



## **PLANNING FOR BUSINESS SUCCESSION YEARS IN ADVANCE IS A KEY DIFFERENTIATOR FOR ASTUTE ENTREPRENEURS. WHAT IS YOUR PLAN, AND HAVE YOU THOROUGHLY INVESTIGATED ALL THE HOLISTIC AREAS OF A WELL THOUGHT OUT EXIT PLAN?**

**BY BRUCE J. CUMBY | CUMBY, SPENCER & ASSOCIATES**

Many an entrepreneur has worked hard to build a successful, thriving business; however, only a rare few actively create an exit strategy or contingent planning structures for inevitable life events that will ultimately occur. As a result, the entrepreneur's family often suffers greatly if an unfortunate life event befalls him or her, and the business folds or is liquidated at a small fraction of its previous valuation. Business succession planning should be an integral part of every business that has made it past its fledgling infancy stages and has grown into a viable, going concern.

For individual entrepreneurs or owners with business partners or key personnel, business succession documents should identify and describe critical proxies or mechanisms for an accurate determination of fair market value for the business. Without this key variable, family members or personal representatives may be placed at a severe information disadvantage in valuation negotiations for that entrepreneur's interest in the firm. To make sure an entrepreneur's family benefits from the years of hard work he or she invested in building the business, the business succession plan should provide timelines, valuation procedures, and clearly defined acquisition processes so all parties know exactly what to expect in the event of each different type of life contingency.

When constructing and building, an architect designs a new structure with detailed blueprints. Your succession plan should be structured in a similar way.

Years ago, I met with a business owner of a successful 30-year-old business on the matter of planning. He joked that when he left his home that morning his wife stated nothing better happen to you because I do not know where any money is located. This is a quite common occurrence in the life of a busy owner; however, it could prove to be very costly to the family of the owner. An automatic daily updated balance sheet designed to keep a list of current personnel and business assets and a virtual client vault storing valuable documents would help organize this owner's financial life. Also, the owner's life insurance was not in a trust, which means the death benefit is included in his estate for federal estate tax calculations. Finally, a large sum of money for years was in a savings account for no reasonable purpose. Clearly the business owner had no trusted advisor to craft his planning.

He mentioned that he believed he only needed a small amount of income to live on during retirement even though he had purchased a vacation home worth \$1,500,000 and joined the golf course. A retirement cash flow analysis and succession plan with funded, trustee buy sell agreement on key management was recommended.

Many of our business owners have asked our firm if the buyout offer they received is enough to fund their retirement lifestyle. In the case of a 43-year-old who was offered \$9,000,000 the answer was his family would run out of money at 78. Another construction owner client was offered \$4,000,000. After an

extensive cash flow analysis of future income from 401K's, savings, and proceeds from the proposed sale matched against lifestyle expenses and goals, the owner came to the same conclusion as the 48-year-old owner to work a couple of extra years before selling the business for a planned price.

Exit planning is not just completing a Will and some boilerplate Trust documents with an attorney. Nor is it giving your investments to an investment professional and believing your future is set. Cash flow analysis must be completed to give a glimpse into the future and see how long your assets last if we have another 2008 or worse. How is your company's cash flow fairing through the covid-19 challenge?

Where do I start and how do I find a qualified person with the experience to quarterback the process that can get all the planning completed? What skills are needed to help me with the planning?

Planning is emotional and personal, and you must have trust in the person you hire and his or her overall knowledge of all the aspects of planning. At our firm, I am one of 220 members of the Nautilus Group specializing in Business Succession, Cash flow planning, Estate planning, Retirement planning, Life insurance planning, Investment review and planning. Ask what personal designations they hold and ask what courses or exit planning organizations do they participate in.

Request a sample of the firm's exit planning process and inquire about articles or educational newsletters on estate taxes and the cost of gifting, selling or liquidating a business.

Ask who should be on the exit planning team and how are they paid?

There are critical aspects of delivering an exceptional planning experience to clients. It starts with a conversation with the owner and their spouse covering the type and extent of their current planning. At CSA we use a ten-question scorecard to be completed covering your ultimate goals for your business and your personal life. Start with the end in mind. Is your family properly planned and cared for?

Many business owners fall into the trap of diligently focusing on the urgent short-term operational demands of the business, all the while putting off or neglecting the important directional and protective planning critical to its ultimate longevity and long-term value extraction. Trusted advisors familiar with business succession planning are a great resource and can substantially aid in clarifying and creating plans to avoid pitfalls. After working so hard to create, nurture, and build a successful business, such planning truly distinguishes the most astute entrepreneurs.



## Life's unexpected moments lead to unanswered questions.

*If you passed away last night, would your business and your family be able to survive?*

*Is the buy-out offer enough to close the income gap and help you retire with your current lifestyle?*

*Are your key employees and management team loyal to the business, or just their current pay rate?*

**Owning a business poses important questions—let us help you plan for the answers.**

**Nearly 75%** of privately-owned businesses are expected to change ownership over the next ten to fifteen years.<sup>1</sup> **More than half of those business owners don't have a succession plan**, and 44% percent think it's too early to bother planning.<sup>2</sup> But no one plans for a family dispute or unexpected death. Shareholder disagreements, economic downturn, divorce, death—any of these events can take your business out of your hands—and you may not see them coming. But you can control how you plan for them.

Don't leave the fate of your family and your life's work to chance.

Call Bruce Cumby at Cumby, Spencer & Associates Financial Group and create a plan for your future. We offer customized business succession plans, life insurance, and wealth solutions as part of our comprehensive planning approach for our clients.



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<sup>1</sup>Business Succession Planning, U.S. Small Business Administration website

<sup>2</sup>The Power of Planning, Wilmington Trust survey, 2017