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## **AGING SMALL-BUSINESS OWNERS: HOW TO EXIT GRACEFULLY**

Imagine the following scenario. The owner of a \$15 million family business celebrates his 85th birthday tomorrow. He is healthy and energetic, and comes to work every day. His two "children" are age 60 and 63, and both work at the family business. They, in turn, have children in their mid- to late thirties, two of whom also work in the business. It is the owner's intention to pass on his business to his family-someday!

This scenario is becoming increasingly common, say financial planners, as life expectancy grows and healthy owners are able to run their businesses into their seventies and even eighties. But if the owner truly wants to keep the business in the family as a legacy, waiting late into life to pass it on-especially if that life extends 90 years or more-jeopardizes the owner's vision, say planners.

Consider the owner of the \$15 million business. He might live to be 90 or 95, in good health much of that time. By then, his children will be in their 70's. They undoubtedly feel they deserve to share in the bounty of the family business that they have worked hard for, yet they may want to retire by then if they haven't already, or they may be in poor health. They also will likely feel anger at their father for what they perceive as his stubborn retention of control of the business. Furthermore, the owner's grandchildren who work for the business may not have any deep desire to eventually own the business.

The Family Firm Institute of Boston [Newton article, Journal, Sep 99, p 64] reports that 81 percent of owners want to keep the business in the family. However, the Institute also points out that 70 percent of family owned businesses fail to make it to the next generation and 88 percent fail to make it to the third generation. Waiting too long to pass on the family business only exacerbates the likelihood for

failure, say planners who counsel small-business owners.

It's understandable that a healthy though aging business owner would want to hang on to the business he or she created. Why quit in your 60's when you still have years left? So how do you gracefully exit early enough to benefit your heirs and the business instead of waiting until you are on your death bed, yet find a way to occupy that creative energy you still have left?

Financial planners have several suggestions. One of the first is to objectively determine whether you really should try to pass the business on to the family. Do one or more family members truly want the business? And if they do, are they capable of running it successfully?

These questions aren't necessarily easy to answer. Family members may, out of loyalty to the owner, say they are willing to run the business, though in reality they may actually want to do something else. The owner also may find it difficult to personally acknowledge, let alone tell, family members that they are not capable of running the business. There also may be the issue of how to pass on the business fairly-not necessarily in equal shares-to family members. That issue usually can be worked out with planning and with professional advice.

If the owner decides not to try to keep the business in the family, then the focus may shift to selling the business, either to fund retirement or to eventually pass the sale proceeds on to heirs. Other ownership transition strategies can be examined, too, such as employee stock option plans or charitable remainder trusts, which could intersect with the owner's overall estate plan. An owner also might establish a charitable family foundation with proceeds from the business.

Assuming a capable family member wants to run your business, how do you exit gracefully while staying active? One option is to stay on, probably part time, as a consultant to the business. This keeps you active and provides benefits to the business. The trick is to be a consultant, not a meddler. Constantly looking over the shoulder of the heir running the business usually creates ill will and fails to benefit the business.

Another effective way to channel that entrepreneurial energy is to become a consultant or an "angel" to other small-business enterprises. New business owners often relish the wisdom and advice of someone who has successfully gone before them.



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