

A Different Model for Wealth Transfer Planning

Every member of a business-owning family should be concerned about these statistics developed by the Small Business Administration:

- Only thirty percent of all family-owned businesses survive into the second generation.
- Only twelve percent make it to the third generation.
- Only 3 percent of all family businesses continue to operate at the fourth generation level and beyond.

And no wonder. Studies show that only 25 percent of senior family business owners have completed any estate planning, other than writing a will, even though 81 percent say they want the business to stay in the family.

In fact, a Gallup poll reveals that:

- Seventy-two percent of family-owned businesses have no formal business continuation plan.
- Forty-seven percent of family business owners have done no estate planning at all.
- Only 7 percent have hired professionals to help deal with the family relationship issues involved in planning for the continuation of the business.

Clearly, the failure of business owners to provide for the intergenerational transfer of the family's wealth and the succession of business leadership is a big problem. There is one primary reason for this phenomenon; it's the reluctance on the part of the current owners to develop and/or implement an effective wealth transfer plan. But why the reluctance?

Sometimes it stems from the personality of the current owner—especially when that individual is the entrepreneur who started the business. Very often the skills and abilities that helped the entrepreneur establish the business, such as desire for control, willingness to take risks, management by “seat-of-the-pants,” etc., are at odds with those required to plan for the orderly transition of the business to the next generation of owners. A case from my own client files serves as an example.

Alvin was a successful Colorado sheep rancher. One day as I visited with him, Alvin confided in me that he and his wife had always wanted to take a trip to New Zealand and Australia to see sheep ranching there. He wanted to go, but he felt he just couldn't leave the business. I reminded him that someday he was going to leave it anyway—on

a much longer trip—the day he died or retired. I suggested he and his wife go ahead and take the trip and let their adopted son and daughter run the ranch. It would be good for them to get away and it would give him the opportunity to evaluate the children's management abilities.

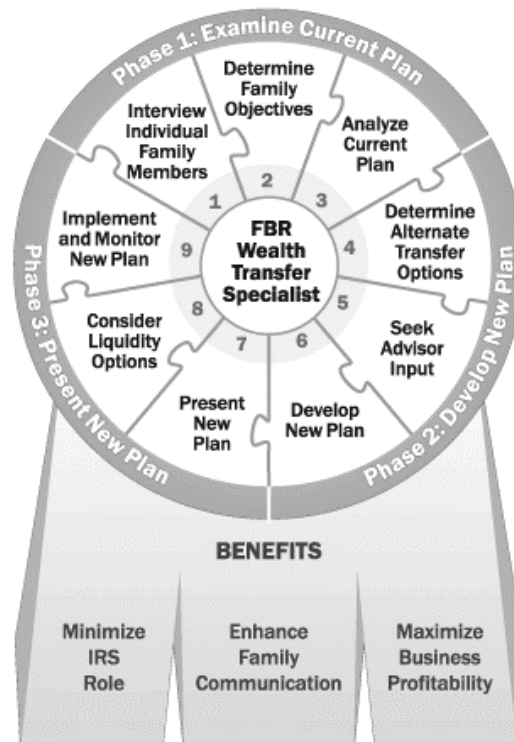
Alvin wasn't keen on letting his children run the ranch so he procrastinated about taking the trip. One day while visiting with him, I watched Alvin busily giving instructions to his foreman, virtually ignoring his son who also was present. It was painfully obvious to me (and surely to his son as well) that Alvin had much greater confidence in his foreman than he did in his son.

Alvin never made the trip down-under. However, he did make the longer trip I warned him about. When he died, Alvin's children were totally unprepared to manage the ranch. Before long, they were forced to sell. A very unhappy result all around. The business was lost to the family, Alvin and his wife missed the chance to enjoy a trip they had long dreamed about and, throughout much of their lives, the relationship between Alvin, his wife and their children was strained.

Think of how differently things might have turned out if Alvin had embraced the challenge of business succession planning and groomed his children to take over management of the ranch in a planned, orderly fashion. Had Alvin been willing to sacrifice a bit of his control over the business, the ranch might still be in the family today.

Planning to transfer a family's wealth to future generations, especially when a business is involved, takes special effort. Instrumental in that effort, I believe, is employing a process that includes all family members and their spouses—those involved with the business and those not involved. A process designed to renew both the family and the business and protect all its important personal and business financial assets.

In the course of my thirty-plus years working with family-owned businesses, I've developed an approach that I believe not only protects and preserves the family's wealth, but greatly enhances family relationships in the process. I call this approach the Family & Business Renewal or FBR Model. Here is a graphic representation of the benefits, phases and steps involved:



The FBR Model

Note that the first phase includes interviewing all the family members. This is crucial in understanding the family's overall objectives and the family members' perspective of the current and future state of the business and their role in it, if any. Once the family's objectives are understood, in phase two a new plan is developed using well-known techniques and strategies we won't elaborate on here.

In the third phase, the newly developed wealth transfer plan is presented to the entire family in a family retreat setting. The critical difference between this approach and the usual practice of treating the current owner alone as decision-maker is that the new plan is designed to meet the needs of *all* the family members and therefore has their support. Contrast this with a plan developed in secret and announced to the family at the reading of the will!

A well-developed wealth transfer plan will accomplish the key benefits indicated by the supporting legs in the graphic. The plan will:

- Minimize the role of the IRS in the operation and transition of the business.
- Enhance family communication in and out of the business environment.
- Maximize business profitability.

Accomplishing these objectives assures the continuing success of the family business as well as the successful transition of business leadership. In the process, other family wealth is also preserved and family relationships are improved or enhanced. Everyone benefits from this win-win approach to wealth transfer planning.

Isn't this a much more attractive outcome than the gloomy result forecast by the statistics at the beginning of this article?

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