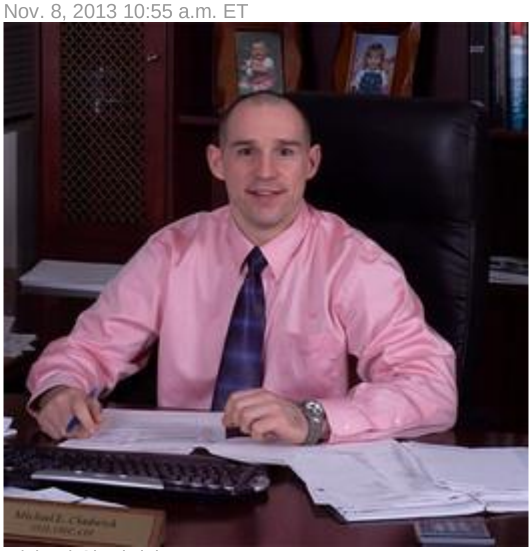
The Wall Street Journal

Voices: Michael Chadwick, On Small Business Succession Planning

Nov. 8, 2013 10:55 a.m. ET



Michael Chadwick

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Voices is an occasional column that allows wealth managers to address issues of interest to the advisory community. Michael Chadwick is chief executive of Chadwick Financial Advisors in Unionville, Conn.

It's an unfortunate fact that many small businesses don't survive two generational transfers. This is because many small-business owners don't put in place a well thought out, organized business-succession plan. A business may give a family their livelihood and their future, but without a plan in place, that business could be sold off to a competitor for 10 cents on the dollar if something happened to the owner.

I have firsthand experience with business-succession plans. When I was starting out in the advisory business 20 years ago, a close friend from college was also setting up his own firm. We realized that we were talking to clients or potential clients all day about the plans they had in place for when they wanted to retire or if something happened to them. But what if something were to happen to one of us? We made a buy-sell agreement between ourselves that stated that should something happen to either one of us, the other would buy the business, paying the surviving spouse 50% of the revenues for five years.

Sadly, my friend died suddenly at the age of 39. It was a painful process but I knew what needed to happen because we had made a plan. I also took out a life insurance policy on myself so that if anything were to happen to me before the end of those 5 years, his family would still be protected. I spent a significant amount of time with his business, meeting with his clients. Four years later, the business has stabilized and is beginning to grow again.

This experience only further underlined the importance of making sure my small-business owner clients had similar plans in place. When I meet with new clients, I give them an in-take form to fill out that asks expressly for a copy of their business-succession plan. In the initial interview, if they don't have that plan, it opens the dialogue. I can ask them their thoughts and discover what they envision might happen to their business down the road. Many times clients have thought about it on a cursory level but they haven't ironed out the details.

To help clients create a plan, the first thing you have to do is identify who might be a potential buyer for the business. The main candidates are often family members who have worked with the business, key employees like a manager, or possibly even a competitor. A dialogue has to be opened up with the candidate to make sure that they're interested. Then the next step is structuring the terms of the deal with the help of an accountant and an attorney.

There will be many details that need to be ironed out, such as choosing the right insurance and disability policies to enable a partner or successor to buy out the business. But the hardest part for the adviser and the client is simply getting the client to face the subject initially and opening the conversation.

Advisers to small-business owners can help ensure that their clients' businesses continues to thrive, even if something unexpected happens, by opening a dialogue about succession plans with their clients and walking them through the planning process.