



## The Art of Successful Family Business Succession Planning

Approximately ninety percent of small businesses are family-owned or controlled, and they often struggle to successfully transition to the next generation. However, through meticulous and thoughtful advanced planning, known as "succession planning," the likelihood of a smooth transfer of ownership and management can be significantly enhanced. This comprehensive succession plan should encompass various aspects, including business, tax, and psychological considerations tailored to the unique needs of family businesses.

**But what exactly are family businesses?** These can be enterprises of varying sizes and across diverse industries, characterized by ownership held by a select group of individuals, typically under the tight control of a few key figures.

Who qualifies as the owners of these family enterprises? The owners are those individuals whose wealth is primarily tied up in the ownership of the business.

**So, why is planning desirable?** Unlike straightforward wealth transfer through investments, family businesses demand careful management. Therefore, owners must not only decide who will inherit their control but also who can effectively run the business – a significant portion of their wealth. All this, while striving to ensure fairness among family members. The ultimate aim of succession planning is to adeptly address these intricate challenges.

**When is the right time to embark on this planning journey?** It is most appropriate when a business has achieved a level of success that ensures a favorable long-term outlook and is identifiable as such.

**How is the planning accomplished?** Business owners should take the lead in forming a planning

team, comprising trusted advisors. This team typically includes an experienced lawyer well-versed in these matters, a seasoned accountant skilled in business valuation and financial operations, financial advisors for the owners, and any other advisors deemed suitable by the owners. These individuals must acknowledge the necessity of planning for their eventual replacement, realistically evaluate the business's prospects, ascertain its value, select suitable successors, and assess the business's ability to generate earnings capable of covering the purchase price or other forms of compensation, all while ensuring adequate income for their successors.



For assistance in these matters, please call an attorney in the Family Wealth and Estate Planning Group at Carlile Patchen & Murphy LLP.