owner and who will own all of the corporate stock in the future, start concentrating on your business. Make it more profitable. Increase the gross margins. Reduce corporate debt by refinancing it at the lowest interest rates. Make sure your supervisors and managers are well trained.

Soon you should have a meeting with your accountant or financial advisor to discuss the corporation and how to minimize taxes when the company is sold. Is your company a “C” Corporation, “S” Corporation, or Limited Liability Company? Taxes will affect each of these differently.

Having a tax discussion on the possible sale of the company is something most business owners don’t do until the week of the sale or the week after the sale is made. If you wait until the last minute to think about tax planning it may be too late to reduce that large tax bill.

For example, for a “C” Corporation you need to know how much tax it will pay and how much tax you personally will pay if the company assets are sold. You want to know what the depreciation recapture will be if the company assets are sold.

You are going to be selling one of your largest assets in a few years and you should have an estimate of what the taxes could be and you need to know all the different ways you can minimize that tax.

When you start thinking about selling the company or transition it to the next generation you need to start giving a lot of thought to each of your children, your employees, and the financial strength of the company. That is usually the best place to start. Take a hard look at the company and a hard look at the family and try to pick who would be the best individual to run this company for the next 30 years. If you can answer these questions then you will be maximizing the future success of the company and also maximizing your income security and your total family net worth.

Gary Pittsford, CFP®, is President and CEO of Castle Wealth Advisors, LLC. Castle specializes in helping families and closely-held business owners with valuations, succession planning, estate and income tax analysis and retirement income projections. Castle’s senior partners work with clients throughout the country in making logical decisions that help them fulfill their personal and business financial goals. For more information visit www.Castle3.com, call 1-888-849-9559 or e-mail Gary directly at Gary@Castle3.com.