Real issues. Real planning.

Take inventory of how well you are protecting your business for the long-term.

For many business owners, the primary, over-arching mistake is a failure to effectively plan – whether that means failing to have a formal business succession plan in place or underestimating the importance of a retirement income strategy. Inside are 10 avoidable missteps that often trip up businesses, create issues for owners, and can stand in the way of continued, long-term success.

Review the list and rate (by circling the appropriate number) how well you are doing with each of these key business planning issues.

5 = completed with a written plan
4 = in the process of creating a plan
3 = talked about doing something, but have yet to take action
2 = given it some thought
1 = done nothing, haven't even thought about it

1 | Craft a succession plan.

RATE: 1 2 3 4 5

One out of four business owners say their successor is not aware they are the chosen successor.[1] When a succession plan is being developed, the question of who will take over the business, and when, is paramount. Coordinate your succession plan with key employees by having them participate as appropriate in structuring the plan and making sure they fully understand the impact it could have on them. A good succession plan also includes setting expectations around your involvement in the business post-transition.

2 | Draft a buy-sell agreement that protects against the 5-Ds.

RATE: 1 2 3 4 5

Most buy-sell agreements provide for the death of one of the owners, but many overlook adding provisions against other potential unforeseen events. A buy-sell agreement can be designed to protect your business from the five D's — death, disability, divorce, disqualification, and departure. Keep in mind that 1 in 4 of today's 20-year-olds will become disabled before reaching retirement age.[2] And, of business owners who have experienced a divorce, nearly half said it had a negative effect on their businesses.[3]

3 | Put provisions in place for running the business in the owner's absence.

RATE: 1 2 3 4 5

It's crucial to have all parties supportive of future leadership because you never know under what circumstances a transition will occur. Unforeseen events can happen so business owners need to designate in writing who their successor will be, and most importantly, communicate the designee to all stakeholders: employees, customers, family members — everyone. Without this formal communication, the existing employees may leave because they are uncomfortable with the resulting successor, customers may become concerned about the business' ability to deliver services, and so on.

4 | Know the value of the business.

RATE: 1 2 3 4 5

Knowing what your business is worth is critical for proper business planning. Having an accurate business valuation can help eliminate conflict between a buyer and a seller over the sale price of the business; it can help business owners more accurately plan their retirement income strategy; and it can help business owners better prepare for estate taxes liabilities. Keep in mind that a proper business valuation is not a number pulled out of thin air; it's thoughtfully crafted by a credentialed appraiser after thorough research and it's documented in writing.

[1] MassMutual Business Owner Perspectives Study, 2018.

[2] U.S. Social Security Administration, Fact Sheet, 2018.

[3] The MassMutual FamilyPreneurship℠ Study, 2009.

5 | Ensure there is sufficient funding to protect the business and the owner.

RATE: 1 2 3 4 5

Business owners must have sufficient funding to protect their business against the loss of a partner or key employee. The key issue is liquidity — funds must be readily available to buy out the ownership of a deceased partner or to find and train a key employee's replacement. In addition, the funding must keep pace with the growth of the business.

6 | Ensure retirement is not dependent upon the sale of or receiving income from the business.

RATE: 1 2 3 4 5

Business owners should have a diversified retirement income strategy. Keep in mind, many business owners have a difficult time finding a buyer who can pay the appropriate value for the business at the point in time the owner wants to sell it. So business owners do one of three things: 1) don't sell and put off retirement; 2) sell the business at a value below its worth; or 3) sell the business under contract. Business owners should determine the amount of capital that is needed to support their lifestyle in retirement, determine the value of the business, and consider the tax consequences of selling it.

7 | Think ahead about finding a successor/buyer for the business.

RATE: 1 2 3 4 5

Within three to five years of retirement, business owners should start to find a successor/buyer for the business. Of course, this plan demands that the owner sets an expected retirement date and sticks to it. This also includes having discussions with a potential successor to ensure he/she possesses a passion for the business, has the necessary skills to do the job, and has a genuine desire to keep it running successfully. By waiting too long, owners may begin to experience poor health and low energy, which could affect productivity and potentially the profitability of the company.

8 | Do proper estate planning.

RATE: 1 2 3 4 5

The largest aspect of a business owner's estate is typically the business. Business owners may not establish an estate plan because they fail to understand liquidity issues and the tax implications their heirs may face. Estate planning has to take into consideration three questions: what is the plan for the owner's estate; to whom will the estate pass; and what is the most efficient way to minimize the estate taxes?

9 | Address any family business issues.

RATE: 1 2 3 4 5

Family businesses have their own set of unique issues: rivalries between siblings, birthrights versus qualifications, and distinctions between being business owner and parent. Business owners must consider the legacy they want to leave behind, the competency of their children, and other factors to avoid conflict that could derail good planning. This requires having meaningful discussions with family members about what they want out of the business and where they see it going in the future.

10 | Effectively utilize your team of advisors.

RATE: 1 2 3 4 5

Most business owners have a team of advisors, which may include an accountant and an attorney, among others. But often times, these advisors work independent of each other and rarely coordinate efforts on your behalf. That's why it's important to appoint a "quarterback" for your advisory team. One who will bring the best thinking of your advisors together and help ensure they are all working in concert with the best interest of your business in mind.

Add up your score ____________________

How did you do?

50–40: Congratulations. You are doing a great job addressing the real issues faced by real business owners.

39–30: Kudos for putting thought into addressing these issues. If you haven't already, take the next step to formalize the plans that will help protect your business for the long-term.

29–20: It's time to stop putting it off. A plan is no good if no one is aware of it. Create real action steps to protect your business for the long-term.

19 or lower: More attention is needed. It's never too late to start planning. Think about what keeps you up at night as a business owner and commit to resolving those issues now.

Based on how you did on this scorecard and the information detailed in this seminar, think of five action steps you can take immediately to better protect the business you spent a lifetime building.

1. ______________________________

2. ______________________________

3. ______________________________

4. ______________________________

5. ______________________________

Share these results and action steps with your seminar presenter. He/she would welcome the opportunity to learn about your business and discuss ways to plan for its long-term success.

Contact information:

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