



Practical Succession Planning: Transition Planning that Works

August 7, 2012

**Edward Rosenfeld
Family Business Consultant**



A Tornado in Westchester?



Why are Family Businesses Important?

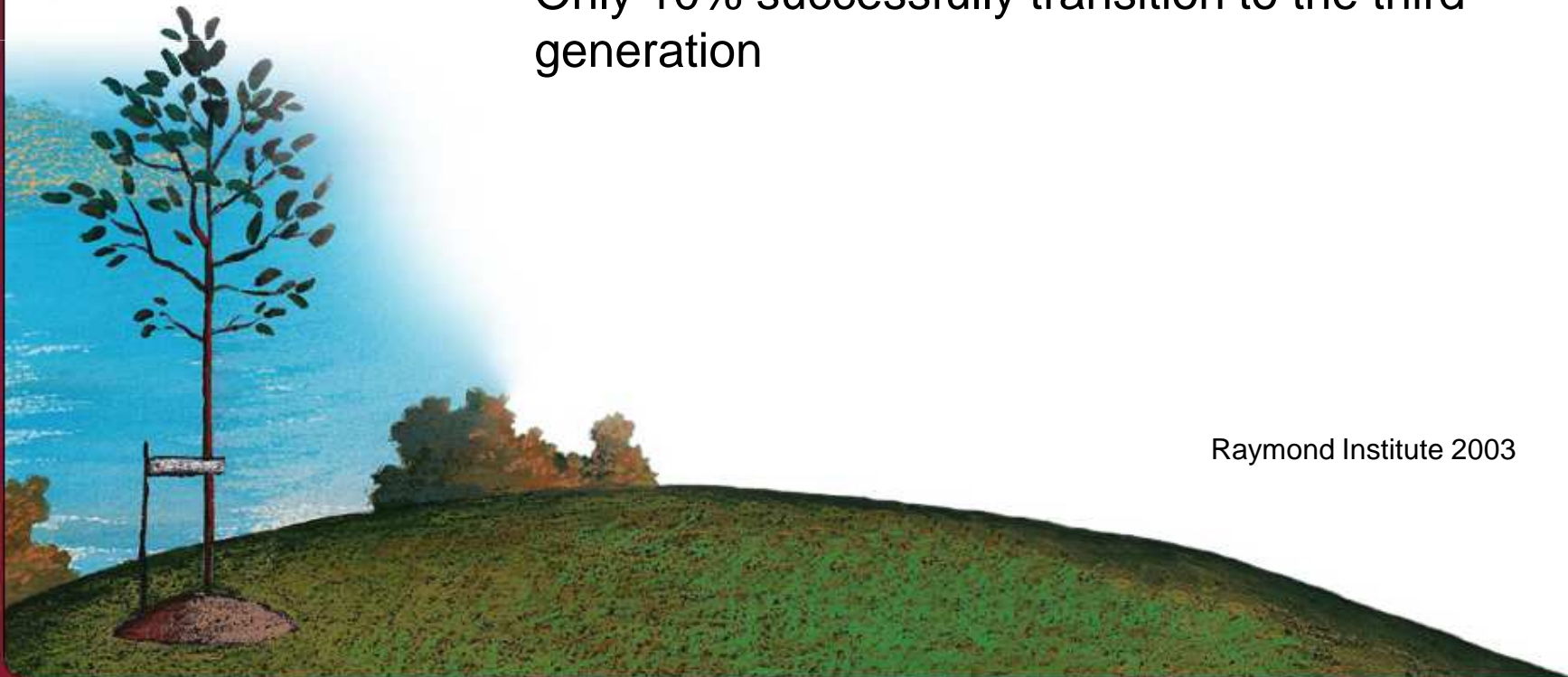
- 64% of the Gross Domestic Product is generated by family-owned businesses
- Family-owned businesses employ over 60% of the workforce
- Family-owned businesses create up to 85% of all new jobs each year



Raymond Institute 2003

The Bad News

- Approximately 4 of every 5 businesses fail to survive more than 10 years
- Of those that do, only 30% successfully transition to the next generation
- Only 10% successfully transition to the third generation



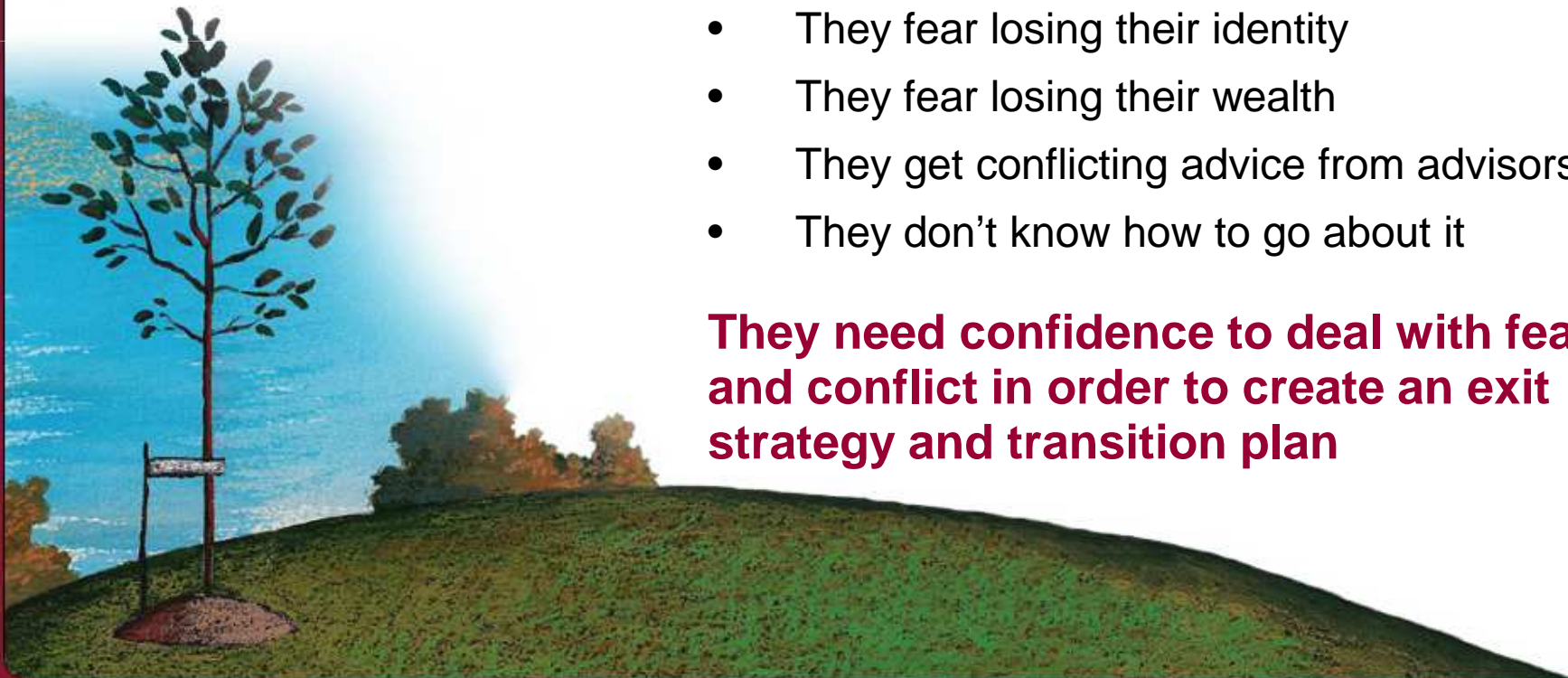
Raymond Institute 2003

Why?

Business owners avoid planning their eventual exit from the business:

- They think they have plenty of time ahead
- They are too busy
- They don't have an obvious successor
- They fear it will give rise to conflict
- They fear losing control
- They fear losing their identity
- They fear losing their wealth
- They get conflicting advice from advisors
- They don't know how to go about it

They need confidence to deal with fears and conflict in order to create an exit strategy and transition plan



One Day You Will Sell

- Death / ill health
- Bankruptcy
- Franchisor

To a family member

- Lifestyle change
- Investment decision

Involuntarily

Voluntarily

To someone outside the family

The Choice is Yours!



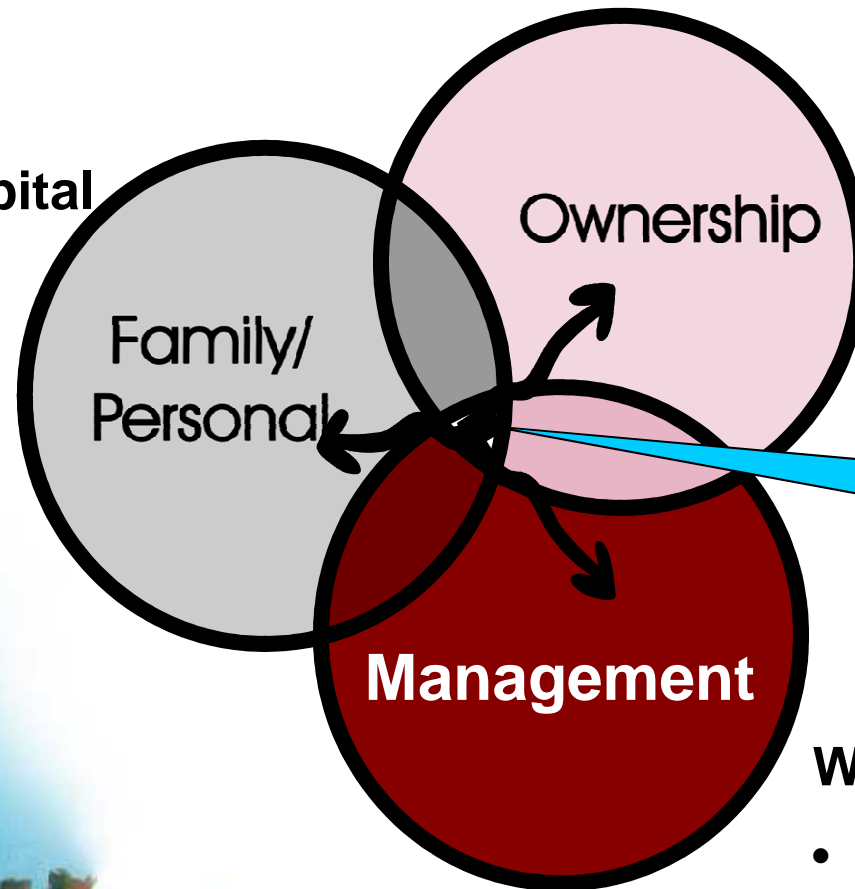
The Truth About Transition

It is:	It is not:
<ul style="list-style-type: none">• A process	<ul style="list-style-type: none">• An event
<ul style="list-style-type: none">• About family, people and relationships	<ul style="list-style-type: none">• One person's problem
<ul style="list-style-type: none">• About ownership, management and estate	<ul style="list-style-type: none">• About minimizing taxes
<ul style="list-style-type: none">• About what is fair	<ul style="list-style-type: none">• About equality
<ul style="list-style-type: none">• Driven by the family values, wants and concerns	<ul style="list-style-type: none">• Driven by technical issues that are handled by lawyers,

Step 1 ~ Separate the Issues

Emotional Capital

- Empathy
- Support



Wealth Capital

- Fair
- Equitable

Wealth Engine

- Opportunity
- Competition



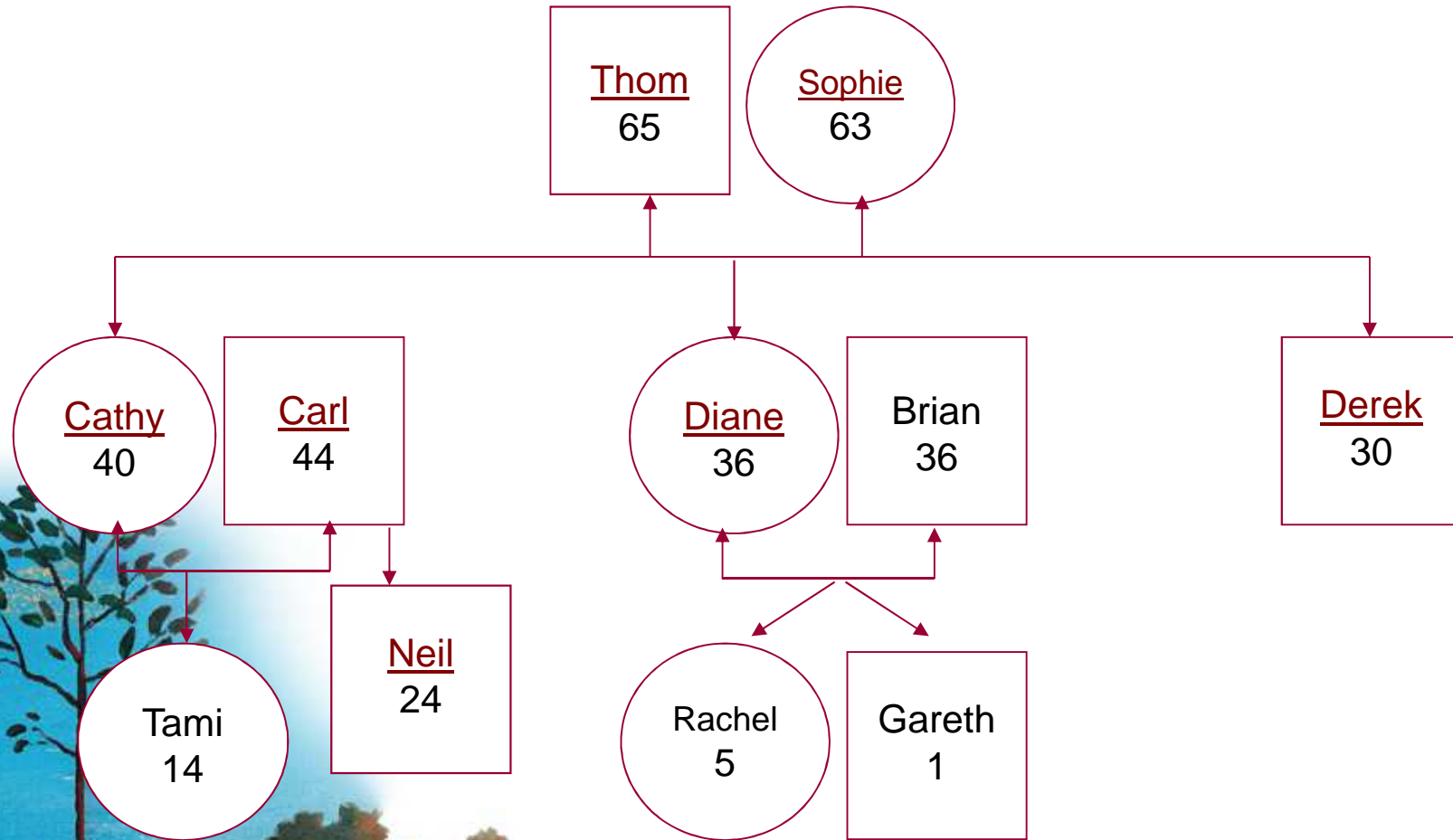
The Players

- The founder – feels immortal
- The spouse – caught in the middle
- The inheritors – parasites
- The in-laws – more parasites
- The manager – only one with real merit
- The advisors – predators

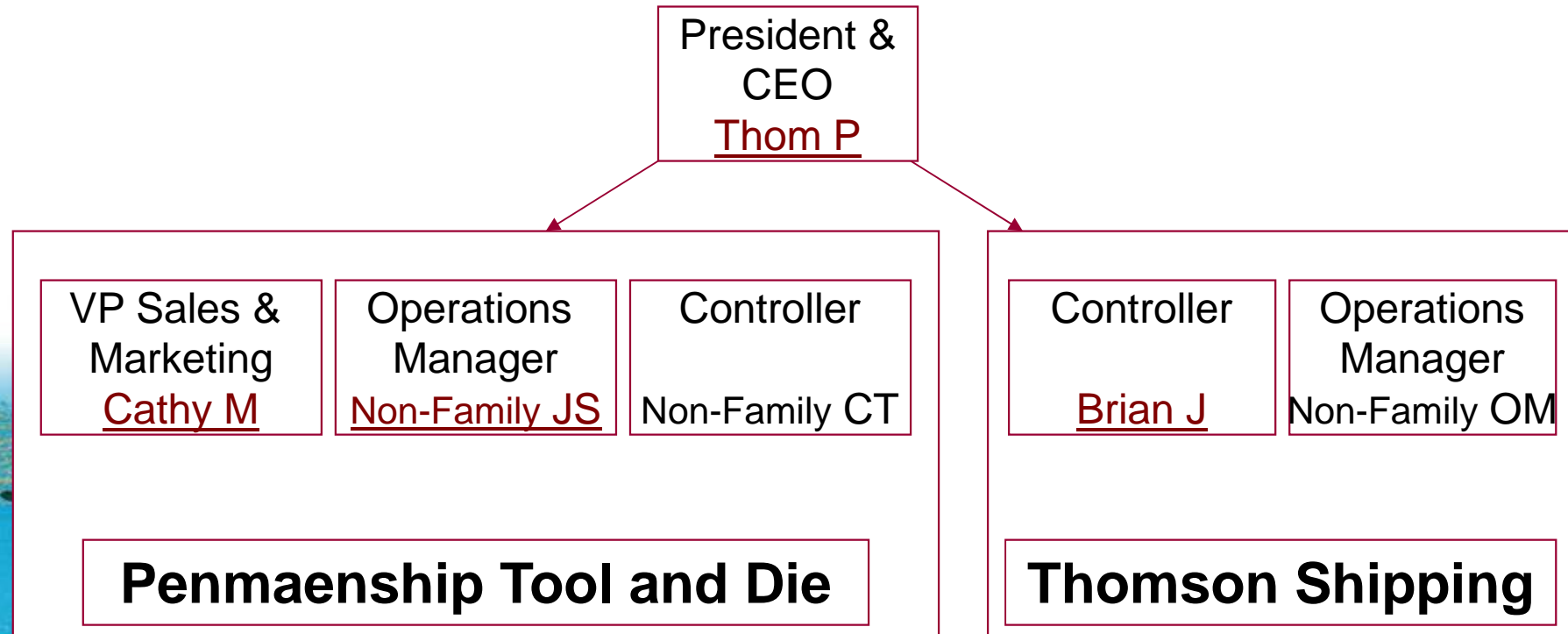


Adapted from Leon Danco's book: Beyond Survival

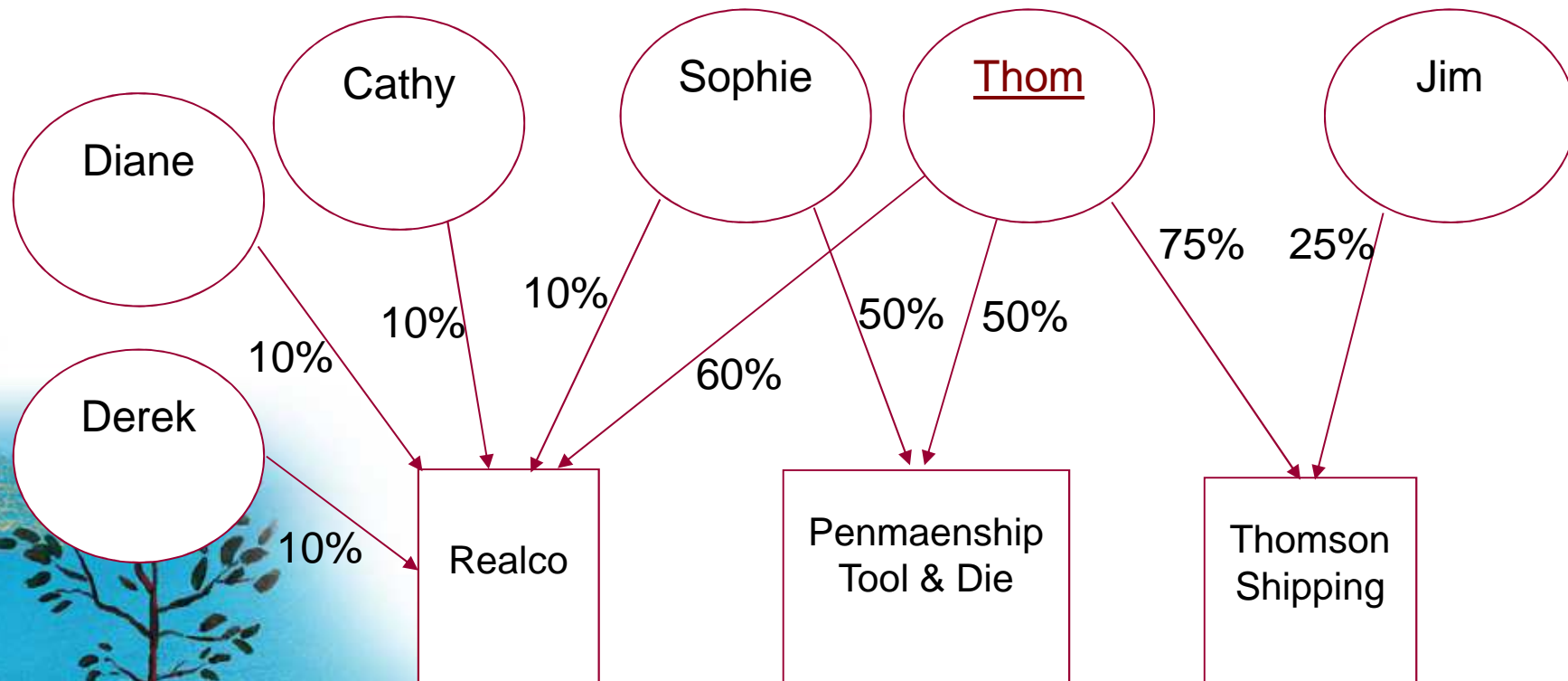
The Family Structure



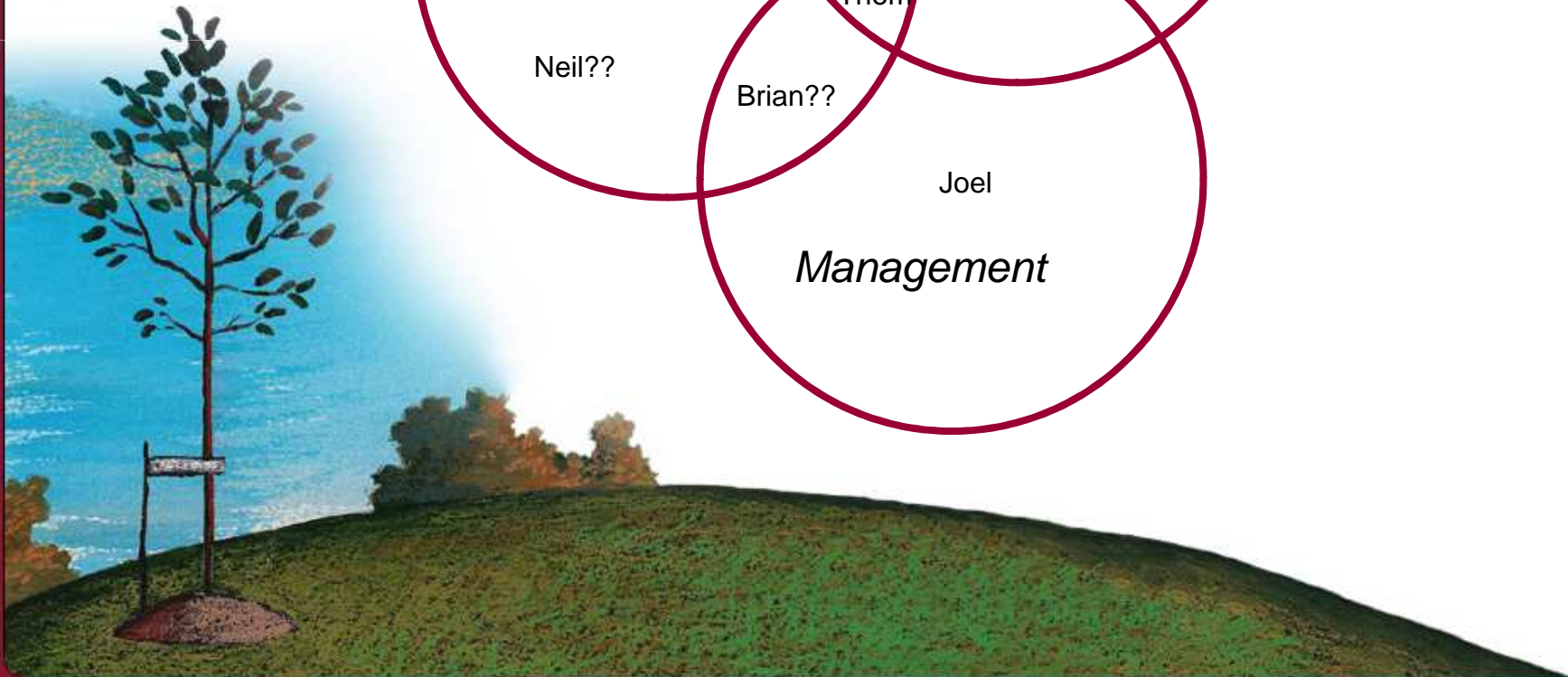
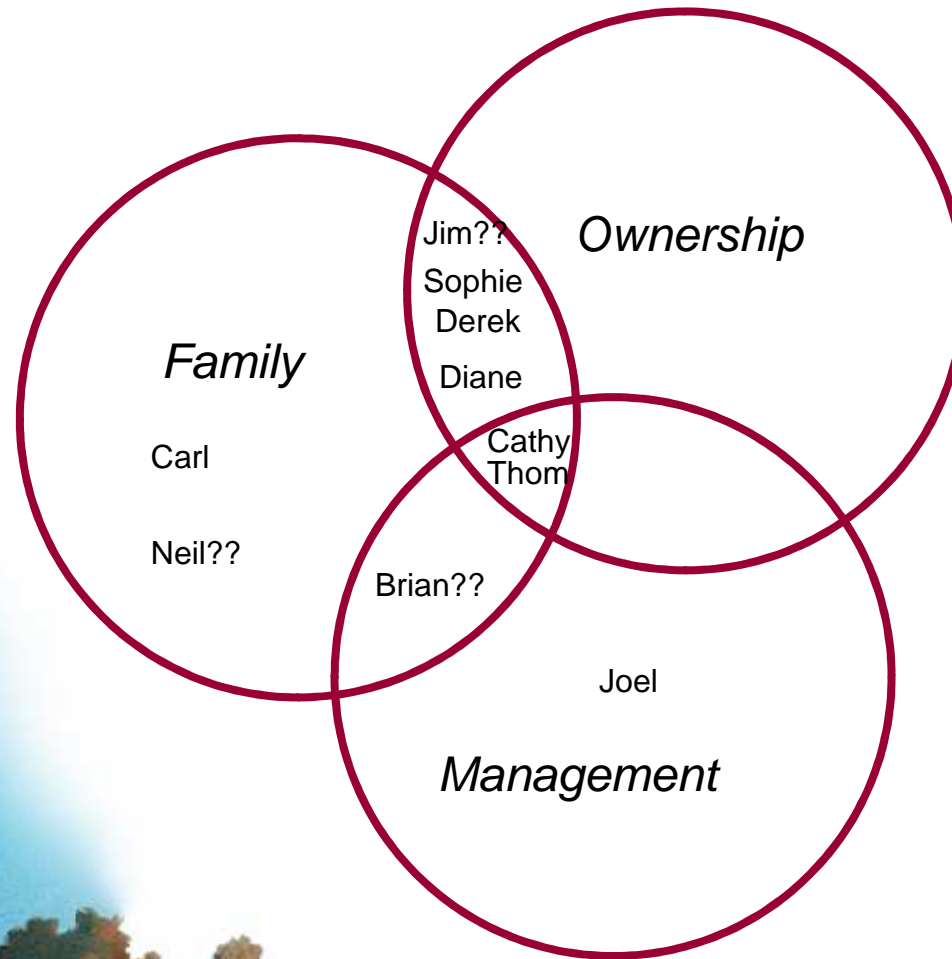
The Management Structure



The Ownership Structure



Where Do People Fit?



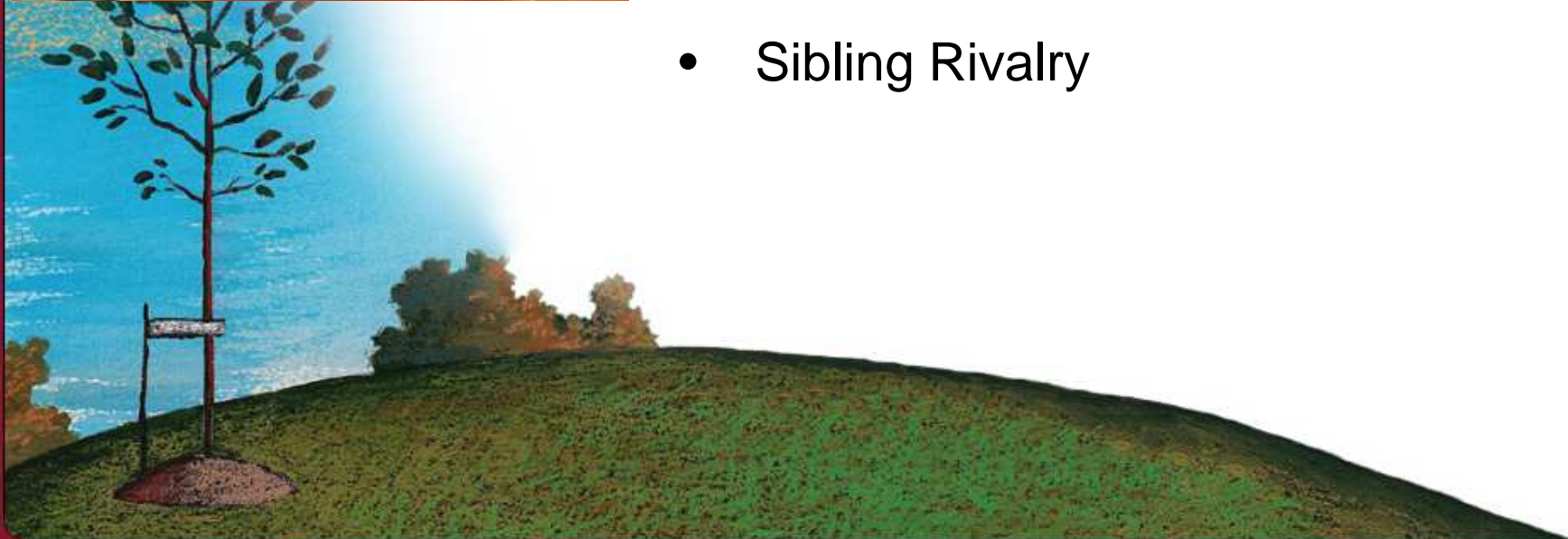
Step 2 What are the Obstacles?

When they were this age, they were a team.

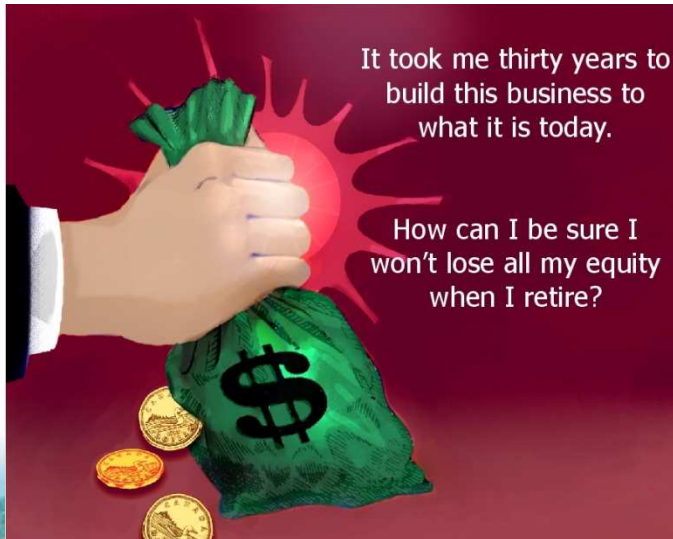
But today, our family business has driven them apart.



- Kids will never be able to work together
- Differing personality and management styles
- Differing goals and vision
- Can't choose one over the other
- Sibling Rivalry



What are the Obstacles?



- No qualified successor
- Could lose all the equity
- Need protect retirement
- The business is your life
- On a bad day, I feel I should just sell it



Step 3 ~ Addressing the Family Obstacles

When they were this age, they were a team.

But today, our family business has driven them apart.



- There will be conflict
- Conflict can be managed
- Entrepreneur must provide leadership
- Family members must share vision and be motivated to create a bigger pie
- Need formality and structure to address and manage conflict:
 - Family Charter
 - Family Council
 - Advisory Board

Step 4 ~ Addressing the Management Obstacles

My son feels his dad can't let go of the business,
but my husband feels he still has a lot to offer.

How can I get them to connect?



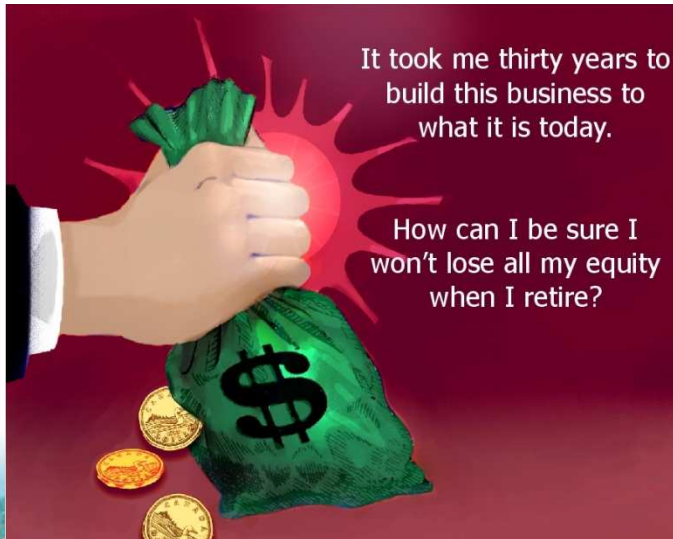
- Change lanes gradually; hand over the reins while you still own the business
- Choose a role that gives you energy
- Assess the skills and capabilities of key people
- Groom prospective successors
- Need formality and structure to communicate

Advisory Board

Management Team



Step 5 ~ Addressing the Ownership Obstacles



- Ensure the sale is voluntary
- Build up wealth outside the business
- Set up an ownership structure to minimize tax liabilities
- Life insurance will fund taxes and provide inheritance funds
- Build a strong management team
- Need formality and structure to build and protect wealth:

Advisory Board

Wealth Plan

Estate Plan



Now It's Your Turn

What are Your Obstacles?



Step 6 ~ Focusing on the Common Interest

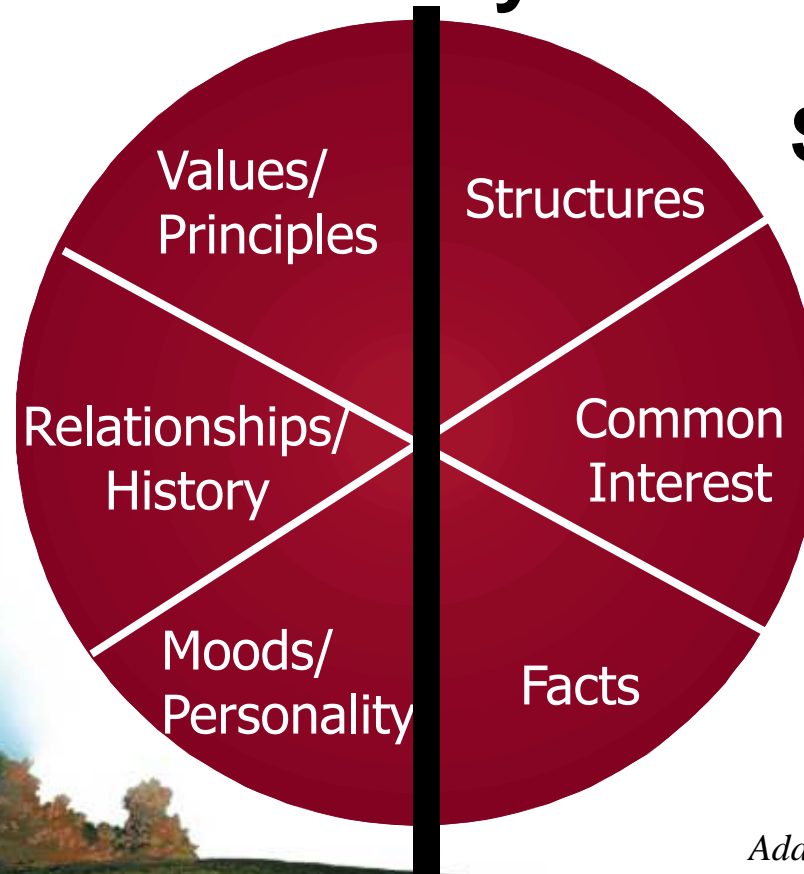
Yesterday

Failure: 96%

Today

Tomorrow

Success: 70%



*Adapted from the Circle of Conflict by
CDR Associates, Boulder Colorado*

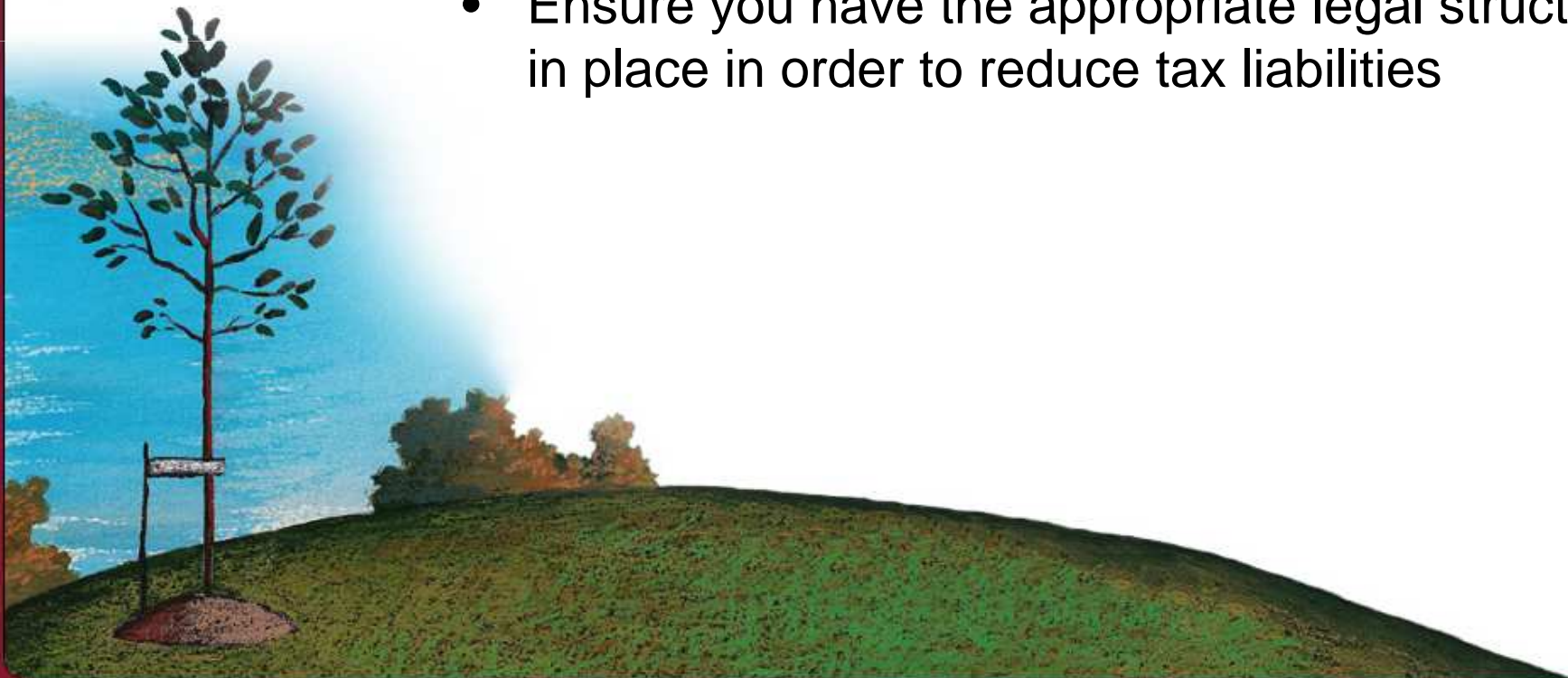
Now It's Your Turn

**What is Your Common
Interest?**



Step 7 ~ Prepare Your Business For Sale

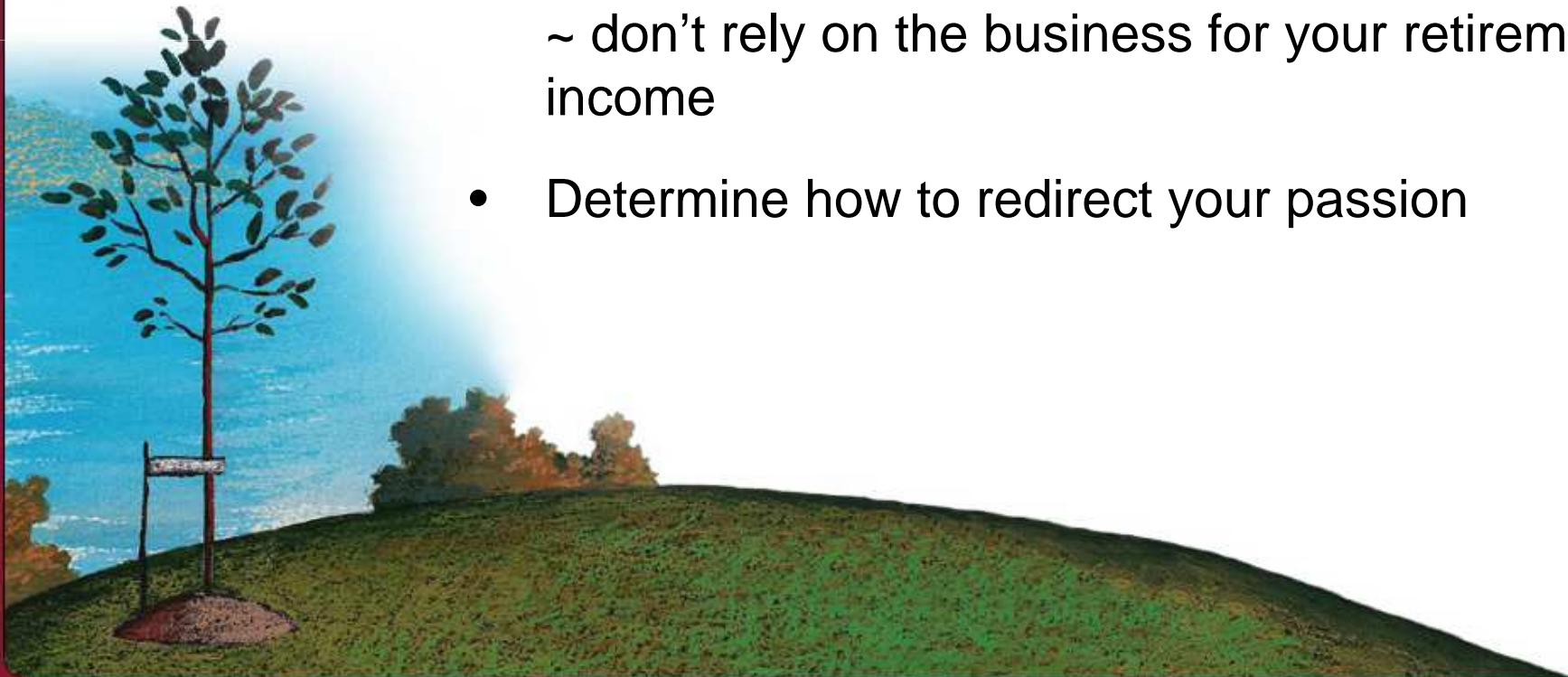
- Identify and enhance key value drivers
- Pull all financial information together so that you can clearly see the true value of the business
- Ensure you have the appropriate legal structure in place in order to reduce tax liabilities



Prepare Your Business For Sale

Get yourself ready for the sale

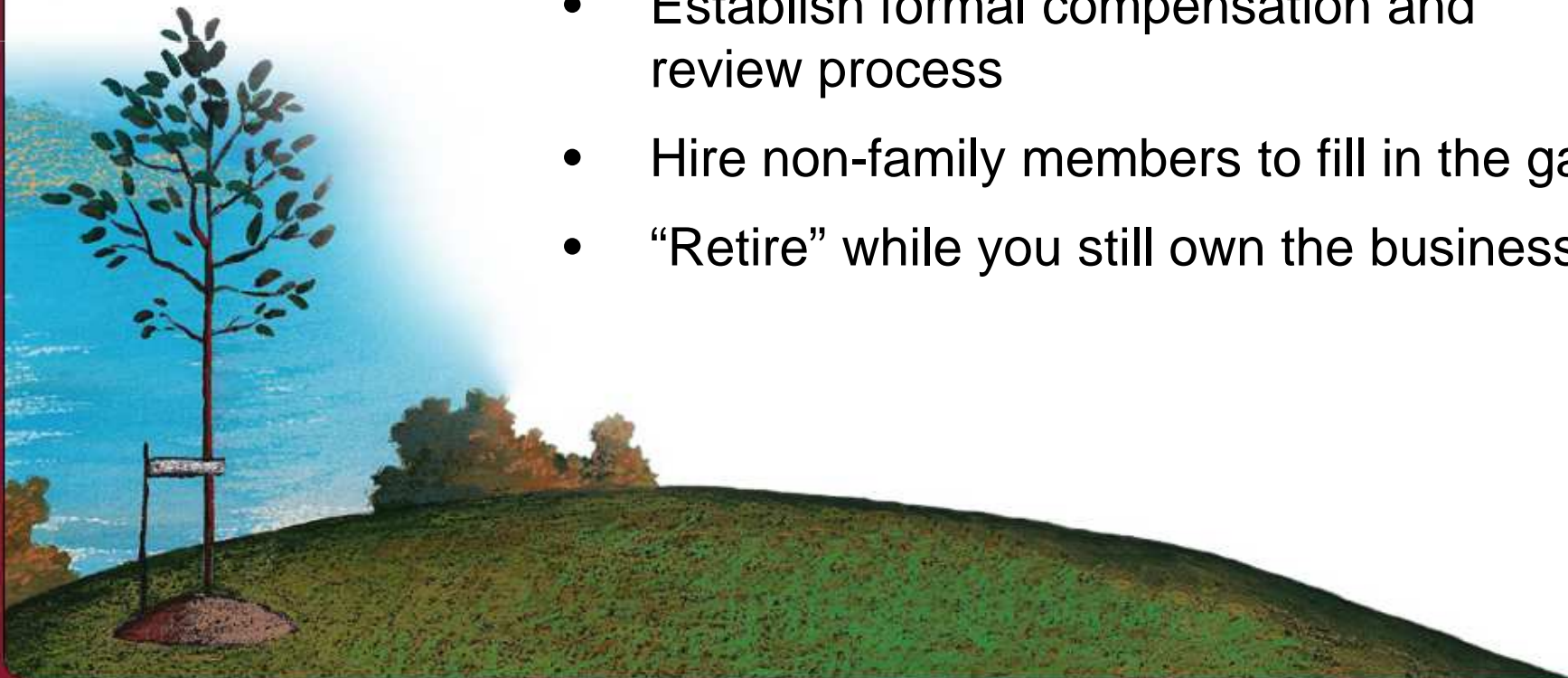
- Step back emotionally (retire while you still own the business)
- Ensure you create wealth outside the business ~ don't rely on the business for your retirement income
- Determine how to redirect your passion



Selling to a Family Member

Transfer of Defacto Control

- Assessment of skills and capabilities of family members:
 - Recognize what is needed to take the business forward
- Train the successor
- Establish formal compensation and review process
- Hire non-family members to fill in the gaps
- “Retire” while you still own the business

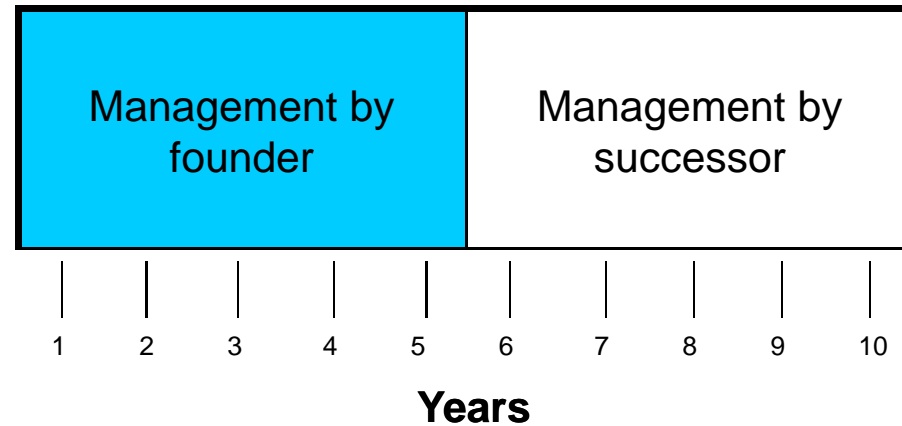


Transfer of Defacto Control



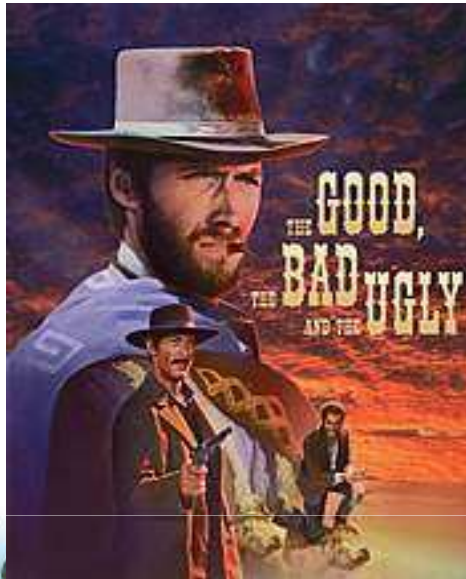
The Bad

Cold Turkey



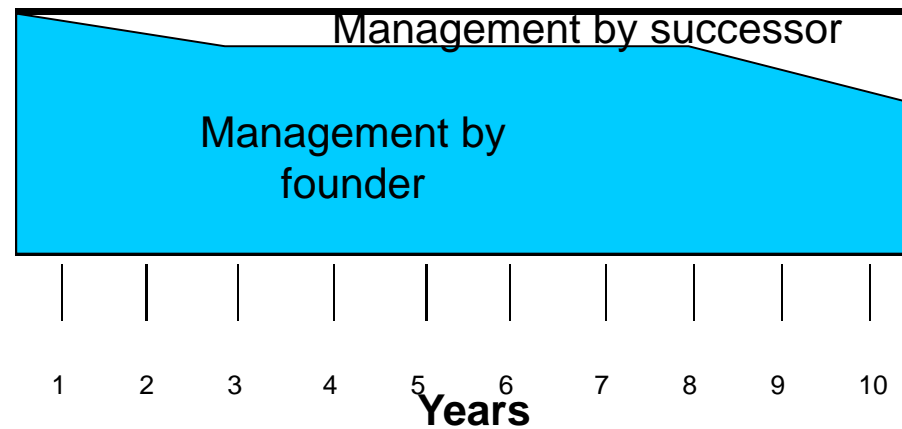
Source: *The Family Business Advisor Magazine*
April 2003

Transfer of Defacto Control



The Bad

Lengthy Delay



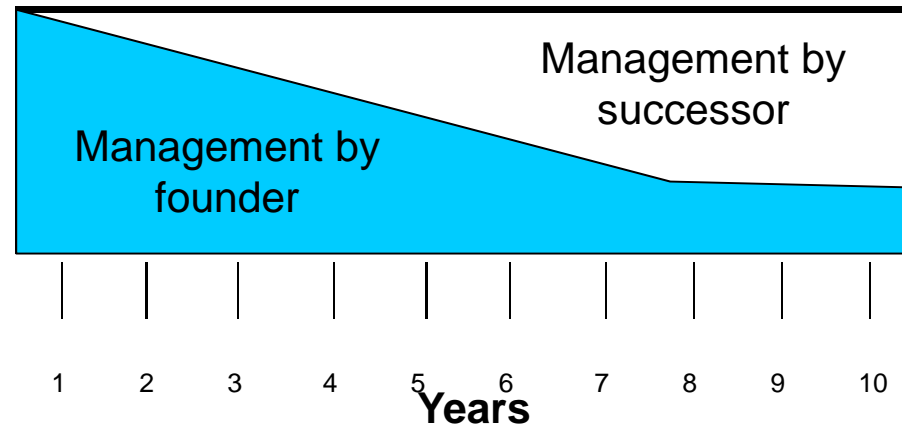
Source: *The Family Business Advisor Magazine*
April 2003

Transfer of Defacto Control



The Good

Progressive



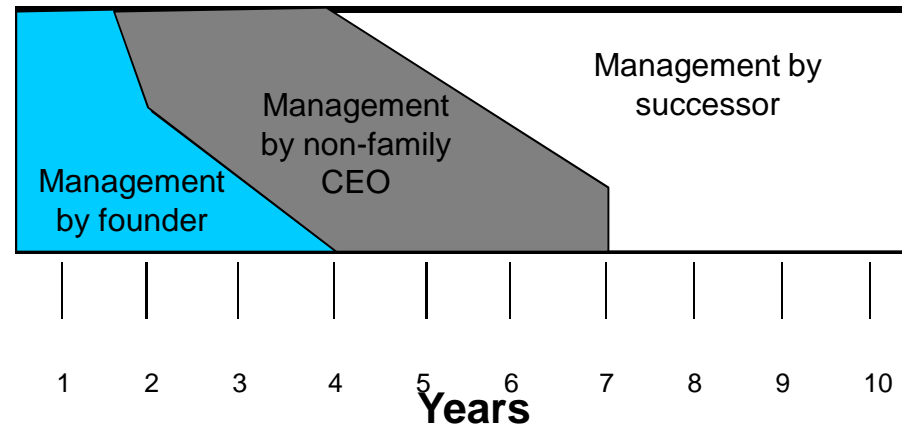
Source: *The Family Business Advisor Magazine*
April 2003

Transfer of Defacto Control



The Good

Non-Family CEO



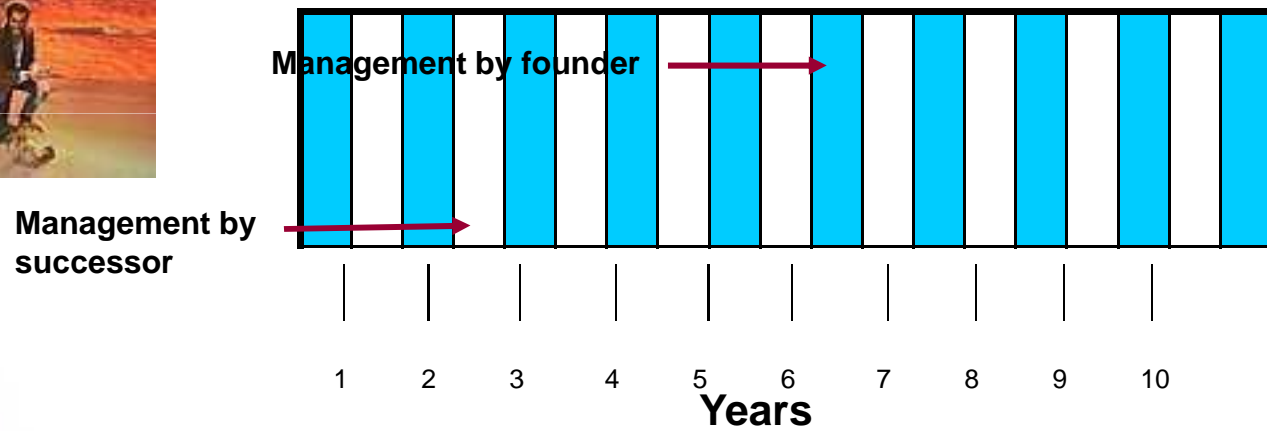
Source: *The Family Business Advisor Magazine*
April 2003

Transfer of Defacto Control



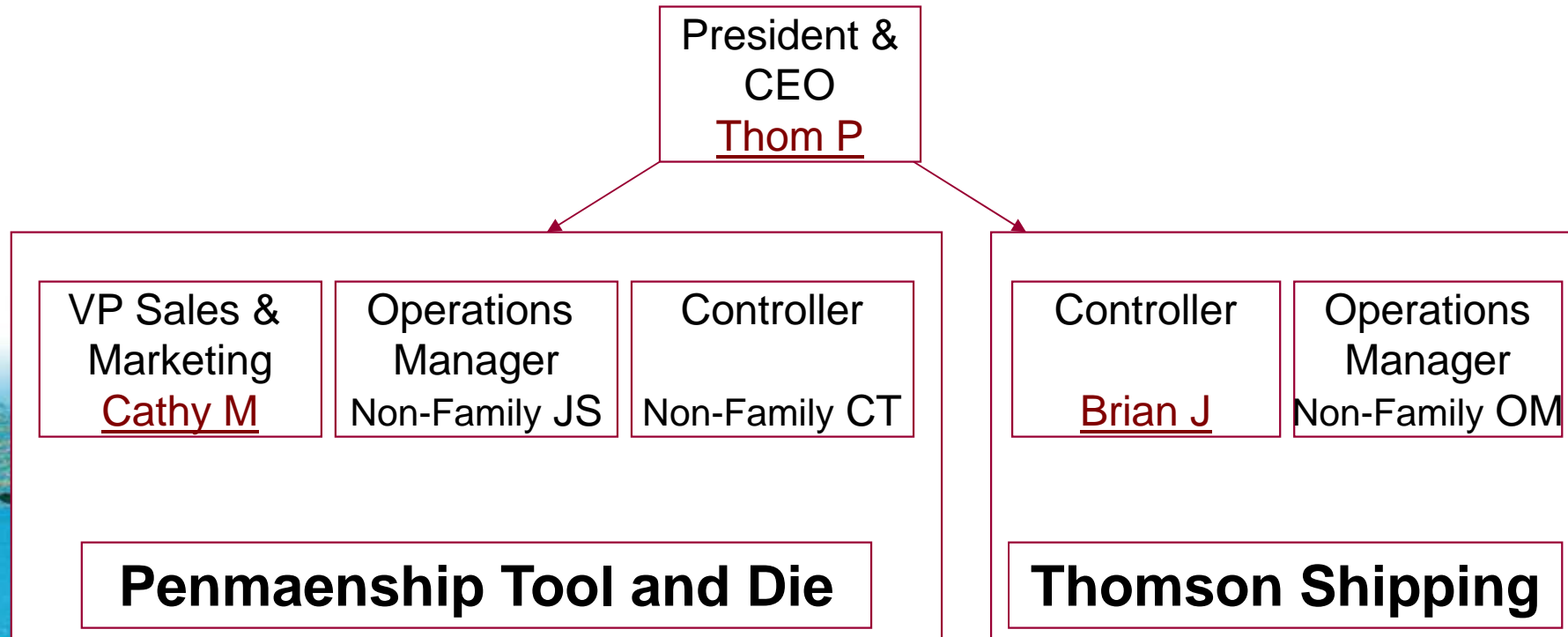
The Ugly

On again, off again



Source: *The Family Business Advisor Magazine*
April 2003

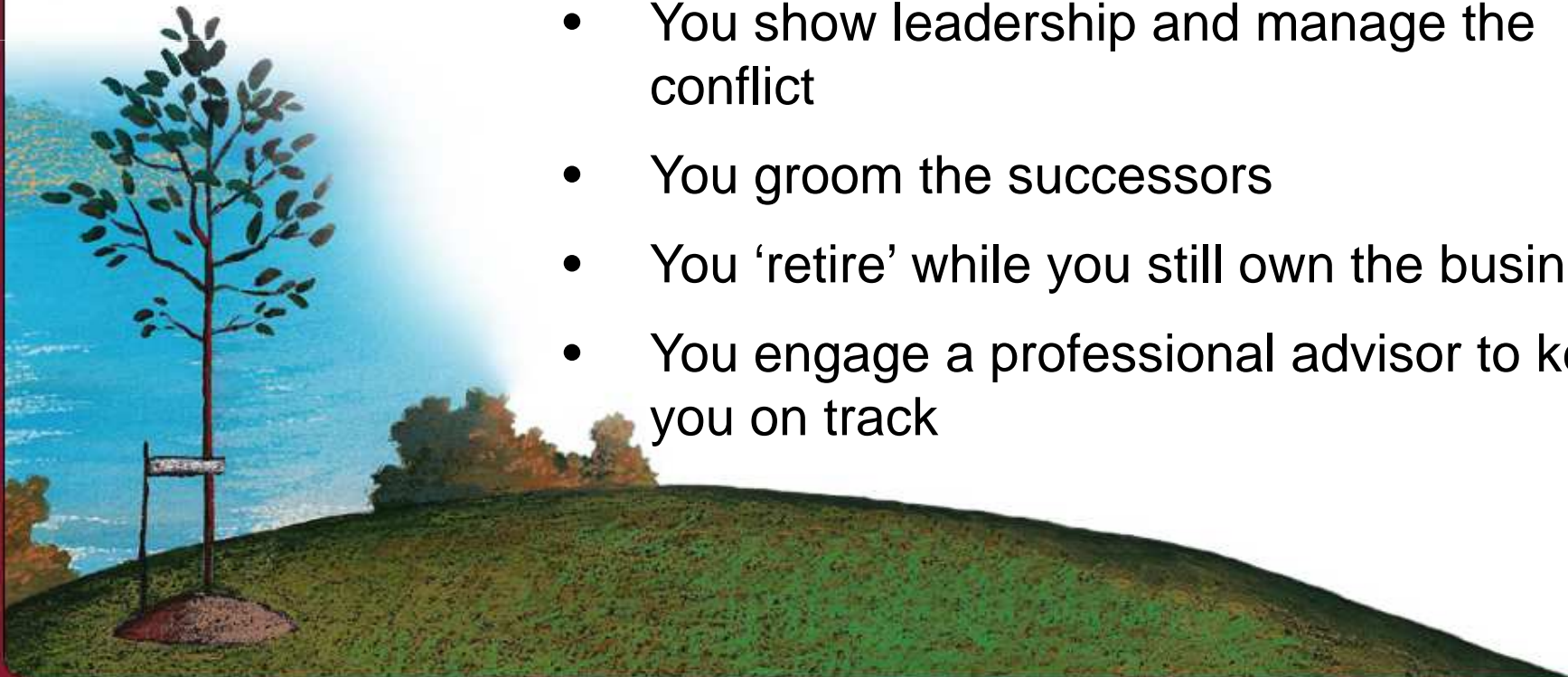
So What do Thom, Cathy and Brian Think?



So Which is the Easy Way Out?

**A voluntary
sale to a Family
Member if:**

- You prepare the business for sale
- You increase the value of the business
- You communicate your vision for the business
- You show leadership and manage the conflict
- You groom the successors
- You 'retire' while you still own the business
- You engage a professional advisor to keep you on track



Selling to Someone Outside the Family

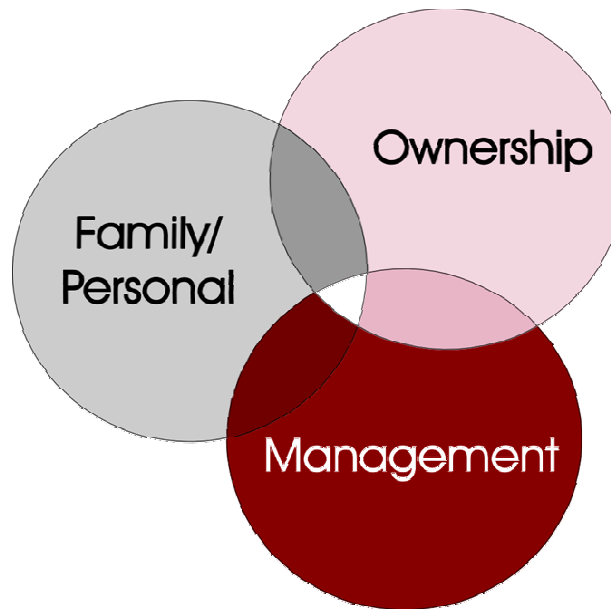
Merely a Conversion of Wealth

- Entrepreneur must focus on the **before** and **after** as opposed to the point-in-time event
- Determine best value – to sell as an operating entity or to sell specific assets
- Create a plan to reinvest the proceeds of the sale
- Engage professionals to find strategic or financial buyer and oversee sale process



Next Steps

**The Lifestyle Plan
The Post Transition Plan
The Communication Plan**



**The Exit Plan
The Ownership Plan**

**The Business Plan
The Transition Financing Plan
The Successor Development Plan**





Family

Ownership

***Committed to Helping Family
Businesses Transition***

Management

**Edward Rosenfeld
Family Business Consultant**

**ed@edwardrosenfeld.com
212.579.2613**

