



Success & the Family Business

From two schools of thought comes a new approach to succession planning for businesses. Then: a single resource can advise all family members. Now: a team of advisors, with diverse skills and experiences, will add more value and perspective to both the business and the family.

One of the biggest challenges facing owners of family businesses is whether, when, and how to pass the business to the next generation. Battling this multi-headed beast requires consideration of issues that even the most resilient of business owners can find mentally and emotionally challenging. Our recommendation - consider starting the family business succession process when you have next-generation family members holding management positions and working full time within the business.

Many succession plans include timing transition decisions to meet the objectives of the specific family; the use of business and asset valuation experts; entity limitations and conversion options; coordinated life insurance, disability and critical illness planning to enhance liquidity planning; challenges related to multiple family owners; marital deduction planning to defer the ultimate estate tax hit; and compensation planning opportunities. Here are some of the key issues that need to be addressed out front- simplified and shortened as a general introduction.

MAKING THE "KEEP VS. SELL" DECISION: Should the business be sold or kept in the family? Timing is important as the answer to this question may change depending on stages in the family cycle. The plan design process for each family must be detailed-oriented, strategic, and forward-focused. *How to develop a transition plan once the decision has been made to keep the business in the family. Is the business owner mentally and emotionally prepared to systematically give up control?* Question-and-answer sessions must be exercised with care to avoid planning traps that place too much emphasis on one area, totally missing the most important objectives of the family. Each situation is unique and requires a customized solution.

ASSURING RETENTION OF KEY MANAGEMENT: Would your business still be successful without you or without a key client? Your business will be much more appealing to prospective buyers if you can show that it operated smoothly, even during your absence. Likewise, the revenue should be diversified enough so one customer doesn't represent an excessive portion of your business; aim for no more than about 5-10% of business.

Have you retained a HR professional to make sure there are strategies in place to keep key employees in place for the new buyer or the next generation of family ownership? Non-family key employees appreciate and enjoy the unique work environment created by a family in business. The

workplace tends to be less formal, more hands on, and more personable. Many key employees are treated like extended family and develop a strong bond with the family and the business. If the new buyer changed the atmosphere (culture), some of these critical individuals may feel compelled to leave. Retention incentives for this group are important.

DEVELOPING A TAX-EFFICIENT APPROACH FOR BUSINESS OWNERSHIP TRANSFER. First, interest in a business must be valued for tax purposes before it can be transferred. The standard is "fair market value" or, the price a willing buyer would pay a willing seller with neither being under any compulsion to deal and both having reasonable knowledge of the relevant facts. Valuing a closely held business interest requires judgment calls that must be made by a professional appraiser. Second, secure the best appraiser available. If a dispute breaks out, the quality, reputation, and competence of the appraiser may be the ultimate deciding factor if a judge has to make a ruling. Third, a meeting of the senior advisors, including the accountant, lawyer, and financial planner, is necessary to develop the best go forward strategy for the client/business owner.

PRESERVING OR CREATING FAMILY HARMONY. Probably one of the greatest issues in family succession is minimizing sibling rivalry. Every parent understands the issues involved in keeping all their children happy while dealing with issues which are sometimes decades in existence (and making). Addressing family matters such as "equalizing" inheritances and maintaining harmony among children involved in the business and those that are not will go a long way towards creating good will for future generations while minimizing disruption to both business and family ties.

PROVIDING FOR ESTATE LIQUIDITY IN A COST & TAX EFFICIENT MANNER. In many family businesses, life insurance is the foremost choice to provide essential liquidity to pay the death taxes, cover the cash needs of the family, and free the business of cash burdens that otherwise might adversely impact operations or threaten its survival. A concerning situation that we have come across is family members waiting too long to apply for life insurance and inadvertently becoming uninsurable. A lifestyle or medical challenge can seriously impede this aspect of planning and provide greater trials in the future.

Each family business is different yet the succession issues they face are fairly common. The differences come down to the timing, the players, and the circumstances in which the family and the business finds itself when these issues surface. Family business meetings and family council meetings provide all-important communication channels through which the family component may be effectively managed during succession.

Family business meetings involve only family members who are active in the day-to-day running of the business, whereas family council meetings are attended by all family members and deal with the family wealth rather than business operations. These meetings are important to get communication happening between family members and ultimately to identify common goals and objectives.

Experience has taught us that all strategic planning stems from family discussions where the main focus is on the preservation of family unity and the minimization of rivalries and discord in the family.



To have a deeper conversation about how this subject will affect you or your business, please contact us directly:

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