

Many Dimensions of Succession Planning

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Succession planning has always been critical for the ongoing success of a business. The need for planning has become increasingly acknowledged that a successful succession doesn't just happen.

More than ever we are all aware of the choices we have in our lives beyond the business, the shop and the board room.

Clearly the disciplines of law and accounting play huge roles in the actual execution of a succession plan. Though too often the role they play is after decisions to sell have been made or after the death of the owner or shareholder.

The period leading up to the point in an owner's life when a succession is the best move is the time of greatest need and opportunity.

Clearly age 65 is as arbitrary an age as any in the life of an entrepreneur. If a woman or man is truly passionate about the people they serve or the value they create, retirement is the last thing on their minds.

Though we all age, the world we live in is continually changing as well. The rapid advancement of technology is changing the landscape we live and work in and that rapid change does make the thought of retirement seem more and more appealing for some people.

Alternatively, I have seen again and again that the younger generation brings a new passion and spirit to a business, providing a company with a recharged and renewed focus, taking it to new levels of income and profitability.

Without a plan the potential for a feeling of resentment becomes a very real possibility. How many businesses have failed to continue from one generation of leadership to another because of feelings that one party or another isn't contributing at fair levels commensurate to the compensation they are enjoying.

One area in succession planning that is just beginning to gain inclusion is the exploration of the process of what will come next in the lives of the senior generation.

All the business valuation and complex transfer planning possible often doesn't address the sense

of loss that an owner will enviably experience after spending a significant portion of their life building a business.

What will an owner do with all that time?

We have one client a 4th generation machine and fabrication company that has the 2nd generation early 80 year old still coming in every day enjoying the progress being made even though his children are planning their own exits at this point in time as

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they are all in their late 50's early 60's.

One key in this case is the senior is no longer drawing a paycheck and has relinquished the decision making process to the children and they in turn are starting to do the same themselves with their children.

Imagine how rewarding it must be for this gentleman to see his grandchildren begin to take on key roles in a company his grandfather started!

The key to successful succession planning is to start before you need to and see it as an ongoing process. Just as good financial planning, estate planning, wealth accumulation and for that matter, the management of our health is an ongoing process.

As a business owner reaches what I refer to as "the top of their game" they are often at the helm of a successful enterprise and in their early 50's. They are earning a strong income and their lifestyle has improved commensurate with their improved incomes. Life is good!

They are at a critical point in the succession planning process. With time to plan, decisions can be made anticipating what the hand off of responsibilities will look like, who the next generation of leadership will be and how they will live a fulfilling life without the business being at the center of everything they do.

Additionally, they will need to identify how their income and lifestyle will continue if and when they begin to separate from the business.

This issue of income continuation has caused many a business to be sold outside of the family as well as driven family members apart experiencing feelings of unfairness and inequity based on the contribution each family member has made to the ongoing success of the business.

Certainly every business owner should enjoy the value that they created from a lifetime of building and reinvesting. To what degree will they need to burden the successor generations with borrowing

or paying out of operations to provide them with an income stream and what happens when and if the business takes a temporary down turn.

Of course when a family business objective is to keep the business in the family, not all children or family members will nor should be in the business. Keeping an estate transfer fair is almost always the intent of the senior generation.

As it does so often, it boils down to money.

Of all the aspects of succession planning, money is the single area that we can best plan for using the tools available.

Like so many successful individuals, business owners must put a lot of energy into planning to minimize estate and transfer costs.

For the business owner, a huge amount of the estate is usually comprised of the closely held stock in the business. Curiously, more often than not we see the annual gift opportunities that exist go unutilized. Gifting closely held stock is one of the most effective ways to work towards passing on a family business and minimize the estate taxes due to its ability to be discounted.

With so many well equipped advisors and effective planning techniques what keeps a senior business owner from taking advantage of every opportunity to minimize estate transfer erosion and begin to pass on the sense of responsibility of ownership to the next generation?

It is likely that they perceive they can't afford to do it or they don't have confidence in the leadership skills of that next generation. With good plan-

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ning both issues can be addressed properly.

It wasn't easy to build a great business and it's likely not any easier to pass it on or properly transfer it.

In advanced planning studies it is recognized that by promoting, estate, financial and business planning advisors working as a team towards the development and implementation of a succession plan maximizes the chance of a positive outcome. Yet this so rarely happens.

A closely held company can put together a board of advisors including the same professionals that play a key role in the financial health of the owner and business. This working team of advisors will develop better working solutions for the succession plan for the future of the company and the owner.

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