What if the kids don't want the family business?

When it comes to a family business, a common exit strategy for business owners is to pass the business on to the next generation. However, recent findings in the United States by professional services firm PwC suggest that passing the business on to family members is no longer the norm. According to a PwC survey of family business owners who want to exit their business within the next five years, only 41% want to keep it in the family, 30% want the business to be owned but not run by the next generation and 11% plan to look for buyers outside the family. In addition, adult kids often have career plans outside of the family business. All of these factors contribute to the possibility that a business may not remain within the family.

Considering this shifting landscape, it is important for family business owners to have a clear transition strategy. There are a few things that should be kept in mind to make this process easier.

Communicate early

When it comes to planning a transition strategy, early communication is key. Communicate clearly with family members at an early stage to kick-start the conversation around the family business. For kids, this may mean beginning the conversation before they enter post-secondary school. In addition, make sure to check in with your children often for updates on their shifting interests.

Have a plan B

If the next generation is not interested in taking over the business, consider asking if they are willing to own it if somebody else will run it. This option brings in outside leadership and keeps ownership within the family. If the answer to this option is no, it may be best to consider an external buyer; this often means a friendly competitor or a loyal employee.

Allow enough time

Ideally, allow a buffer of up to five years for the transition period. This will provide enough time to complete and implement a thorough transition plan. According to the PwC survey, less than a quarter (23%) of family business owners currently have a formal succession plan in place. Significantly, almost half (44%) of the owners surveyed believe succession planning will be a major challenge for them. Starting earlier can help mitigate this challenge.

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Get a professional valuation

One of the first steps in creating a transition strategy is to get a professional valuation of the business, whether the business owner decides to sell or keep the business within the family. Knowing the fair market value of the business will allow business owners to plan and negotiate the exit decision, and to plan for retirement. When it comes to estate planning, the value of the business is an important factor in the division of children's inheritances.

If you are beginning to think about the development of a plan for eventual exit from your family business, contact your BMO business advisor for advice on the transition of your business.

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