



Business Succession Planning: What you should know

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Business Succession Planning: What you should know

Discussion Agenda:

- What is Business Succession Planning and why is it important?
- The 3 plans every business should have
- Rules of the road
- An example succession plan
- Questions



What is Business Succession Planning and why is it important?

- You may have heard the American proverb: “From shirt sleeves to shirt sleeves in three generations.”
- The Italians put it differently: “Dalle stalle alle stalle alle stalle” (From stalls to stars to stalls”).
- Many cultures have similar sayings that capture the same thought. The wealth one generation creates is often lost by the following generation – from mismanagement, indolence, or misfortune.



What is Business Succession Planning and why is it important?

How common is this phenomena? Very common.

Most studies show:

- Less than $1/3$ of family businesses survive to the 2nd generation.
- Less than $1/2$ of those survive to the 3rd generation.
- The odds of sustaining family wealth more than one generation are as low as 30%



What are the causes of these failures?

According to one prominent study,* the root causes of these failures are:

Poor financial and tax planning

Unprepared heirs

Breakdown in family communication and trust



**Preparing Heirs, Roy Williams and Vic Pressier*



What is Business Succession Planning?

- Business Succession Planning is focused on preparing the heirs and the next generation of management
- Estate Planning is focused on the tax efficient transfer of the business (and wealth) to heirs



The 3 plans (virtually) every business should have

1. The Disaster Plan
2. The Stopgap Plan
3. The Groom the Next Generation Plan



Rules of the Road

1. Your family is unique, but it may not be as different as you think it is.
2. Every family is dysfunctional. The only questions are 'how' and 'to what extent'.
3. Philanthropy can be a useful tool in grooming the rising generation
4. You don't work for the CIA. Everything shouldn't be on a 'need to know' basis.
5. Don't confuse gifts with compensation
6. Does your org chart match the way things 'really work'?
7. Of all your tools, an Outside Board might be the most important

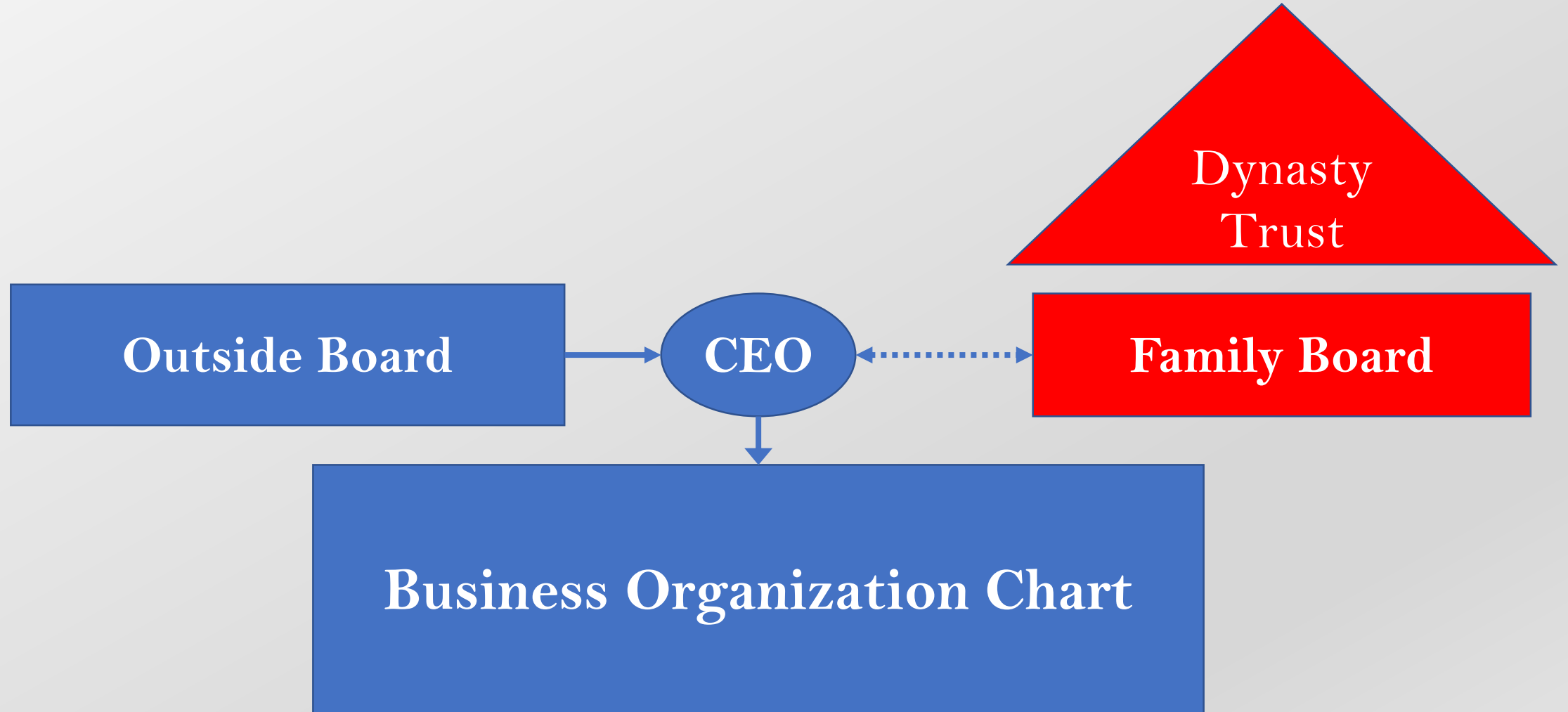


Outside Board of ...

- Who should NOT be on your Board?
 - Competitors
 - Family
 - Advisors (your attorney, CPA, banker, insurance agent, etc.)
- Who should be on your Board?
 - Peers – experienced, active business people who have faced the kind of issues you have or will be facing
 - Peers – with technical expertise you may lack
 - Peers – group should reflect a mix of ages



Example Succession Plan



Questions?