

Transition will happen. Are you prepared?

Today's business owners experience the challenge of navigating through an ever-changing marketplace. The pace of change calls for a well thought-out strategy that can rapidly capitalize on opportunities and anticipate needs. And, in this environment, business owners quickly develop an appreciation that things don't always go as planned, reinforcing the importance planning for contingencies has on ensuring success.



Yet, many business owners who excel at planning for change have not addressed the inevitable contingency that their business will transition someday. Through our years of working with business owners, we know transition planning is essential, and we uniquely understand its multi-dimensional landscape.

What is a transition? Why is it inevitable?

The word “transition” means a passage, movement or change. Transition often suggests an orderly movement or a change that is not disruptive. But transition, when not planned for or anticipated, is often very disruptive. In the context of a business, transition may start with a transfer of management or possibly other facets, but ultimately evolves to a transfer of ownership. Change in business circumstances, change in personal situation, or one's mortality may serve as the catalyst.

All business owners will transition their business at some point in the future. Whether it is a transfer within their family, such as to the next generation, or to an existing business partner or employee, or sold to a competitor or outside investor, transition will occur -- planned for or not.

What are the common roadblocks to planning for transition?

Business owners who often develop well thought-out strategic business plans find themselves without any real plan for transition. Some of the common reasons for failure to consider a transition plan are:

- *Lack of bandwidth:* The feeling there just isn't the time currently available to devote; the owner is too busy running the business while trying to balance personal/family life.
- *Uncertainty:* The belief that one cannot plan when there are so many unknowns about the future of the business, family, etc. Why not wait and see?
- *Sense of weight:* The sense that it is a significant decision that may have far reaching implications for not only the business and family, but also the owner's legacy. Consequently, it may feel hard to confidently move forward.
- *Perceived solutions:* The view that there are not good options to effectively deal with the situation ahead of time. Too many fragmented solutions are presented that add complexity without really addressing the need. Too often they address the "what" without understanding the "why." How do I know what I don't know?
- *Difficult conversations:* The lack of desire to engage in the conversations that may be sensitive, emotional, challenge the status quo or bring other perspectives.

What are the consequences of not planning for transition?

Even though businesses may occasionally enjoy good fortune by being in the right place at the right time, owners understand that planning drives results. Failure to plan for transition can lead to:

- *Poor financial results:* The inability to optimize pre-tax and after-tax value given enough time, or being forced to accept economics because of urgency or lack of leverage.
- *Limited choices or options:* The loss of planning optionality because of the passage of time, change in rules or change in circumstances.
- *Disruption to business:* The breaking down of business operations brought by lack of leadership and impaired financial resources.
- *Increased risk, stress and contention:* The combination of financial, tax, and business risk that is often accompanied by significant financial and personal stress, which serves as fuel for contention in the business and family.

Why now?

The importance of planning early for a transition event cannot be overemphasized. *A transition brings significant opportunities for the owner and his family that will likely be forfeited if not planned for in advance.*

By planning early, time can be devoted to key conversations with family, stakeholders and advisors to ensure a well thought-out plan. The business and the owners can structure planning that uses favorable valuations to reduce taxes and other costs, thereby improving the economics on a transition. A process around governance, education and other important conversations can be implemented to inform and support the financial decisions and planning. Furthermore, early planning permits more time and flexibility for adjusting along the way as the business and circumstances evolve and people develop.

How does one plan for a good transition?

As with any planning, there is not a one-size-fits-all approach. Planning for each owner must be customized. However, business owners intent on planning for a good transition will:

- Start the process early
- Plan with the end in mind, incorporating their desires for the future
- Work with advisors who understand and integrate both the business and personal concerns when planning
- Understand their options, not just the “what” but the “why”
- Create structure that balances simplicity with any necessary complexity
- Emphasize flexibility
- Insist attention be given to human and qualitative factors, not just financial
- Communicate with family and other key stakeholders
- Anticipate and plan for the unexpected
- Recognize the need to revisit planning on an ongoing basis

Transitioning well

Just as successfully run businesses do not happen overnight, transitioning well cannot happen without devoting the necessary focus and intentionality. Business owners should embrace that transition will occur, and see the clear opportunity they have to help shape for themselves and their families a thoughtful and successful transition.

While business owners should take early ownership of preparing to transition, they should not proceed alone. By aligning themselves with an advisor such as GenSpring, which has helped many business owners prepare and successfully transition, owners can break through the roadblocks with an integrated approach that leads to peace of mind.

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