Keep Your Family a Family During Business Succession Planning: 4 Tips

Business succession planning is always a tough process because owners have to face the lack of control they will once have over something they have worked so hard to create. As we move into a time when Baby Boomers are preparing to retire or start a second phase of life, estimates show that between 4 and 7 million businesses will have the opportunity to sell in the next few years and BizBuySell.com reports that closed sales are up 56% this year. A survey from Pepperdine University shows that the number one reason for business sales in late 2012 and early 2013 were for owner retirement.

For many family owned businesses, the discussion surrounding succession planning is difficult to say the least. It encompasses all of the toughest discussions for families: money, inheritance, death and personal choice. Here are some tips to get the ball rolling for your family owned business:

1) **You know that old saying about ASSUMING, right? Don't assume anything.** Your daughter may very well be interested in taking over your industrial equipment distribution and sales business, but have no interest in the beauty salon. Your son may only be interested because he feels guilt associated with striking out on his own. Alternatively, if you are honest with yourself, none of your children may have the skills or experience to take over the family business.

   You need to sit down with your family members and have an open, honest conversation – preferably off-site and not in the middle of the chaos and pressure of the business being discussed. To prepare for this meeting, you need to come to the realization that your children may have no interest what-so-ever in the business or may want to take it in a completely different direction. If they start to open up and you immediately shut down their ideas or chastise them for not wanting to walk in your footsteps, you will lose them and the business will ultimately be hurt.

2) **You think it is worth HOW MUCH? Don't pick a business value based on your retirement needs.** Just because you have put your heart and soul into this business for 30 years does not mean it is worth $5 million… In fact, it may not have any value. Having unrealistic expectations about the value of the business will drive away buyers – family, employees and outside buyers.

   Invest some time and money in getting realistic with your business valuation. A certified valuation or appraisal can be very costly – according to Inc. Magazine, between $3,000 and $10,000 or as much as $35,000. If you already have a buyer on board and are waiting for the bank approval, this will be a cost of doing business and you will have to negotiate who pays for what. If, however, you are in the planning phase, you should be able to get a Business Valuation for much less. You can work with one of our qualified Business Advisors to give you an understanding of true financial health, known external factors that are affecting your business value and discerning business goodwill. You should also talk to you accountant about your options and tax burdens at this point. Now is the time to start trying to maximize that sale price and minimize any taxes or fees.

Knowing the value of your business helps you to determine the steps forward. You may decide to gift shares to your children for tax purposes or restructure entirely. If, however, you are basing your entire retirement on the sale of your business for millions of dollars… think again and get realistic about your options.

3) **Does your 3 month timeline end with you in Florida? Think again.** Spending some time planning for succession scenarios can make a big difference in, not only the longevity and success of your business, but in the relationship with your children or family members.

   You need to take into consideration several variables when exiting your family business. Some of those include: legal structure, creative buy-out options with family, employee stock ownership programs, successor skill deficiencies, financial options and tax burden. You need to have thought through various scenarios to make this transition as seamless and smooth as possible.

4) **Thinking about keeping it all in the family to "keep it simple"? You need help and it IS available.** There is a plethora of option for you to make these decisions. You shouldn't feel all alone in these decisions and you definitely should not try to go it alone just to save a buck – this is your business and your family's future!

   Consider talking to your ISBDC Business Advisor, your Banker, your Accountant, your Attorney, your Financial Planner or Wealth Management Officer and your Insurance Agent. Many of these succession options have a tax and legal implication that need to be formalized. Making these appointments now will save you later. In fact, there are for-profit consulting firms that will take you through the entire process.

A bit of pre-planning can save you thousands of dollars in taxes, your family thousands of dollars in interest and your close family ties. I cannot tell you the number of times I have seen a business deal break up a family – including several lawsuits and estranged relationships. Even if your business has been your "baby" for 30 years, you don't want to lose your real babies, your children and their grandchildren, over a business transaction gone badly. Take some time and make strategic decisions so you can watch as your business grows while your family grows and you retire.