
Defining your goals

Business succession planning

Five simple questions

Who do you want to transfer the business to?

When do you want to make the transfer?

How would you prefer to make the transfer?

What will you transfer?

Why are you doing this?

Business succession planning is a broad and complex subject. Unfortunately, many books and articles on this topic immediately launch into a theoretical discussion of tax and legal strategies, without any consideration of what you want to accomplish. This report is designed to help you “begin at the beginning” — by identifying and prioritizing your personal and business goals.

There is no single “best” way to sell or transfer a business. Different approaches are needed for different goals. If you know what you want to accomplish — and what you want to avoid — you will be in a better position to evaluate strategies, deal structures, or payout methods.

What are your goals? Begin by asking **WHO, WHEN, HOW, WHAT, and WHY**. Your answers to those five simple questions will be the foundation of your business succession plan.

To help you be more specific, we have provided some detailed questions under each of those headings on the following pages to guide your thinking.

Begin by writing down your answers, or reactions, to these questions. Those answers define your goals and objectives — they are your statement about where you want to go and what you want to do.

These five questions may be simple, but deciding on your goals is not so simple. Over time, your circumstances may change, and your goals may change as well. In some cases, you may decide to modify your goals as you learn more about succession planning strategies and the trade-offs that could be necessary to attain particular goals.

Investment and Insurance Products are:

- Not Insured by the FDIC or Any Federal Government Agency
- Not a Deposit or Other Obligation of, or Guaranteed by, the Bank or Any Bank Affiliate
- Subject to Investment Risks, Including Possible Loss of the Principal Amount Invested

<p>Who do you want to transfer the business to?</p>	<ul style="list-style-type: none"> • Children? Employees? A third party? • Who is best qualified to run it? • Who has the cash, or financing, to buy it? • What roles do the next-generation owners have in the business now? Are they fully capable of running it if you are out of the picture? • If children will be owners, will they all have a role in running the business? Or do you envision that one child will run the company but multiple children will have ownership? What possible conflicts might arise among “involved” and “non-involved” owners?
<p>When do you want to make the transfer?</p>	<ul style="list-style-type: none"> • During lifetime? At death? Some combination of both? • Would you like to transfer day-to-day management responsibility first, and ownership later? • Do you want the transfer of ownership to take place in stages, or all at once?
<p>How would you prefer to make the transfer?</p>	<ul style="list-style-type: none"> • Gift during lifetime? Bequest at death? Sale? Some combination of those? • Would you sell for cash? Take back a note? Accept stock in the buyer? • How much income do you need for the rest of your lifetime? Can you “afford” to gift the business, or do you need to sell it in order to be financially secure? • Even if you can “afford” to gift the business, do you feel that it is important for the next generation to pay something for it?
<p>What will you transfer?</p>	<ul style="list-style-type: none"> • Is your business organized as an S or C corporation? LLC? Partnership? Sole proprietorship? • Will you sell assets? Stock? Some combination of both? • Who owns the business now? Are there different classes of ownership? • Are there multiple business entities? Do you own business real estate, equipment, intellectual property, or other business-related assets separately from the business itself? Do you plan to keep or sell those? • What is your current understanding of the value of your business? How did you arrive at that? Appraisal? Recent offer? Book value? “Rule of thumb” industry multiple? • Are there any unique or not easily transferable characteristics associated with your business? (For example, unique artistic or other skills that only you have.) Does the business depend to a large extent on your personal knowledge or relationships? Are you subject to licensing requirements, government regulations, or contractual arrangements (like a franchise or dealership agreement) that may affect your ability to transfer ownership? • Are there any unique aspects of your industry, your company, or your family, that should be taken into account in creating a succession plan?
<p>Why are you doing this? What are your personal objectives?</p>	<ul style="list-style-type: none"> • Do you want to retire? Or stay involved? • Would you be willing to work for the buyer as an employee/ manager? For how long? • Your succession plan may have a significant impact on employees, key managers, and the community where your business is located. Are there results you would like to achieve or avoid? For example, would you view an offer from a buyer differently, if that buyer was likely to downsize employment or replace key managers? • Do you want to get the best possible price? Or would you consider a transfer to children or employees even if that does not maximize the return to you?

Evaluate strategies in light of your goals

Business succession strategies are like tools in a toolbox — each is designed to do a specific job. As you learn more about business succession strategies from your attorney, CPA, and other professional advisors, get in the habit of evaluating a proposed course of action to see if it is compatible with your written goals. Review your answers to the questions above, and ask questions about whether a proposed strategy fits what you want to accomplish.

For example, the table below suggests how different planning techniques might fit, depending on whether your goal is to transfer the business to family members, key employees, or a third party buyer.

	GIVE to family	SELL to family	SELL to employees	SELL to third party
Installment Sale		★	★	★
Stock Redemption		★	★	
Family Limited Partnership	★	★		
Self-Cancelling Installment Note		★		
Employee Stock Ownership Plan			★	
Charitable Remainder Trust		★	★	★
Grantor Retained Annuity Trust	★			
Irrevocable Life Insurance Trust	★	★	★	
Special Use Valuation	★			
Sale to Intentional Grantor Trust		★		
Private Foundation	★	★	★	★
Sale to Private Equity Buyer				★

Talk to Wells Fargo Advisors

We welcome the opportunity to work with you to help you achieve your planning goals. Contact us for more information and to learn about how we can assist you.

Any Questions?

Call (949) 862-1233



Advisors

Build a team of professionals

Build a team of professionals to assist you. You may sell or transfer a business once in your lifetime. You can benefit from the perspective of advisors who have worked on many different business sales.

- Your attorney and CPA are essential advisors to help you with legal, tax, and financial issues. They also have invaluable practical experience in helping business owners and their families through the sale or transition process.
- You may want to consult a valuation professional (a qualified business appraiser or CPA) for an objective opinion about how a buyer would view the value of your business.
- Business owners who are planning to sell to a third party may want to find an experienced, reputable business broker or investment banker to help you prepare your business for sale, present it in the best possible terms, identify potential buyers, and suggest appropriate deal structures.

Insurance products are offered through non-bank insurance agency affiliates of Wells Fargo & Company and are underwritten by unaffiliated insurance companies. Wells Fargo Advisors is a separate non-bank affiliate of Wells Fargo & Company. Trust services available through banking and trust affiliates in addition to non-affiliated companies of Wells Fargo Advisors.

Wells Fargo Advisors is not engaged in rendering legal, accounting, or tax-preparation services. Specific questions, as they relate to your situation, should be directed to your legal and tax advisors.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company.

© 2021 Wells Fargo Clearing Services, LLC. All rights reserved. CAR-0621-02655 IHA-7019934