Hi, this is Wayne Rivers at The Family Business Institute. A couple of things, first of all, we're always interested in your comments, in your feedback, suggestions for future blogs. Second thing, this is a pure promotion, The Family Business Institute is looking for a facilitator for our peer group program. This job will be posted internationally really in the next few days. But, if you're a business person and you're winding down your career and thinking about what am I going to do in my next life, and you feel like you've had some good accomplishments you want to share with other people, and you'd like to facilitate peer groups of other successful business people, let us know. We have an opening and it's a good fit for people who are looking for that next career. Perhaps you sold your business, etc., etc. Let us know. We're in a talent search mode here. Let's hear from some of our readers and listeners and just keep us posted on that. Thanks for the time for the promo.

This particular blog this week is actually from a reader. This is a reader suggestion. I'm not going to compromise anybody's privacy but it comes from Josh. Josh, thanks very much. We really appreciate it. He suggested that there's a real cost of being in a family business. He had a very specific definition. He called it a family tax. There's a family tax for being in business with siblings, etc., family, mom, dad, etc.

I heard this story ages ago. Gosh, this goes back 20 years. We were at a convention and the guy ... We're sitting by the pool shooting the breeze with a contractor. He was jokingly saying he finally bought his office building from his father. He said, "I've paid for it three times in rent over the years. I finally just said, 'Heck, I'm going to write you a check and we're going to be done with it.'" He was joking but the point he was making is the same as our reader Josh. There's a tax.

When mom and dad own the building and charge above market rent to secure their retirement, when they continue to take salary out of the business even though they're retired and no longer contributing on a day-to-day basis, when they continue to have medical insurance, automobile, office space, clerical help, the high rent, when you're paying your parents above market rate for the business so the business is worth a million bucks but you're paying them three million bucks over the course of 10 years, all those things, we refer to here at FBI as legacy costs. They're very real. They are costs of doing business that you would not otherwise incur if it wasn't your family members.

Now, let's take it a step further. What if you have unproductive family members in the business? What if you have a brother, or a sister, or an uncle, or somebody who maybe at one time was an effective employee, but now is just coasting, and drinking coffee, and looking at the clock all the time? That is a legacy cost. That is what Josh refers to as a family tax. What if you've got a facility that's rundown? When grandad built it, it was in a nice neighborhood. But, now the neighborhood is falling down around the business and you're stuck there where the people in the office leave at 5 o'clock looking over their shoulders because they're afraid they're going to get mugged. That is a family tax. All those things we refer to as legacy costs and they're very real.

Now, think about it. Your competition doesn't necessarily have those things, and so that's a huge competitive disadvantage when you're going to compete for a bid for a product or a service and you've got all these family taxes or legacy costs and your competition doesn't. It's actually a drag on your ability to compete effectively.

If you do have legacy costs or a family tax, what do you about it? Well, two things. The first thing is you've really got to dig deep and model your finances. You've got to be able to project what all these costs are. You know you got labor costs and you've got all of the burden associated with that, the retirement plan, and the medical plan, and all that stuff. If you've got a $100,000, you're an employee, you know that's a 130 or $135,000 a year cost to you. That's easy to figure. You've got your cost of production. You've got your overhead. You got these other things. You've got to build in these legacy costs, too. If you're paying excess rent and all that stuff, that might even be a separate line item.

Model those finances and understand what you have to do to be profitable given the fact that you're carrying an extra burden of cost relative to your competition and you've got to plan for it. You've got to find a way to be competitive in spite of those costs.

The second thing I would suggest once you understand your finances intimately, share those finances with the other people in your family and put on your big boy pants or your big girl pants and, by god, have a heart to heart. You've got to have a peer to peer business relationship with mom and dad, or aunt and uncle, or brother and sister. You've got to be able to look them in the eye and say, "We have a problem that needs discussion and we have to come to a solution for this." It's as simple as that.

Now, we've actually had cases in the past where mom and dad went, "Oh. Gosh. You're right. We can take less money. No problem. We could lower the rent or we could stop the salary. We don't need that anymore." The fear of having that uncomfortable conversation is the main thing holding you back. Don't be afraid. Your survival could be in jeopardy when we have the next economic downturn if you don't fully understand your cost and model out what those costs are doing to you from a profitability and a competitive drag standpoint.

Wayne Rivers at The Family Business Institute. Thank you. Let us know what you're thinking by clicking on the comments button below. Thanks.