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Business Continuity Solutions For Sole Owners

Contemplating one's own demise is far too depressing. So let's talk of someone else, an imaginary character, Harry Withers (age 54) who owned "Withering Hikes," a chain of seven retail apparel stores for outdoor enthusiasts on the Western Slope of the Rocky Mountains. One day Harry simply disappeared while scouting new hiking trails.

After several months of fruitless searching, Harry's family opened probate proceedings only to find that Harry's once thriving business had also disappeared. Withering Hikes' disappearance, however, was far more typical than Harry's. Because Harry had dreamed of selling his company at 60, he had given little thought to what would happen to his business if something happened to him. So Withering Hikes died of an all too common cause—human error and neglect, setting off a chain reaction of ever worsening consequences for Harry's family and business:

1. Harry's key employees left the company for jobs with more certain futures. They feared that neither Withering Hikes *nor their salaries* would continue without Harry at the helm.
2. The departure of key employees meant that there was no one to manage the business. Total chaos reigned and revenue took an immediate and irreversible nosedive. Long-time customers grew uneasy with what they perceived to be a rudderless ship and took their business to Harry's competitors. Further, the company's vendors demanded cash payments--cash that the company no longer generated.
3. Harry's bank saw the drop in revenues and decided to call in the company's debt--debt Harry had personally guaranteed.
4. It didn't help the business or Harry's family that he left no instructions or recommendations about who could run the business, who could offer advice, or even what to do with the business should something happen to him.

Withering Hikes didn't just wither away; it fell off a cliff, as presumably did its owner. It could not survive without its top employees or without any direction from Harry.

The point of reviewing this list of mortal blows is to demonstrate that business continuity planning is vitally important to your company and to your family. Without a well-thought-out business survival plan, the consequences to employees, customers and most importantly, to your family and estate are dire (don't think that your estate will escape the notice of your business creditors).

Fortunately, there is a process sole owners can quickly and easily use to help avoid the type of business collapse that Harry's business experienced.

First, motivate top employees to stay on after your demise by creating financially meaningful incentive compensation plans for them that vest over time.

Consider creating a plan that offers these employees a substantial bonus (called a "Stay Bonus") for remaining with the company beyond an owner's demise. The company can usually fund the Stay Bonus with life insurance on the owner's life. This funded Stay Bonus Plan provides designated employees with a cash bonus (usually about 50% of annual compensation) and a salary guaranty if those employees stay (typically 12 to 18 months) after the owner's death. Your job is to communicate your actions to these employees and assure them that you've made additional plans to ensure the continuation of the business.

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

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Third, create a written plan that:

1. names the person to take on the responsibility of running the business;
2. states whether the business should be sold (if so, to whom), continued or liquidated; and
3. names the resource(s) your heirs should consult regarding the sale, continuation or liquidation of the company.

Finally, work closely with a capable insurance professional to make certain the necessary insurance (for purposes such as funding the Stay Bonus Plan) is purchased by the proper entity, (you, your trust or the business) for the right reason and for the right amount.

Creating a contingency plan for your company should you depart unexpectedly is a vital part of your overall exit planning process. Failing to do so invites the kind of disaster that befell Withering Hikes, Harry's employees and his family.

If you have any questions about the ideas discussed in this article or other business contingency planning ideas, we invite you to contact us for our White Paper on Business Continuity Planning. To those of you who own your companies with others, we will discuss the business continuity arrangements available to your companies in the next issue of this newsletter.

The examples provided are hypothetical and for illustrative purposes only and do not represent actual client experiences. Subsequent issues of The Exit Planning Review™ provide balanced and advertising-free information about all aspects of Exit Planning. We have newsletter articles and detailed White Papers related to this and other Exit Planning topics. If you have any questions or want additional Exit Planning information, please contact us.

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