FAMILY BUSINESSES

… Are We Really All on the Same Page About Passing Down the Family Business?

Set up structures in advance and communicate clearly so things don't get awkward later.

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One of the primary advantages that comes with owning a business is control: making decisions about the hours of operation, who to hire and how

much to pay them. Owners also control what will happen to the business when they decide to step down or retire.

After years of growing and running a successful business, many owners have the dream of keeping the company within the family and passing it along to their children. That is an appealing legacy for owners both at the end of their tenure as well as their vision when starting the business.

As a franchise coach, I often talk to people who want to buy a business that they can operate with their son or daughter. Although that is a wonderful thought, it also comes with a lot of red flags. People should never assume that their children will eventually want to run the business or will be capable of doing so. The reality is, most times, the children do not want the business.

Many young adults want to carve their own identity in life and not be under the thumb of the parent. Everyone has different strengths and interests, and those of a child may not perfectly align with the parent's business. Sometimes the relationship between the parent and child is not ideal, particularly working when together. Even if a son or daughter is initially interested in taking over a business, there is no guarantee that they remain that way 10 or 15 years later when the time comes for the parent to retire.

My suggestion is to find a business that they like and can grow. Rather than focusing on a venture to pass along to their children, entrepreneurs should build a business in which they can set an example about what it means to make important decisions and control their time and money. Regardless if the son or daughter decides to join the business, they can get a first-hand experience of what it takes to run the company and it gives them a better understanding of what it takes to be independent in life.

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I can speak about this from my own personal experience. My father owned one of the top beauty salons in Kansas City for about 30 years. I spent many weekends working in the store when I was young and even came back from college during the summer to set up its computer system. My father offered me

the opportunity to join him and take over the business, but I had no desire to do so. I didn't see myself following his path or working in that industry.

Like many others at that time in life, I wanted to see the world and work for a company with a brand name. Eventually, I felt that being part of corporate America was not going to get me where I wanted to go in life, and I did not want to work for someone else. In making this realization, I reflected upon the powerful example my father had shown me his whole life of being an independent individual through operating his own business.

While some people may not be interested in eventually taking over the family business, others eagerly embrace the opportunity for a long-term career path. If that is the case, I would recommend starting the son or daughter at the bottom and having them slowly work their way up the ladder. That approach will make them earn their promotion and avoid sending the wrong message of nepotism within the company. It also exposes them to all aspects of the business and helps prepare them for eventually taking it over one day.

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When the time comes to pass over the business, there are several important things to know. My best advice is for parents to establish a financial arrangement to sell the business to their child over an extended period of time. There are several ways to set it up through corporations or trusts so that the actual ownership does not transfer until death. That will help the son or daughter appreciate the value of the company while also providing a nice retirement income stream for the parent.

I also recommend treating the transfer of ownership like a formal transaction. Have an attorney create a contract outlining what is expected with new ownership. If those steps are not taken or the business suffers, the parent has recourse and is able to take back the company.



While that may initially sound harsh, it actually benefits all members of the family. The parent has worked hard to build the business and would hate to see it fail, especially under a child's guidance. Under this arrangement, the parent will be able to reclaim the business, fix it and sell it back for more money.

The parents will actually be doing their family a favor if they are not running the business correctly. Righting the ship and recovering the company's value provides added money for retirement that can eventually be passed along to the children.

There are many examples of entrepreneurs who have successfully transitioned

ownership of a business to a son or daughter. However, parents should also be prepared for some of the challenges that come with this transition and develop a specific plan prior to purchasing a business.

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