



## Regions Wealth Podcast

### **Episode 1: Selling vs. Succession:**

It's the biggest question for any business owner: When you're planning for retirement, should you pass your business on, or should you sell it? And if you pass it on, who should you pass it on to? Wealth Planning Executive Bryan Koepp joins us in studio to discuss what factors business owners need to consider before selling their business or creating a succession plan.

### ***Episode Transcript***

#### **Anne Johnsos:**

Welcome to Regions Wealth Podcast, the podcast that tackles life's challenges with financial experience. I'm your host, Anne Johnsos. According to the U.S. Census Bureau, about 90 percent of American businesses are family-owned or controlled. What happens when the owners of those businesses want to retire? Should they sell, or pass the business on? Joining me in studio is Bryan Koepp, Senior Wealth Strategist at Regions Bank. Bryan, thanks for being here.

#### **Bryan Koepp, Wealth Planning Executive, Regions Bank:**

My pleasure.

#### **Anne:**

In this episode we're talking about selling or succession. We've taken frequently asked questions from a bunch of people and developed a character who needs your advice. Let's listen.

#### **Dylan:**

"Hello, hi. I'm Dylan and this is my first podcast so bear with me. My business is manufacturing, so this isn't the kind of thing I do much. I grew my business from the ground up. It's pretty successful now, but I gotta be honest — I still feel more comfortable in the shop than in offices or situations like these. Which I guess is as good a place as any to start talking about what's next for my company. So my shop builds machine parts for bigger manufacturing companies. My granddad started it as a side business 50 years ago. It was small potatoes back then — just a way for him to earn a few extra bucks. Granddad taught me how to make the parts early on. After he retired back in the 80's, I helped my dad turn it into a real business. We've got more than 200 employees now. I taught my oldest son how to build parts, too. He's been a foreman at the company for 10 years. He's not interested in running the business side of things, though. My two other kids have zero interest in the business. I don't wanna force it on them, either.



**Anne:**

Bryan you've been helping business owners transition for 20 years. How big a role does sentimentality play in situations like this?

**Bryan:**

Sentimentality plays a considerable role because if you think about it here in Dylan's case, he really has four children: it's the three children and the business which is the fourth child, and the fourth child ultimately always has needs. So when you build something with vision you've taken a lot of risks and you begin to think about how ultimately you want to either perpetuate a legacy or to make sure that business continues in perpetuity or both; really it becomes then a multi-dimensional puzzle in regards to how do accomplish the right direction.

**Anne:**

So the 2019 PwC U.S. Family Business Survey found only 58% of family business owners have a documented succession plan. Most of those are informal. Do you have any go-to questions or considerations you share with clients when you are trying to help them figure this out?

**Bryan:**

Yes. When you start business transition planning, you really start in the same place whatever the goal is. And it's really three key questions: who, when, and how much. Who: who am I going to transition into? So in my 20 years of practice, I have never truly met a business owner that has exactly pointed out and said "that's who it's going to be". So keep an open mind regarding the who.

The when: I think I've met one business owner in my 20-year career that said, "December 31<sup>st</sup> on 2017 will be the day," and it was. Other than that, it's really a range of days. If you think about the fact that — if it's children — they may or may not be ready. They may have children of their own. They may have domestic events. They may be distracted. There may be a growth cycle in the business that requires your personal guarantee on a loan. It could be all these things that says "okay, maybe next year". So, it's not to say that you don't know but it's to say that to be open to a range of days and to plan for a range.

The how much: So immediately when you say, "how much", people will say "I'm going to sell my business for X-amount of money". That's some of it, but in a family business transition sense, it's "how much money do I want/need from the business to maintain and have the lifestyle that I want to have and to perpetuate the legacy that we also want to pursue and create".

A great backdrop though is no matter what happens, make sure you have a contingency plan in place because one of the risks with a business — especially with the sentimentality involved with a family business — is that we don't adequately plan for the unforeseen and what happens is potential loss of business value, loss of a key person which could result in the loss of productivity and ultimately the business being viable, and as well the prospect of unwanted



probate expenses, taxes, these sort of things. But these are all things that can be planned around. And as long as you attack these things early and you monitor them as the business grows, you will be in the best shape possible.

**Anne:**

Right, so let's hear where Dylan's head's at regarding the "who" part of it.

**Dylan:**

Thing is, I'm ready for retirement. I'd love to pass the business on to my kids. It's my granddad's legacy. At the same time, I don't wanna saddle 'em with something they don't want.

**Anne:**

So according to the PWC study only about a third of all family-owned businesses make the transition into a second generation. Is it common to see situations where someone wishes to keep the business in the family, but their kids are not interested?

**Bryan:**

Yeah. First of all, if you think about the generation of kids that lived through 2008, a lot of families lost their business, and so now you reboot and those children don't like that level of risk, so there is a fear factor of being in that business. The second issue would be the fact that it just has to do with passions and differences. And so, it's nothing against the family or the legacy of the business, it just may be that the talents and the desire — whether it's geographical or the type of work or whatever life throws — is just different.

**Anne:**

So, it sounds like Dylan is on the right track by not wanting to force it on his kids.

**Bryan:**

Yeah. I think if you step back and more importantly than business consulting and transition consulting is life consulting, and I would say to Dylan, "would you rather have a happy business or a happy son?" I would pick the happy son.

**Anne:**

So, let's hear from Dylan about the other options he's considering.

**Dylan:**

Then there's Jeff, my operations manager. He's been with the company since my granddad was running things. He already owns a 10 percent share, and he's expressed interest in buying me out. Says he's not planning on ever retiring and I believe it. He loves this company. He treats the kids like family, too. Thing is, it just feels weird to have 100 percent of the business go to someone else. I'm toying with the idea of letting Jeff grab a 70 percent stake. Then I can



split the remaining 30 percent among my three kids. That way, I'm sort of keeping it in the family while relieving the kids of any big pressure.

**Anne:**

What's your reaction to that?

**Bryan:**

In all honesty, I see a yellow blinking light in regards to that type of transaction, for a number of reasons. And I think we would need to dig deeper, but here would be my concerns. The first one is that we are assuming again that Dylan has figured out what he needs and wants when he gives up control of the company. So, when we give up 70 percent — and I'm assuming 70 percent voting — what we've now done is we have put that into somebody else's hands. He owns 10 percent, his current key employee, but the question becomes how do we get the other 60 percent into his hands? Can the business lever-up and finance that transaction? Maybe, maybe not. Is he going to be paid from cash flow? Well if it's going to be paid from cash flow, that business is for certain going to need to operate at full efficiency. If it doesn't and it fails or if the key employee has a personal situation, not only is Dylan's retirement in jeopardy, but his children's legacy and inheritance is at jeopardy too. So, we are putting a lot of faith in that key employee that they are going to be able to deliver. And that's not to say that he can't, but I would advise him that you need to really think about "what if" in that scenario. We don't get a do-over with retirement.

**Dylan:**

Here's where things get a little confusing. I've gotten some interest from a big company that wants to buy us up. It's a real good deal for me. The downside? It's likely gonna be a bad deal for my workers. They've bought up a few of my competitors and shut 'em down real fast. Most of my people have been with the company for decades. I don't wanna put them out of a job.

**Anne:**

So, what would you tell Dylan to do right now?

**Bryan:**

I would tell Dylan in this situation is that you need to vet every opportunity, because here's what we do know: we know that retirement is on the horizon because he's made that known. And so the best thing that you can do is strategically plan and run what I would call comparison scenarios, the what-ifs. Now, that's a simulation. It's not reality and there are things in reality that we can't predict: acts of God, weather. The same is true here — you can't time the transition of your business. You need to be in it and be in the process to successfully transition. And you need to really define success on a number of planes. So that's what I would urge you to do, is to sit down, define success, define what you want and what you need and then ultimately do that quantitative analysis and say what are my multiple paths to get there. Knowing that there's no perfect path, because if there was you would take it, so we know it's not there. And again, that's okay, because if you think about how you've built this



business there was not a perfect path there either. And the fact that you care about those employees is the most moral and best thing of all, and that says a lot about you as a human being. Don't let that, however, become a detractor or a deflection in regards to making the best decision for you and your family.

**Anne:**

Modeling some of those what-if scenarios could certainly take a bit of the emotion out of it. Let's get the final piece of the puzzle from Dylan.

**Dylan:**

Thing is, business is starting to slow down. That's just the way things are going for most shops in our industry. Who knows what the future holds? Maybe I'm being too sentimental. My head's telling me to sell. Then I can use the money to retire comfortably. You know, treat the wife to a nice beachfront home on Hilton Head Island and leave my kids whatever's left. Problem is, my heart's saying otherwise.

**Anne:**

All right, we know Dylan is a good guy. He's definitely thinking this through. How might this decision impact his retirement?

**Bryan:**

I always approach retirement as the zen question which is: it means what you want it to mean and you have to define it yourself. So, entrepreneurs truly never retire. We kind of put retirement in quotes. So in that respect, it's thinking about and structuring retirement, and this is where sentimentality comes in, as far as a business owner what is that going to look like? There's often obviously vesting. You've been in this business for a long time. There's ego, there's risk, there's been success, there have been failures. So, these are the initial strategic planning questions that we're going to face: How do we define retirement and make sure that we have the wants and needs available to make it happen? Two, how do we transition the business, both tax efficiently but also with the intention of perpetuity, meaning that we put our children in the best position to run it. And then third, if all the children are not involved in the business, how do we ensure that we have in essence what would define as wealth equalization? And again, that means something different to each and every family who have a business. So as an advisor, you really need to lock and focus on those questions and the goals and intentionality that a business owner has to really provide for them the best path to get there.

**Anne:**

So, Bryan, we like to end these podcasts with some takeaways — something our audience members can tell their friends. So, what are some takeaways you can offer?

**Bryan:**



Well I think there's a number of takeaways from our discussion today. Family businesses make this country very special. They also present a unique set of circumstances in regards to strategic planning. The first takeaway that I would leave you with would be is to find a unique balance for yourself in regards to an investment in strategic planning, but it doesn't have to be planning yourself again into a corner. So get that contingency plan done. Make sure you have a great estate plan in place. Think about asset protection. Think about what's the most important to you. What are your passions?

The second takeaway: surround yourself with people you trust, but not yes people. So you need to have honest people. People that you would say "okay, you are great advisors but you are also great confidants, tell me exactly what I need to do, what my options are and what is the reality of what I'm trying to accomplish". So, have those advisors challenge you and you challenge them. One of the best things I love of my job is being challenged by you. Challenge me, and we will challenge one another.

I think the third and final takeaway that I would say is this: there's a lot of statistical information on family businesses. I talk about that all the time in regards to success rate. So we talked about the PWC studies today — 30% success to the second generation, 12% to the third generation, 4% to the fourth generation. That's fine. All you need to be concerned about is 100% — one out of one. Focus on yourself. Don't look over your shoulder. Run your own race. That puts you in the best position to meet the goals and objectives that you have.

**Anne:**

Bryan Koepp, Senior Wealth Strategist at Regions Bank, thanks for joining us.

**Bryan:**

My pleasure. Any time.

**Anne**

And thank you all for listening. We'll be covering a new wealth management challenge in every episode, so check back, and maybe introduce us to a friend you think would benefit from Regions Wealth Podcast.

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