



Exit Planning Information & Education For America's Business Owners

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Issue 77

Family Business Transfers

Part One: Can Family Business Transfers Succeed?

What could be easier than transferring your family business to its natural successor, your heirs apparent, your offspring? If some of your first guesses were peace in the Middle East, bi-partisanship in Congress, or the Chicago Cubs winning the next World Series, like me, you have probably witnessed your share of family business transfer disasters.

Statistics, widely quoted by estate planning writers, indicate that “only” one-third of all family-owned business are passed on to the second generation, and “only” ten percent of family-owned businesses are transferred to a third generation. Experience indicates that those statistics are wildly optimistic and overstated. My pessimism notwithstanding, some family businesses are indeed *successfully* transferred to younger generations. For the transfer of business ownership and control from parent to child to be deemed “successful” the parents must achieve all their exit objectives, including:

- Financial independence and security, completely divorced from reliance on cash flow from the business;
- Intra-family fairness regarding distribution of family wealth and businesses; and
- Complete transfer of business operation and ownership control to the younger generation. This usually means the parent is out of the business and is not needed in the business for any reason.

This, and the next several issues of **The Exit Planning Review™** describe this challenge: if it is so difficult to *successfully* transfer a business from one generation to the next, is there a way to improve the likelihood of success? Better yet, is there a no-fail “recipe?”

In the checkered, but always interesting, history of nepotism (as it relates to business transfer) we find that parents hope a child will take over a business for several reasons:

1. The joy of working together. (At least that’s what some owners claim.)
2. Greater employment and financial security for family members than that available elsewhere.
3. Maintenance of the family’s focal point — the business. Parents see the business as the “glue” that helps the family stick together.
4. Fulfillment of a childhood dream. The child(ren) has grown up in the business, knows it, and wants to stay in it by acquiring ownership.
5. Gradual retirement. The owner can stay semi-active in the business by gradually turning over operations and ownership to the new generation.
6. Family pride. The owner takes considerable (and often justifiable) pride in continuing a family business and tradition.

Doesn’t this all sound great? It is great, but all too often your hopes and aspirations crash headlong into the brick wall of reality.

- The children, for lack of a more elegant phrase, don’t get along with each other.
- The children have substantially different career goals.
- The parents need to achieve financial security before feeling comfortable transferring a business to children. The children, on the other hand, desire significant ownership sooner, rather than later.
- The children simply don’t have the same desire, ambition, or aptitude for running the business as the parents.

All business transfers are challenging yet family businesses face significant obstacles. Despite this, it is indeed possible, given the right circumstances, to successfully exit the business by transferring it to your children.

There is a “recipe” for creating a successful intergenerational transfer. It isn’t the only recipe that works, but because it depends on six carefully chosen ingredients, its chances for successful completion are greater than others. In the next issue of **The Exit Planning Review™**, we will look at the first ingredient in this special recipe.

*Subsequent issues of **The Exit Planning Review™** discuss all aspects of Exit Planning. The provider of this Newsletter (durnford@jdford.com) offer you unbiased information about what you most need to know - **How To Run Your Business So You Can Leave It In Style™**.*

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