Planning for a Rainy Day

There may be nothing worse for a business than to have its owner suddenly die. . . especially if it's your business.

Let's look at what can happen when an owner dies.

Joe Carpenter was the 55-year-old sole owner of a successful construction company. Joe hoped to sell his company to a third party in the next 18 months.

What Joe needed was a way to ensure that his company would survive if he died or became disabled during that period. Before he could put any plan into place, Joe was killed in a traffic accident. Soon after his death, key employees left his company for jobs with more certain futures. They feared that the company might not continue without Joe's leadership and personal financial backing.

Their departures caused a decrease in revenues, as well as the default on a number of contracts, which exposed the company to significant liabilities. Long-time customers grew uneasy with what they perceived to be a rudderless ship and took their business to Joe's competitors. Joe's bank grew uneasy as well and decided to call in his company's debt — debt Joe personally guaranteed.

Within weeks of Joe's death, his key managers were gone, his company defaulted on a number of contracts, revenues plummeted, customers jumped ship and any prospects of securing replacement financing quickly disappeared.

As you can see, business continuity planning is vitally important to your company. Without a well thought out "survival plan," the consequences to employees, customers and most importantly, your family and estate are dire. (Don't think that your estate will escape the notice of your business creditors.)

Fortunately, there are a number of methods sole owners can implement today to help avoid the type of business collapse that Joe Carpenter's business experienced.

First, to keep key employees on board after your demise, offer ownership — perhaps via a buy/sell agreement, or offer additional compensation if key employees continue to run the company. The amount of compensation can be directly tied to company profitability and continued success. As an additional incentive, offer these employees a substantial bonus (called a "Stay Bonus") for staying with the company — one that can be funded with insurance and that can be accessed in case of your death.

Second, alert your bank to your succession plans. Meet with your banker to discuss the arrangements you have made and show him or her that insurance to affect these plans is in place. Make sure your creditors are comfortable with your succession plan. Ask them what arrangements they would like to see in place.

Third, create a written plan that states: 1) who should take on the responsibility of running the business; 2) whether the business should be sold (if so, to whom), continued or liquidated; and 3) who your heirs should consult regarding the sale, continuation or liquidation of the company.

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O'Hara & Company, PC - One Olde North Road, Suite 101, Chelmsford, MA 01824 www.oharaco.com