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ASK ALAN | BY ALAN FRIEDMAN

SUCCESSION PLANNING, PART 1

As some of you are aware, I've been noticeably absent from writing my usual attempts at quasi-funny, pseudo-informative literature of financial guidance in music retailing over the past two years. Frankly, I thought I had said it all over the 20 years and 60-plus articles I've written. But now that I've hit 62, have recently delayed death (at least for the moment by a successful stent inserted in my circumflex artery) and yet can't seem to escape taxes, I thought I'd write about how to deal with these two certainties.

Death and taxes may be the only certainties in life, but they're the last things any of us want to confront. Add the volatile topics of money, family relations, retirement, business succession and the unpredictable future, and you've got a recipe for financial disaster. Even when family members face the loathsome task known as "estate planning," inadvertent mistakes can be literal time bombs.

Facing and dealing with the inevitable is critical to your survival

TAXES AREN'T THE PROBLEM

Many business owners view taxes as the culprit stealing their family wealth. But estate taxes are rarely the primary problem. The demise of a small business upon the death of its owner has more to do with poor or no succession planning than estate taxes.

Business owners aren't exactly blind to this problem. Most owners worry about the "who," "how" and "when" to transfer their company. But while they may lose some sleep, few get around to acting on those worries. So in this first of three articles, we'll simply take a look at why succession planning is important.

SMALL BUSINESS, BIG PROBLEM

Here are some interesting statistics about small businesses in the United States:

According to the U.S. Small Business Administration, 99.7 percent of all U.S. businesses are small, with 500 or fewer employees. Majority have fewer than 20 employees (89.4 percent), and many are "family" businesses.

Family businesses account for 64 percent of the U.S. gross domestic product and generate 62 percent of the country's employment. They account for 78 percent of all new job creation and provide more than half of the nation's technical innovations.

Family-owned businesses are the backbone of the American economy. About a third of Fortune 500 companies are family-controlled and represent the full spectrum, ranging from small business to major corporations.

The longevity and successful transition of these businesses is paramount to the financial stability of our economy as well as the workers employed by these companies. There are some troubling statistics, including the most quoted statistic in the world of family business: 30 percent of family businesses make it to the second generation, 10–15 percent make it to the third, and 3–5 percent make it to the fourth.

The reason why many family businesses fail to transfer from one generation to the next is subject to great debate. Many business leaders will blame the loss of family-owned companies squarely on the estate tax, claiming estate taxes force the sale of most family businesses before they make it to a third generation.

But while the estate tax may have an impact on certain larger estates, there are many other factors (especially in music retailing) as to why small businesses fail to transition their business successfully.

In my next article, I'll identify and discuss some of those specific factors causing many music retailers to struggle with the transition of their business. Stay tuned. **MI**

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