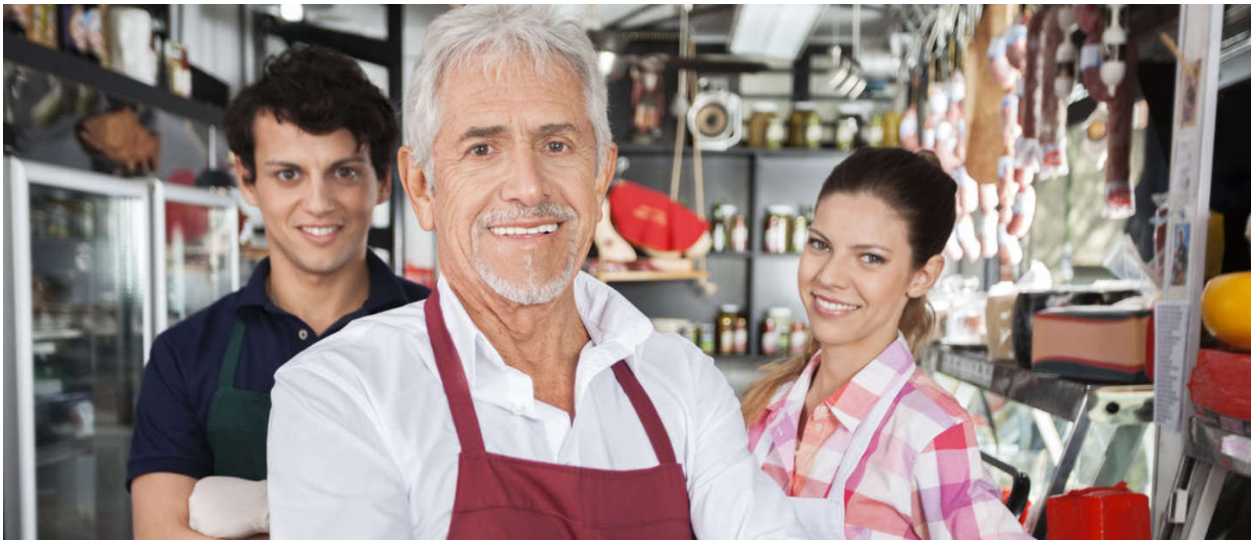


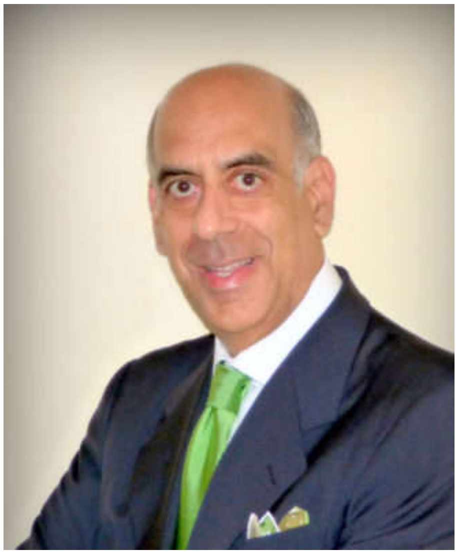
9 Succession Planning Tips To Make Your Family Business Last

FAMILY BUSINESS

By YPO

You've spent much of your career building your family business. You've learned what works, endured lean years, enjoyed success and watched your company grow. The last thing you want is to lose the "end game." You want your business, and legacy, to successfully transition to the next generation.

Family businesses make up the majority of businesses in the United States, contributing more than 60 percent of the nation's gross domestic product and two-thirds of job creation according to the Conway Center for Family Business. And for good reason. Family businesses are not only a great source of family connection but also a great way to provide a career for family and non-family members. Despite this, most families struggle to pass the business on from generation to generation.



"There are too many family businesses that are not surviving into the next generation," says family business consultant George Isaac of GAI Capital Ltd., a YPO member and author of an Amazon No. 1 New Release rated book, *Your Business, Your Family, Your Legacy – Building a Multigenerational Family Business That Lasts*. "The statistics are alarming: 88 percent don't make it to the third generation."

As it turns out, most of the reasons a family business doesn't survive are preventable with proper succession planning. *Ignite* spoke with Isaac, who covers a broad spectrum of family business issues from management, family dynamics and governance to succession and wealth management in his book, about ways to help your family business make a generational shift.

The family business transition

The process begins with the question: Should this business survive? If it's a healthy business, you can make it survive. "But," adds Isaac, "it requires a great deal of effort and the right attitude among the family leadership to make it work."

For most businesses, it's worth it from a familial and financial perspective. "Most family businesses, when sold, lose about a third of their capital through taxes and receive less than half their prior business' returns from investing in stocks and bonds," he says. "Selling a good family business is a huge wealth evaporator, unless it is for a price too good to turn down."

Once the decision is made to keep the business, the next step is to set the ground rules for who will be involved and how. “You really need to get down to what each individual’s needs (and desires) are and figure out a way to address them,” says Isaac. “If they are not satisfactorily resolved, conflict and anxiety will result in the future.”

For example, some family members may want capital appreciation over cash disbursements, while others are more risk-averse or need distributions to support their living requirements. Once you understand the current needs of the ownership, there are ways to structure a transition to meet them.

> *“Most of the reasons a family business doesn’t survive are preventable with proper succession planning and a strong commitment by family leadership.” — George Isaac, Family Business Consultant GAI Capital Ltd.*

Finding a place for everyone

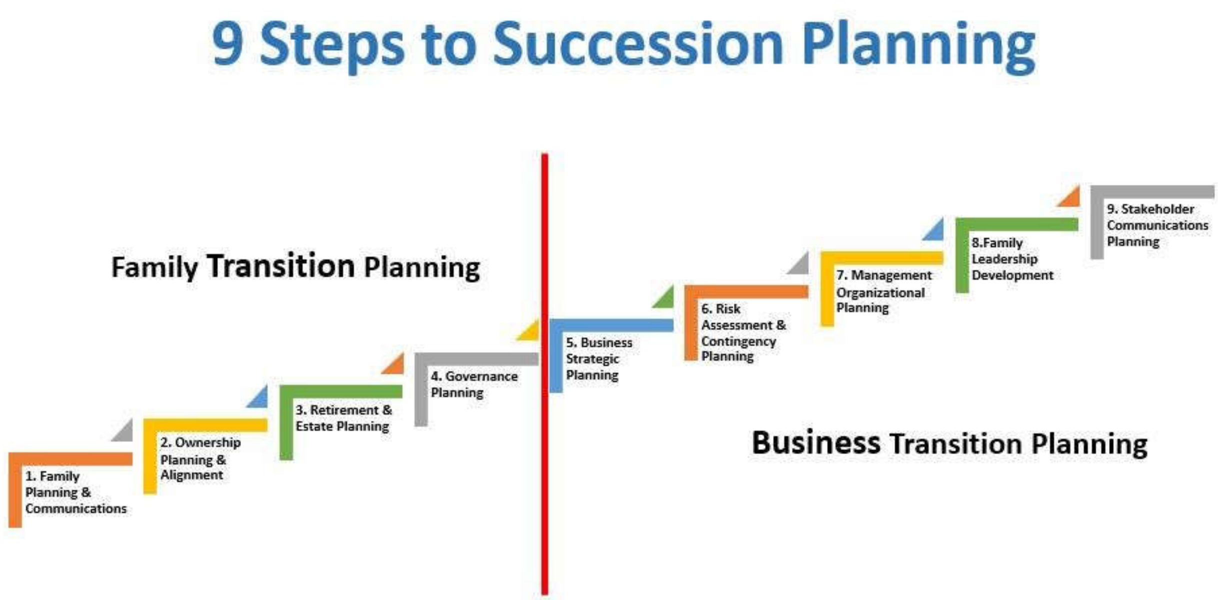
Retirement and estate planning will help you assess the needs of the senior generation, who may require additional liquidity to meet their lifestyle, long-term care and future estate taxation needs.

“If that doesn’t get worked out properly, it could create a liquidity problem for the family or family business or be a constraint on the capital to grow the business,” says Isaac.

Retirement planning will also help ensure that each senior individual has a continuing purpose and identity outside the family business. “It’s a big deal to leave a family business with your name on the door, which provides a place to go and a sense of self associated with the business, and be retired and unsure of how you fit in anymore. Transitions can be quite unsettling and often a reason why succession planning is not addressed," says Isaac.

And a CEO who retires but tries to continue to run the business will prevent the next generation from being able to figure out where the business needs to go and lead it in that direction.

Through governance planning, various family stakeholders can have a role in the business. Two best practices to implement include having active and passive shareholders on the board of directors and establishing rewards systems with salaries and bonuses for family-member employees separate from dividends and distributions for ownership. Having independent non-family member advisers or board members is strongly recommended as well to bring a level of objectivity and professionalism to the board.



Content from George Isaac's book - *Your Business, Your Family, Your Legacy – Building a Multigenerational Family Business That Lasts.*

A roadmap for the next generation

“At times, next-generation family members mistakenly adopt the prior generation’s strategy and way of running the business, often to please the prior generation,” says Isaac. “Recognize that business conditions change rapidly and it’s very important during a transition to update your business strategies. You have new energy and new leadership and need to figure out what roadmap you need to go down for this next generation to be successful and meet the ownership’s objectives.”

Taking an objective and fact-based look at your business and industry will help you identify strengths, weaknesses, opportunities and threats. This classic SWOT analysis will help you develop a strategic plan for what to do and also how to communicate that future direction to your family stakeholders and the next generation management team.

Once the roadmap is set, it’s time to turn your attention to risk assessment and contingency planning. Determining the risk events such as the loss of a key supplier, a major customer, expected refinancing or a senior executive and how prepared the company is to handle them will help your family business survive over the long haul. “If a ‘black swan’ event hits, it can have a huge negative impact over your business and the family’s lifestyles associated with the business,” says Isaac.

Putting a plan into action

Once you have an operational agreement detailing strategies, the focus turns to implementation. “The organization with new leadership is going to change with a new culture, new styles, etc.,” says Isaac. “It’s important to not only pick the next CEO but to have the organization in place to implement the next generation’s strategic plan.”

Developing family members for future leadership so the company can transition at a planned or an unexpected time is an often ignored or forgotten part of succession planning. “Family leadership development is something you want to always be working on,” says Isaac. That development could range from take-your-child-to-work days when they’re younger, to college internships, funding education or training programs and giving them jobs within the business or outside the business to learn from others.

Lastly, stakeholder communication is key to any successful transition. Before the transition, current stakeholders — management, non-family members, customers and vendors — are wondering what’s going to happen when the CEO retires. Are they going to sell the business and no longer be our customer, or have us as a supplier, or continue to employ us? Unanswered questions can impact not only your succession but your current business as well.

“It’s an evolutionary process,” says Isaac. “It requires a lot of work and candid conversations with family business leadership and current and next generation family stakeholders. It really comes down to how badly you want your family business to survive. If you want it to beat the odds and survive, you can do it.”

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