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What Comes Next

Essential strategies for successful business transitions

One of the most important and often emotional challenges that face private and family-owned businesses is succession planning. Whether that goal is transitioning ownership to family members, preparing the next generation for leadership, preserving a legacy, or maximizing the value of the business, successful transitions rarely happen by accident. They require planning, communication, governance, financial preparation, and sometimes difficult conversations. The Cincinnati Business Courier convened a forum to talk through the strategies and considerations for a successful transition, featuring these local expert panelists: Carol Butler, president, Goering Center for Family & Private Business; Christopher Kuhnhein, member, Cors & Bassett Attorneys at Law LLC; David Nienaber, financial planner, shareholder, Foster & Motley Wealth Management.

The forum was moderated by Cincinnati Business Courier Market President and Publisher Jamie Smith and held July 21 at Union Hall in Over-the-Rhine.

MEET THE EXPERTS

CAROL BUTLER
President
Goering Center for Family & Private Business

Carol Butler is president of the Goering Center for Family and Private Business, North America's largest university based educational center serving more than 400 closely held businesses. The Center's mission is to nurture and educate family and private businesses to drive a vibrant economy. Members receive real-world insights that enlighten, strengthen and prolong family and private business success. The Goering Center is affiliated with the Lindner College of Business at the University of Cincinnati

Carol is a former Fortune 500 Executive with 30 years of experience successfully leading profitable, global businesses within the manufacturing and distribution industries.

CHRISTOPHER KUHNHEIN
Member
Cors & Bassett

Chris is a member of Cors & Bassett, LLC, and chair of the firm's corporate group. Chris' practice focuses on mergers and acquisitions, commercial leasing, franchising, corporate governance and corporate finance. Chris utilizes his broad experience in corporate law to advise clients on all matters of business formation, capital structure and succession planning. Additionally, Chris has represented both buyers and sellers of businesses in the M&A context across a wide variety of industries and oversees the firm's franchise practice. Chris received his JD from UC College of Law in 2005 and is licensed to practice in both Ohio and Kentucky.

DAVID NIENABER
Financial Planner, Shareholder
Foster & Motley

Dave Nienaber is a Financial Planner and Shareholder at Foster & Motley, where he advises high-net-worth families. A CERTIFIED FINANCIAL PLANNER(TM) professional and Certified Public Accountant, Dave brings an integrated approach to tax planning, estate strategy, and multigenerational wealth management. He works with families from a wide range of backgrounds, many of whom own, operate, or have sold closely held businesses-providing him with a valuable perspective on the personal and financial decisions surrounding business succession. Dave began his career with Deloitte before joining Foster & Motley in 2010 and became a shareholder in 2015. He is known for his thoughtful, client-first approach and is passionate about listening intently and helping clients navigate important decisions with clarity and confidence. He lives in Fort Wright, KY, with his wife, Moreen, and their five children. He is active in several community organizations, most significantly St. Agnes Parish.

What holds back business owners from starting the succession conversation? There are many reasons, Carol Butler said, relating a story of a business owner who began the succession discussion by saying If and when I die … "That tells you the story right there." The discussion can be very emotional, as it centers on death and life transitions. "The idea of letting it go, I think, is just overwhelming," she said. But having a plan of what will happen next as the owner, founder and leader is important to the succession and to the business.

Christopher Kuhnhein added that succession planning becomes less likely to happen the longer one waits. "It is never really too early to be planning something like this." Good planning involves identifying lifestyle and financial goals and determining when one is ready to sell. "Knowing what your business is worth is a great first step," David Nienaber said. But the value of the business is just one factor. "A financial planner can help you determine what kind of lifestyle the proceeds from the business would support," he said. "One of my jobs is to help clients understand what that lifestyle is and understand what changes are on the horizon." Understanding what the owner needs from the business to support their lifestyle is a key, then figuring out if the business is worth the money to support that. "If it's not sufficient, now is the best time to know that, so you can work on that value."

One blind spot business owners sometimes have is assessing what they will do with their time post-sale. "No one works harder than business owners," Nienaber said. "You devoted your life to this business. What are you going to do with your time in retirement?"

There's also tension between the value of a sale to a private equity firm versus a sale to a family member or children, Kuhnhein said. "The difference between what you can sell to private equity or a strategic sale and selling to your family is 'How much I love you,'" Butler added. She advised getting a good valuation, "Not what your gut says, but really having a professional do an evaluation of what it's really worth."

Beyond ownership transition, Smith asked, what else should business owners think about when they consider the long-term legacy of their companies? "Think about stewardship," Butler said. Citing her personal experience with a family-owned business, "What are the values that we want to leave as we move this business forward? What's the legacy we're going to leave in the community?" Owners need to think about employees too. "How we take care of those employees can be incredibly important."

Nienaber said many business owners struggle with this question: "Do you own a business, or do you own a job? For that business to really have maximum value, you need to own a business. That really starts with making yourself obsolete." That can be painful, but it's in the best interest of the owner and the business to have a planned succession of leadership and ultimately ownership.
Businesses often don't have an identity different than its owners, Kuhnhein said. "To grow a business, you have to create a team where it moves beyond that, where you have people that you can trust, you

can delegate authority to. As those things happen, that is a business that can be sold."

Butler noted that the business owner may be the primary rainmaker of the operation. The Goering Center uses a tool called Value Builder in its Next Generation Institute© to help reveal that. "If you're the primary rainmaker, but you're the one who's going to leave, the valuation of the business is going to drop," she said. Transitions to family members can also be challenging, citing one owner who said, 'I'm not trusting my financial future to those people,' meaning the family. "The only real answer was to find a strategic buyer."

There are legal documents, such as operating agreements or shareholder agreements that can ensure that the ownership and operation of a company stay in families, Kuhnhein said. "You can set up hurdles for who can actually inherit or receive shares in those types of situations," such as death, divorce or bankruptcy. There are also non-legal techniques such as family charters that can provide a uniform sort of set of understandings about what a family member needs to do to be ready to own equity in the business.

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Nienaber recommended family meetings be held if owners want to pass a business on to family. "They can take a lot of different formats, but we encourage agendas," he said. "We encourage meeting notes and having those tough conversations. You're not going to get everything accomplished in an hour or two, but the key is to start the conversation."

Kuhnhein said a common obstacle is an owner's insistence that the business remain a family-owned enterprise, even when there may be strategic or private equity buyers ready to purchase it. Another is the question of passing the business to more owners who are part of the next generation. "The business has produced a very nice lifestyle and level of income for one person; it's a different story when there's three people."

Owners and families should begin the succession conversation early to make it productive rather than challenging or overwhelming, Butler said. "If you're within two to 10 years of transition, now is a good time." Lack of communication and trust are big challenges, so the more time family members have to think about transition, the better it is, she added. Family meetings can be improved by hiring a moderator or facilitator.

There can be signs that the next generation isn't ready for ownership. "Maybe the owner-founder is not ready to let go, and maybe they haven't prepared the next generation effectively," she said. There's also the question of whether the next generation has been in decision making roles and have had the authority to make decisions.

Smith asked about surprises that next-generation buyers have found when buying the business. Nienaber said those can be avoided by "saying the hard part out loud," at family meetings and promoting healthy dialogue and candid feedback among family members.

Kuhnhein pointed out that families have certain dynamics that can be very loving but not appropriate or best for the business. “The idea that a buyer would be emotionally forced into a deal that in their heart of hearts they don’t want, doesn’t come from any sort of business dynamic at all,” he said. “That comes from a dynamic within a family. There are ways to try to puncture that sort of dynamic within a business, but it's hard.” Butler recommended that owners share the difficulties of the business with the next generation, so they are not surprised. “The next generation could be coming in seeing a very successful business, and they think this is going to be easy. What they didn't see were the hard times.”

Nienaber’s experience as a business owner of Foster & Motley helps him advise clients. “We're getting ready to celebrate our 30th anniversary and our succession plan is about 30 years old,” he said. “Thinking about succession when you start a business is key.” Making decisions based on the values and mission of the business has been highlighted to him often through his experience with the firm.

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> **CAROL BUTLER**
> Goering Center for Family & Private Business

Smith asked Butler about what future owners should understand about what makes for a successful transition. She cited communication and trust, building the team and advisors. “When you have advisors who are savvy and sophisticated about transitions, that really helps.” At the Goering Center, “We ask owners to take a step back and take a look at their advisors who got them to this point and say, are they still the right people to get me through a transition? Maybe the business has grown tenfold or twentyfold, and maybe the people that are your specialists as accountants are not transition specialists, and so we go through an exercise actually of who are your advisors and are they the right people to be able to take you to this next level.” She also recommended having a family charter and the appropriate legal documents and reviewing those on a regular basis. One of the best practices of successful family and private businesses is to have a board of advisors or board of directors. “A board of advisors can be incredibly powerful. You can take their advice or not take their advice, but they can be really helpful.”

Smith asked whether family businesses should value themselves for the purpose of unexpected buyouts. Kuhnhein recommended having a conventional operating agreement, shareholder agreement, or close-corporation agreement. “The number one goal of those things is to provide for emergency situations. “What lies behind those is what kind of valuation have you set up for the person who's being bought out and does that work for that person,” he said. “Does that work for the business and for the other owners?” A conventional way to get at that is to have a company appraisal of its fair market value. Another way is “stipulated value,” where the family or board decides what that buyout figure is going to be. That would have to be updated regularly.

Smith asked about aligning the value of your business with the future goals or financial goals of the next generation. “Start with the end in mind,” Nienaber said. “What is the legacy I'm trying to achieve? What are the values I'm trying to pass down to my family and then determine how much flexibility you have with valuation of the business."

Smith asked if there's a role that insurance can play in business transitions. Kuhnhein said its value can mainly come in providing quick liquidity in a difficult situation but it "ends up typically being a lot of premiums and no benefit." Nienaber shared that he has seen cases when it's paid out and allowed the business to focus on what matters most: the continuing operation of the company, allowing the business to take care of their customers and employees.

Smith asked what business owners who want their company to continue beyond them should be doing now to make sure the business is less dependent on them. "Delegate and elevate," Butler said. Mentoring, training, giving the next generation assignments that are meaningful and then standing behind them. "Demonstrating to the rest of the employees that that's the way it's going to be working and having the owners step back a little bit and transferring knowledge on a regular basis. Bringing that next generation in and showing that these are the people who are going to be the future decision makers can be incredibly powerful."

> "Don't let the perfect get in the way of the good."
>
> **CHRISTOPHER KUHNHEIN**
> Cors & Bassett

An audience member asked how many people should be on a board of advisors. "We recommend three outside advisors," at the Goering Center, Butler said. "And we say no friends, no family, no trusted advisors. The reason for that is you already have the benefit of your trusted advisors."

Another audience member asked who the key transition advisors should be. Nienaber recommended a certified public accountant, an attorney and a wealth manager. Kuhnhein agreed but said the people in those roles may be different during a business transition.

An audience member asked about the importance of collaboration among the advisors. "I encourage clients get their full advisory team together," Nienaber said. But there's sometimes resistance to that, "lean on your team to ask those tough questions of each other."

The final question of the forum: "If there's a business owner in the audience today and they have no formal succession plan, what is the first step they should take in the next 30 days?" Butler suggested writing down all the things you don't know. "Make it a crisis and say that if I was gone tomorrow, what are all the places where we would have exposure points?" Bring advisers together and have a checklist to go through and address how to prepare for the worst-case scenario. Kuhnhein recommended drafting even a short-term operating agreement until something more detailed can be written. "Don't let the perfect get in the way of the good," he said. Nienaber recommended knowing what you want from the business. "Focus on the legacy you want to leave to your employees, to your family, to your community."

When succession planning is done well, Butler said, it makes peace, harmony and profitability possible.