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The Chosen One is Ready, Willing and Able / Having a Plan B

Michael Wildeveld, CEPA, M&AMI, CM&AP, CM&AA, CBI, CBB
michaelw@veldma.com

Veld Mergers & Acquisitions
www.veldma.com
1 Park Plaza, 600
Irvine, CA 92614
310-652-8066

How does a parent know whether a child is capable and willing to run and own a business? One of the best indicators is the parent's past willingness to take extended vacations without calling the business to just "check up on things." Of course, handling day-to-day issues does not tell you if the child is capable of being a long term owner who can handle larger issues of growth, future competition, and economic down-turns. Your job is to prepare the child for future business risks as you would any key employee: with training, responsibility, education and example. It is at this point that the assistance of advisors can be most valuable.

Having a Plan B

As one assembles and prepares the ingredients for a recipe, any number of things can go wrong. So it is too with an intergenerational business transfer. That is why having a back-up plan is crucial. Let's look at the most common causes for employing your "Plan B."

- If you die or become incapacitated before the transition is complete, your estate plan (wills and trusts) must effect the transfer of the business to the child(ren) of your choice.
- If the business has increased in value to such a point that a buyout by a child is just too difficult financially, you must be prepared to offer the business for sale to a third party.
- Even if your child is able to purchase a highly valuable business, you may not be able to provide assets of equal value to your other children. Remember that fairness is a crucial ingredient for a successful transfer.
- Similarly, some businesses become too complex or too sophisticated for any one person to run and control. No child can be expected to shoulder that burden successfully. In this case, a better alternative is to sell to a third party (although professional management is a possibility.)
- As time passes, you may discover that the business-active child does not possess the drive or interest to carry the business. His or her desire to please you may have blinded you to his lack of ability or willingness to assume the risk. Or, he may not have fully understood the personal and financial sacrifices necessary to continue the success of the business. Again, a sale to a third party may be a better option.
- Finally, as parents and child move through the transfer process, substantial differences in

management style and practices emerge. Sometimes these differences can be overcome but often they are so great that the transfer cannot be completed. It is imperative that if the transfer falters, the business-active child's ownership interest be reacquired by the company at the lowest defensible price. This is best accomplished through binding buy-back agreements between the company and children.

For all of these reasons, it is important that a back-up plan exist. If the business transfer goes awry you must have a "Plan B."

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