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## **Business Management**

# Yes, Even Young Business Owners Need to Draft a Succession Plan

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Many construction companies are closely held and family-owned, including those owned by a single individual. For young business owners who are far from retirement, the question is often, "Why do I need a succession plan?" In this case study, we will closely examine why it might be even more necessary to have a plan in place—even if you plan to work for 20 more years.



If disaster strikes, what will happen to your business? Nobody wants to encourage morbid thoughts, but if you (a business owner) were hit by the proverbial bus, what happens to your business? Your estate would own the company, but who is going to finish your backlog? Who will oversee an orderly liquidation of your business? Who will ensure that the value of your business will survive completion of the work and be available to your estate? These are all important questions that you must consider. The plan is not the succession of the business for the future; it is the preservation of the value of the business and the transfer of the value to the estate.

A client of ours has invested a great deal of time and dedication to building his business. He has

led the company to great success in the 10 years since starting the organization. The President/CEO (owner) is 45 years old. He has developed substantial value, with more than \$40 million in annual revenues and 10 percent net income. The company carries 18 months of backlog at any given time. The jobs are all bonded with full indemnity agreements, both for the business and the owner.

With no plan in place, the doomsday scenario would not end well for our client. Employees, while loyal to the owner in the past, may panic at his sudden removal from the company (or the Earth for that matter) and leave for new jobs. Competitors may seize the opportunity to offer employment to key employees. If this causes significant disruption in the jobs, the owners may default the contractor and call in the performance bond. Because the jobs are bonded, the surety has guaranteed completion of the backlog—no matter how much it costs. If there is no plan for the company to wind down or outsource the work, all of the owner's past hard work and success could be lost. His investment in the company, which is a substantial portion of his personal net worth, could disappear, in part or in total.

In order to avoid this kind of disaster, we strongly advised our client to create a contingency plan. We selected three key people to enter into a management employment contract. The

Board of Advisors, made up of his accountant, attorney, and banker, would oversee the management. It is imperative to have these trusted advisors in place to help guide your business and

complete all of the outstanding projects. They are given the power to enter into contracts, can terminate or hire additional leadership, and can advise the family on entering into a joint venture agreement (if that makes the most financial sense) to complete the work. The estate owns the company and its Board of Advisors can be utilized to advise on what is best for their overall

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contract defined their roles and how long they would remain (in this case, until completion of all backlog). In exchange, we created an incentive compensation plan to determine how the key employees would be compensated. In this specific case study, the three executives will share in half of all net profit earned until completion. This may seem excessive, but not if it preserves the value of your investment in the company.

In addition, we designated a Board of Advisors for our client. If a disaster occurred, this

investment. You can never be sure what tomorrow will bring. With proper planning and advisors in place, your goal of protecting your investment and your family can be achieved.

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