Talk, plan, do

A guide to business succession and exit

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Crafting a business succession or exit strategy can be one of an entrepreneur's best investments. Building on conversations with clients around the country, we aim to help business owners decide which of four general paths best suits their business, family, and goals. We stress three key ingredients to a successful succession or exit: intergenerational communication; a common family focus; and a shared meaning of equality, equity, and fairness.

Path 1

Transfer the business to family

Family succession is tricky
One study has found that 85% of family businesses are not passed down to the next generation. Reasons include unresolved family disputes, too little preparation of successors, and a reluctance of incumbents to cede control.

Prioritize open, dynamic communication
Start early, as succession discussions can take years. Continuous conversations help to address changing business and family dynamics, while mitigating the risk of tensions and making family less likely to seek outside counsel. Consider drafting a family constitution to drive objective discussion and reduce emotional bias.

Set clear family roles
Know which stakeholders are managers, owners, family members, or a combination thereof. Build policies and mechanisms to resolve disputes if relatives have conflicting objectives. Serial entrepreneur families can consider forming holding companies to unite independent businesses, investments, and philanthropic activity under one umbrella.

Consider equality versus equity of inheritance
Splitting assets equally may not secure a business's or a family's long-term future. Consider family members' talents and distribute assets accordingly. Regularly value assets, assess their growth potential, and spread out the transfer of wealth to maximize fairness.

Path 2

Sell the business privately

Preparations for sale depend on the expected buyer
In a 2018 UBS Investor Watch survey, 48% of respondents said they planned to sell to a competitor, whereas 15% sought a larger company, and 3% a private equity firm.

Professionalize to provide relevant buyer information
Take the time to gather the administrative, financial, and sustainability data potential buyers want. Seek professional external help, and speak to other entrepreneurs about how to balance day-to-day management with record gathering.

Discuss and agree on how much control to retain
Ensure key stakeholders—including family—can agree on how much financial or operational control will be kept after a sale. Losing financial control can impact on entrepreneur's personal and family financial goals. Building a robust wealth plan ahead of sale may replace lost income, while potentially providing diversification.

Be ready for corporate change

The extent and nature of change will depend on what type of buyer takes over the business. For example, trade buyers may quickly impose their own culture and cost cuts, impacting stakeholder performance and morale. Employee ownership schemes may preserve the existing culture but bring in fewer new ideas.

Path 3

Sell the business publicly

Think hard about the drawbacks and scrutiny of a public sale
Entrepreneurs may want to carefully consider the higher public scrutiny and heavier regulatory requirements of this route. Performance pressure, a shift toward "quarterly capitalism," and a loss of control for future generations all can have financial consequences for the family.

Business owners should prepare and reposition the business—and themselves
Full professionalization and documentation will be critical for due diligence and valuation rounds. The demands of a public sale will likely require business owners to step away from day-to-day operations to market their firm. Training to acquire the skills needed for such a sale may be helpful.

Consider business control—and ways to retain it—after going public
Active discussions among key stakeholders and extensive professional advice could be critical to balancing entrepreneur's needs with market requirements—including corporate governance considerations in a world of increased scrutiny of sustainability.

Evaluate the ability of family versus external managers to run the company
The skills required of the next generation to lead a public company may differ significantly from the founder's entrepreneurial flair. Hold open discussions and make objective assessments of whether external managers would better run the firm or whether family members have skills gaps to fill before sale.

Path 4

Close and liquidate the company

Liquidation is more common for non-family firms
A study of more than 30,000 privately held Swedish firms found family-run firms favor a merger over dissolution in order to preserve the socioemotional, or non-financial, wealth they have accumulated.

Prepare key stakeholders to minimize tension
Documents like a power of attorney and expression of wishes can smooth decision-making if an owner is incapacitated. Family mission statements can help families objectively plan their next steps after a highly emotive liquidation.

Assess the costs of liquidation and impact on personal wealth
Consider estimating the administrative costs and possible taxes from liquidation, including potentially setting money aside to cover these expenses. Separating personal and commercial assets can make a clean break easier, while careful cash flow planning can reduce the risk of needing to sell productive assets.

Learn about liquidation from peers
Networks of business owners and entrepreneurs may serve as a good source of best practices for liquidating a firm. Peers may share advice on how to avoid costly, emotional decision-making. Other business owners may even help avoid liquidation by providing fresh capital or ideas.

Let our resources help you proceed with passion. Visit us here.

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