

Financial Wisdom

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Business Risk Planning

Imagine the following scenario for a moment. You and your partner have opened a business and are feeling extremely confident about your current success. Your primary competition across the street cannot keep up after one of their co-owners passes away, eventually closing down. Their entire customer base eventually comes your way, and business has never been better. This might be a positive scenario strictly as far as your business is concerned, but a wise businessman or woman should be thinking one thing at a time like this–what if our positions were reversed? What if one of our business leaders should pass away, how will the other find the capital to keep the business afloat?

The time to plan for the worst when it comes to your business is always before the worst occurs.

If one of the primary driving forces behind your business should pass away, you will need cash to keep the business afloat and continue to provide for your family and employees. Here are some options and obligations you might be facing should you find yourself in this situation:

Borrow money from a bank. This is likely not an enviable option. Most businesses already owe significant loan debt to banks, and increasing that load will increase the level of stress and demand on a business to generate revenues. A significant bank loan can cost the surviving business leader thousands per month, costs that must be made up for with increased sales.

Pay the deceased's widow and family. Many businesses heavily involve the families of the principal business leaders. That involvement may not simply vanish after someone passes away. Meanwhile, the family of the deceased will need to be provided for and may wish to remain heavily involved in the decision-making process.

Involve the deceased's family even further in the business. While family can provide a talented pool from which to draw, this might not be a viable option. Widows and family members might not have the necessary skills, time or desire to get the work done. Family cannot be relied on to fill the gap in worktime and expertise should someone involved heavily in the business pass away.

Look for a buyer. This should be considered a last resort. Your business is still yours, and the idea of selling it simply to survive carries with it a great deal of compromise. Potential buyers will be aware of the recent loss of leadership, decreasing the perceived value of your business. They also will likely not have your level of personal investment in the business or your best interests in mind when purchasing.

The Safe Solution – Invest in Life Insurance

To avoid stressful situations like the ones discussed above, invest in life insurance to ensure that the business can survive and thrive after the unexpected death of you and your business partner. Funds from a life insurance policy can cover the living expenses for the widow, pay bank debts, and pay for new employees or management to fill the gap and keep the company afloat until a full recovery is on the horizon.

Questions about risk management? Contact our office!



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