

Business Planning

If you are the owner of a small business, you know how important it is to make plans. Whether you're a sole proprietor or have other co-owners who work with you, that need to plan includes the planning for your eventual transition out of the business. When you leave the business, either because you've decided to retire, or because you become disabled or pass away, you need to make sure that (1) your loved ones receive the benefit of the value of the business you've built, and (2) your business continues to thrive without you.

Without proper planning, the business could lose value, or even go out of business, in the transition from you to a new owner. If the right planning is not in place, there may have to be an "estate sale" of the assets of the business, bringing in much less than the true value of the business, instead of selling the business as a going concern. Your employees could be left without direction, or even without jobs, if plans aren't made for the effective transition of the business to the right new owner.

Types of Business Succession Planning

The type of plan you will need to put in place will depend on the current ownership of your business, and the person who would be taking over the business for you. If you are the sole owner, you could plan to sell the business to one of your children, or to a key employee. If you have other co-owners, they'll probably want to buy your interest of the business from you, or from your estate or trust.

Selling to Family

In a "family business," it's important to have a clear understanding of how the business will transfer from one generation to the next. A clearly spelled out plan for the transfer of the business is critical to avoid (1) power struggles and misunderstandings among siblings, and (2) how business assets and other personal assets will be divided to make the plan "fair" for all involved. In these situations, we can use Living Trusts, Buy/Sell Agreements, Family Limited Partnerships, Self-Cancelling Installment Notes, and/or a host of other planning tools to accomplish your objectives.

Selling to Key Employees

If you don't have a co-owner, and if you have no children who would/could run the business, you could consider selling the business to a key employee. You could accomplish this through a **Buy/Sell Agreement**, which sets forth the key terms for the sale of the business at some time in the future. The Buy/Sell Agreement can set an established price, or it can set forth the manner in which the future sale price would be calculated. It can also establish the "trigger" for the sale, whether it is your death, your disability, or your retirement from the business.

Selling to Co-Owners

Of course, if you have co-owners in the business already, then they would probably prefer to buy your interest in the business when you leave, as opposed to having you sell to a third party (just as you would prefer to buy them out instead of having them sell to someone else). Once again, this is

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typically handled through a **Buy/Sell Agreement**. As with the agreements with key employees, the Buy/Sell Agreement sets the key terms and the trigger events.

Paying for the Purchase

Clients often wonder where the funds for the purchase of the business will come from. That depends in great deal upon the circumstances of the sale. It is a good idea to fund the Buy/Sell Agreement with **life insurance**. The life insurance creates cash at the death of the insured, which can then be used to pay the purchase price for the business. The possibilities of disability or your retirement can be addressed in the Buy/Sell Agreement as well, using such tools as promissory notes or deferred compensation plans, to provide for the purchase price.

When to Plan?

The time to get this planning in place is not when you're getting ready to retire, or if you become sick. The time for the planning is NOW. You never know what circumstances may arise tomorrow, so you should never put off this – or any other – important planning.

Even if you're just getting the business started now, this is the best time to put your succession planning in place. As Steven Covey advises, "Begin with the End in Mind."

By planning now, you have the advantages of:

- Thinking through the important questions and answers in a "non-emergency situation." This helps ensure that the answers will be well thought-out, and will be based on sound business analysis and thinking;
- Having more potential options available to you and having "time on your side" to work through the issues; and
- Using your good health to qualify for the life insurance necessary to fund a Buy/Sell Agreement.

No matter what your business, your current business ownership, and your future business goals, you need to get a business succession plan in place.

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