



# Company Transition – Whole Family Succession

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# Learning Objectives

- Achieve awareness for what gets in the way of family transition plans
- Learn the key attributes of a sound plan
- Identify ways to ensure their family business does not become part of the statistics.



## Brief Bio – Pat Tabor

- 30+ year career serving family businesses as CPA/Consultant
- Owner/Managing Partner of Swan Mountain Consulting Group-boutique consulting firm specializing in recreation company consulting
- Senior Advisor with RSM US Center for Business Transition
- Recently transitioned Swan Group of Companies to the next generation



# The Statistics Aren't Good

- According to The Family Firm Institute, only about 30 percent of family businesses survive into the second generation, 12 percent are viable into the third generation, and only about 3 percent of all family businesses operate into the fourth generation or beyond
- Nearly half of family business owners (43 percent) have no succession plan in place, even though nearly 70% of family businesses would like to pass their business on to the next generation



# How Come?

- Poor succession planning
- Lack of trusted advisers
- Family conflict
- Different visions between generations
- Lack of financial education for children
- Inadequate Leadership skills in next generation
- Inadequate funding of buy-out or not enough resources to effectuate a sale



# What's wrong with Dad?

- Being too emotionally attached to the business
- Being unrealistic about value of business
- Underestimating the importance of a committed management and leadership team
- Not preparing for life post-sale
- Not facing family issues head-on
- Not cleaning up bothersome contingencies
- Working “in” the business and not “on” the business
- Being overwhelmed by all of the moving pieces involved in an exit



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# Transition is an emotional process, not a logical one

The decisions are influenced more by how you feel, than how you think. But to achieve your goals for transition, emotions need to be tamed—the automatic impulses that lead to procrastinating, blaming others and trying to make everyone happy—must be brought under control.



## Case #1 – THE Best BCO

- Founder learned at SHK “school of hard knocks”
- Never got a handout from anyone
- Terms of sale to son proposed exceeded true value of outfit
- Reputation sliding, dad known to “sip a few”
- USFS and other agencies closing in



## Case #2 – THE Best Raft Co

- 40+ years in operation, nationally know
- Multi-million in revenues
- Dad still comes to work, 77 years old
- Two brothers, one sister and spouses all play a role
- Mom supposedly not involved



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## Case #3 – Dude-On-Ranch

- 2<sup>nd</sup> gen run, looking to 3rd
- Grandpa was good, but Dad is a legend
- Three sons involved, grew up in the “big shadow”
- Deep down, no one really wants it
- Family in crisis, what do we do?



# Economic Issues

- Are we buying or are they gifting?
- Do they need retirement funding or can we wait until a death event occurs?
- If we buy, for how much and what are the terms?
- What are the tax ramifications?
- Should the company redeem stock or should children buy out parents?
- What can the Company afford?
- How big do we need to be?



# Leadership Issues

- Who is the successor CEO?
- Do they have the skills?
- How will this effect others in the family?
- What if no one has the requisite skills?
- What other “holes” get created in leadership with departure?
- Can the successors get a long?



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# Emotional Issues

- We don't talk about that kind of thing
- Jimmy really doesn't have what it takes, but I'm not going to tell him
- How are we supposed to support mom & dad and still make a living?
- If he puts my bro in charge, I'm out of here
- She never really has grown up
- I've wanted out of this for a while, but what choice do I have?



# Pathway to Success

- Have your successors work somewhere else first. Before allowing any members of the next generation to enter your business, have them gain valuable experience working outside the family business.
- Only hire a family member for a position he or she is qualified for, and where there is a demonstrated need in the company. If you would not give family members the responsibility if they weren't your offspring, then don't put them in the position.



# Pathway to Success

- Communicate behavioral expectations upfront Set expectations from day one. It should be understood that being a relative means he or she will be held to a higher standard of conduct
- Establish independent reporting relationships. Try to avoid having the next generation report to you, the owner, or any family member for that matter
- Pay market rate



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# Pathway to Success

- Keep confidentiality sacred
- Make the tough calls. For whatever reason, if employing a family member does not turn out to be a good fit, deal with it, directly and swiftly
- Avoid compensating for your mistakes as a parent
- Don't stand in the next generation's way



# Pathway to Success

- Balance what is best for you, the next generation and the company. When the time finally comes to transfer ownership to the next generation, there are myriad options to explore: selling of the ownership interest, gifting, receiving ongoing compensation as a chairman or senior advisor and exploring recapitalization



# Improving the Likelihood of Success

- Working with a transition planning specialist to develop a comprehensive transition plan 5 years in advance of a planned succession/transition
- Putting a designated successor leader into a leadership development/executive coaching program
- Seeking the assistance of a family business psychologist



# Improving the Likelihood of Success

- Working with an advanced financial planner/CPA on the technical mechanisms of:
  - Estate and gift tax
  - Capital gain/ordinary income payout schemes
  - Cash needs post retirement
  - Company cash flow projections
- Outside Board members or Advisory Board
- Family Operating Agreements
- Scheduled and structured Family meetings



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# QUESTIONS



# We can help

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