

## Best Practices

*By Garrett Sullivan*

### **Selling Your Company: Prepare Now, Prosper Later**

We may not want to admit it, but we all age. At some point, every contractor needs to think about who will replace them. It is part of the business life cycle.\* If you're like most contractors, you subconsciously think you will never sell. Regardless, there are compelling arguments for creating an exit plan, even if you own a small, closely-held business and don't ever intend to put your company on the market. Consider the ramifications of a poor transition:

- 65–70% of the wealth transferred to the 2<sup>nd</sup> generation is lost by that generation\*\*
- 90% of the wealth is lost by the 3<sup>rd</sup> generation\*\*
- 50–65% of wealth transfer failure is caused by lack of trust and communication among family members\*\*

The remedy? A Business Succession Plan. Not only does it make financial sense, it mitigates business disruption and provides sustained peace-of-mind for your employees and clients. A well-conceived plan considers many possible scenarios such as the training of the new CEO and managers while facilitating the transition. Successful contractors are, by nature, good planners—as well as very independent. However, this is not a solo activity. It makes superb sense to assemble your attorney, banker, business consultant, insurance agent, and CPA to develop the optimal plan for you.

Start by asking yourself what would happen if you suddenly departed the company. Could the managers be counted on for an orderly transition? If you answer this question honestly, your answer will likely be no. Instead of waiting for a crisis – and allowing important decisions to be made by someone else – begin your plan now. You should fast-track the planning process if you're considering retirement, you're exhausted and can no longer work at the same pace, illness prevents you from working in the same capacity, or your family members are beginning to naturally take over the company.

The genesis of a sound Business Succession Plan comes from answering questions about yourself and the future of the company:

- Who do I want to own the business?
- How do I see my role once I am no longer the owner?

- If I were to sell the business and stop working, would I have enough money for retirement?
- What is the most tax-efficient way for me to transfer the company?

Departing from a business where you've made such a large financial and emotional investment requires resolve, but there is no better person to steer these decisions than you. You will face a number of thorny issues such as assigning different levels of ownership for intra-family transfers, reducing tension and increasing harmony within your family, and determining who will receive voting (versus non-voting) shares. Additional decisions such as which key employees to retain, how to properly finance the plan (and handle business continuation insurance), and your payout amount (particularly if you intend to stop working) will require careful consideration.

In the end, your Business Succession Plan should include a written contract, spelling out your complete support. It should also address the following:

- Methods of valuation and transfer of ownership (with special attention to minimizing taxes on stock transfers)
- An orderly transfer of liquid assets, particularly if most of your wealth is invested in the company
- An estimate of your future wealth as it pertains to estate planning
- Plans for the continuity and growth of the business
- Personnel retention (along with the appropriate qualifications and behaviors for any replacements)
- Training programs

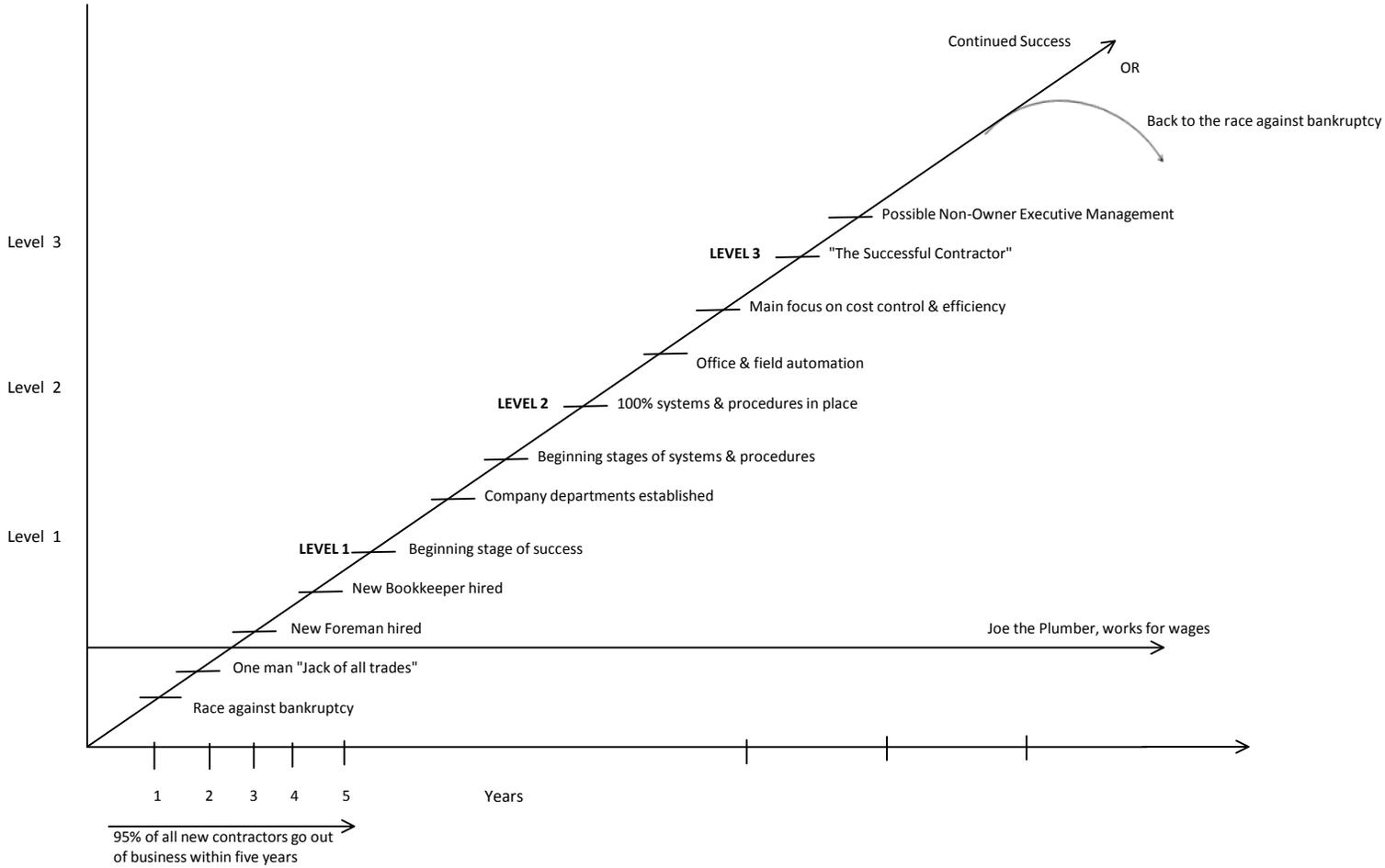
The Plan should always be distributed to the key stakeholders affected and updated each year to reflect changes. Once you have completed your Succession Plan, you can begin thinking about your next milestone: The Bucket List! Yes, you have worked hard and it is time for the adventures you have longed for while you were busy building a business.

\* To determine where you are on the Contractors Business Life Cycle, go to [www.sullivanHi.com/resources](http://www.sullivanHi.com/resources)

\*\*Carter, John James; 2006. Long Life in the Family Business, An Exploratory Study of Business and Family Success; [www.usabe.org](http://www.usabe.org); Louisiana State University

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# Contractor Life Cycle



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