by Marc Bluestone

Bluestone's Retail Strategies

Because You Might Die

It's a beautiful night. You're careful to close the store exactly on time because you have tickets to a show. After an enjoyable dinner, you head over to the theater and park conveniently in the lot across the street. After enjoying the show, you leave the theater gabbing about the great experience you just had. Without thinking, you step into the street to walk towards your car. Ooops. You didn't look both ways. The next thing you hear is a horn, you see bright headlights, and then… you're dead. Just like that.

People die every day in unexpected ways. From illness to accidents, too many people, young and old check out of life well before their time. What would happen if you died suddenly?

Many books have been written on the tragedy that an untimely death brings. Its effect on loved ones is tremendous. Certainly that is the major concern. However, it is also appropriate to contemplate what would happen to your business. Who would run it? Would it run? Would it simply close? How would customers retrieve their art and their money? Who would pay the vendors? What happens to the store lease? How about the bank? Do your employees still have a job? Who will pay them the payroll they are due?

It's tragic enough to die. The tangled web of your business only adds complication to an already troubled time. It creates an immediate burden for your family and employees at a time when their plate is already filled by their loss.

If you own a business, if you borrow money, if you employ people, if you possess your customer's property, then you have an obligation to put together some sort of contingency plan should you die.

Failure to plan can only result in additional hardship for those you leave behind. It is a kind and generous deed when a business owner takes the time to plan for the possibility of their own death. The plan should include:

- Do you want your business to continue or close?
- Who do you want overseeing its continuation or closure?
- How will you fund your ability to liquidate or continue your business?
- How will people know what to do?

1) Determine what your wishes are for the continuation of your business.

Upon your death, do you envision your business continuing or closing? Do you have a family member that would step in and run it? Is there an employee that would step up? Is there an employee or a competitor who would potentially buy the business? How do you wish your customers, employees, and vendors to be dealt with following your death?

If you are continuing your business…

- How will you ensure that your employees understand they still have a job? Who will step up to lead them?

- How do you communicate to vendors that there is a plan in place to continue paying them so they will continue to ship more goods?
- How do you communicate with your customers so they don't mistakenly believe you are closed and bring their work elsewhere?

If you are closing your business…

- Do you wish to settle your accounts with vendors rapidly or do you want to make them get on line for their money? Who will be responsible for taking care of this? How will they receive their instructions?
- Do you wish your employees to simply lose their jobs or do you want to provide them with some severance pay to ease their transition? Who will be responsible for taking care of this? How will they receive their instructions?
- How will customers find out that you are closing? How will you refund the deposit they paid on orders that are not complete? Will you facilitate the completion of the work by transferring it to another shop?

2) Visit with your attorney and craft a plan.
Your attorney can help you create a plan with all of the supporting documents necessary for your successors to step in and accomplish your desired outcome.

- If you don't have an attorney, get one. If your attorney is not well practiced in estate law, get referred to one who is.

- Your attorney may recommend establishment of a trust. A trust will allow the appointment of a trustee who will be able to take care of matters necessary to carry out your wishes. Trusts tend to operate very smoothly when properly structured because they avoid probate.

- At the very least, your attorney will recommend creation of a will. Wills are frequently less advantageous than trusts because they must go through probate. However, the presence of a will at least gives the court a road map by which to make its decisions.

- Lacking a will or a trust, your estate will go to probate and be decided by a judge based on the state law and obviously without your input. Your assets could be controlled by people that you had not intended.

3) Fund your plan.
Whether you are planning for your business to continue or to liquidate, chances are it will take some cash to settle your accounts. Since very few framing businesses have enough cash on hand at any given moment to pay all of their liabilities, it might make good sense to look into purchasing life insurance for the purpose of providing funding to your business after your death.

You can contemplate the amount of insurance necessary for your business by estimating the cost of accomplishing the goals you would hope to be achieved through the proceeds from the insurance.

If you plan to *continue* your business, proceeds from life insurance could be used to:

- Provide a meaningful financial cushion to whoever is running the business while they figure out a road map for the future. Carry enough insurance to cover two to three months of all expenses.
- Pay any existing debts to keep creditors and employees confident during the transition.
- Provide additional collateral to a bank if they become uneasy about continuing outstanding loans following your death. Carry insurance to substitute for your home or any personal guarantee you have made.

If you plan to *close* your business, proceeds from life insurance could be used to:

- Pay any debts owed to vendors, employees, and the government. Carry insurance sufficient to fully pay all debt, including outstanding payroll and taxes.
- Refund deposits to customers for orders not completed.
- Make a settlement with your landlord to terminate your lease.
- Provide severance pay to employees to ease their transition. If your staff members are going to suddenly find themselves without work, you might want to provide one to two months of severance pay in addition to paying unused vacation.
- Provide additional money to your estate.

As with any important financial decision, you should consult with your CPA to determine how much insurance you should carry. Your CPA can also make recommendations as to who should own and pay for the policy, as well as who should be designated as beneficiary. Your decision will have important tax consequences so you should always seek expert advice.

4) Provide the information that is necessary to accomplish your wishes.

Whether you are continuing or closing, how will anyone know what to do?

- Where do you do your banking?
- Who is your loan officer, your CPA, your attorney?
- Where do you keep important papers (i.e. life insurance policies, leases)?
- How do you organize your payables?
- How do you organize your receivables?
- How and when do you do payroll?
- What other commitments do you have outstanding?

The answers to some of these issues may be given to employees or family members "just-in-case" while you are alive. Other issues may be addressed in a letter written specifically for the purpose of easing the transitions that will inevitably occur should you die unexpectedly.

5) Sometimes closing means remaining open for a while.

Chances are that you assign a value to your business. In contemplating your retirement, you probably factor in that your business will possess some value if it is sold when you choose to move on.

The problem with simply closing a business upon the death of its owner is that its value is immediately diminished—possibly to zero. Sometimes, the best strategy for carrying out your plan of closing the business might be to specify that it be done in an orderly manner to preserve its value.

- One option is to continue operating the business while it is sold to an employee or competitor.

- Another option is to continue operating the business while it is listed for sale with a business broker.

- Finally, the business can be operated until a plan is established to maximize its value by liquidating its assets in an orderly manner including the sale of inventory equipment, lease (if the location is desirable), and customer list.

There's no way around it. If you die unexpectedly, there are going to be some pieces that someone will have to come in and pick up. While you are alive, you have the choice of directing the choices that people will make when they pick up those pieces. You also get the chance to provide instructions and information that will make their job easier and potentially more successful. Finally, your involvement helps ensure that all of your survivors, employees, creditors, and employees are treated fairly and in a manner that you direct.

On the other hand, you could choose to ignore the possibility of your own death and thereby create a vacuum of direction and information that serves only to frustrate your survivors and create a situation that is much less advantageous to everyone involved. Put some time and effort into creating a plan. One of the most thoughtful things you can do for your survivors is to spare them the complications that can arise. ■

Marc Bluestone is president of FrameGroup Incorporated, located in St. Louis, MO. With a staff of more than 50, FrameGroup operates 10 custom framing stores, a mobile custom framing gallery, and a commercial framing division. Before starting his own business, Marc held retail management positions in sales, merchandising, and operations and was vice-president of a publicly held retail company.