

All in the Family: It's never too early to plan the future of your Family's Business



Family-owned businesses make up 90% of all business in the United States. What's more, 70% of them are managed by the ownership family, and they employ nearly 60% of the U.S. workforce to produce about 50% of GDP. Clearly, family businesses play an essential role in the economic stability of the country. However, whether yours continues to flourish after you're gone may depend on how judiciously you have planned your succession.

Early Planners Tip the Odds

Viable businesses may survive under the ownership or management of others, but the odds are not good for keeping them in the family. Less than a third will pass successfully to the next generation. Here, we'll look at some of the elements that are important in any business succession plan. While you may not have designed an exit strategy for your business when you were building it – few entrepreneurs manage to temper the excitement of growth by planning their retirements, even though some business advisors advocate the strategy – start developing your succession plan as early as you can. Ten years out is fine. Five years should work to support the general principle that more time spent on planning results in a smoother transition.

As you begin, involve your family – and be realistic. This is not an era for high-handedness, and decisions made in secret and grandly announced are likely to stir family discord. Your best plan will incorporate the ambitions, goals and feelings of all your family members, all gleaned through personal conversations.

Making Tough Decisions

Realism is key in the best plans. Your eldest son or daughter may have neither the skills nor the interest to take over your business, even though you promised when he or she was still in diapers. Perhaps another family member is far more suitable, has the interest and exhibits the skills to carry on. It may be one of the most difficult aspects of succession planning, but it is important to step outside your self-perceived role as family patriarch or matriarch and evaluate the succession possibilities as though you were a skillful but disinterested outside consultant. Poor decisions at this stage are a major cause of the two-thirds failure rate of family business successions. Equality Doesn't Always Rule

A common family idea is that children or relatives should receive equal shares of everything. There may be some areas where you wish to apply this principle – but your business succession plan shouldn't be one of them. Simply put, it may not be in your business's best interest. Your successor may require a larger share of the business than family members who are not expected to be active in managing it. You may decide to pass both ownership and management on to your successor and simply make other financial arrangements for relatives outside the plan. Training Time

One of the reasons business advisors often recommend an early

start to business succession planning is to facilitate training the new owner or owners. Your plan has a much better chance to succeed if you leave yourself ample time to pass along your skills, knowledge and insights before you actually hand over the controls. While times keep changing and your successor may adapt the business to new technologies and even take the business in a new direction later on, he or she should ideally have a year or two to work under your tutelage. It is important to realize that even if you have made a solid, reasoned succession plan, you may find it difficult to actually share decision-making during this period, but it's important for the future of the business that you do. Professional Planning

Many entrepreneurs find it helpful to discuss their family business succession plans with others before implementing them. It's not a way of circumventing the family dialogues that should always take place before your plan is decided, but such discussions may help determine whether you are on a solid track. As your financial advisor, I'll be happy to talk over your business succession ideas as soon as you are ready to begin. Of course, plans are as different as the businesses and owners they are designed for – but one general principle mentioned above should not be ignored: if it is time to begin developing a succession plan, don't wait until it is too late.

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