Why Business Succession Planning Matters

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Accounting firm BDO Canada[1], found that only one-third of family-owned businesses survive the transition to second generation, with just a third of these getting to the next - a mere 1 in 10 chance of the business surviving for three generations. Often, the reason is insufficient planning.

There is also insufficient planning for the personal financial affairs of the exiting business owners as they transition from a business-derived income to a retirement income. Much thought is often given to the division of the estate with little thought given to the management of retirement income.

When the business owner moves from work into retirement, there will be portfolio considerations beyond the generation of investment income. These include, but are not limited to, such things as cost-effective withdrawals from tax-deferred accounts, various claw backs, different risk assessments, and income related to the ongoing business.

There are also several routes the business owner can take to transition a business to the new owners. There are different strategies for transitioning the business to family members versus current employees or third parties. The role of the Advisor is to work with you as the coordinator to ensure that legal and accounting input is weighed against the clients wishes, both financial and values-based considerations.

Strategies can include drawing a salary from the business for life while letting a family member continue to run the business while the owner relaxes in Florida. Or you can sell the business for a lump sum up front or on a payout basis over ten years. You can continue to control the business by doing a corporate re-organization that will see the business owner retain control but allow the growth of the business to accrue to the new management team.

There are risks and opportunities in all of the possible options but the one thing that is absolutely needed is clear communication with all concerned parties. Did you tell your key person that you intend to sell them the business? There have been cases where this person quits for another job because the business owner kept their intentions a secret.

The other key point to remember in order to ensure the continued success of the business is the need to do retirement income planning separately from the business. That is, having the business owner see the value of building pension assets that are separate from and independent of whatever money they can get from selling the business.

The proceeds from a sale can be viewed as bonus money over and above the accumulated retirement income assets. The reason is that there have been many cases of an owner selling a business but failing to actually collect the money due to them. There can be many reasons that this can happen including changing business conditions or new management inexperience.

Succession plans, whether business or personal, help ensure that legacies continue. That planning takes time but it is time well spent. **Give our office a call for a review of your situation** [1] so we can help you transition your business to the next generation.

[1] Financial Post [2]

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