What's Next for Your Business?

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What's Next for Your Business?

Business owners dedicate decades to building their companies, investing time, energy, and capital while making difficult decisions and navigating ever-changing business landscapes.

Nevertheless, the unavoidable reality is that at some point they will no longer be leading the company they built. Whether it's due to retirement, an unexpected event, or simply a desire to hand over the reins, the question must be asked: ***what happens next?***

In the U.S. family-owned businesses are often described as the heartbeat of the American economy, driving 58 percent of the nation's GDP, employing 60 percent of the workforce, and creating nearly 80 percent of all new jobs. Yet despite this outsized impact, many of these businesses falter when it's time to pass the torch.

Consider the following statistics about the lifespan of these grassroots businesses:

- **Only 3 in 10 make it to the second generation**
- **Just over 1 in 10 reach the third**
- **A mere 3 out of 100 survive into the fourth**

It's remarkable to think that roughly 97 percent of family-owned businesses won't make it past the third generation. In many cases this is likely not due to sufficient acumen or potential, but rather because adequate planning was never established.

If you're a business owner, planning for what comes next can feel overwhelming. However, exploring your options early may provide greater clarity and allow more time to evaluate strategies that support a thoughtful transition. This blog highlights several important considerations to keep in mind as you evaluate your future leadership and exit strategy.

What's Next for Your Business?

Start Sooner Rather Than Later

One common mistake business owners sometimes make is waiting too long to plan. Succession isn't something to figure out "someday." Starting earlier may offer more flexibility in evaluating potential exit strategies and stakeholder alignment.

Whether your goal is to leave a legacy for your family, reward loyal executives, or attract interest from an external buyer, a thoughtful plan may provide structure for your exit and help address potential risks during the transition process.

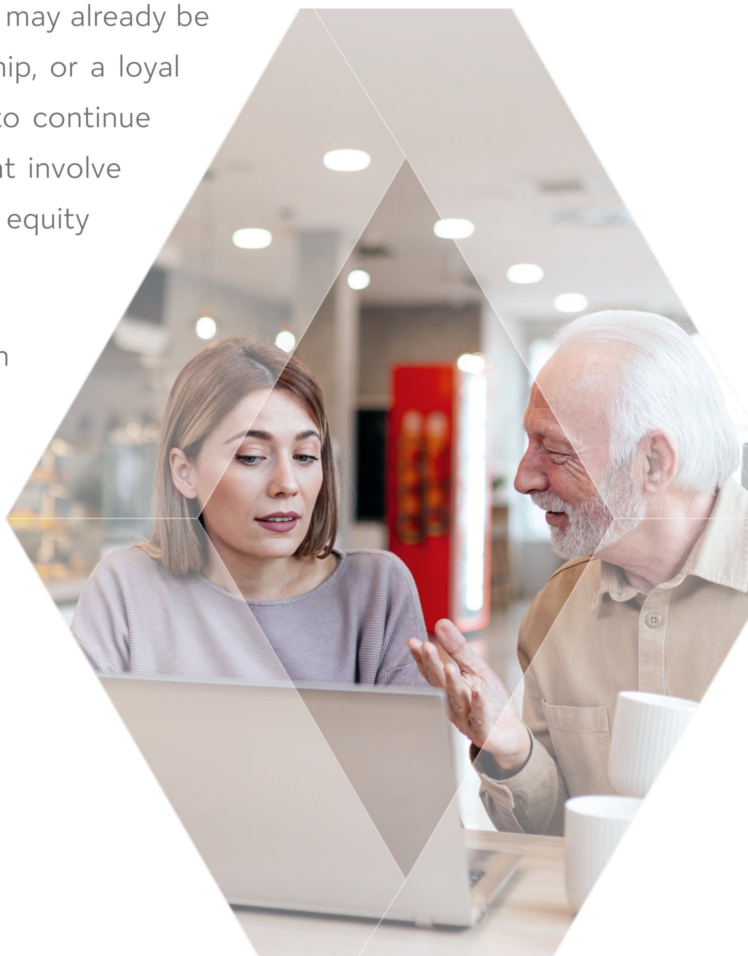
In the end, succession planning isn't just about what happens after you leave. It's also about aiming to preserve what you've built.

Essential Questions to Consider

There are a host of key decisions you'll have to make, many of which have emotional and financial implications. The most important of these is: **who will step in when you step back?**

In some cases, the answer is clear. A family member may already be actively involved and prepared to take on leadership, or a loyal executive team may have the experience needed to continue your legacy. In other situations, the transition might involve bringing in external talent or partnering with private equity to support future growth.

Regardless of the route you choose, succession planning is much more than simply finding a replacement. It's about preparing the business, the new leadership, and your stakeholders for a smooth handoff. While some business owners choose to step away completely, others prefer to take a step back while remaining closely involved as a board member or consultant.



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Another important question: **how will you or your family be compensated for the value you've built?** This is an area where some business owners can run into trouble.

Not all privately held businesses have the liquidity to fund a large buyout. Even if your company is profitable, using operating cash flow to pay a departing owner can strain resources, limit growth, or even destabilize the business in more extreme cases. For many businesses, incorporating a funding mechanism alongside leadership planning may help reduce potential disruptions during succession.

Additionally, you need to determine your business's current and projected market value by completing a business valuation. In many cases, this process should begin at least five years before an anticipated transition.

An early valuation provides a clear picture of where your business stands presently, while also revealing areas for improvement that can potentially increase its value over time. Beginning the valuation process several years in advance may allow time to implement changes that improve operational readiness or appeal to potential successors or buyers.

What's Next for Your Business?

Common Transition Strategies

Below are several common options that business owners may want to consider.

Buy-Sell Agreements: A formal buy-sell agreement outlines what happens when an owner leaves the business, voluntarily or otherwise. It can include terms for valuation, payment timelines, and who has the right to buy. These agreements often work in tandem with life insurance or disability insurance policies, providing liquidity when it's most needed.

Key Person Insurance: This type of insurance protects the business if a critical leader passes away or becomes disabled. The policy proceeds can be used to recruit and train a replacement, offset lost revenue, or buy out the owner's interest.

Installment Sales or Earn-Outs: An installment sale allows the buyer to pay gradually over time in situations where the business can't fund a lump-sum payout. An earn-out adds an incentive, tying payments to future performance metrics to protect both parties.

Third-Party Financing: In some cases, it may be helpful to bring in outside capital to fund the transition. This could come in the form of private equity, mezzanine financing, or a bank loan.

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These are just a handful of choices available to business owners considering their transition plans. A financial advisor can assist in exploring which strategies may align with your specific business circumstances and goals.

If you're thinking about what comes next, now is the time to start. Let's start the conversation about how to support your business transition and help plan for the future.

We're Here to Help

At Moran Wealth Management®, we understand that your business is more than a balance sheet. It's your life's work, your family's future, and your legacy. That's why we partner with business owners to design thoughtful, forward-looking succession strategies that reflect the unique structure of your business and support long-term continuity planning.

Our team is here to guide you through the succession planning process, from ownership transition planning and tax-efficient exit structures to estate considerations and family governance.

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