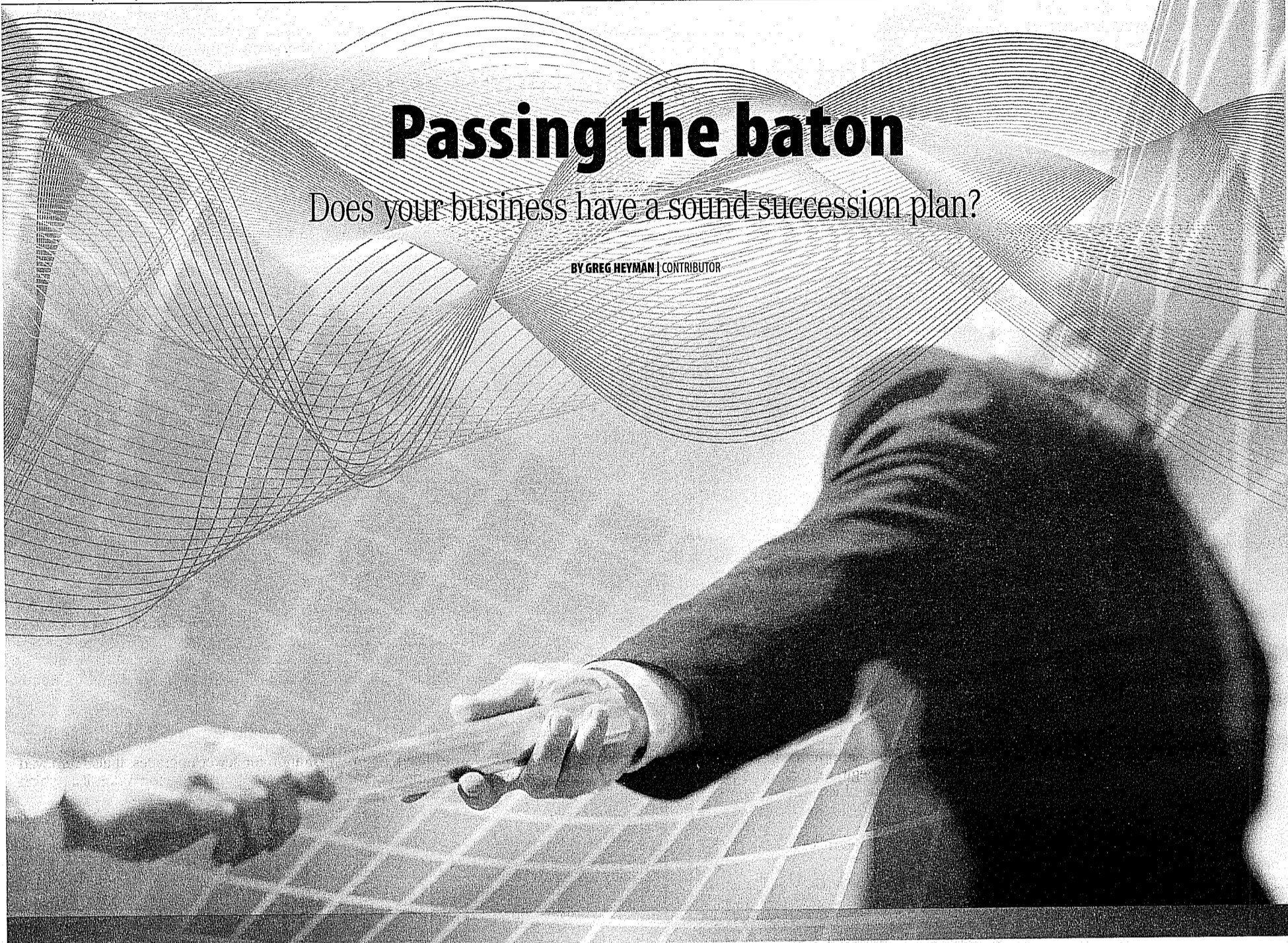


# Passing the baton

Does your business have a sound succession plan?

BY GREG HEYMAN | CONTRIBUTOR



**W**hen a small country pharmacist approached John Holliman about an exit plan for her business, he knew there were plenty of options to consider.

Holliman, a partner with Bailey and Holliman Estate Planning Law Firm, ultimately crafted a plan for the business owner that allowed a key employee to have the right of first refusal to buy the business when the pharmacist was ready to retire.

That option is one of the many ways a business owner can plan to exit their business when they're ready to retire or simply want to pursue other career paths.

Despite many options, studies suggest many business owners don't have a formal plan in place for getting out of their business.

Experts say that can create problems for business owners down the road, so they encourage their clients to have a clear strategy.

When crafting a succession plan, Holliman said there are several pros and cons to consider for each alternative.

For instance, while selling the company is an option, Holliman said business owners have to think about whether they will get fair market value, if they will be paid up front or in installments, the best tax strategy and other considerations.

Josh Reidinger, vice president of Warren Averett Kimbrough & Marino LLC's wealth management division, said business owners also want to make sure they sell to the right individual or company.

"Many times, they don't want to just sell their

business to anybody," Reidinger said. "They want to get maximum value, but they don't want to just get paid and forget about their business. They want to protect their legacy and their good name."

Steven Benefield, a partner with Christian & Small LLP, said exit planning is critical to implement a business owner's wishes.



Reidinger

Benefield said planning an exit strategy guarantees a business owner their vision will continue both in the short- and long-term.

"Failing to plan for exiting your business significantly increases the likelihood that you will not be able to achieve your goals for yourself, your family, the business or all three," he said.

Benefield cautions that failing to coordinate the right ownership and management incentives increases the chances that management will take a different course than the one desired or that critical leaders in the business will leave and possibly become competitors.

He said choosing the right succession plan or exit strategy depends on the business owner's main priorities.

"If insuring that the company survives and the employees continue to have jobs is a priority, then a different type of planning is required," he said.

But if the owner wants a family member to continue to own and operate the business, Benefield said it is critical to make sure the company has leadership and continuity of management

required and to balance the family side of the equation.

And while an exit strategy that involves turning a business over to children to keep it in the family may seem prudent, that scenario may not always work.

Holliman warns that family working in a business may not be prepared to assume a leadership role, while those with other careers may not want to join the family business.

Warren Averett's Reidinger said another strategy involves selling a company to existing employees to avoid placing it on the open market, which may allow an owner to stay involved in some capacity.

"Often times, that's a very good scenario because people know who is going to buy their company," Reidinger said. "They know that they're probably going to do a good job because they already have a proven track record, they know the customers and it makes for a seamless transition."

Ross Cohen, a partner at Haskell Slaughter Young & Rediker LLC, said having an exit strategy that isn't well formed is guaranteed to haunt a business owner.

"The biggest mistake a business owner can make when it comes to selecting an exit strategy for his or her business is to not invest the time and money with a competent advisory team to evaluate all aspects of an exit strategy, beginning with a proper valuation of the business enterprise and covering all exit strategy options," Cohen said.

Greg Heyman is a freelance writer based in Birmingham.