Trouble at family businesses may spell opportunity for advisers

Owners need help with tough succession, retirement decisions

By Charles Paikert
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Financial advisers and planners may benefit from the economic crisis’ impact on retirement and succession planning for family businesses, according to observers.

"Family businesses could use a lot of help right now," said Carlos Lowenberg Jr., president of Lowenberg Wealth Management Group Inc. in Austin, Texas, which specializes in business financial planning. "Only 30% of transitions to the second generation are successful."

And the financial crisis has made succession planning more critical than ever, Mr. Lowenberg said.

"Owners are asking themselves if they should build and maintain a legacy or pull money out for retirement," he said. "One owner I’ve worked with realized that if he sold his company and kept up his current lifestyle, he’d only have eight years of income from the sale."

CONFRONTING BIG ISSUES

The financial crisis has forced owners of these businesses to confront planning and succession issues that they might otherwise have put off.

"When everything is going great, people stick with the status quo," said James Raaf, managing director of family office services at Chicago-based Harris myCFO Inc., who also works with family business owners. "When there’s a shock to the system, people begin to reassess their strategic options."

The financial crisis, Mr. Raaf said, has made the
already difficult decision of whether to keep a business in the family or liquidate it even harder.

"Owners are asking themselves, 'In this kind of environment, do I want my kids to shoulder the risk of a concentrated asset, versus the risk and reward of a concentrated portfolio?" he said.

Mr. Raaf and Richard Shuma, senior vice president for Harris' commercial middle market group, along with author and family business expert Sarah Kruger, co-wrote "Here, Take the Wheel: Succession Planning Stories and Insights from Business Owners," published as a hardcover book by Harris this year.

Advisers should also recognize that lower taxes for family business owners as a result of lower valuations represent an opportunity for them to transfer assets within the family, said Mr. Lowenberg, whose firm has about $180 million in assets under management.

However, lower valuations, as well as a lack of credit, have also inhibited sales of family businesses to third parties and have decreased owners' financing leverage, he said.

In addition, earnings for many businesses are "uncertain going forward," Mr. Lowenberg said. As a result, he said, "third-party deals have been dead in the water."

But intrafamily transfers of assets are picking up, Mr. Lowenberg said.

"People are getting out of that deer-in-the-headlights phase," he said.

The personal wealth of founders of family businesses who were planning to retire has been significantly depleted, possibly delaying retirement and a planned succession, Mr. Fidanzi said.

"If there were plans to sell the business, the value of the business may be reduced significantly," he said.

"If the leadership was planning to sell the business, does it hold off and focus on rebuilding the value or does it continue with the exit plan?"

Business owners may need to re-evaluate the timing and approach of succession, Mr. Fidanzi said.

"If a family business has planned to begin the transition of leadership prior to the economic downturn, it may want to consider holding off until the situation improves or modify the approach to the succession," he said.

"For many businesses, it is a time of crisis and survival. It may not be a good decision to have a succession event and transition to new leadership during this challenging
“time,” Mr. Fidanzi said.

“The effect of the crisis is far-reaching.”

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