

Family Business Transition Planning

Family relationships and values can make succession of family businesses even more challenging than for other enterprises. Here are some suggestions for family businesses that can make succession planning and execution less trying.

Obtain a valuation of the business regardless of whether it will be transferred between generations or sold. Some owners resist this step if a sale is contemplated, believing the market is a more realistic measure of a company's value. However, a valuation establishes a reference point for negotiation with potential buyers and validates (or corrects) family members' perception of value and becomes the basis for wealth transfer planning.

Maximize the company's value by making sure financial accounting systems are in good order, family expenses are not run through the business, there are no unusual accounting practices, and full audits of financial statements are completed annually. Other indicators of sale readiness include expanding sales growth, diversification of the customer base, a stable pool of employees and an absence of pending regulatory actions.

Identify prospects. Outside advisers are usually necessary. An investment banker can provide market perspective and may be able to develop alternative sale options that help meet the seller's long-term objectives. Where a sale to a competitor seems best, an adviser can develop competing proposals before contacting the competition, protecting the seller's market and perhaps pushing the competition into a higher bid.

Negotiate the structure of the sale. The nominal price of a deal is reduced by its current and projected tax impact. If an earnout is proposed, a lower price without that contingency may be more valuable. Any liability retained by the seller clouds the eventual value of the deal.

Set goals that reflect the family's core values and legacy. These may even be established in a mission statement or "family constitution" to which all family members can contribute. Determining which, if any, family members will remain active participants or passive investors could lead to the creation of exit strategies and personal financial plans for others.

Prepare the business for change. Between initial negotiations and closing the deal, much can happen that will affect the enterprise value and final price. The nonfamily management team must be engaged in the planning and be given an incentive to stay loyal to the company and family throughout the transition.

Designate a leader to oversee business management during this phase. It does not need to be the existing CEO and should not be the person primarily tasked with completing the transition.

Plan whether the responsibilities of the current CEO will continue or how they will shift during and after the transition. When the business is staying in the family, it is important that the current CEO stick with the plan and support the transition.

Communicate the plan to all constituencies (observing necessary confidentiality), including family members, management and employees, customers, key vendors and banks. In addition, seek counsel from owners of similar businesses who have gone through a transition.

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