THE POWER OF PLANNING

Why business owners need viable transition plans, and practical strategies for putting them in place
INTRODUCTION

WILMINGTON TRUST:
Your partner on the path to business transition

As a business owner, you are the heart and soul of your company, involved in almost every aspect of the organization. But have you thought strategically about the next phase of your life and the life of your business? Have you created a plan for what you will do and what will happen to the business you’ve been building when you are ready to move on or are no longer able to actively lead it?

At Wilmington Trust, we have been collaborating with business owners for decades to craft effective transition strategies. We’ve learned that the best transition plans enable owners to continue working at their company for as long as they wish, generate needed liquidity, and prepare for a smooth transfer at the optimal time. We’ve also found that good transition planning mitigates risks, such as the loss of wealth due to taxes or receiving less than the maximum value from the sale of the business.

We recently conducted a survey of more than 200 owners of privately held businesses about transition planning. This report will illustrate where your peers are on this journey, and illuminate the path that you and your team of trusted advisors can take to pursue all of your goals, both financial and non-financial. It will provide valuable guidance on questions such as:

• *Why should I create a specific plan and what are the reasons many owners do not?*
• *How should I plan to take care of my family and employees over the long term?*
• *How can a well-designed transition plan enable better leadership, higher valuations, a lower tax burden, and stronger family ties?*
• *What’s the best time for me to start the transition planning process?*
• *What are the steps involved in creating a plan?*
• *Which experts do I need on my planning team?*
• *What are the best options for transitioning ownership when the time comes?*

In Part One of this report, we provide a detailed analysis of our study participants’ perceptions and behaviors. Perhaps most striking, we find that nearly 6 in 10 owners do not have a specific plan for transitioning their company to the next stage of the business lifecycle.

In Part Two, we lay out information that you can use when you meet with your trusted advisors to plan for your eventual transition or to enhance the plan you already have.

At Wilmington Trust, we have been helping business owners design and execute transition plans and transfer wealth to future generations for more than 100 years. We are in a unique position to help owners achieve their financial goals and personal dreams; more importantly, we feel it is our duty.

If you have any questions or comments about the content of this report, please do not hesitate to contact us. We look forward to speaking with you.

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KEY SURVEY TAKEAWAYS

[ 200 business owners surveyed ]

58% of business owners have not created a specific plan, despite the fact that long-term transition planning usually results in higher business values, lower taxes, and more peace of mind for all stakeholders.

78% of business owners who do not have a plan say the main reason is that they enjoy running their company. But they may not realize that with proper planning, they can continue to run their business, yet also maximize value and reduce taxation.

47% of business owners over age 65 do not have a specific transition plan, even though starting the transition planning process early in the life of the business has been shown to lead to better outcomes.

67% of business owners believe that they have a very good idea of their company’s worth, but two-thirds of them also want to talk to an expert about valuation. This highlights the need for outside specialists who can accurately measure and help improve a company’s worth.

Business owners’ top 3 transition goals:

1. Ensuring company remains viable in the long run.
2. Taking care of employees.
3. Ensuring customers are taken care of.

While no two transition plans are alike, there are concrete steps and best practices that every owner should consider to meet these goals.

Business owners often rely on their tax professionals, lawyers, and accountants as the three most important transition advisors. They may be underestimating the importance of other experts.
PART ONE: SURVEY RESULTS AND INSIGHTS

1.1 | Nearly 60% of owners lack a transition plan, but it’s never too late to start planning

While nearly all owners have considered transition planning at some point, a large majority (58%) of them have no specific plan in place (Figure 1). In reality, the number of owners who have no plan is likely even higher than this survey finds due to a general misunderstanding of what constitutes a strong transition plan.

Many owners believe they have a strong plan simply because they have written instructions for who will manage their business affairs in the event that they die or become disabled. While a necessary step, this should be considered only a crisis protocol. Most owners don’t plan beyond the immediate aftermath of an ownership crisis.

“A short-term plan is a plan with a lower-case ‘p’ and not a Plan with a capital ‘P’,” says Matt Panarese, Mid-Atlantic Region President for the Wealth Advisory division of Wilmington Trust, N.A. “A crisis protocol does not cover all the details to ensure the business survives for the long-term benefit of the owner’s family. And it does not necessarily enable a tax-efficient transfer of ownership that maximizes the value of the business for the owner’s family.”

The survey finds only 21% of owners have a specific plan and have begun executing it. “I’m a little reluctant to advance [a transition plan],” one business owner said. “It’s something I know I have to do, but I haven’t really aggressively planned it out yet.”

Even if they have a plan in place, owners should review with an experienced transition advisor to make certain all the necessary components are included.

Why does an owner create a specific transition plan? The primary driver is that they are getting older. Yet the survey finds that even a large proportion of older owners lack a specific plan. In fact, 47% of owners over age 65 do not have a plan (Figure 2). Younger owners are even less likely to have one. Among those 55 to 64 years old, 57% lack a plan. And more than two-thirds (68%) of owners 55 and younger do not have one.
Our traditional notions of retiring at age 65 and enjoying our “golden years” have changed, and it’s clear that many older business owners are passionate about their business and want to stay engaged with their company for as long as possible. Unfortunately, this means that the vast majority of owners are putting off transition planning for too long (Figure 3). “Fortunately, owners can accomplish both,” says Don DiCarlo, Chief Fiduciary Officer, Wilmington Trust, N.A. “With help from experienced experts, they can continue to work in whatever capacity they choose while they plan for the next phase.”

The sooner an owner begins to plan a transition, the better the odds of achieving their financial and personal goals. But owners who are close to a transition event can still create a robust plan, with the right guidance. “In general, it’s never too late to create a plan,” says Bruce Hoffmeister, Director of Wealth and Fiduciary Planning, Wilmington Trust, N.A. “However, it is ideal to start early in the life of the business. Creating and executing a proper transition plan can take years. Consider, for example, the time it will take to prepare the next generation of leaders. Long-range planning gives the owner more options, and can enhance the value of the business.”

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**Figure 2**

How would you describe your transition plan for your business?

- **Have a specific plan**
- **Do not have a specific plan**

<table>
<thead>
<tr>
<th>Category</th>
<th>Have a Specific Plan</th>
<th>Do Not Have a Specific Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>All responders</td>
<td>42%</td>
<td>58%</td>
</tr>
<tr>
<td>Under 55 years old</td>
<td>32%</td>
<td>68%</td>
</tr>
<tr>
<td>55 - 64 years</td>
<td>43%</td>
<td>57%</td>
</tr>
<tr>
<td>65+ years</td>
<td>53%</td>
<td>47%</td>
</tr>
<tr>
<td>First-time owners</td>
<td>35%</td>
<td>65%</td>
</tr>
<tr>
<td>Experienced owners</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Family Business</td>
<td>41%</td>
<td>59%</td>
</tr>
<tr>
<td>Non family business</td>
<td>45%</td>
<td>55%</td>
</tr>
</tbody>
</table>

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**Figure 3**

Percent of business owners who have a specific plan by transition timeline

- **Expected Timing of Transition**
  - In the next year: 69%
  - In 2 to 5 years: 70%
  - 6 to 10 years: 41%
  - 11 to 20 years: 39%
  - Longer than 20 years: 33%
  - Don’t know: 27%

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What advantages can a business owner gain by starting the transition planning process early? More flexibility, better tax planning, and higher business value. For details, see 2.1 | The benefits of planning early, on page 17.
Business owners are pragmatic about their motivations for creating specific transition plans. The survey shows by a wide margin, the top two reasons for planning are: concerns about aging and the desire to provide financial security for their family (Figure 4). Reducing their tax burden and meeting their valuation goal are the third and fourth-most prevalent reasons cited.

It is troubling that age is the primary driver. The average leader transitions control of his or her business at age 62, according to research from EY’s Family Business Center of Excellence. If owners wait to plan their transition, either until an advanced age or until they actually need to transfer ownership, they may be unable to maximize some of the key benefits they desire for creating a plan in the first place.

“Ensuring a family’s financial security, reducing their taxes, and obtaining the highest possible valuation for their company are usually best planned over a long-term horizon,” says Fred Hopkins, Managing Director of Wealth Strategies, Wilmington Trust, N.A. “For example, in the years leading up to a transaction, there are many things owners can do to enhance valuation, such as identifying and training successors to take over the company.”

Figure 4

Reasons for having a specific plan

<table>
<thead>
<tr>
<th>Reason</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Getting older</td>
<td></td>
<td>67%</td>
</tr>
<tr>
<td>Provide security for family</td>
<td></td>
<td>55%</td>
</tr>
<tr>
<td>Met the valuation goal</td>
<td></td>
<td>35%</td>
</tr>
<tr>
<td>Reduce tax</td>
<td></td>
<td>35%</td>
</tr>
<tr>
<td>Got an offer from a potential buyer</td>
<td></td>
<td>22%</td>
</tr>
<tr>
<td>Interested in philanthropy</td>
<td></td>
<td>17%</td>
</tr>
<tr>
<td>Advisor suggested it</td>
<td></td>
<td>17%</td>
</tr>
<tr>
<td>Tired of running the company</td>
<td></td>
<td>14%</td>
</tr>
<tr>
<td>Pressure from spouse / family</td>
<td></td>
<td>9%</td>
</tr>
<tr>
<td>Pursue other business opportunities</td>
<td></td>
<td>8%</td>
</tr>
<tr>
<td>Business performance is declining</td>
<td></td>
<td>6%</td>
</tr>
</tbody>
</table>
Another key reason for planning in advance is to mitigate liquidity risk. Many owners dream of creating a successful company that will generate income for future generations. “But families can run into problems when successive generations need liquidity, yet their wealth is locked into equity in a business,” says Hopkins. “For example, a cousin could demand selling part of grandfather’s business because he needs cash. It’s important that business owners plan for contingencies like these as early as possible.”

Interestingly, the fifth-most common reason business owners make a specific plan is because they receive an offer from a potential buyer. This suggests that many owners are unprepared when opportunity comes knocking.

“The timing for a sale is so critical,” one survey respondent said. “The stars just have to line up.” If you can’t control the alignment of the stars, it pays to be prepared.
1.3 Owners who love running their company can enjoy it even more with a transition plan in place

When business owners are asked why they don’t have a specific plan in place, one reason is abundantly clear. The vast majority (78%) don’t plan because they enjoy running the company (Figure 5). The next two most-common reasons are that the transition is too far away (44%) and they are too busy (42%).

The fact that many owners are too focused on running their company to plan for a transition reflects how passionate these entrepreneurs are. But it may also reveal a misunderstanding about the process. An owner does not have to give up the satisfaction that comes with leading a company in order to plan a future transition. The two experiences are not at odds.

In fact, a robust transition plan can make running the business more enjoyable. With the help of a trusted advisor, an owner can design a short-term plan so he or she can feel secure that a capable leader can take over if something unfortunate occurs.

Moreover, a long-term transition plan can help ensure that an owner can continue working as long as he or she wishes by simultaneously working to make sure the business is well capitalized and that successors are being groomed to eventually lead the company.
“The truth is many business owners can execute a transaction where they can have the best of both worlds,” says Stuart Smith, Managing Director of M&T Investment Banking Group. “They can bring in strategic partners and/or financial investors to provide them a healthy level of liquidity, while continuing to run the business and enjoying their leadership role. These are just some of the potential benefits of long-term planning.”

Forty-two percent of owners don’t have a plan because they say they are too busy. There may be no business role more challenging than running a privately held company. “But when an owner understands the process of proper transition planning and can envision the long-term benefits it is easier to justify the time invested,” says Nora Habig, Commercial Bank Group Manager, Central & Western PA, M&T Bank. The initial time commitment need not be onerous. Owners can begin with a straightforward review of their organizational documents to identify any gaps that need filling.

The bottom line is transition planning is not a distraction from important work—it is important work.

What are some popular options for transferring all or part of an ownership stake? Should you keep the business in the family? Sell to a new owner? Sell to your employees? Read more about your choices in 2.3 Options for transferring all or part of an ownership stake on page 20.
1.4 | Owners’ transition planning goals vary, accenting the need for customized planning

What are an owner’s primary goals for business transition? Surprisingly, they do not involve selling the company for the highest price. Instead, owners are focused on protecting and growing the legacy they have worked so diligently to build.

As shown in Figure 6, more than three-quarters of owners rank the following goals as either very important or important: ensure the company remains viable over the long run; take care of employees; ensure customers are taken care of; gain financial security for the owner’s family; and ensure the company retains the owner’s values. A large majority (58%) also aim to maintain family harmony.

![Figure 6]

**Importance of various transition goals**

- **Important**
- **Very Important**

<table>
<thead>
<tr>
<th>Goal</th>
<th>Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure your company remains viable in the long-run</td>
<td>87%</td>
</tr>
<tr>
<td>Take care of employees</td>
<td>87%</td>
</tr>
<tr>
<td>Ensure customers are taken care of</td>
<td>85%</td>
</tr>
<tr>
<td>Financial security for self / family</td>
<td>83%</td>
</tr>
<tr>
<td>Ensure company retains values</td>
<td>78%</td>
</tr>
<tr>
<td>Maintain family harmony</td>
<td>58%</td>
</tr>
<tr>
<td>Keep the business within the family</td>
<td>39%</td>
</tr>
<tr>
<td>Pass control to employees</td>
<td>28%</td>
</tr>
<tr>
<td>Set aside a portion of the proceeds for philanthropy</td>
<td>22%</td>
</tr>
<tr>
<td>Stay involved in the company after the sale</td>
<td>21%</td>
</tr>
</tbody>
</table>
The wide variety of planning goals we uncovered underscores the fact that no two transition plans are alike, just as no two owners are alike. There is no one-size-fits-all approach to a plan that requires personalization and customization.

Maintaining family harmony is challenging because managing family ownership transfer involves a combination of legal, tax and inter-personal complexities. It’s important for business owners faced with potential family conflicts to work with advisors experienced to solve any issues.

One common complication can arise when the owner of a family business with multiple children wants to transfer ownership to just one child without alienating the others. “Some owners will seek to transfer the entire business to one child—usually the most capable child—even if that means not transferring equal shares to other children,” says Hopkins. “But the concept of equalization is very important. There are various strategies business owners can employ to equalize the distribution of wealth among their heirs, but every situation is different.”

A survey respondent echoes this sentiment: “One of the problems is the dynamics between my two sons. They really don’t get along very well, so that’s probably slowed down my [planning] process.”

In fact, the personal and emotional dynamics of running a family-owned company are fraught with risk that can make or break a business and family. That is why it is so important to communicate and give all voices at the table a chance to participate. In most cases, success comes down to honest discussion and open dialogue.
A successful transition needs a team of experts, including tax, trust and valuation specialists

When asked which experts are most important when transitioning ownership, more than 80% of owners name their tax expert, lawyer, and accountant (Figure 7). These specialists are followed in importance by their legal trust expert (65%), banker (45%), and investment advisor (40%).

But business owners need to reconsider their intense focus on the “big three”—tax expert, lawyer, and accountant—because it can lead them to de-emphasize other experts who can be equally important in creating and executing a successful plan. Every owner looking to maximize the value of his or her business should consider a multidisciplinary team of specialists, including a commercial banker, investment banker, and personal wealth manager.
An experienced investment banker, for example, can present the company’s financial performance and operating history in a way that positions the business in a light that is most attractive to prospective investors.

“This is truly a team sport,” says Panarese. “A business owner who has worked hard for most of his or her life deserves a transition team that provides sound advice. Today’s business environment is more complex than ever, and owners need advice across a broad spectrum of capabilities in order to navigate a transition successfully.”

Many family business owners choose their personal wealth manager to coordinate their team of professionals and merge their personal planning with their long-term business planning. A personal wealth manager experienced in business succession and estate planning, trusts, philanthropic giving, and associated issues can be invaluable in helping an owner meet all goals, including a comfortable retirement and a legacy for the owner’s family.

Business valuation experts are also critical for owners. Two-thirds (67%) of survey respondents say they have a very good sense of their company’s worth (Figure 8), but the same percentage want to speak with valuation specialists. Among those who claim to have a very good idea of their company’s worth, 65% are still interested in confirming it.
Clearly valuation is a key concern for business owners, and advisors understand this. But there’s much more to a successful transition than maximum value. The best transition team will also make certain that an owner can meet non-financial goals, as well. “Everyone wants to maximize the dollars they receive,” says Smith. “But beyond the numbers, many owners have goals such as taking care of employees and customers or leaving a legacy. After all, for many owners, their name is on the company building.”

By following a long-term planning process, owners can identify all of these goals—monetary and otherwise—document them, share them with key stakeholders, and work toward achieving them. If planned strategically, a business transition need not require an owner to give up anything important, except, perhaps, the highest dollar offer.

“There are situations when I recommend that a seller do business with a buyer who is not necessarily offering the most money,” adds Smith. “For an owner who is highly engaged with his or her business, it’s important that they share the same values with a buyer, and know that the buyer can help them meet their goals—for themselves, their company, and their family. It should be a hand-in-glove fit.”

Who are the critical experts needed for robust transition planning and execution? An experienced wealth manager can play a vital role. Read more in 2.4: Building the right team of experts on page 22.
PART TWO: BUILDING A ROBUST TRANSITION PLAN

The importance of creating a robust business transition plan that accounts for both short-term leadership succession and a long-term vision for the company’s future cannot be overstated. If an owner dies or becomes incapacitated without a proper plan in place, it’s likely that his or her executor or family will be forced to devise a plan for managing the business. Fear should not be the primary motivation for an owner to craft a transition plan, but an owner operating without one runs serious risks. These are just five of the potential problems that can occur if an owner does not have a blueprint for transition and leadership transfer should they die or become incapacitated:

• The owner’s family may be forced to sell the business to cover taxes or pay liabilities upon the owner’s death
• Control of the business may pass to individuals who have no interest or aptitude for managing it
• Family members may fight over control and/or disposition of the business
• Key members of the business team may become frustrated and leave
• The owner may not be able to maximize the value of the company upon sale
2.1 | The benefits of planning early

Proper transition planning can offer tremendous upside for a business owner and all stakeholders including: partners, investors, employees, customers, and family. This is particularly true if an owner begins the process early in the life of the business. While in most cases it’s never too late for an owner to create a transition plan, it’s best for an owner to meet with his or her team of transition experts as early as possible—and then devise a schedule for periodically reviewing and updating any plans and documents.

These are the key benefits of starting the process sooner rather than later:

**More flexibility:** Getting an early start on developing and training the next generation of leaders gives an owner more options to transfer leadership in a thoughtful manner.

**Protection from unanticipated setbacks:** Advance planning makes a company far less vulnerable in the event of sudden death, disablement, or other traumatic event.

**Minimizing estate and gift taxes:** Transferring all or part-ownership interest to successors during an owner’s lifetime removes future capital appreciation of those interests from their estate and can minimize estate taxes at the owner’s death. The potential tax savings are increased by making the transfers sooner rather than later. This strategy, coupled with life insurance for the family, can provide the funds needed to pay estate taxes and other liabilities without a forced sale of ownership interest at the owner’s death.

**Enhanced business value:** Investors want to see a proper transition strategy when they evaluate a business. This includes a plan for building bench strength, a successor or group of successors who can step into the owner’s shoes when the company moves into its next phase. Investors need to know that a company will survive and thrive even without the owner involved. This security often leads to a higher valuation.

**Peace of mind for stakeholders:** An owner’s family, employees, business partners, creditors, and others can rest more easily when they know the company has a plan, the people, and the resources to succeed without the owner. This also reassures investors and vendors critical to a company’s success and growth.

Research from EY’s Family Business Center of Excellence¹ finds the average leader passes control to the next generation at age 62. Beginning the process a decade or even earlier prior to a transfer event will vastly increase the chances of success. Integrating transition planning into the overall strategic plan at every phase of the business’ life cycle can yield even better results.

Special consideration for charitable giving

Charitable giving is something all business owners should keep in mind as part of a transition. In fact, 22% of the entrepreneurs we surveyed said that setting aside a portion of the business transfer proceeds for philanthropy was either important or critically important. Whether your goal is to donate directly or create a charitable vehicle, business transition is an ideal time to think about how you can best support a meaningful cause.

At the same time, charitable giving can be complicated, and donors who want to do “good” can also ensure that they do “well” with their charitable gifts by making them as useful and tax-efficient as possible.

Given the complexity of charitable giving strategies, seeking advice from a wealth management professional experienced in charitable giving can help ensure your charitable plans are both meaningful and efficient.

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2.2 | Key steps in transition planning

In order to transition your business successfully—whether to a family member, a business partner, or an outside buyer—it’s important to proceed with a careful, deliberate process. Decades of experience have revealed key steps and best practices that, if followed properly with the help of a trusted advisor, can maximize the chances of your desired outcome. Think of this journey as a six-step process.

**STEP 1**

**Review your current plans**

Many owners have already begun considering transition planning. In some cases, an owner’s existing estate plan documents such as wills or trust, or business documents, such as a Shareholder Buy-Sell Agreement, include elements of a transition plan. The first step in strategic business transition planning, therefore, is to review your current information to determine if it is still pertinent or whether it needs to be updated. This step can also help you pinpoint gaps in your planning that must be filled.

If you have created a short-term transition plan that calls for succession in the event of an emergency, that should also be reviewed.

**STEP 2**

**Build your team**

Next, begin to assemble your team of advisors. Here, too, one trusted advisor who has your best interests in mind can help coordinate the process. This is often your personal wealth manager who has a background in business succession planning, estate planning, trusts, philanthropic giving, and other related areas. For a full description of the types of specialists you might need, see page 22.

**STEP 3**

**Determine and document your goals**

What is your long-term vision for your company, yourself, and your family? At this point, it’s necessary to determine and document your goals. Think about the future of your company, but also consider your aspirations and your family’s goals. Keep in mind the ambitions of your business partners and your employees, as well. This step is crucial because your objectives may dictate which strategies and tools you will need to incorporate in your unique transition scenario.
Assess your transition options

There are numerous ways to transition your business. Working with an experienced advisor, you can choose the option or options that best suit your desired outcome. It’s important to remember that business transition does not have to be an all-or-nothing proposition. In some cases, owners/founders can continue working in the business on a daily basis while preparing successors to take over, and even take some money off the table, turning some of their equity in the company into liquidity.

For more details on common transition strategies, see page 20.

Consider your available business transition tools

After you have chosen who you wish to take over your business—be it a family member, business partner, employees, or outside buyer—you can explore strategies for making the transition in a deliberate way that maximizes the value of the business while mitigating the tax impact on you and your family. Typical tools to execute efficient transition of ownership for a privately held business include gifts and loans to family members; gifts and sales in trust for benefit of family members; employee stock ownership plans; the strategic use of life insurance, or a sale to a third party.

Implement your plan

Finally, if your plan contemplates a transition to an outside buyer, ready the company. After you have spelled out your goals, your successor(s), and your strategies, you need to meet with your team of experts to review your transition plan, assess its feasibility, and appoint a team member to coordinate the work of the others. Then you should articulate your vision for your company to key stakeholders in your business and family to build a shared purpose. You also need to work with your team to draw up all necessary legal documents and meet with relevant individuals. These include executives or family members who will take over your business, as well as those who may have been left out of leadership plans. Make sure to set up training for the next generation and delegate authority to key participants to help them prepare to take ownership. Finally, if you are contemplating a sale to an outside buyer, ready the company for sale by assembling all necessary documents, and stress test your plan against various contingencies, such as a successor dropping out or an economic downturn.
Business owners may be reluctant to even begin planning for a transition because they do not want to think about giving up control of their business. Particularly if they are actively involved on a day-to-day basis, owners may be unwilling to envision a day when they are no longer at the helm.

In reality, however, these perceptions should not be an obstacle to long-term planning. Not only does transition planning offer many benefits to an owner and all of his or her stakeholders, but owners actually have many possible strategies for transferring ownership that keep them engaged with the company.

These are some of the more common options for transferring all or part ownership.

**Keep the business in the family**

Thirty-nine percent of these privately held business owners plan to transfer their companies to family members. This rose to 59% of businesses that consider themselves to be “family businesses.” In this situation, an owner trains and prepares one or multiple family members to lead the company. If an owner has other family members who will not play a part in the business, it’s advisable to also provide for them. In some cases, this may require leaving non-business assets to those family members.

Owners may also need to arrange for liquidity to pay estate taxes, often utilizing life insurance trusts with death benefits to cover the tax bill. Preferably, this transition occurs over many years, enabling the owner to prepare a replacement while leveraging a range of gifting and trust structures to reduce the tax liability while retaining control.

**Sell to other owners**

Selling to partners, co-owners, or major shareholders is an excellent strategy for ensuring continuity in the business. The buyer will already be acquainted with and dedicated to the company. In this scenario, the seller often finances the sale, allowing the buyer to pay off principal and interest over time. During this period, the seller commonly remains engaged with the business.

Owners can be tempted to give a partner or shareholder a favorable price. But it’s more important to agree on a payment plan that meets all your cash flow needs. To safeguard interests, an owner should follow the same steps with a known buyer as with an outside buyer by getting an objective, independent valuation and basing the sale price on that amount.
If there is an ownership agreement or buy-sell agreement in place, all parties must follow the terms. In many cases, such an agreement will offer the co-owner(s) first right of refusal on each other’s interest in the business. This document should be reviewed periodically to assess if the terms remain fair to all owners.

**Sell to management**

If an owner lacks family members ready to take over the company, but senior management is willing and able to lead, an owner can consider a management buyout. This is a good method for ensuring continuity in the business for customers and employees. First, all parties have to agree on a fair price for the business—in most cases, an independent valuation is a good idea. Participating managers then have to decide how much of the business each will be buying and draft an agreement. While purchase financing is arranged through a financial institution, a management buyout may require additional non-bank financing for an owner to receive immediate liquidity and the buyers to have an adequately capitalized business. Leadership is then transferred to the management team, although the original owner may stay on with the company during a transition period.

**Sell to employees**

An owner may sell a corporation to employees through an Employee Stock Ownership Plan (ESOP). This strategy involves complexity and should be carefully vetted by an owner’s advisors but can provide some attractive tax benefits to owners. It can also increase employee motivation and commitment to the company.

**Sell to a third party**

With no clear successor, an owner may need to sell to a third party, such as a strategic buyer (another company in the same or related business), an investor (a private equity fund), or through the public markets (via an IPO). Sometimes, a potential buyer will contact an owner directly with a purchase offer. In each case, an owner should consider working with an investment bank to find possible buyers who can meet their transition goals.

Even with a third-party sale, an owner still needs comprehensive planning. For example, an owner will have to work to retain important employees after a sale to maximize the value of the business. Some entrepreneurs use the sale proceeds to finance other businesses or establish a family foundation. In many cases, the transition plan continues after the business is sold.

**Recapitalize business/cash distribution**

If an owner wants to take cash off the table without selling entirely, a recapitalization may be the best option. Using this strategy, an owner either uses excess debt capacity to raise cash or sells a portion of the business to an investor for cash. The investor, often a private equity fund, becomes a partner in the business, providing added expertise that could help grow the company. The investor usually helps to eventually sell the business, either to a strategic buyer or via the public markets.

There are a number of different types of recapitalization. An owner should work with a team of trusted advisors to determine the most appropriate one to utilize.

**Liquidation**

This is a less desirable choice. It is primarily suitable for an owner with no clear successor or buyer and the need to quickly transition out of the business. Liquidation involves selling the company’s assets such as real property, business equipment, vehicles, and intellectual property to buyers for cash, then closing the business.
Even a self-made entrepreneur can’t design and implement a transition plan alone. The key to success is assembling a team with a wide range of experience and capabilities—and choosing the right experts to synchronize the work of the entire group. Most owners will benefit from a team comprised of:

**Personal wealth manager**

This professional will have a background in business succession planning, along with related areas such as estate planning, trusts, and philanthropic giving. He or she can act as a point person for coordinating other experts.

**Attorney**

More than one type of attorney may be required to provide all the expertise needed. For example, if an owner relies primarily on the company’s general counsel for business succession advice, it may be beneficial to hire an attorney who specializes in trusts and estates to structure vehicles for transferring ownership interests to family members.

**Accountant**

A licensed certified public accountant (CPA) is needed to advise and monitor business activities, and help determine the tax impacts of any plan put in place.

**Valuation specialist**

A skilled valuation team can provide an owner with business analytics and a baseline value of the company which is critical for personal and business planning purposes. For example, an accurate valuation helps inform an effective buy-sell agreement, and is necessary for any gifts of business interests to family members.

**Insurance broker**

Most business owners already use insurance specialists for health, disability, business continuation, and property and casualty coverage. A life insurance specialist can also assist an owner in planning life insurance vehicles to cover estate tax liabilities, pay off debt, or fund a buy-sell agreement.

**Family governance specialist**

For owners who wish to transfer all or part of a business to family members, these professionals can provide counsel on training and preparing heirs for their new responsibilities—alleviating problems between family members and strengthening shared family values through philanthropy or family foundations.

**Commercial banker**

Your commercial banker plays an important role by providing needed liquidity that can be used to purchase a departing co-owner’s interest or fund a dividend recapitalization, as examples.

**Investment banker**

When it comes time for the owner to sell or recapitalize a business, the investment banker also plays an important part. After positioning the company and its performance to drive competitive investor behavior, he or she leads a regimented process that exposes the company to a broad range of prospective acquirers in an “auction” that yields options for the owner to address non-financial needs, transition structure, and valuation. While the valuation specialist develops a theoretical valuation, an investment banking process produces a market valuation that frequently exceeds the theoretical valuation.
This report on business owners and their transition plans and goals is based on data derived from a quantitative and qualitative survey conducted in mid-2016 by Wilmington Trust and its parent company, M&T Bank Corporation. Survey respondents were drawn from business owners in North America.

Following is a demographic profile of the survey respondents and their businesses:

- **89%** are privately held without private equity investor ownership
- **66%** have annual sales revenue over $10M
- **63%** have revenue between $10M & $50M
- **73%** have been in business for more than 20 years
- **76%** Corporations
- **22%** Partnerships / LLCs
- **52%** have more than 50 full-time employees
- **81%** have been in business for more than 20 years
- **63%** have revenue between $10M & $50M
- **73%** have been in business for more than 20 years
- **76%** Corporations
- **22%** Partnerships / LLCs
- **52%** have more than 50 full-time employees
YOUR TRANSITION PLANNING CHECKLIST:

How Wilmington Trust can help you

For business owners in need of comprehensive business transition planning, Wilmington Trust offers a deliberate, proven process specifically designed to protect personal and family wealth and achieve an owner’s financial goals. Wilmington Trust works with an entrepreneur to develop a Business Owner Comprehensive Wealth Advisory Plan, drawing on information from numerous sources, including industry specialists and an owner’s other advisors.

Below is a checklist of key components in a customized plan:

1 | Your wealth advisor should meet with you to:

☐ Compile a financial profile of your personal and business holdings
☐ Clarify your financial and nonfinancial goals
☐ Spell out your charitable and philanthropic goals
☐ Identify all the challenges to attaining those goals
☐ Review and recommend planning strategies to attain the goals

2 | Your advisor should develop a Business Diagnostic

The customized Business Diagnostic bridges your personal planning and long-term planning for your business. It includes:

☐ A comparison of your business’s financial statements against industry data
☐ An estimated range of values for your business using an income-based methodology to illustrate best practices in the business valuation process
☐ A preliminary “private capital markets” evaluation specific for your business and industry
☐ Your consultation with an investment banking professional on various exit and diversification strategies
☐ A review and summary of your business’s organizational documents, including buy-sell agreements
☐ An asset-based risk assessment for your business, including a review of property and casualty and other asset-based insurance policies
☐ A review of your business’s liquidity needs
☐ A review of your business’s retirement plan structures
3 | Your advisor should present your personal financial profile and goals

*With the Diagnostic complete, your advisor should analyze and review the following personal financial data:*

- Your personal balance sheet
- Your personal liquidity analysis
- Your personal income and expense statement
- Your projected personal income through retirement and/or after a hypothetical sale of the business
- Your estate planning documents, such as wills and trusts, including document summaries and an estate flow chart

4 | Your advisor should create an Executive Summary

- Your advisor should present an Executive Summary that lays out your overall financial goals and identifies specific strategic planning priorities to help attain them.

5 | Your advisor should work with your transition team

- After finishing and reviewing the *Business Owner Comprehensive Wealth Advisory Plan*, your advisor should coordinate with your existing team of advisors to develop and implement a process for executing on all strategic planning priorities.
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