

| FAMILY BUSINESS |

Smooth transition strategy requires early planning

According to the Family Firm Institute, approximately 70 percent of all family businesses fail to make a successful transition past the first generational ownership. In almost half of these cases, the ultimate demise of the business is precipitated by the principal owner's untimely death or disability, oftentimes before there's a chance to recognize the fruits of his or her labor with any meaningful liquidity.

Aside from the significant adverse impact this might have to the company's legacy, in situations where almost all of the principal's personal net worth is tied up in the business, this can have devastating financial consequences for other family members and beneficiaries. Thinking through a succession strategy earlier, rather than later in a company's lifecycle, can help lay the groundwork that enables a result that meets the exit and liquidity objectives of the family as well as ensures the sustainability of the company moving forward.

- Don't procrastinate. Start the planning process now. Figure out your personal and professional motivations and goals and begin to devise a plan for best achieving them.
- Understand your options. Suc-

cession planning can sometimes be associated with giving up control of the company through an outright or majority sale of the company.



INSIDER VIEW

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While this may certainly be an attractive option, there are a range of other alternatives, each with its own advantages and disadvantages, that you should spend time understanding as well. Depending upon your objectives and the state of the company today, a minority sale, a leveraged recapitalization, an Employee Stock Ownership Plan or some combination thereof, might all be viable alternatives that result in liquidity for you without giving up complete control of the company.

- Get the house in order. No matter what path you decide is right for you and the company, it's absolutely critical to get things organized. Develop and maintain detailed financials and credible budgets and forecasts.

- Assemble a team of trusted advisers. You should plan to engage and lean on a trusted team of advisers to guide you through a difficult and time-consuming process.

- Know what your company is worth. Historically, you may not have had reason to value your busi-

ness. Putting in place a sound succession plan is only feasible if you have an understanding of your company's worth, especially if you're contemplating a transfer of ownership as part of your strategy. Generally an investment banker or accounting professional can serve as a good starting point for determining your company's worth.

- Keep your focus on the business. This point might seem somewhat obvious, but it's very easy to become distracted with something as challenging as succession planning. While you should certainly plan to dedicate meaningful resources to such an important issue, never lose sight of the fact that a well-run, successful business will create more options for you in the long term.

Family business owners should recognize that every company and every family situation is unique. Empower yourself with knowledge and understand that the earlier you can get the wheels in motion on some of the steps discussed above, the better the chances you'll find yourself a part of the 30 percent of family businesses who have a successful, and hopefully lucrative, transition past first generational ownership.

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