One in four family firms plan to name a non-family member as their next CEO. Also, 60 percent of family business owners who plan on retiring in the next five years have not identified a successor.

Source: Center for Family Business, Marquette University

WEALTH MANAGEMENT

SUCCESSION PLANNING

Above all sales plans, marketing strategies, market analysis, product innovation or any other function of a successful business, one of the most critical things a business owner can do is to create and document a business succession plan. A succession plan is crucial to the continued life of a business and exit strategy of an owner, yet too few businesses have one in place.

Family Businesses

Katheigh Degen, co-owner of Twin Financial, said that more than half of her company's business clients are family owned businesses.

"Succession planning for a family owned business can be very emotional," said Degen. "Often, not every family member has the skill sets to run or be involved in the business, but the parents want to make it fair among their children."

It is important for owners of family businesses to make their succession planning decisions based on what is best for the business rather than what is equal or fair among every family member. For example, if a business owner has three children but only one of them is equipped to run the family company, then perhaps they should have a larger share of ownership than their siblings, as well as the majority of management responsibilities. What will help make the succession planning process easier is to discuss it openly among the family and to seek the assistance of a professional adviser.

Degen points out that family owned businesses need to plan for every possible situation, such as a child who is involved in the business dying before his or her parent.

Other Private Companies

Whether a family business or private company, it is important to have a succession plan in place to prepare for the death, disability or exit of an owner.

"Every business owner needs a plan for what will happen to their business in the event of their death," says Peter Mallouk, principal of The Will & Trust Center. "For many, this is their biggest asset, they spend most of their time on it, then they have no plan for what will happen if they die. Very often the surviving partner or spouse is left in a terrible position and unable to get the true value of the business."

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A conflict William Lowe, senior vice president and senior wealth adviser for UMB Asset Management, often witnesses is that, from a tax and liability standpoint, buyers of a closely held company prefer to purchase a company's assets whereas a seller wants to sell the company stock.

"This often becomes a negotiating point that ultimately affects the sales price," said Lowe. "Buyers will look to the depth and breadth of financial records maintained by the business and the relationship they have with their financial institution. A strong banking relationship provides continuity and can help ease potential problems when the owner is ready to exit the business."

Buy/Sell Agreements

A buy-sell agreement establishes a purchase price for a business or portion of its ownership in case an owner dies, becomes disabled or leaves the business. Mallouk recommends that not only should every business have a buy-sell agreement in writing, but that it should also have a way to fund the agreement. Without a way to fund a potential buy-sell, such as insurance, surviving owners may not be able to afford to sell their former partner's portion of the business to his or her spouse or children.

"I see companies make the mistake of having a buy-sell agreement in place but no funding mechanism, or sometimes business partners will carry insurance on each other but not have a buy-sell in writing," says Mallouk.

Another mistake Mallouk sees is when a business owner dies and his or her spouse does not have the information needed, nor is familiar with the necessary contacts, in order to sell the business. In these situations the surviving spouse often does not get the true value out of a business, not to mention the confusion dealt with along the way. Mallouk encourages both spouses to be a part of the succession planning process.

"I advise my clients to meet once a year to make sure the values used in the agreement are still consistent with the company's true values and that the buyout mechanism is still feasible," said Mallouk.

If you are a business owner, don't delay in meeting with an attorney or financial adviser who can help you create an effective business succession plan. You have worked too hard at building your business to let a lack of planning jeopardize its success.