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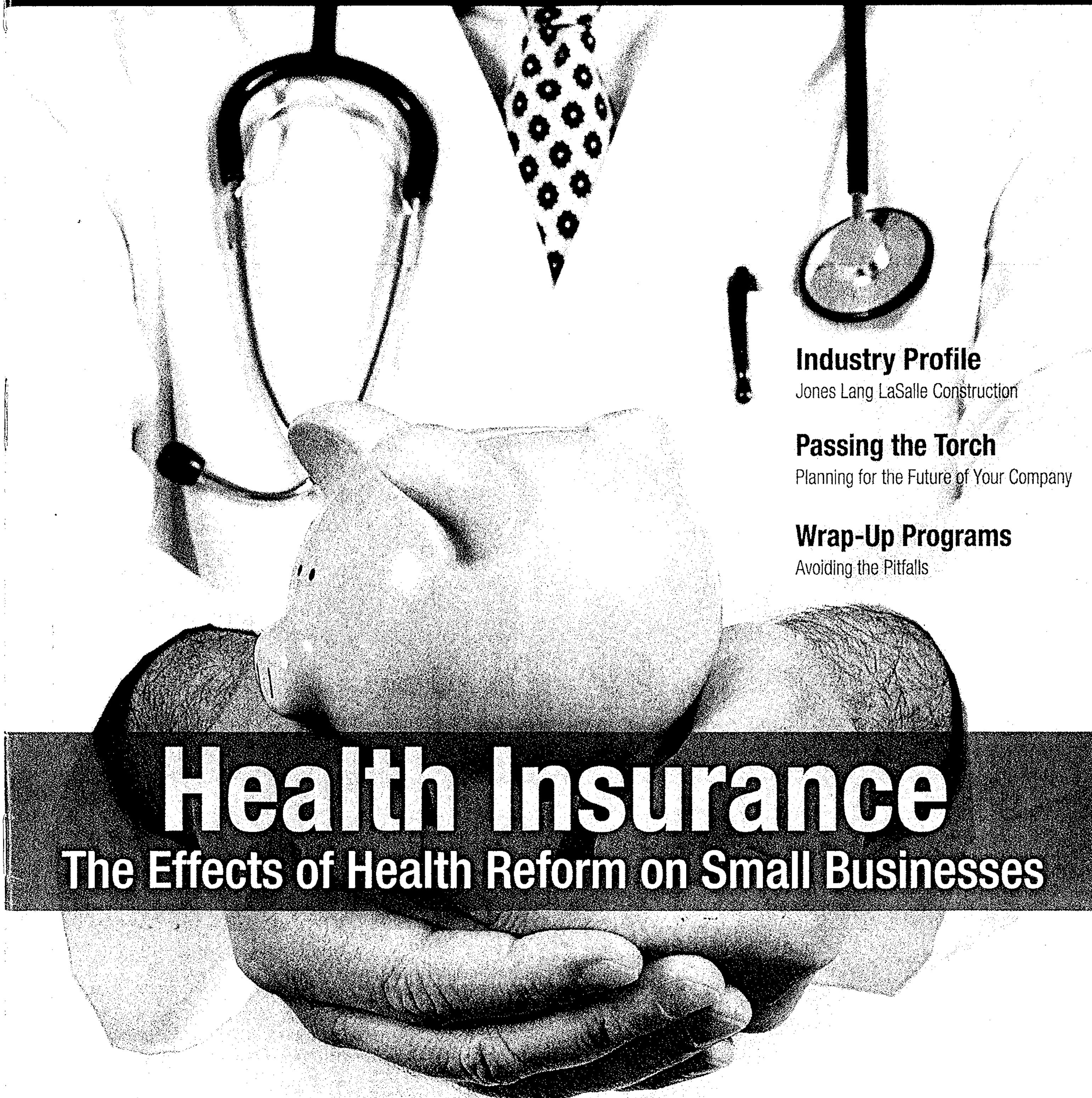

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A SUPPLEMENT TO BANKER & TRADESMAN

 BY WILLIAM F. RUCCI JR., CPA, MST, CGMA AND HARRIS KLIGMAN, BA, CPA, CA, TEP

Passing the Torch to Your Successor

Without a Plan, You Risk Adverse Financial, Tax Consequences

To New England television viewers, their faces have become as ubiquitous as their jingle, "quality, comfort and price ... that's nice."

Bernie and Phyllis Rubin, founders of Bernie & Phyl's Furniture, had become local celebrities over the years as the stars of their own TV commercials. Then about five years ago, astute viewers began noticing a change. The couple's sons Larry and Rob were taking a more central role in the company's TV spots, and were soon joined on-screen by their sister Michelle. At one point the entire family was in the mix.

Lately, viewers have been seeing less and less of the founders. Right before our eyes, the rise of the company's next generation of leaders is playing out in a very public way. The transition is providing all business owners with a window into the process, as well as a reminder that in most businesses, passing the torch is inevitable.

Ready or not, privately-owned businesses are entering a period of massive leadership transition in the next decade. With an estimated 8,000 people turning 65 each day, seven in 10 business owners in the U.S. expect to exit their company in the next 10 years.

So it's only a matter of time before construction company owners are forced to confront important questions about the survival and continuation of their businesses.

The stakes couldn't be more important. Without proper planning, owners may face adverse financial and tax consequences for themselves and their families. But by starting early, a sound succession plan can lay the foundation for a smooth and personally fulfilling transition.

So why are owners avoiding the planning process? The attitudes expressed by many family business founders probably sound familiar:

"Retire? I might as well be dead."

"Nobody can run my business as well as I can."

"My children will ruin everything I've built."

"How can I be fair to all my children if only one of them is in the business?"

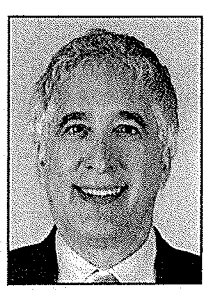
Not surprisingly, these fears can hinder planning. Without proper planning, a business owner can risk adverse financial or tax implications, or even endanger the future of the business. Conversely, a well-defined succession plan can ensure a successful transition.

For these reasons, it is important that, as a business owner, you put an effective succession plan in place. When building your plan, it is best to 1) start early, 2) create a support team, 3) identify and communicate your goals and objectives, and 4) design, develop and monitor the succession plan.

Start Early

The timeline for implementing a successful plan is about five years. Add to this the time needed to explore alternatives and the horizon becomes even longer, making retirement feel like a distant concern. Yet an unexpected illness, death, or divorce can force you to confront reality much earlier. Thus, it is important that your wishes and goals be made clear in case decisions need to be made in response to unforeseen circumstances.

It is also important to allow enough time for stakeholders and family members to adjust to and accept your plans. Without their support, you risk alienating family members or losing key employees. Be sure to set aside enough time



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A good succession plan must be flexible – considering alternatives will allow you to respond with confidence if reality throws a wrench into the works.

to choose, train and develop your successor before you step down.

Create a Support Team

In its simplest form, a succession plan involves financial, legal, tax, and estate planning. It will be wise to include an accountant, a lawyer and perhaps other professionals on your planning team. Including family members and key employees will also help ensure their acceptance and prevent conflict. Your accountant may be a sensible choice to run the planning team, since tax planning and financial analyses are integral parts of the final succession plan.

Identify and Communicate Objectives

Choosing a successor can be stressful, especially if you have several children. Most parents wish to treat their children equally, so where the business is only one asset of the estate, you may decide to allot other assets to children who are not active in the business. If you cannot identify a successor, it may be time to decide whether to sell or wind up the business.

Be clear about your financial and personal goals for retirement. Your support team can help you articulate your goals and overcome the psychological barriers involved in publicly discussing personal matters. Once key employees and family members understand your intentions, they are more likely to support your plan.

Design, Develop and Monitor the Plan

Once you have considered all your alternatives, put your succession plan in writing. At this stage, you will either identify a successor or begin to maximize the value of your business for a sale.

A good succession plan must be flexible – considering alternatives will allow you to respond with confidence if reality throws a wrench into the works. Regular meetings with your advisory team will ensure that your plan remains current, and will facilitate regular communication between key stakeholders.

In summary, a carefully prepared succession plan is the key to a successful business transition. To be effective, the plan must consider all details, from choosing a successor to tax and estate planning, to managing the legal ramifications.

Although the prospect of passing the torch to a successor may appear daunting, starting early with the right support team will make all the difference. ▲