Back to Crafting a parallel plan

Crafting a parallel plan

May 10, 2012

Rona Birenbaum

Rona Birenbaum

Rona Birenbaum

Entrepreneurs are eternal optimists. That's a blessing, because optimism is a necessary ingredient when starting--and building--a business.

When naysayers say the risks are too high, entrepreneurs focus on opportunities—and dangers. When new competitors emerge, entrepreneurs evaluate threats and make the necessary adjustments to stay on top.

When an economic downturn threatens profits, the optimistic entrepreneur seeks creative ways to survive. Survival, innovation, it's what entrepreneurs do. But sometimes this isn't enough. They also need a parallel plan.
A parallel plan is the safety net for the trapeze walker, the life-jacket for the sailor, the secondary rip cord for the skydiver. It is a series of steps, that when implemented by a business owner, provides them with financial security that is unrelated to the success of the business.

It's not insurance. It's better than that. And here are the five components you need to make your plan complete:

1. A personal savings program - This provides non-business assets to support the entrepreneur—and their family—in the event the business underperforms.

2. A personal and corporate insurance program - Disability insurance replaces lost income if an entrepreneur becomes ill or injured and can't work. If a business partner dies, life insurance provides funds to the survivor so that they can purchase the partners' shares from their estate. Conversely, if the business owner dies, life insurance makes sure business partners can afford to pay the estate fair value for an ownership interest.

3. A business succession plan - These ensure entrepreneurs have (or are working towards) monetization of their business efforts. These plans include registering trademarks, formalizing business contracts, documenting policies and procedures, cleaning up financial statements, and researching potential buyers. These, and other industry specific strategies, will result in a higher sale price.

4. An estate plan - Dying without a will (or without a well structured will) can be stressful and costly for survivors. Business ownership adds additional complexity and potential for conflict. For example, if settling the estate is delayed while family members deal with poorly structured (or non existent) estate documents, the business could struggle without hands-on management. By the time the estate gets settled, the business may have lost its value.

Also, an estate plan includes plans for minimizing taxes and probate fees that get triggered on death. As a result, advance planning can save the estate hundreds of thousands of dollars in tax.

5. A family communication strategy - Regular meetings between entrepreneurs, their spouses and other appropriate family members are crucial. Often the meetings include professionals such as accountants, lawyers and financial planners. This communication keeps everyone “in the loop” on progress, and outlines steps each individual can take to keep things moving in the right direction.

Only a small percentage of businesses succeed in the long term. Entrepreneurs know the stats. Their optimism is the voice that says, “My business will be the one that wins.”

A parallel plan will always support that goal, win or lose.