

WealthCo

Financial Advisory Services Inc.

Your Wealth

Monthly Update

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Greetings,

At WealthCo we specialize in helping business owners to use their corporations as planning tools. Working closely with you, our goal is to develop a comprehensive plan that will help you gain the most from your assets, both now and in the future.

- **The Succession Planning Process: An Overview**

In broad terms, the business succession process involves the following steps:

1. Determine whether business succession within the family is a viable alternative,
2. Develop your succession plan,
3. Monitor the implementation of the plan, and make changes as necessary, and
4. Coordinate your succession plan with personal tax planning for retirement and the distribution of your estate.



Succession Planning for Family Business



The numbers appear alarming. Only one-third of family-owned businesses survive the transition to the second generation. And of these businesses, again only one-third will survive to the third generation, meaning that the chances your grandchildren will take over your business are about 1 in

Each of these steps is equally important. For example, excellent succession plans can be ineffective if they are not properly implemented. And sophisticated estate plans can become ineffective if they are not coordinated with a business owner's plan for succession.

In addition, although the first step is critical, many business owners do not carefully consider all the issues when deciding whether succession is a viable alternative. For example, many business owners have a plan in their

10. As a business owner, you'll want to ensure that your business continues to succeed after you retire, whether your children succeed you or you sell your business to others. This month's newsletter is designed to help you start thinking about the future, give you some ideas to consider, and to highlight the key ingredients of a successful succession plan.

Why Families Don't Retain Their Businesses

- There are two common reasons why a family does not retain their business. The first reason is straightforward - there is no qualified successor. However, even though these businesses will not be passed down to the next generation, you can still take steps to ensure that the value of your business survives, which is really just another form of succession planning.

The second major reason for unsuccessful business transitions is more unfortunate. In many cases, businesses fail or are sold off due to a lack of planning.

Although most of us are careful to safeguard our personal assets, for example by insuring our homes, many businesspeople do not plan ahead to safeguard the value of their business. At first glance, this lack of planning seems incomprehensible. But, when you look at the personal and family issues that are involved, it is easy to understand why many people just don't want to deal with the issue of business succession.

own mind, but the goals and objectives of their children may not be in harmony with this plan. Alternatively, some children may be overlooked as a successor, as their views and general outlook on business issues differ greatly from that of their parents.

Assessing the Viability of Succession - At first glance, this step seems obvious - many business owners "know" what they want to do. For example, if one of your children has been active and effective in your business, it may seem obvious to you what's going to happen - that child will succeed you. However, in many cases, problems can arise right at the beginning of the process due to either a lack of communication, or a lack of objectivity among the family members involved. At this stage, you need to deal with two key questions:

- Are my children capable of running the business when I retire?
- Are my children interested in succeeding me?

To deal with these issues fully, both communication and objectivity are important. When it comes to communication, have you actually asked your child whether he or she wants to succeed you? And if you have, are you sure they would be truthful in their response knowing how strongly you feel about the business?

● **Assessing a Child's Interest in the Business**

When assessing a child's interest in your business, an important point to keep in mind is that it may be difficult for you to be objective during this process. You have devoted a great deal of time and



resources to develop the business, and quite naturally, you should be proud of what you have achieved. However, your feelings toward the business will be obvious to other members of your family, as well. This has the potential of creating problems for some business owners:

- Business owners may find it difficult to accept that a child would not share their interest in the business, and
- A child of a business owner may find it difficult to communicate to the parent that they really are not interested in succession.

Assessing a Child's Ability - Succession will only work

For most business owners, their business is their single largest asset in terms of value, but it also represents a major source of self-esteem and personal worth. Consequently, many business owners just don't want to think about the day when they will no longer be running the business. In addition to the fear of retirement, the business succession process must invariably deal with the business owner's death. This issue is difficult for all of us to deal with, as evidenced by many surveys showing how few of us have prepared a will. Finally, for those individuals making it past the first two succession planning hurdles, there is one more tough decision that is easy to put off - how can I pick one child as my successor while being fair to all of my children?

These are difficult issues to deal with. Consequently, planning for your succession will, by necessity, be a process rather than an event, as it will take time to address these issues. Also, given that most of the major decisions to be made are of a personal nature, the process used to manage each family's business succession will vary depending on the nature of the family issues involved. Consequently, there is no one approach that will work for all business owners.

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if your business is passed on to a child who has the skill to run it. Where there is one obvious interested candidate, the process is more straightforward: you can focus on evaluating that family member's abilities. Even if you believe the process will be straightforward, it's worth keeping in mind that a family business advisor can be helpful at this stage, as they will have more experience in assessing the strengths and weaknesses of the prospective successor, and they bring objectivity to the process. Even if the advisor simply confirms that you have made a wise choice, they may be able to help your successor by pointing out areas where the successor's skills can be improved. In addition, depending on your relationship with your child, recommendations made by a third-party can be more effective, as they do not have any emotional strings attached.

The process gets far more complicated and difficult to deal with when more than one child is interested and capable. And in fact, this is often one of the main reasons why many business owners do not deal effectively with the issue of succession. As parents, we try to treat all children fairly, which usually means treating them as equals. However, when it comes to succession, the reality is that you will likely have to pick one child to be your successor.

It is possible to pass on control of your business to your children as partners, but the success rate for this sort of arrangement is generally not good, and your children will need a strong sense of trust and harmony with each other as a group to pull it off. So, in most cases, it will be necessary to choose a single leader. We discuss this issue in more detail in the next month's newsletter.

• Random Stuff



- **Thanks for reading...**

When you work with WealthCo, we can become your personal chief financial officer, offering resources to coordinate all your financial needs. WealthCo works hand in hand with your current legal, accounting and other advisors towards a common objective of reaching your individual financial goals. Drop us a line sometime and **have a great month.**



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