

By Peter Racen | Originally published on **business.com**
discover, compare & save

Don't Wait Until It's Too Late: 4 Ways to Avoid the Pitfalls of Piecemeal Planning

Thirty years ago, two of my brothers and I signed a buy-sell agreement with our father to secure his company's future. His life insurance would finance the deal, and we would run the business after he passed away. But when he died of cancer five years later at the age of 56, we discovered that the life insurance policy was insufficient to fund the sale.

We ended up having to take hundreds of thousands of dollars out of the business to cover the costs. At the time this occurred, the industry and business were going through a downturn, and this created significant pressure on the business and our family.

The company gradually recovered, and we sold it to a national competitor less than 10 years later. However, had we coordinated our planning with our attorney, our accountant, and our financial adviser, the outcome may have been different.

My brothers and I made the all-too-common mistake of conducting piecemeal financial planning. We failed to do our due diligence when it came to protecting our business's future. I see other people take the same route all the time, focusing on individual strategies instead of seeing the bigger picture, and the end result is often the same.

The Perils of Piecemeal Planning

Piecemeal planning involves siloed strategies like the aforementioned buy-sell agreement. Business owners often meet with someone like myself for financial advice, attorneys for legal counsel, accountants to review their taxes, and so on. These encounters all happen separately, with no coordination between the groups.

This is a huge missed opportunity to gain clarity on your business's needs, and it's a precarious way to run a company. As a business owner, you've invested time and effort to build a business that supports your family and many others, including employees, vendors, customers, and your community.

Less than one-third of family businesses are passed successfully to the second generation, and only 10 percent are passed successfully to the third generation. Starting a business succession plan now will help ensure you're able to successfully pass on the business to the next owner.

The value of your business may represent 80 percent or more of your net worth as a business owner. One of the first steps to passing wealth and achievements on to one's successors is to determine what your business is worth.

What's Your Business Worth?

These five steps listed in Forbes will help you determine a favorable valuation to protect and preserve the value of your business.

Piecemeal strategies leave you vulnerable to market volatility, unforeseen organizational shake-ups, and personal tragedies.

Instead of gambling with your company's future, take the following steps to protect your assets:

1. Map Out Your Vision

Your goals dictate your priority items, such as tax obligations, legacy considerations, and how you'll structure your property going forward. Outline a long-term vision so your advisers can identify the best tools for managing your business and put a workable plan in place.

2. Assemble the Right Advisory Team

My clients see the best results when they work with a core group of strategists. Whether you're doing business succession, transition, or estate planning, you'll likely need an attorney, an accountant, and a financial adviser to establish a solid strategy.

If you intend to sell your business in the near future, you'll also want an investment banker on the team who specializes in mergers and acquisitions.

Different circumstances call for unique expertise, so you may decide to bring in other voices as well. I recently worked with a farmer who hired an outside attorney to consult on the planning process because he was part of a farming association and deeply understood the national agriculture industry.

Having a core team of trusted advisers helps you stay focused on the plan and ensures that your wishes are respected. I emphasize the word "trusted" because I've seen what happens to people who allow anyone with an opinion to influence them. I worked with one business owner who took advice from a number of people, many of whom enticed him with attractive ideas that were actually detrimental from a tax or legal standpoint.

The financial industry is full of charlatans, and piecemeal planners are at the greatest risk of being taken in by them. An established group of go-to professionals will steer you away from potentially devastating mistakes.

But be sure that the people you hire actually practice what they advertise. Not all attorneys handle estate planning, and not all accountants specialize in the tax laws that apply to your company. Vet people carefully before putting them on your team.

3. Implement a Plan

Once a client has a plan, I tell him or her to slow down. It's so important to take a step back and look at the big picture to make sure you haven't missed a critical step or piece of information. This is especially true when it comes to implementing buy-sell arrangements or launching a strategy to attract and retain key employees.

You must confirm that you are in compliance with tax and legal standards, or you can face massive regulatory penalties. The Enron scandal is a classic case of improper reporting and legal evasion destroying a company. Business owners should educate themselves about their obligations, but a lot of companies are unaware of their responsibilities.

That's why you need consultants who can look for loopholes and forecast potential problems that could jeopardize your company's future. Piecemeal planning increases the risk of this happening, which is why you want to walk through the plan step by step with your team and ensure it's comprehensive.

4. Schedule Periodic Reviews

Even the most thorough, extensive plans need to be updated as time goes on. Bring your advisers together once a year or at slightly longer intervals to check in regarding new tax laws, business changes, and new personal goals. Any of these may be cause for revising your plan, and it's important to get out ahead of any major shifts.

Disaster could strike their company at any moment, and they're totally unaware of the risk. There are so many things that can go wrong when you take a fractured planning approach.

Coordinated planning strategies, on the other hand, protect you and save you money. When your advisers work together, you have fewer meetings to plan, and there's less incentive for them to compete with one another. Advisers can't do their jobs properly if they don't know what other counsel you're receiving, so bringing everyone together alleviates inefficiency and mistrust.

Business succession and estate planning can be emotional and overwhelming, so it's tempting to address it once and not think about it again. But the only way to ensure your company thrives after you've left it, or that your legacy lives on, is to be explicit about your intentions and hire the people who can put your plan into action.

As I learned many years ago, nothing is more devastating than losing your life's work because of a bad plan. Taking the proper precautions early on can help to safeguard your assets and provide a brighter future for those who come after you.

Buy-sell agreements, in particular, require ongoing revision and scrutiny. I've met with business leaders who haven't reviewed their buy-sell contracts in years. When I ask what would happen if one of the signatories died or became disabled, they don't know. They assume provisions for that situation are in the original documentation and are shocked when that's not the case.