



## FIVE KEY STEPS TO A SUCCESSFUL BUSINESS SUCCESSION PLAN



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Over 90% of businesses in the U.S. are family owned, but less than 30% make it to the second generation and fewer than 12% make it to third generation. The key reason cited is: they had a poor, or worse yet, no business succession plan. In fact, recent surveys indicate that only 30% of business owners have a succession plan.

Whether your manufacturing or wholesale company has been in the family for years or you built it from the ground up, it is critical that you develop a succession plan.

Just as there is a human life cycle, most business owners fail to understand that there is also a business life cycle. It begins with the conceptual/idea stage, then the actual start-up period, next comes the growth phase, followed by the well-established maturing years and then finally the exit or retirement phase. The most common mistake most business owners make is that they don't plan far enough in advance for the exit phase. Most experts agree that succession planning should begin anywhere from 10 to 15 years before retirement. Even if you are one of those people who feel that you never will retire, a succession plan is still needed in the event something unforeseen happens to you such as a serious illness, disability or even death.

Now that you understand the importance of developing a plan for your distribution business, here are the five key steps:

- 1. Identify what's important to you.** This means deciding at least generally, how you wish to spend the rest of your life as well as what you want to happen to your business. Consider holding a family meeting to engage in an open and honest discussion regarding your goals and objectives. Failure to do so may lead to unfortunate and contentious situations that could not only tear apart your closely-held business, but your family as well.
- 2. Decide who is most capable of running your company.** If you have more than one potential successor, consider giving each candidate responsibility for the part of the business for which he or she is best suited. Look beyond your heirs for the most competent successor. Sometimes key employees may be a viable option through what's known as an Employee Stock Ownership Plan (ESOP). If you cannot think of anyone qualified to assume control, you may be better off selling to a third party.
- 3. Develop a mentoring program.** Your goal is to ensure that your business will continue to run successfully without you. That's why it is important to spend time grooming your successor to be

sure that he or she has thorough training and quality leadership experience. You should even consider seeking this person's input in the development of the plan. While mentoring your successors, you should also transition your relationship with your customers and suppliers.

**4. Document your succession plan.** With the help of your accountant and attorney, write down every detail of how you would like your company transitioned. Your strategy should include choosing the right amount of insurance, maximizing valuation discounts to reduce the tax implications and developing a buy-sell agreement. Share this document with all interested parties—especially family members. Be sure that your succession plan is in alignment with your other estate planning documents including wills as well as the titling of assets and insurance policies. All too often, a succession plan cannot be implemented as intended because it conflicts with these other items.

**5. Review the plan regularly.** Do not file your succession document away and forget about it. Changed circumstances—such as rapid company growth, the departure of a potential successor and even significant changes in tax laws—are some situations that may require your original plan to be updated and revised.

Developing a business succession plan should not be done in a vacuum. It requires communication between your family members as well as the team of financial and legal advisors involved in the process. When developed and implemented properly, it can help provide financial security for you and your family in addition to future generations.

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*As a diversified certified public accounting firm, Cowan, Guteski & Co., P.A. is committed to being an active partner in its clients' growth by delivering value beyond accounting, innovative solutions and consistent exceptional service. To discuss your particular situation, contact Stephen Reed, CPA, Director – Manufacturing & Distribution Services Group at 732-741-2624 extension 216 or by e-mail at [sreed@cowanguteski.com](mailto:sreed@cowanguteski.com). You can also visit our Web site at [www.cowanguteski.com](http://www.cowanguteski.com) for more information on the services available to meet the unique needs of the manufacturing and distribution industries.*

