

Transitioning Your Business

Challenges, Solutions, and Where to Get Help

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Introduction

Most business owners don't have time to think too far ahead into the future. That's because they're busy attending to the needs of today: interacting with customers, managing employees, and aiming to ensure the services or products they offer stay one step ahead of their competitors. If they do think about the future, it's usually in terms of when they can expand locations, hire additional workers, or branch out into new markets. The truly long-term decisions, like when to sell or transition your business (not to mention how to do it), are mentally filed away under the heading, "Bridges to cross when I've come to it."

Unfortunately, the question of when and how to sell your business is something that needs to be answered sooner rather than later. The first step is to have a plan. Having a plan in place now can save you untold time and trouble in the future... and it can also help ensure that you do it right.

The stakes are high. For an overwhelming number of business owners, the sale of their business represents their largest single asset, and will be their primary source of income for retirement. As such, it's crucial that they get it right. Otherwise, they will be denying themselves the chance at maximizing the value of this asset, as well as maximizing much-needed income during a time when every dollar counts.

For others, their major goal is to keep their business in the family. But transitioning your business, even to your own children, is a long and complex process.

Finally, everyone wants to cement their legacy and

good name long after the transaction takes place.

At Oxford Harriman & Company, we appreciate the hard work you've put into establishing a successful business. We understand it hasn't been easy. Yet we also know that the decision to one day sell or transfer out of your business can be just as difficult. Fortunately, we're here to help. Part of our business is helping to assist people in securing their long-term future.

Understand that we are not a Mergers & Acquisitions practice. And we certainly don't want you to sell your business if you don't want to! But as financial advisors, our job has always been about helping people secure their financial future. So, if you think there's even the slightest chance that you may want (or need) to sell or transition your business within the next few years, it's critical that you understand how to do it right.

To give you an idea of how and where to start, we've prepared this special white paper. In just a few short pages, we'll look at some of the challenges facing business owners who want to quit working someday, what the most successful business owners are doing now, and where you can get additional help.

The Challenges Facing Business Owners Who Want to Quit Work Someday

Here are two plain and simple truths. The first is that no matter how much you enjoy what you do, you probably don't want to do it forever. At some point in our lives, we all want to wind down, explore other interests, and just generally live life at a slower pace. It's called retirement. The

second truth is that retirement is becoming increasingly difficult and expensive. This is especially true for business owners. There are unique challenges you face that must be overcome in order for you to sell or transition your business and retire the way you've always dreamed.

For example:

- How to determine the value of your business
- How to find a buyer
- Choosing the right time to sell
- Deciding whether to sell to a family member or a non-related party
- Determining whether selling your business will bring in enough proceeds to fund your retirement and other financial goals.

So, what are business owners currently doing to overcome these challenges? Unfortunately, research shows that too many business owners aren't doing nearly enough.

What Businesses are Doing

A 2015 study conducted by the PwC US Family Business Survey found that 73% of US family businesses did not have "a documented and robust succession plan in place."*

That number is similar to one in a completely different study called "Succession Reset: Family Business Succession in the 21st Century", which reported that only 15% of Baby Boomer business owners have completed their succession plans.

If you were to speak to many business owners, you would find that many might say they have a plan, but that it is informal and unwritten. Unfortunately, an unwritten plan is really no plan at all, as it is subject to whimsy, forgetfulness, and even recency bias.

Other business owners might say that it's just too early to start thinking about succession planning. This might make sense to a young business owner, were it not for the always-unpleasant possibility of dying unexpectedly, and the immediate problems that would pose to the business, not to mention the surviving family.

No matter how young or old you are, you need to have a plan. Saying "It's too early" is like saying, "I don't need to put my seatbelt on yet, I just pulled out of the garage. I'll wait until I'm on the highway." The fact is, it's never too early. The sooner you have a plan, the sooner you can more ably avoid the unexpected bumps that every business owner faces at some point or another.

Dwight Eisenhower, former president of the United States, said it this way:

"Failing to plan is planning to fail."

Assuming the above studies are correct, that means approximately 15-25% of business owners – the percentage that do have plans – are far more likely to retire when they want and how they want. They're also far more likely to stay retired. That's because they've left little to chance and have taken the steps to secure their retirement rather than just hope for it.

In short, they have a formal, written **business transition plan**.

An effective business transition plan includes a thorough analysis of your business, including its finances, valuation, management structure, competitive environment, and the basic policies and procedures by which it runs smoothly. Basically, it should show what your business needs in order to be successful. Think of it as an inventory of what you have to work with.

Next, it should address the three most important needs you'll have when it comes to selling or transitioning your business:

- How to help ensure the orderly payment and transition of ownership/management of your business to your successor/heirs
- How to reduce the taxes that come from selling your business
- How to help ensure you have sufficient assets to pay estate taxes (should the sale of your business trigger at death) or to provide necessary liquidity to the business during the transition period.

At Oxford Harriman & Company, we and our partners have decades of experience helping business owners address each of these needs. So, let's look at each of these in a little more detail.

Selling Your Business

Essentially, you have three basic options for exiting your business. The first is to sell to another person or another business. It's an arms-length transaction, and as such will often require the most effort and discipline. But it's also the option that usually provides the highest financial reward.

The second option is to transfer or sell your business to the next generation of your family. Management expert Peter Drucker, perhaps a little tongue in cheek, calls this "the final test of greatness" for business leaders. Family dynamics make this choice arguably the most complex, and studies show this transfer to be successful in only around 33% of cases. However, the right amount of openness, clarity and respect between family members, along with legally sound transfer/sale documents, will go a long way towards making this option a great triumph.

The third option is a buyout by existing management/employees. This has the advantage of helping ensure that the new owners have complete familiarity with the business itself, and are already invested in its success. But while the new owners' familiarity is a given, the difficulty to arrange financing makes this the least common option. However, effective planning done well in advance can enhance the likelihood of a successful management buyout.

Tax Strategies for Business Owners

This topic deserves special consideration for two very broad reasons. The first is the tax-saving advantages you can gain by planning properly long before you sell your business. The second reason is the not-so-pleasant tax repercussions that will occur should you sell your business improperly, particularly under the watchful eyes of IRS. Business owners should start working with their tax professionals far in advance of planning a sale or exit from their business.

Regardless of what you decide to do or who you decide to work with, engaging a qualified tax professional is key...but it's critical that you do it sooner rather than later. Many of the best strategies for reducing taxes on the sale or transfer of your business take a significant amount of time, meaning you can't wait until just before the sale to start them.

Here are just a few strategies you should discuss with your tax professional:

Qualified small business stock exception. This is a tax provision that allows business owners to sell qualified stock in their small business, and then exclude a portion of their gain from federal tax. Special restrictions and considerations apply, of course, but if you meet the criteria for this provision, it's well-worth considering.

Employee stock ownership plan sale. An ESOP sale allows business owners to defer payment of tax on the sale of company stock. That can make your tax situation far more manageable. In some cases, it can even enable you to create permanent tax savings for your estate even after you pass away.

An installment sale. This popular strategy structures the sale of your business so that the buyer purchases either stock or assets with a commitment to pay a portion of sale proceeds over time. The seller, meanwhile, can delay paying taxes until all payments on the sale of the business are received. It can be a good way to turn your tax burden into manageable, bite-sized pieces instead of having to deal with it all at once.

There are other strategies, of course, but the point is that it's more than possible to gain tax advantages on the sale of your business. All you have to do is work with an experienced tax professional ... and plan ahead!

Ensuring You Have Sufficient Assets for Both You & Your Family's Future

An important part of the process is to create a comprehensive plan encompassing all aspects of your financial life. By understanding what specifically about money is important to you, and how much you will need to achieve your goals, dreams, and lifestyle needs, you will have a better idea of when work can become optional for you instead of mandatory. This is also important in giving you the confidence you need in order to help ensure you are exercising sound judgment when the time comes to sell your business.

In short, creating a formal business transition plan should provide you with a blueprint of what your goals in life will cost, how to be able to afford them, and when to execute various strategies designed to help you achieve them.

Getting The Help You Need: Building Your Own Transition Team

Successfully planning for and ultimately selling your business will almost certainly require some specialized help. There are so many among legal, accounting, tax, and insurance implications that it's all but impossible for you to do it all on your own. Getting a qualified valuation of your business is also vital. Fair market value can be a very sticky issue with tax authorities, and trying to hand over the business to family or friends at a "good" price can have serious consequences.

Most business owners feel busy enough without having to contemplate the complex, and sometimes unpleasant possibility of selling their business someday. But unless they're planning on living (or working!) forever, "then an ounce of prevention is worth a pound of cure." Those people are best-served by engaging wealth management professionals to help make the process simple, easy, and effective.

This is where Oxford Harriman & Company comes in.

Oxford Harriman & Company

You have your business, and similar to the issues you face running a business, we stand alongside you facing the same challenges. We have decades of experience in the financial industry, working with business owners and helping clients face the challenges unique to owning and eventually selling a business.

Our vision is to build a practice of dedicated clients who make investment decisions based on what's necessary to fund their specific goals through strategy and discipline... not through emotion. Since your business is likely your largest asset, it's imperative that you work early to develop a strategic plan to understand how to best utilize this asset. We work to enhance your knowledge, provide guidance, and create confidence that you have the long-term plan in place for yourself, your business, and your family.

Summary

It should be clear by now that it may become necessary to sell your business someday to reach your goals in life. In order to sell your business in a timely, cost-effective, and profitable manner, you need

to have a business transition plan. It's this plan that will give you the step by step instructions needed to help ensure the orderly transition of your business to your buyer and/or your heirs, reduce taxes, and help ensure you have sufficient assets for both you and your family's future.

So, how do you go about creating a business transition plan? The answer: by not trying to do it alone.

The world of finance can be complex, and it can take years to understand the intricacies of investment planning as well as its related laws and regulations. As a business owner, your time and energy should be spent on one thing: your business. That's why it's so crucial to choose an experienced, qualified financial specialist to help you. Such a resource can answer your questions and look closely at your business before suggesting the best course of action. This specialist can do the legwork and manage your plan, leaving you time to focus on the aspects of your business, and your life, that you enjoy the most.

We've worked with many businesses throughout the United States. Helping entrepreneurs like you is our job. It's also our passion. We take pride in helping business owners do what they deserve to do: enjoy the fruits of their labor and retire when and how they want to.

We welcome the opportunity to sit down with and discuss your goals and needs. We can start to explain some of the things you'll need to consider and where to get started.

If your goal is to quit working someday, creating a plan is a must. Thinking about your future is a must.

Taking action is a must, too.

Thank you for reading this white paper and please feel free to contact us with any questions.

Cordially,

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