Exit Ahead: Transition Planning for Family-Owned Businesses

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Family-owned businesses drive the Oregon economy. As a wave of baby boomer business owners eye retirement, succession planning looms large. A change in decision making control is one of the most significant and stressful periods of the family business lifecycle.

What's the best path for your family business? There are many variables, but the surest way to achieve a successful transfer is for a family to discuss and agree on a transition plan many years before the change occurs. The development of a thoughtful plan helps a family explore options, and increases the odds of a transition that is economically efficient and less personally disruptive.

A successful transfer is one that provides valuable opportunities to family members. While the transfer of control from one generation of a family to the next may deliver this value, a business sale to non-family employees or to a third party may also produce good outcomes.

Aligning your exit plan to a common goal will always be more successful. If a business will remain in the family, a transition plan that meets the expectations of all participating generations is critical. All parties need to be clear on a vision for the family business enterprise, the scope and projected length of commitment of the next generation of owners, and the planned timing for the change in operating control.

Perhaps your family-owned business does not have a "next" generation of family members available, interested or able to take on operating control of the business. What other options are available? In this scenario, a sale of the business to one or more long-term employees who have talent and motivation, and play a primary role in business operations, may be a good exit option.

A transfer to employees can be set up to take place over months or years through a buy-sell (shareholder) agreement that outlines the rights of the employees to buy equity or to self-finance a purchase through business cash flow. A buy-sell agreement can also provide conflict resolution mechanics, and include provisions for the business to repurchase equity if one or more of the employees leave before the transfer is complete.

Another common exit option for a family business is a planned or opportunistic sale of the business to a third-party buyer. A challenge in this process is for the owners to recognize that managing a business sale process is very different from managing day-to-day operations.

Potential buyers focus on the prospects for a return on their transaction investment rather than the maintenance of current operations. If you are considering a potential third-party sale, start thinking like a buyer. Preparation for the sale process might include evaluation of issues including growth opportunities, margin enhancement options, corporate and tax structure, opportunities to grow recurring revenues by contract, and other potential drivers of enterprise value.

One of the most thoughtful and successful transitions I've worked on for an Oregon-based family business is the recent sale of the Pendleton Whisky brands by Hood River Distillers (HRD) to Jose Cuervo for $205 million. The HRD shareholding families hired skilled managers, added outside board members, and pursued a strategic growth plan that had the best potential to return value. Following the sale, HRD remains the largest spirits producer in the Northwest, and continues to grow its other premium brands, while bottling Pendleton for Cuervo at its facility in Hood River.

The value of a planning process is not always obvious in the short term, especially as it will address difficult long-term issues. As soon as a transition is on the horizon, I encourage owners to pursue the difficult conversations, and to revisit them until resolution is found.

If the prospect of this step is daunting, you aren't alone. It is often useful to involve a trusted advisor in this process who can ask good questions about sensitive topics from a non-family perspective. Families can seek to avoid hard topics, even for decades, but a common result is the loss of business value, and feelings of disappointment and grievance.

Once a family commits to a transition plan, it's wise to keep it fresh. Annual meetings can be a good way to revisit and confirm expectations. Every family business will experience a planned or unplanned change in control. When your exit does appear, a well-considered transition plan will preserve value, protect relationships, and limit disruption and stress.

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