5 KEYS TO A SUCCESSFUL FAMILY BUSINESS TRANSITION

by Tim Jenkins

A family business can be a wonderful tool for a family to create wealth, teach life and business skills and provide a venue for family members to collaborate. Unfortunately, the combination of family dynamics, business, and money can be a recipe for disaster that ends up blowing family relationships apart. Making money and making great families are competing forces working in equal and opposite directions.

Statistics tell us 70% of family businesses will not transition to the next generation. It is possible to have a great family life and a great business, but it is not easy and will take a great deal of effort. Then again, anything worthwhile in life takes effort. Based on our team's experience helping families successfully transition their business, here are some keys that are needed for success:

1. **Recognize the Truth**
   The business will not last; they never do. Only 3% of family businesses make it to the third generation. So, at some point the business will cease. Your family, however, will continue. Do not neglect a long-term family for a short-term business. Our family knows whether they are valued more than the business.

2. **Talk, Talk, Talk**
   Unfortunately, most families do not talk about money. Businesses make money, so most families do not talk about delicate business issues either. However, different family members have different expectations. The lack of communication leads to unmet expectations, which can devastate a family forever and cause relational damage no amount of money can repair.

3. **Reduce Your Risk**
   The longer the owner waits to begin succession, the greater the risk. Depending on the size and complexity of the business, it often takes at least 5-10 years for the next generation to pay for the business. It can easily take a decade for the next generation to acquire the skills and experience to successfully manage the company. Begin the process early, do not wait until the first generation has a health issue or is ready to retire. The second generation will not likely wait that long. In the meantime, ensure that you will not leave a mess if tragedy occurs. Have adequate life, disability, and critical illness insurance in place to fund an untimely transition, as well as an up-to-date shareholders agreement to govern the process.

4. **Diversify**
   Typically, businesspeople have most of their net worth in their business. You should be earning a very good return on this investment. But no matter how well you know the business, you can never see all the risks. Overall, you are taking considerable risk if

   80% of your net worth is in one asset. Regularly reposition capital in other investments to spread your risk and return. Having significant assets outside the business also helps succession as you are less dependent on receiving assets from the business to fund your retirement.

5. **Don't fall in love**
   ...at least not with the business. The primary objective for most businesses is to generate a profit to fund the owner's objectives. Often the owner may have objectives beyond profits but without profits, the other objectives cannot be achieved. Keeping the perspective that the business is simply an asset, allows you to easily determine when it's time to sell the asset. There is nothing wrong with selling to put family wealth into a better opportunity.

Most business owners think transition is an event, however, it is a process.

Hopefully, you are beginning to see there are a number of parts to a successful transition and that it takes time. You have not likely faced it before. It is always best when you are in new territory, to have a guide who has successfully completed the journey with others. If you would like to learn more, give us a call today.

TRINITY Family Wealth Advisors