

Succession Planning for Business Owners: Preparing for the Expected—and the Unexpected



SEARCH
FUND
OPERATE



March 21, 2025

By Mark G. Wendaur, IV

Acquiring a business is an exciting and rewarding achievement, but it's only the beginning of the journey. Many new business owners focus on growth, operations, and profitability, but one critical factor often gets overlooked: succession planning. What happens if you're suddenly unable to lead? Have you prepared your business to survive and thrive beyond your direct involvement?

According to industry insights, over two-thirds of small business owners plan to retire within the next decade, yet **nearly two-thirds of family-owned businesses lack a documented succession plan**. Without a solid contingency strategy, a business can face severe disruptions, loss of value, or even risk closure. Succession planning is not just about retirement—it's about ensuring the business can withstand unexpected challenges, leadership transitions, and shifts in ownership dynamics. It must also take into account your financial legacy, meaning your estate plan is a critical piece of this process.

Two Critical Aspects of Succession Planning

Succession planning can be broken down into two key areas: **management succession** and **ownership succession** through estate planning. While management succession ensures the business continues to operate efficiently after leadership changes, ownership succession focuses on transitioning equity and control in a way that preserves family wealth and business continuity.

Succession Planning for Management Purposes

For search fund entrepreneurs and independent sponsors, acquiring a business often means stepping into an operation that has relied heavily on the prior owner's relationships and institutional knowledge. If a crisis arises—whether due to illness, a sudden exit, or unforeseen personal events—having a structured plan ensures the company's continuity and stability. A business should be able to function independently of its owner to maintain investment value, operational efficiency, and strategic direction.

Investors such as family offices and other patient capital providers are increasingly focused on long-term business sustainability. They recognize that a company's ability to transition leadership smoothly directly impacts its valuation, resilience, and growth potential. Businesses with strong management succession plans are inherently more attractive to investors, lenders, and strategic partners.

• Key Steps in Management Succession Planning

- **Identifying Future Leadership** – Develop a leadership pipeline and invest in training potential successors.
- **Creating Governance Frameworks** – Establish clear decision-making protocols, performance benchmarks, and board

roles.

- **Documenting Operational Processes** – Maintain SOPs, financial reporting procedures, and relationship management protocols.
- **Legal & Financial Structuring** – Draft contingency plans, transition agreements, and updated leadership contracts.
- **Employee & Stakeholder Communication** – Foster transparency to maintain trust and engagement during transitions.

Disney - A Succession Planning Failure: A well-known cautionary tale is Disney's prolonged succession struggle. It offers a public case study in the risks of delayed or unclear leadership planning. Harvard Law's analysis explores how missteps in succession planning can result in strategic confusion and shareholder concern.

Succession Planning for Ownership & Estate Purposes

While leadership succession supports operational continuity, ownership succession via estate planning ensures that equity transfers are executed in a tax-efficient, structured, and family-aligned way. Many business owners delay these conversations until it's too late, leading to conflict and financial inefficiencies.

A recent article from J.P. Morgan Private Bank highlights the value of family meetings as tools for creating transparency, aligning generational goals, and easing the emotional weight of wealth transfer decisions. Clear communication and proactive planning are essential to avoiding misunderstandings and ensuring continuity.

• Key Considerations for Ownership & Estate Succession Planning

- **Recapitalization & Equity Transfers** – Gradually shift ownership to heirs, employees, or outside investors.
- **Trust & Estate Structures** – Use trusts, GRATs, or similar tools to reduce tax burden and streamline asset transition.
- **Buy-Sell Agreements** – Protect against disruption in the event of death, incapacity, or ownership disputes.
- **Liquidity Planning** – Ensure cash availability to meet estate taxes and avoid forced asset sales.
- **Open Family Conversations** – Define expectations, roles, and stewardship principles across generations.

Estate Planning Beyond Business Ownership

Estate planning must extend beyond business assets. All holdings—real estate, private equity, marketable securities, and personal property—should be included. A comprehensive plan reduces the risk of asset disputes, tax inefficiencies, and missed philanthropic goals.

• Key Components of a Comprehensive Estate Plan

- **Multi-Generational Wealth Strategy** – Articulate long-term objectives for family stewardship and legacy.
- **Liquidity for Tax Obligations** – Prepare for estate taxes without disturbing business operations.
- **Asset Protection** – Use legal mechanisms to guard against litigation and liability.
- **Charitable Planning** – Incorporate giving strategies that reflect family values and optimize tax outcomes.

Building Your Estate Planning Team: Successful estate planning requires the coordinated efforts of legal, tax, and financial professionals. Business owners often work with corporate, tax, and estate attorneys. In addition to legal, family offices are increasingly emerging as a central resource for coordinating these efforts across generations. For example, Cresset Capital offers a holistic family office model that integrates investment, planning, and advisory services.

The Role of Recapitalization in Succession Planning

Recapitalization is a versatile strategy that supports both management transitions and estate planning. It allows business

owners to restructure equity, generate liquidity, and introduce new ownership stakeholders while maintaining stability.

- **Preserve Business Value** – Transition ownership strategically to avoid disruption.
- **Generate Liquidity** – Create financial flexibility without an outright sale.
- **Support Long-Term Sustainability** – Bring in aligned investors who support the next generation of leadership.

Final Thoughts: Don't Leave the Future to Chance

Whether you're planning an exit, acquiring your first business, or simply organizing your affairs, succession planning is not optional. It's a fundamental aspect of preserving the value you've built and ensuring your enterprise—and legacy—endures.

A business without a succession plan is a business with an expiration date. Start now. Incorporate **recapitalization, leadership development, and comprehensive estate planning** into your long-term strategy.