HOW TO DO IT RIGHT: *Transfer of a Family Business*

YOU MAY NOT BE EVEN CLOSE TO RETIREMENT AGE, BUT IF YOU'RE PLANNING ON PASSING YOUR FAMILY BUSINESS DOWN TO THE NEXT GENERATION, PREPARATIONS SHOULD START NOW.

WRITTEN BY FRANK WILLIAMSON

Many issues arise when considering the transfer of a family business: timing the transition, deciding who should succeed you. Could the decision spark family disputes? How can you ensure everything goes without a hitch?

In truth, the statistics on succession planning are not all that comforting. According to the Family Business Institute, only about 30 percent of family businesses survive the transition from first-to-second-generation ownership, 12 percent to the third and a dismal three percent make it to the fourth generation and beyond.

So how do you begin to tackle these long odds? Planning—early and strategically—is key.

To succeed, you need to take a step back and clearly understand and define your succession planning goals. Primary decisions should revolve around how to keep the business running smoothly if anything happens to you.

It's not unlike running a professional sports team. What happens if you lose a key player? You need to identify a point person who can take your place and get the team back in the game.

However, what if there is no obvious successor? Or what if your preferred individual is reluctant about taking the job? Hard and sensitive decisions that require considerable time and thought will need to be about made about whether to close or sell the business, and what that would mean to employees, family members, and customers.

Have you found the perfect fit and are you ready to get to work to solidify continuity of the business, family harmony, and job security for employees? Every business is unique, so there is no cookie-cutter outline. However, these seven tips will set you, and your future generations, up for success.

START EARLY

If possible, start laying the groundwork and discussing the options with key stakeholders as early as possible. Reflect on accomplishments and express gratitude for successes. Write them down. Be thankful for all that the company has achieved. Then visualize and commit to long-term, personal, and professional benchmarks. By long-term, think as many years as possible before you'd like to exit.

Seven years or more in advance is not too early. In fact, according to a 2015 research report conducted by accounting and advisory firm Baker Tilly and Swinburne University, which surveyed over 2,500 family firms from 55 countries, the most common advice was "start earlier." The report also indicated that four out of five businesses in the United States are currently not succession-ready.

EVALUATE YOUR SUCCESSORS

Smooth the path now if you want to continue the business within the family. Create constructive relationships. Assess management skills. Find any weaknesses and fill in any gaps now when there is still plenty of time for classes and mentoring. There will be strong emotions and difficult conversations around every corner.

To obtain clarity on these issues DTN Farm Business Adviser Lance Woodbury suggests committing to an ongoing dialogue throughout the process. The professional mediator with more than 20 years' experience in agriculture and closely-held businesses also suggests enlisting a close friend or family member to be an accountability partner who can motivate you with regular calls, emails, and text messages.

This time should be spent evaluating your successor(s). You may find that a multiple owner approach is best. For example, a common family-owned industry is farming and agriculture, where roles are assigned for siblings, parents, and other relatives to effectively manage the business. Some family member owners might be hands-on, day-to-day operations supervisors while others assist with marketing, sales, administration, or finance needs.

GET OUTSIDE HELP

Hire an experienced, independent third party to assess the value of your business and assist with mediating the discussion with family members.

According to the U.S. Small Business Administration (SBA), transferring ownership of the family business to a new generation is often quite complicated. Ask your accountant, attorney, investment, and insurance professionals about additional tax implications, such as estate and gift taxes, which may arise for both parties.

KNOW YOUR TYPE

The type of business you own could also impact the required steps and tax implications of the transfer of ownership. For example, if you operate as a sole proprietorship, you have full control and rights to complete the transfer.

The rules for partnerships, limited liability corporation, and corporations require additional actions that are situation-specific. It's best to ask the experts to advise and guide you through the necessary paperwork and requirements.

FOUR OUT OF FIVE BUSINESSES IN THE UNITED STATES ARE CURRENTLY NOT SUCCESSION-READY.

FINANCE

PUT IT IN WRITING

Once the agreed-upon structure of the business is identified, create a business ownership agreement. Putting it in writing will help avoid family disputes and keep the daily flow of business operations intact during the transition and beyond.

MARK YOUR CALENDAR

Establish training and transfer timetables. This helps to mitigate questions of control and motivates your successor and team to learn the day-to-day ropes and be clear about roles and responsibilities going forward. It also allows you to slowly empower the new regime to make decisions, with the added benefit of taking the weight off your shoulders in a systematic, transparent way.

PREPARE FOR RETIREMENT

It's not all about money. Also think about what will keep you energized and content after your formal business life comes to an end. It's a new beginning. Will you spend time traveling? Doing community service? Or simply playing golf in the sun? Or do you have another idea for a completely different business venture? Whatever your plan is, it's important to have that outline in place before you take the leap.

WHATEVER YOUR PLAN IS, IT'S IMPORTANT TO HAVE THAT OUTLINE IN PLACE BEFORE YOU TAKE THE LEAP.

There will be bumps in the road, but don't get discouraged. Many companies have been around for hundreds of years and are still going strong.

I'm proud that my family's farm in South Carolina, Oaklyn Plantation is an example. It's been owned and operated continuously by family members for over 240 years. My father still runs the day-to-day, and right now, we are planning the transfer to another generation.

Remember, business owners that make transparency and planning top priorities are setting themselves up for success and fewer headaches down the line, as well as the pride of seeing their company flourish into the next generation. ■

Frank Williamson *is the founder of Oaklyn Consulting, a strategy consulting firm with a financial focus. It serves businesses across the Southeast in a range of industries, as well as across the globe in the financial services and healthcare industries.*