



Succession Planning: All in the Family?

The Challenges of Passing the Family Business to the Next Generation

When Business Gets Personal

(Tysons Corner, VA)—If you thought running a family business is challenging, wait until you try to pass it along to your children or other family members. That’s when business gets personal.

Jason Smolen, founding co-principal of SmolenPlevy in Tysons Corner, VA (www.smolenplevy.com) says a dramatic shift is underway as aging baby boomers look to retire and pass their family businesses on to the next generation. But carrying out an orderly succession to family members can be the ultimate management challenge. Smolen uses a French expression to characterize the potential complications facing business founders. “Après moi le déluge” warns Smolen, translating. “After me, come the floods.”

A MassMutual/Raymond Institute American Family Business Survey shows about 40% of family businesses expect the leadership of their companies to change this year. More than half of family businesses expect a leadership change by 2013. But other studies show more than 70-percent of family owned businesses don’t survive the transition to a second generation.

Smolen says the only way toward a successful (and harmonious) transfer of ownership and management is through comprehensive and long-term planning. Smolen says there are three key goals: making the succession legal, tax efficient and sensitive to family harmony. Among the potential complications and questions that have to be answered:

- Who wants the business? Is it one child, all of them, sons or daughters-in-law or other relatives?
- Will those who don’t participate in the business still expect some kind of compensation?
- Will the parents have enough to live on once they turn over the business?
- Who is driving the process? Is it the parents’ idea, or is it being pushed through by the children/next generation?
- Does the person taking over have enough experience and ability? Will they have enough time to develop the necessary business skills?
- How will the taxes be handled?
- How can we avoid jealousy and in-fighting from grinding the transition to a halt? Will spouses help, or harm the process?

Smolen, a noted expert on business succession planning provides invaluable advice:

- 1) Start business succession planning early. Five years is good. Ten is better.
- 2) Involve your children and relevant family members in the process. While you know what you're giving, you don't always know how it's being received. So it's best to ask, and make sure the next generation buys into the arrangement.
- 3) Examine the strengths and weaknesses of all possible successors before making a decision.
- 4) Train and work with your successor.
- 5) Consult experts about tax and succession planning.
- 6) Realize that sometimes the only answer to keeping family harmony is to sell the family business to an outside buyer.

The business you spent a lifetime building is, in many ways, "your other child." A good succession plan can ensure that you have the funds you need to retire and that the business you have built continues to thrive in the hands of the next generation.

Jason Smolen of SmolenPlevy can discuss the many aspects of business transitions plans. Media contact: Marc Silverstein at 410-963-2345 or at marc@onthemarcmedia.com.