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Love Can't Be Blind: Preparing for a Business Transfer to Children or Insiders



Successful business owners do a lot of things well, and they make it look easy. This is often a sign of well-running processes and years of discipline. However, it can also be a trap for successful business owners who intend to pass their businesses onto their children or business insiders. While you may love the idea

of keeping the business with someone close to you, you cannot let that love blind you to the realities of insider transfers.

Today, we'll examine three things you should consider if you intend to pass the business to your children or insiders.

1. Financial independence must come first

Financial independence is the most important consideration for business owners as they plan for a successful future. However, it can also force you to make tough decisions about your business's future.

If you're thinking about one day selling or gifting your business to a child or insider, it's prudent to ponder how this decision can affect your financial independence.

For example, many business-active children and insiders don't have the money you may need to achieve financial independence. This may mean that you must rely on promissory notes or consistent business success without you at the helm to attain financial independence. If your child or insider proves incapable of delivering, it could leave you in a financial undertow.

Before taking steps to hand the reins to a child or insider, it's important to do two things.

1. Determine the amount of money you must have to attain financial independence

2. Compare the amount you must have against the amount you currently have

This information can help you create a plan to achieve financial independence in the context of transferring it to a child or insider. Without it, you may be leaving your future to fate.

2. Next-level management is crucial

When you know what you must have to achieve financial independence, you can begin planning the process you'll use to successfully obtain it. When considering a transfer of ownership to a child or insider, next-level management can make a big difference in whether your plan succeeds.

Running a subset of a business is often much, much different than running the entire business. While you understand this, it may be harder for your child or

insider to grasp.

It can be similar to a baseball player who does exceptionally well in the minor leagues but can't keep up in the majors. Except in this case, your financial independence—along with your legacy—could hang in the balance.

To best position yourself and your successor for success, next-level management is crucial. These are managers who can take the business to new heights. They may also help your child or insider settle into their new responsibilities without noticeably affecting business performance.

3. Always have a backup plan

Sometimes, your child or insider simply isn't capable of running a business, even if they were exceptionally good in their former role with the company. This is why it's so important to have a backup plan.

For example, though you may want to transfer your business to a child or insider, it could be a good idea to include clauses in your transfer plans that allow you the right to reacquire the business if your child or insider cannot perform as expected. Doing so can protect your financial independence by allowing you to re-enter the fray and reposition the business for a transfer to a third party that does allow you to achieve financial independence.

Transferring the business to a child or insider is a common desire among successful business owners. But it comes with risks to your financial independence, business' future, and important relationships. Creating a plan to mitigate those risks is extremely important for owners who want to have as much control as possible over their business and personal futures.

We strive to help business owners identify and prioritize their objectives with respect to their business, their employees, and their family. If you are ready to talk about your goals for the future and get insights into how you might achieve those goals, we'd be happy to sit down and talk with you. Please feel free to contact us at your convenience.

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