

Hi. This is Wayne Rivers at The Family Business Institute, another video blog. Thanks for tuning in. As always, we welcome your comments. Just click the button. If you want a transcription, click the button. It's as simple as that.

People think family business succession is complicated, and I suppose it is, but sometimes we make it too complicated. I want to talk this week about the only four ways to transition a business. There are only four ways. I'm dating myself, but I used to say back in the '90s, "Even if your lawyer's Johnny Cochran". Even if your lawyer's Johnny Cochran himself, there is still only four ways, and of course, that's ... Anyway, Johnny Cochran's no longer with us.

Okay, what are the four ways? Let's think about, it's real simple. First thing is I'm 65, let's say, and I'm thinking about slowing down and one way to transition the family business is to close the doors; and people do that. I've known people to do that. They have a lifestyle business. They run it for a number of years. They make a pile of money, and one day they shut the doors and walk away with their wealth and they sail off into the sunset. This is not a valued judgment. That's okay if that's what you want to do. Why is that not a valid business model? I think it is.

Now, for those of you who want your business to continue, that option you can scratch off because closing the doors doesn't make sense if you've got a really viable going concern. If the business is bigger than just you and your personal services, then that probably doesn't make sense, especially if you want your kids or grandkids or nieces and nephews to be in the business.

Okay. The number two alternative, and this used to be big in the '80s and '90s too. Lawyers would always say ... lawyers and CPAs and financial planners, "Make these gifts." They used to be \$20,000 a years that you give to your kids or, heck, you could give to anybody, for that matter, and then you can give away unified credit. You could give away the family business over the course of four, five, or 10 years and get it out of your estate and not pay any estate taxes. You've heard me go on and on about, "Don't let the tax tail wag the dog." You got a business to run. Avoid taxes by all means whenever you can legally and ethically, but don't let the tax tail wag the dog.

Why would you give away a valuable business? I've never understood this, but why would you give away a valuable business to your young people just to avoid estate taxes? People value things they pay for heck of a lot more than things that they're given. I've always thought skin in the game makes a lot of sense for our family business, moms and dads and aunts and uncles who've worked very, very hard to build themselves up. So, giving away might work depending on your circumstances. It may not work depending on your philosophy and circumstances as well.

Third alternative. Sell it. Sell it to insiders, specifically. Insiders could be your kids or it could also be your non-family key executives. And interesting note, when I started in the '80s and we got FBI going in the '90s, then

almost all of our transitions were family transitions, so it be mom and dad, aunts, uncles, etc., okay. Brothers and sisters, things like that.

Today, I'm willing to bet you ... I don't have a hard number on this, but it just seems to me that most of our business transitions, especially in the construction business, which is our number one industry, commercial construction, I would guess that three out of four, maybe more, are being transitioned outside the family. Maybe the kids hate construction. Maybe they hate the idea of business in general. They want to be college professors or they want to be monks in Tibet. Selling it to insiders, whether it's family or non-family, is a very viable option, and frankly one that's really, really on the rise.

Then, the fourth alternative. Sell it to outsiders. Sell your company to some big Fortune 500 company. Sell it to your rival across the town, whatever it happens to be. Now, a lot of folks think that they're going to wake up one day at 65 years old and they're going to sell their business, and they're probably not. Less than 1%, way less than 1% ... Maybe less than one-tenth of 1% of family/ private/ closely held businesses get sold to a bigger entity in any given year. It just doesn't happen. Why is that? Well, to be very blunt, most of you don't have anything you can sell. The business is so dependent on you or a tiny handful of people that it's really not a viable going concern, and it's not really sellable.

So, let's take things off the table, realistically speaking. Closing the doors. That doesn't make sense for most of you. Giving it away - your lawyer and your CPA and your financial planner might want you to do that. Maybe that makes sense, maybe not. Philosophically, I struggle with it.

The fourth alternative, selling it to outsiders. That just statistically doesn't happen very often. You might have a pipe dream that you're going to sell it to an outsider, but it's probably not going to happen. Where does that leave you? Well, that means selling the business to either insiders or outsiders, and I'm telling you. Probably 90% of the family business transactions that we help facilitate today are of option three.

Now, having said that, there is one other alternative, and that's some combination of the four, right. You could shut down an unprofitable division. You could give away real property to your kids. Maybe they become the landlords of the business, and then you could sell a piece of it to family insiders as well as non-family employee insiders. So, you could use a combination of the four, but outside that combination, these are the only four ways to transition a family business. What I think I'm telling you here is of the four ways, only one of them is genuinely viable today in 2017, as we observe the family business landscape.

That's my two cents for this week. I'd love to hear your comments. There's always interesting pushback when our viewers get back to us. Just click the button below. Let me hear your comments, and as always, this is Wayne Rivers at The Family Business Institute. Thank you.