

Transparency Is Needed When Selling A Family Business

By [Adam Burroughs](#) On September 29, 2023

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Multigenerational family businesses, says Richard J. Wolkowitz, CEO and Family Advisor at Xylogenesi | Family Office Advisory, are tough. The family working in the business may have a different perspective than those that don't work in, but benefit from, the family business. Really good governance, then, is necessary — to establish that within the family system so that there is a process, continuity and a cadence of discussion of topics. And whether that's at the family level, ownership level, or within the management system of the of the family business, everyone needs to have a say, and have a process to be heard.

“The key is thinking about life after the sale, if that's the direction everyone's going to go,” Wolkowitz says. “And the complexity that arises there may not be 100 percent sale. It may be where some family or management continue on, some family may sell and not be a part of it. And so addressing those feelings, and also the valuation because some family members may feel that if they're being bought out, but others are continuing on, that maybe they're going to see a premium of the purchase price because they're continuing on. Or other family members may feel I need to continue on and make the sale happen — I don't want to continue on, but I have to. And so there's some hard feelings that part of the sale is that they're continuing on with the sale, and they really would like to be free of that. So, there needs to be good discussion and planning for that.”

Many family businesses have embedded services and costs buried in their businesses.

“So, if you're looking to do a sale, it's really prudent to get ahead of that to strip out either the headcount, the payroll, the related party agreements, the country club memberships, the suite at the football stadium, because that's not part of the

sale,” he says. “And those expenses need to be really positioned well so that you can position the company to optimize the purchase price.”

Preparing a family business for sale, then, means bringing up some very sensitive issues. And once those expenses are stripped out of the company, expenses once assigned to a department in the company, it can mean that everyone has to pay for themselves. That could lead to the establishment of a separate holding company, and determining how to manage those services.

For Wolkowitz, part of the process of getting a family company optimized for selling is considering the concept of a family office structure to deal with life after the sale.

The first step is trying to understand where the family wants to be at the end of the day.

“Some families look at it and say, Well, it’s a liquidity event and they’re going to make a distribution and all the family members are going to go their separate ways,” he says. “So, the first question is, are we going to stay together as a family and for what purpose? And so exploring that would be the first step and then seeing who you need to support that.”

Looking at the operating company and the support staff that may be doing internal work — an accounting department and a CFO for handling many of the family’s financial and tax matters — the question to ask is whether those people going to come with the family in the future if they decide to establish a family office or a separate entity to manage the family? Then, the family puts those questions to the staff — their accounting clerks and their marketing people.

And even more broadly within the family, there can be separate properties and assets to consider — ranches, lake and vacation homes, horses — might have been looked after by company staff.

“You really need to step back and dissect what does life looked like afterwards?” Wolkowitz says. “Who we’re going to have to service us and all of our assets. And what’s the cost for that? And if it’s a cost center, are we OK with that as a family that we’re going to make the new holding company a loss company? Or is it expected to be a breakeven company? Or for-profit, family office? And if so, what are the parameters on achieving that? And so, before you know it, you’ve gone from deleveraging yourself and selling something to be free, and also you’re back in business now in this other entity, and you didn’t really realize that you were going to be going down that path with overhead, employees to manage and a strategy to help manage the family.”

These conversations, he says, are best had with a multidisciplinary team of advisers — banker, lawyer, accountant, wealth manager, insurance people, etc.

“If you ask families, what made their business so successful, they talk about transparency, lack of silos,” he says. “But yet when you look at the families and how they operate themselves, they do the exact opposite. They don’t include all those multidisciplinary advisers in the same room at the same time. When you ask them why they don’t do it, the first thing they say is, you know how much that’s going to cost me? The second thing they say is, can you imagine the egos? When I get all those smart people together, they’re all trying to prove the other one right or wrong. And so really setting up your team of advisers who brought you to the finish line, that have helped support you, who actually know you and have perspective on your family and your business, and to give you that advice is a very important thing to do to set that up for success.”