# PLANNING FOR SUCCESSION

## Continuation of the family business requires that you choose your successor wisely, whether they're related or not.

*By E.T. Wandtke*

**MANAGEMENT IN BUSINESS**

The importance of the family-run business is often overlooked. In the lawn care industry, this issue is starting to surface as a problem for business owners.

Succession and ownership are two problems unique to a family business. It is estimated that more than 13 million of today's family businesses have no plan for succession. In addition, many family businesses close because the impact of estate taxes is never considered when planning for succession.

What may have been adequate tax planning two years ago may now be inadequate after the Tax Reform Act of 1986. Make sure your tax adviser is on top of this issue.

### Many don't make it

One in three family businesses fail after being passed onto the second generation. Third-generation family businesses succeed at a rate of less than one in seven. Poor planning is often the cause.

*Currently one in three family businesses fail after being passed onto the second generation, statistics say.*

Let's assume that one of your children does decide to go into your lawn care business. What is the best way to turn the company over to him or her? You could sell him or her stock, present the company as a gift or provision in your will, or pass it on to your wife first.

The plan of succession is an important component of the overall business plan. This plan requires the input of several outside advisers: a psychologist, a strategist such as AGMA and a tax counselor, usually your CPA. This may seem like an unusual team, but effective business succession requires a combination of talents.

The psychologist can determine if both you and the chosen successor are compatible and agree on the future of the company.

The strategist can determine the future viability of the company in the lawn care industry, and whether the remaining family members believe that there will be a business opportunity in the future.

A tax counselor is needed to develop the necessary financial strategies that will allow the company to pass from one generation to the next. This requires a minimum disruption in operations because of estate taxes.

### When the choice is made

You need to find an individual capable of operating your company. Once this individual is on board, his or her training and development should be the same whether he is related or not.

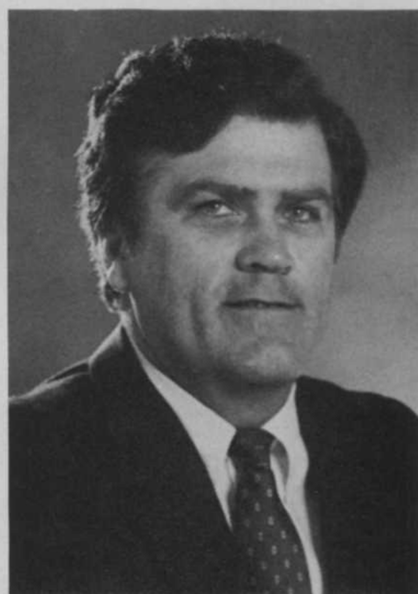
The key issue is preparation. Your successor should possess the needed financial, marketing, operating and managerial sense as would be found in the owner of most successful service companies.

Do not look for a carbon copy of yourself. Choose someone with an understanding of the industry and the role that the owner of the company will be expected to execute. Encourage your successor to gain experience in making decisions and gaining the confidence of fellow employees and customers.

If your successor is not related, you need to develop a tax and financial plan that will effect the transfer of the company to the nonfamily member and provide you with income and security.

These issues need to be discussed with your tax advisor and attorney. If an agreement can not be reached, there are several companies in the industry who will buy your company, but probably for less money than you would have received if it were sold privately to a known buyer.

Passing the business on to a family member or nonrelative requires much planning: tax planning to deal with the impact of estate taxes in the event the principal dies; business planning to anticipate the marketing, sales, financial and compensation requirements; and personal planning to ensure your compensation in retirement. **LM**



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