

Secure the Future of Your Business

When it comes to your business, hoping for the best won't ensure its future. Take Jack Stanton for example. Jack spent thirty years building a manufacturing giant, Stanton Solutions Corporation. However, due to the rigors of maintaining his company, he had little time for any personal financial and estate planning. Then, Jack died unexpectedly in a boating accident. All of a sudden, Stanton Solutions, a multi-million dollar manufacturing empire was facing an uncertain future caused by the loss of its owner and upper-most key executive. What would happen to your business and your family should you become disabled or die unexpectedly? Do you have key employees for family members who could step in and run the company in your absence?

Business Continuation Basics

It is essential to the future of your business and your family to have a succession strategy in place. In order for your business to maintain continuity, you need to implement a succession strategy that coincides with your goals and objectives. Your strategy should be flexible enough to handle changes within the company and its related industry(ies). However, one of the keys to a succession strategy is determining who or whom your successor(s) will be.

Deciding on, and preparing a successor may require years to familiarize him or her with the finer points of the business. Thus, it is important to select a replacement as soon as possible in order to maximize the possibility of a successful transition. In smaller businesses, it is not uncommon for one or more family members to be at the top of the list of potential successors. If you wish to pass your business on to future generations, you will need to make an honest assessment of the respective needs of your family and business, the qualifications of any interested family members, and whether the family and business would be best served by a continued relationship. Communication with family members is extremely important in order to better ascertain overall interest or concern.

You can prepare yourself by honestly evaluating and reflecting on the necessary components of a well-thought-out succession strategy. Here are some points that may require further elaboration:

- A thorough job description of each position, including details regarding areas of responsibility and delegation of duties;
- A management/organizational plan;
- Assuring the availability of cash to meet the demands of federal and/or state estate taxes;
- A list of potential successors to your ownership, taking every candidate's job experience and academic background into consideration; and
- A mechanism to ensure extensive on-the-job training for the successor(s).

Other Considerations

A succession strategy may also include a buy-sell agreement funded by life insurance. More than likely, your successor may not have the cash, or the ability, to borrow at the time of successorship. Under such an agreement, the death benefit proceeds of the life insurance can be used to provide the cash necessary for a successor to purchase an owner's share of stock in the event of his or her untimely death.

In addition, it may be prudent to explore how your unexpected disability could affect not only your plans for succession, but also your financial well-being. Under a disability buyout arrangement, a disability buyout policy provides a successor with cash to purchase shares in the event of the owner's untimely disability.

You should consult with your insurance, legal and tax professionals to devise a plan of action that provides security for your business and your family. With proper planning, your objectives for business succession and securing your family's future can be met.

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