What if…

I want to transfer my business to my family

According to the SBA, sixty-five percent of all transitions from the first generation to the second fail. The Family Firm Institute says only twelve percent survive into the third generation and only three percent are alive at the fourth generation and beyond. That said, even if the odds are against the family business transition, it IS possible to make it work.

There are six objectives that must be accomplished.

1. First and foremost is a guaranteed income stream to the sellers.
2. The second objective is to minimize the taxation for both the seller and the buyer.
3. The third goal is to make sure that the business can operate and grow successfully without the seller's involvement.
4. Next, the seller must ensure that the new owner(s) can make the transition from employee to employer.
5. The fifth objective is to be certain that the seller does not have to come back and "rescue" a failing business in the future.
6. Finally, the seller must make sure that their family can always sit down and have Thanksgiving dinner together.

Most family businesses have become cultures and no longer just an asset. The founder of the business cares about his employees, vendors and customers. This culture must be imparted to the buyers. The family must keep business and family separate at all times. This means keeping family arguments out of the boardroom. The right successors need to be in place. This could take several years to determine. We always suggest that the current owner follows a gradual or staggered exit, giving the successors adequate time to learn how to be business owners.

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Siblings have a hard time when they are young deciding who is going to sit where in the car. Things do not always change twenty years later. Business owners should always keep in mind that it is extremely difficult for sibling to co-own a business. There has to be an ultimate decision maker. There exists innate friction between insiders (family members who work in the business). The insiders resent the outsiders because they often reap rewards from the family business without having to put sweat equity into the business. The outsiders believe that the insiders have it easy because they work in the family business. Neither side is correct. This is a recipe for friction.

Parents often feel that they have to treat all children equally. We believe that children do not need to be treated equally . . . just fairly. The active children should get the business and the inactive children should get other assets. It is a disaster waiting to happen when active children are expected to share with inactive children. Equalize the inactive children with assets.

A successful family transition will not happen overnight. It could take three to five years to complete it properly. One final word of advice: treat everybody fairly, communicate openly, and realize that things do not always turn out as planned.

***Helping business owners protect, preserve and pursue more value from their business, more tax efficiently!* ®**

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