SUCCESSION PLANNING FOR THE FAMILY BUSINESS IS CRITICAL, BUT NOT ALWAYS EASY

The family business - the bedrock of the American economy - rarely survives the transition from one generation to another. Possible reasons are many, yet any working list will reflect an underlying problem: dealing with transition problems often leads to a plethora of other problems that many families simply prefer to avoid.

When you think about it, the problems a business must overcome to survive beyond one generation are indeed formidable. A short list might include psychological factors affecting the founder, dealing with children, sibling rivalry, not to mention external forces such as competition.

Let's add dimension to our picture by considering a specific problem: the "lifecycle phenomena." The lifecycle of a business is inevitably tied to the lifecycle of its founder. As the founder ages, inevitably a slowdown occurs. The reduction in energy can lead to a gradual unnoticed liquidation of the business. Warning flags may be everywhere if you look for them: loss of market share, flat earnings, increased family salaries and "perks," rising inventories and receivables, more depreciation than investment.

Overcoming the Difficulties

Unfortunately, the problems suggested by the warning flags can be difficult to articulate, given the nature of the family business. The founder may operate as much on intuition as on information generated through a formal process. Management controls, accounting systems and the like may give an incomplete picture of the business, thereby magnifying an already delicate problem. Often, a founder may have an intuitive sense that action is needed; he or she only needs a strategy for exploring the various possibilities.

A good way to accomplish this is by asking yourself three questions, which will probably lead to many more:

1. **What is the emergency plan?** Namely, what happens if you are disabled for 12 months? Talking about temporary succession is often easier for a businessowner both in identifying problems and recognizing their possible occurrence.
2. **How would you support yourself if you chose to walk away from the business in "X" years?** The variable "X" might be a specific age or if possible, a specific year. This line of questioning focuses on choosing to leave, rather than the potentially unsettling consideration of retirement.
3. **After your death, what responsibilities do you see your children having in the business?** Do any, or all, of them take the reins? If so, who will lead? If not, how will the business be sold? The only way to find answers to these questions is to talk honestly with your children.

By working with questions on how the business will run, rather than on succession, strategies can be flushed out and further developed.

SECURIAN™

Securian Financial Group, Inc.
www.securian.com

400 Robert Street North, St. Paul, MN 55101-2098

DOFU: 08-2005
A02747-0805