

“Thinking Through the Unthinkable”

A banker friend recently told me about her conversation with a business owner applying for a loan. The lender requires borrowers to have a business succession plan to ensure survival of the business upon death or disability of its principals. When she asked this successful owner “what would happen to the company if you died tomorrow,” he gave her a blank look and said “I’ve never thought about that.”

Lenders are not the only ones who care if your company survives you - your employees are also concerned. Although effective succession plans require planning and specifics tailored to each particular business, there are common elements which should be considered and included in most plans:

1. A New You - As owner, you are chief visionary, human resources chief, controller, cheerleader, disciplinarian, etc. Who will do those jobs if you aren’t there? Is someone available in the company or do you need to look elsewhere for a replacement?
2. Buying the Shares – Shares of a small business, usually a major portion of the owner’s net worth, cannot be sold at the nearest broker house. A



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succession plan should create both a market and a way to pay for the shares so that the owner’s family can receive full price for the shares. A plan should identify the purchaser(s), valuation method, and a mode of payment. If the owner is insured,

those proceeds can be used. If not, other arrangements must be made so that the company can afford to pay for the stock while continuing to operate.

3. Insurance – Most businesses should consider both buy-sell and key person insurance. The former pays for the stock of the decedent. The latter helps fund the company and replaces revenue lost due to loss of the owner.
4. Dispute Resolution - Even with careful planning, disagreements can arise among affected parties. A good plan provides for a speedy and inexpensive alternate dispute resolution mechanism so that the destructive effects of litigation can be avoided.
Making a succession plan that works is a complicated process that requires input from many advisors. The lawyers at Carlile Patchen & Murphy have significant experience in helping business owners plan for a successful future.