PRINCE FINANCIAL SERVICES
NORTHWESTERN MUTUAL PRIVATE CLIENT GROUP

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Keeping the family business in the family:

Four critical components for a successful transition.

Keeping the family business in the family with a smooth and equitable transition is possible, even with complex family dynamics, economic fluctuations and ever-changing tax laws.

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Little surprises me after 34 years in the financial services business. When we meet prospective clients, we ask the following questions and often receive similar answers:

- Question: "Do you have a succession plan?"
- Response: "No," or, "I do, but it's not formalized."
- Question: "Do you know how much you need to achieve your financial goals?"
- Response: "No," or, "I'm going to work forever; I'll never retire."
- Question: "Is your business worth as much as you need?"
- Response: "I don't know."

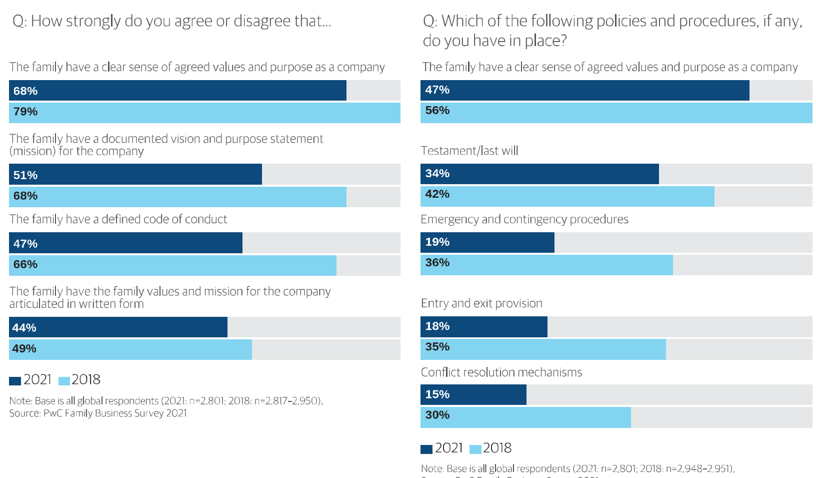
After growing up in a successful, second-generation family business, I knew I wanted to own a business someday. This led me to my wealth management practice and helping family-owned businesses plan. Having worked with hundreds of companies over the years, we've found there are four components to successful transitions.

1) What's your plan?

Sounds simple. Some owners DO have what they consider a "plan"; however, is it integrated? Your financial adviser, legal counsel, and CPA will help you build a plan that works together and includes the following sub-plans:

- Personal financial plan to determine assets needed to meet your financial goals and protect against risks that could derail your vision.
- Business financial plan including continuity planning and succession planning, while using tax-efficient strategies. If this is done, when was it last reviewed?
- Estate plan to ensure the right assets are passed to the right people at the right time in a tax-efficient manner. If you have one, does it achieve your goals?

Family values matter, but only half have put them in writing, and less than half have codified governance policies.



2) Fair is not equal.

We once met children who inherited different assets when their parents passed. The son worked in the business with his dad, so he inherited the business. The daughters received real estate instead and felt it was inferior to the businesses' growth potential.

Ultimately, the son wasn't successful at running the company and closed it. Conversely, the daughters' real estate appreciated significantly. In the end, the method of passing on assets in the family was equal in value but was not necessarily fair to all parties long-term.

The family could have easily achieved their goals by using life insurance as a planning tool. Cash provided upon death can equalize inheritances. In addition, life insurance is often used to pay estate taxes instead of having to sell a business to come up with cash.

3) Start now. Speak often.

A recent study by the Conway Center for Family Business shows nearly 70% of owners want to pass their family business to the next generation[1]. However, only 30% succeed. Perhaps it's because only 30% of companies have a plan in place, according to a 2021 study by PwC[2].

It takes roughly five to seven years to build and implement a transition plan. A longer planning horizon allows time to better prepare the next-generation leader, build a management team and retain customers who will get to know new leadership.

66% of family businesses say family members communicate regularly about the business[3]

It's also important to give yourself time to factor in:

- Family Interest: The human element of planning is complex and emotional in any transition. Be honest about your family member's qualifications and realistic about how long it will take to develop them. Consider holding family meetings to discuss critical questions, including who does or does not want to run the business.
- Business Health: The end goal is to pass on a thriving business. What's needed to prepare the balance sheet and profit and loss statement? Have you accumulated enough cash? Have you cut expenses? Who else needs to be hired or fired? Answers to these questions could take years to answer and implement.

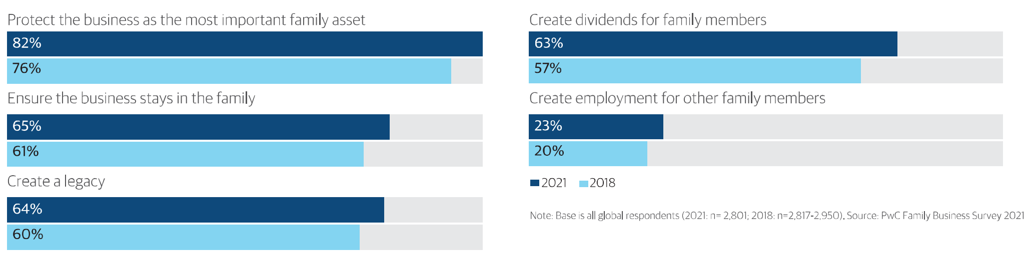
4) No two plans are alike.

Families are all different, and so are their plans. Your advisers will help you build an integrated plan and adjust it often. Commonly, the first attempt to develop a successor doesn't work. Don't get discouraged. Starting early benefits all involved.

Long-term personal goals for the business

Q: How important to you are the following longer-term goals, i.e., over the next five years or longer?

The top long-term priorities for family businesses



ABOUT PRINCE FINANCIAL SERVICES

At Prince Financial Services, we take a proactive approach to planning to provide you with the freedom and predictability you crave. Our expertly configured plans are built to stand the test of time and guide you through every stage of life.

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