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AVOIDING AN INEVITABLE FAMILY FEUD

Introduction

If you are a parent, do you remember watching your children squabble over who should get to watch their show on TV, or whose toy it was, or even who got to ride in the front seat of the car on a trip to the grocery store? Have you ever seen your children or nieces or nephews destroy something in the process of fighting over it? If you are a parent, aunt or uncle of course you do! That what kids do…fight like crazy over absolutely every matter imaginable. Now imagine them fighting over a potentially million dollar asset. Kind of terrifying.

If you own a family or closely-held business, this kind of battle could be in their future. There are thousands of family businesses in this country and each and every one of them can cause an incurable rift within the family when passed on. If you have a family business, quite simply, you need a business succession plan in order to avoid a family feud.

Background

There are different types of exit strategies to choose from. Most entrepreneurs who start businesses set their ultimate goal as selling an initial public offering on NASDAQ. While this is a respectable and admirable goal, for most it is not likely to happen. Most exits from business involve a sale or some other succession from of the business. It is important to make a reasonable goal when creating an exit plan. This does not mean an IPO is unreasonable for everyone, but the business owner should think about possible alternatives to their primary goal or their intended exit. The alternatives include:

[1] Sale of a Business A business is sold to an individual, group of individuals, or an entity. Doing this, the business owner receives cash or an equivalent for the business. However, it can be difficult to find a ready, willing, and able buyer to purchase the business.

[2] Acquisition Similar to the "Sale of a Business" exit, but usually involves an outright purchase by another company. You receive cash right away, but you must find a ready, willing, and able buyer that wants to acquire your business and add to their business.

[3] Merger In this type of exit, the business joins with an existing company. As with a sale of a business, you get cash, stock, or a cash equivalent, but you join in with new partners and may suffer a partial or complete loss of control of your business. In addition, you may end up with stock in another company. A Buy-Sell Agreement is used for the future exit strategy.

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