TAX & WEALTH ADVISOR ALERT: SUCCESSION PLANNINGTHE THIRD SIN — “NOT TREATING A BUSINESS LIKE A BUSINESS"

The third sin committed in succession planning is when the business owner fails to treat the business like a business. This sin is a common one for closely-held businesses. Remember that the goal of succession planning is to maximize the value of the business to take care of the people that Mom and Dad care about. One potential way to maximize the value of the business is to sell it. In fact, in my practice, more than half the time, the parents’ exit strategy ends up being sale rather than intra-family transfer.

So to best maximize the purchase price for the sellers, we have to consider the mindset of the unrelated purchaser. Buyers will pay less when Dad makes all of the decisions, has all of the key relationships and runs all of the major processes. As a mentor of mine once sagely put it, “how much would you pay for the Michelangelo sculpting studio?” But, if the business is run through well-designed systems, systems that people can step in and run, a Buyer will pay more. Also, Buyers get nervous and have been known to back out of deals where key relationships are not tied down by contracts. Leases, critical customers and key employees should have contracts to protect the business and its value. A question I often ask clients is, with this relationship, what would the board of Apple do? If they would have a contract, then why not you?

So treat the business like a business—it will maximize the choices Mom and Dad have to use the business to take care of the people they care about.