The Family Business Advisor

THE FAMILY BUSINESS CONSULTING GROUP

# Selling For Success: Sometimes the Best Thing for the Family is Letting Go

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Many family businesses (and, for that matter, many families) find themselves drawn to the idea of legacy. A third-generation business hopes for a fourth, and a grandfather longs to see one of his grandchildren take over. But what about when continuing to own and operate the family business isn't what's best for the family or for the business? Should they just continue on, even when it's not working? While it might not be the first thought in anyone's mind, selling may very well be the right option for families who are no longer in a position to be the best stewards of their business.

What might lead to a family business deciding it's time to sell? It could be a variety of factors, although every family business situation is unique. Perhaps the business has reached its peak and is receiving lucrative offers from competitors. Or maybe, without an heir apparent, the company's future is uncertain. A lack of family unity and alignment can create major headwinds that may be insurmountable. Sometimes the family's interests have changed, and selling is the best way for the family to reinvest in their future.

Family businesses that decide to sell may evolve into a different entity, such as a real estate holdings company or a family office. Structures such as these allow a family to stay together in a professional capacity while creating new opportunities to build a family enterprise. Selling should be considered a natural and valuable part of the lifecycle of some families, which, when executed properly, can be the most profitable and positive course of action for both the family and the business.

Most of our clients have no interest in selling their family businesses, however from time to time our work sometimes takes us down a path where selling is the healthiest and most advisable option for the success of the business and the family.

## Case #1: Right Place, Right Time

Sometimes, the best way to clear a path forward for a family is to start fresh. This was the case for a fourth-generation manufacturing company based out of a small town in Idaho. Over the generations, they had grown from a modest textile manufacturer into a substantial, multi-product enterprise. But with this growth also came familial diversity and distinct challenges. By the time we became involved, the business had three co-CEOs, each representing a different family branch. Additionally, the board was made up entirely of family members, with the ownership group consisting of 57 shareholders who did not have good alignment amongst themselves regarding the future of the business.

Different leadership approaches, a lack of ownership alignment, and intergenerational conflict were beginning to create divisions that threatened the future of the company due to an inability to effectively manage and govern the business. This structure presented significant challenges to the business and the family, and it was becoming unsustainable. During our conversations with the family, one of the strategic options we explored was to consider selling the business. After all, it might be the best way to preserve the business and alleviate stress on the family. One family member, who was familiar with business acquisitions, highlighted that this could indeed be an advantageous time to consider a sale because of the high valuation they could receive for the company.

### Feeling the Room

With the idea of selling on the table, it was now time to assess the ownership group's thoughts and feelings about this option. We put out a survey to the entire family to gauge their interest in selling the family business. Out of the 57 members of the ownership group, about two-thirds wanted to sell. The one-third that initially did not were mostly members of the family that still lived in the town in Idaho, where the business was founded. These family members were concerned about what selling the business would mean for the town and its residents, many of whom found work with the manufacturing company.

Based on most people wanting to sell, combined with some legitimate concerns over the ramifications of a sale, we led a series of discussions to explore the possibility. One important factor for a sale was that the family felt strongly the company should remain in its hometown and not be moved, which would devastate the local economy. This values-based provision produced more consensus among family members that a sale could be made in a way that took care of employees and the community. The family began to realize that responsible stewardship of their business meant that they might have to allow others to own it, and the board was authorized to explore the possibility of a sale.

### Fair Process

With the family (mostly) in agreement, the board voted to bring in an investment banking firm to help prepare to take the company to market and to bring potential buyers for consideration. As facilitators of this process, it was our responsibility to manage the family's goals and expectations regarding the sale and to help them come to an agreement on the many decision points. With a family of this size, it was crucial that all voices were heard and all perspectives validated. The investment banking firm handled the valuation of the business while we focused on ensuring the family was well-informed and that the process was fair and transparent at each step of the way.

After establishing the business's value, it was time to market it and begin fielding offers. The family knew at this point what kind of buyer they were looking for: one that would honor the legacy of the family's business and uphold their values in the years to come. After receiving several offers that checked all the boxes, it now went back to the family to decide. Due to their ownership agreement, the sale required a unanimous vote in order to pass. In a situation where any one family member could have said "No," and hung up the process significantly, the family was able to reach a unanimous decision to approve a sale of the company.

While the outcome was not what the family had originally envisioned for the future of the company, it meant that the business got a new owner who was committed to its long-term success, agreed to keep the base of operations in its hometown, and allowed the family to move forward without the stress of trying to own a major business that they could not effectively govern.

## Case #2: Finding Alignment Through Selling

There comes a time in some family engagements when the family must admit to themselves that they don't really want to work together. This can be incredibly saddening and challenging for families, especially when they grew up seeing their parents or aunts and uncles all working together in apparent happiness. But children are not their parents, and not all families are meant to work together forever.

In some cases, selling the business and parting ways as owners can be the only way to stay together as a family. Take, for example, a third-generation manufacturing company run by five siblings, all equal owners. Having originally been brought in to help them build a succession plan which entailed building structures for future ownership, governance and leadership for the next generation, we spent two years working on trying to bring the family into alignment. However, this family had a long history of complex family dynamics, unresolved trauma, and extreme conflict which impeded the process and led to resistance, especially when it came to instituting larger-scale changes to the operational side of the business. Furthermore, in everything from succession planning to board development, the siblings simply couldn't find common ground. After a series of starts and stops with no real progress, we finally made the choice to bring the idea of selling to the table.

### Mourning… and Then Moving Forward

The idea of selling the family business was met with some disbelief and sadness. This family went through a "mourning process," spending nearly six months digesting the idea and coming to terms with what it meant. They would remain a family, but they would no longer have a family business. That is a tough reality to accept. When you grow up with stories of your grandfather running your company, it is hard to imagine your own grandkids not growing up with the same.

It took time for the family to come to the realization that selling was perhaps the best option. What was the alternative? To remain in business together, stuck in patterns that benefitted neither them nor the business? That wasn't a situation that they wanted, and it wasn't one that we advised for. The family eventually realized that selling was the right call.

### Rallying Around a Positive

Coming to the decision to sell had an interesting effect on this family's dynamics; in some ways, it actually brought them closer together. This is not to say that everything changed, and suddenly they realized that they wanted to stay in business together. The old issues were still there, but opening the conversation about selling allowed the family to reorientate towards a shared objective.

Before deciding to sell, this family struggled with making decisions together. Every discussion was a fight, a battle to see who would be right and who would be wrong. While selling, there were no sides, no losers or victors. The family rallied around a common goal of "How do we take care of our family?" and fostered alignment to ensure that they did so in the best way possible. In the end, this family's relationships were mended to the point of being able to continue as siblings because they were no longer in business together.

## Summary

As we've seen through these two cases, families arrive at the decision to sell their businesses in different ways. And yet, both cases had a similar end result, in that both families found common ground and alleviated significant stress in the family through the process of selling. While selling doesn't change the family, it does create a different path forward for the family that wasn't otherwise achievable. Fostering alignment within a family is usually done under the guise of maintaining the operating business, but in these cases, it came from deciding to sell.

While it may be a hard place to finally come to, many families arrive at this decision with a sigh of relief because it means that the business can continue to succeed, and so can the family. It's important to understand that the end of the business doesn't have to be the end of the family. For many families, it's an opportunity to evolve and shift into something different. Maybe there is interest in giving back to the community through philanthropic endeavors. Some families continue to remain in business together through collective investing and a family office.

By selling the enterprises of which they were no longer the best stewards, these families made difficult decisions that turned out to be the best for both the business and the family.

*We value confidentiality. The examples mentioned in this article are composites based on our client experiences.*

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