

How to Choose a Successor for Your Business

As a business owner, you've always got a lot to think about *today* — but what about *tomorrow*? Have you thought about whom you would like to see as your successor?

If you haven't, you're not alone. Of the business owners who have created a succession plan, about 70% have named a successor for their businesses and have taken measures to train and prepare this successor, according to a survey by Morning Consult, NEXT 360 Partners and Edward Jones. But this means that nearly a third of business owners have not taken this action, leaving a big gap in their succession plans.

So, if you haven't yet named a successor, you may want to start thinking about it. It may be helpful to ask yourself these questions:

- *Should I look inside or outside?* You could find a successor who's already working for you, or you could find someone from the outside. On one hand, an internal successor would already know how you operate and what you value as you run your business. But on the other hand, an external successor could bring a new point of view and a different set of skills, both of which might prove beneficial. You'll need to weigh both choices carefully.

- *How prepared is a potential successor?* Whether you decide on an internal or external candidate, you'll want to be sure the person you choose is prepared to take over the business. Do they have management skills? Will they share your commitment to your business's success? Will they be able to build strong relationships with your customers or other employees? Are they enthusiastic about the work involved? You'll want to evaluate all these types of factors in making your selection.

- *Are there potential family squabbles?* If you would like a family member to

become your successor, you may need to be careful about whom you choose and how you communicate your decision to the entire family. Even if it may make sense for one individual to take over the business, perhaps because they're already involved in it and they're interested in taking it over, it doesn't mean hurt feelings won't develop among other family members, who may feel they are somehow being "cheated" out of what they view as their share of a valuable inheritance. So, if you are convinced that you're making the right choice, explain your reasoning to all family members and let them know that you're also exploring other, tangible ways for them to share in your family wealth, possibly by leaving them other financial assets through your estate plans.

- *How will my choice of a successor affect my finances?* Passing the business to an heir, selling it to an existing employee or selling it to an outside buyer can yield vastly different results for you in terms of your personal finances. You'll need to consider the possible business transfer arrangements, such as a buy-sell agreement, to determine which one is in your best interests. In doing so, you may want to work with your financial advisor or a consultant with experience in selling or transferring a business.

Choosing a successor is one of the most important decisions you'll make — so, take your time, evaluate your options and work to reach a decision that works well for everyone involved.

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