

Q&A

TOM BENTON, a CPA and accredited business evaluator for Andersen & Co. in Santa Rosa, discusses the challenges of keeping a family-owned business in the family when the senior generation retires.

Keeping family business in the family

PRESS DEMOCRAT: Why is there so much interest now in succession planning for family-owned and other businesses?

BENTON: This phenomenon is mainly due to the makeup of the population and, more specifically, the baby boomer generation. An estimated 8 million business owners will exit their businesses over the next 20 years. The equity in these businesses represents approximately \$10 trillion in personal wealth.

To put this in perspective, during normal years, 250,000 private businesses in the United States change hands each year. During the next 20 years, this number will more than double to over 500,000 businesses per year.

PRESS DEMOCRAT: What are the options for exiting a business and how do you choose the best one?

BENTON: Businesses are transferred in one

of three ways or some combination of the three. An owner can sell the business to an unrelated outside party, sell the business to key employees, or gift the business to family members.

The combination scenario may be that part of the business is sold to some key employees and part is gifted to family members and together that group continues the business.

The best option is determined by each business owner's specific goals and the employee, management and family situations.

The goal may be to "polish the apple" and sell the business for maximum profit, transition the company to key employees in a win-win situation, or minimize estate and wealth transfer costs by gifting the business to various family members.

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CHRISTOPHER CHUNG / The Press Democrat

Tom Benton believes family business owners can benefit from planning ahead for successions or company buyouts.

Q&A: Emotions high in planning transition of family business

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If it's late in the business owner's career and no family or key employees can take over the business, the plan will be to "polish the apple" and sell the business for the highest possible value.

If the situation allows for key employees to be involved, the plan will need to address their roles, timing of ownership, amount of ownership and financial impact on the owner.

If family members will be involved, then the plan will need to deal with gifting and other estate factors along with the needs of the owner, transfer of control, and roles of the incoming family members.

PRESS DEMOCRAT: Why do family business owners need to think about succession planning and exit strategies?

BENTON: By planning ahead, business owners maintain control of the sale or transition versus having it happen for them.

Failure to create a well-defined business/succession plan virtually guarantees that business owners will:

- Exit their company as a result of pressure from outside circumstances, not as a result of their own desires.

- Exit their companies on a timetable that is forced upon them instead of one that meets their needs.

- Undervalue their companies and leave hard-earned wealth on the table.

- Pay too much in taxes: income taxes on a business sale and wealth transfer taxes in family-owned business situations.

- Fail to realize all their business and personal goals.

- Suffer unnecessary psychological stress.

- Watch a lifetime of work disintegrate as a result of poor business continuity planning.

Some statistics indicate that only 30 percent of family businesses make it successfully to a second generation, only 12 percent to the third and 4 percent to the fourth generation.

PRESS DEMOCRAT: What is unique about succession planning for family business owners?

BENTON: Family business succession planning is difficult because the parties are dealing with very personal and emo-

tional matters, and it requires them to be able to treat the business as a business, the family as a family, and understand that ownership is not a right.

There will be the need for the parents to work with the next generation to develop specific objectives and a plan for the family and for the business.

Because of this dynamic there are many factors that are unique to family businesses:

- Transferring the passion, history of the business, and values of the current owners to the next generation.

- Matching the goals and objectives of the exiting generation with those of the incoming generation.

- Assessing the abilities and talents of the incoming generation and matching those with the needs of the company.

- Willingness of the business owners to let go of control, pass on management and decision-making responsibilities and work themselves out of the business.

- Ability for family members to be open and honest about each other's goals, objectives, strengths, weaknesses and roles.

- Parents' ability to agree on which family members should come into the business and what their ownership percentages should be. If it is not all children equally (which often is the case) how do you balance gifts of the business to some children with the need to give other children something?

- Determining how family members will be compensated.

- Allowing a family member to leave the business without feeling they are leaving the family.

- Dealing with in-laws.

PRESS DEMOCRAT: What are some of the challenges for the retiring generation and the incoming generation?

BENTON: Typically the retiring generation is concerned about discussing their mortality, losing control of the business they have operated most of their life, financial security, wondering how someone else will ever be able to do their job as well, the costs of expanding or maintaining the business, and keeping peace in the family.

The incoming generation is dealing with trying to change the business with the times, gaining control of the business,

developing the respect of the retiring generation by having them realize they can do the job, and often times dealing with family dynamics that the parents desire versus what is best for the business (i.e. even though the parents want to treat all children equally, they may not all be equally qualified to participate in the business).

As difficult as this sounds, tremendous benefits will be gained by early discussions about these differences and how to use them to the family's benefit. A successful transition requires long-term planning by the senior generation and open discussions between the generations.

PRESS DEMOCRAT: What should a business owner look for in an adviser to help them through this process?

BENTON: Family business planning needs to encompass tax, business valuation, estate, legal, insurance and financial advisory services into their succession plan.

Business owners are best served when engaging an adviser with a full range of technical services related to tax, business valuation and estate planning. Choosing an adviser who can provide all three of these services allows the client to keep the team at a minimum for discussing these sensitive and personal matters. Moreover, this adviser will serve as the quarterback for developing the plan. Often, the CPA knows the most about the business and personal financial aspects of the parties and can blend the business issues with the family needs.

The quarterback needs to be able to organize family meetings and encourage open communication about the difficult decisions and personal discussions that need to take place. Furthermore, your adviser needs to identify the goals of the family and develop timelines for achieving them. Listing tasks and scheduling meetings begins to put their desired results into place. By creating responsibilities and accountability of the parties, you develop a dynamic of synergy and quickly see energy, dialogue and a willingness to participate in the entire process.

This interview was conducted via e-mail by Staff Writer Carol Benfell, who can be reached at 521-5259 or carol.benfell@pressdemocrat.com.