



TITAN FINANCIAL ASSOCIATES

## Problems and Solutions For Business Owners

You have built a successful business and now its time to start thinking about how to preserve the value of this asset so your family and your employees will continue to benefit from all the hard work and effort you have put in over the years.

### Staying Wealthy

**Problem** – People who are successful tend to create their fortunes by single mindedly pursuing a dream, and for many this is their business. Yet this concentrated risk that leads to great wealth is also the same risk that can destroy it. We strongly advise our business owner clients to consider using some of the profits from their successful companies to reduce this risk by diversifying into other industries, asset classes, countries, and continents, which are subject to different market and economic cycles. By utilizing the financial markets to diversify in this manner you take a great step forward in protecting your assets for the benefit of future generations.

As a business owner, you are very good at running the day-to-day demands of your business. The idea that something might happen to you, or one of your key people or a partner/shareholder in the business is not something you want to think about, much less plan for. However if you don't do this type of planning all the hard work you've done to build the value of this asset may go down the drain.

**Solution** – We can help you prepare an asset allocation plan and an investment policy statement to determine the strategies and action steps for the diversification of your assets. We also will prepare an insurance plan to protect your family in the event that something happens to your business, or to you. This could include buy/sell funding with disability and life insurance, key person protection, a disability salary continuation plan and succession planning to integrate your business planning into your estate plan.

### Leaving a Legacy

**Problem** – There can be a significant loss of business value due to a breakdown in management structure or lack of capital to make the necessary transitions or if planning is not done to properly integrate your business into your estate planning. For many business owners this can mean a dramatic reduction in estate value because the business asset is a large portion of their estate. You should include a buy/sell agreement, estate tax planning, and an exit strategy to decide in advance who will

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Securities offered through Resource Horizons Group, L.L.C. Member NASD, SIPC, MSRB  
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assume management responsibilities to maintain the profitability of the business. Many times a business may be sold on an installment sale basis with no thought given to protect the future cash flow necessary to maintain those payments.

**Solution** – We work together with attorneys, CPAs, business valuation experts, and other professionals to help you plan for the process of asset transfer at the end of your life. You have a choice whether it goes to your heirs, the government, a charitable organization such as a church, hospital or university, a financial institution, or another wealthy individual. We will help you understand how trusts and other estate planning vehicles such as family limited partnerships or LLCs can help preserve the estate value. Learn how to use insurance as part of the estate plan to help preserve other assets and provide liquidity for paying taxes. Learn the use of charitable giving techniques if desired, and the potential benefits and problems to avoid. Why beginning to plan for this area now is important. Our job is helping you develop the best solution given your specific circumstances.

### Family-Owned Business Issues

**Problem** – Family-owned business comprise approximately 80% of all business enterprises. The challenge for many of these family businesses is to survive beyond the first generation. Historically, 30% of family businesses survive into the second generation, 12% into the third generation, and only 3% are still operating in the fourth generation. Recent surveys have shown that 25% of senior generation family business shareholders have not completed any basic estate planning or succession planning beyond a basic will.

However 81% of these owners say they want the business to stay in the family, which means that the necessary planning is sadly lacking. Few of these companies and families have planned for the liquidity needs of the transition or written a succession plan addressing the succession of management, knowledge, and ownership. Psychological and emotional factors also play a large role in preventing the successful transition to the next generation. The elephant in the room that nobody wants to address may be the biggest stumbling block of all .....the transfer of leadership, power, and authority.

Many family-owned businesses face additional challenges that other business owners don't. The complexities of managing overlapping family relationships as well as business issues multiply as the business grows and additional family members may become involved. Strategic planning for both the family and the business can be very important to help prevent family and business tensions from affecting the day-to-day operations. Identifying the characteristics of the successor and who will be responsible for making this decision are very important. Factors such as education, experience, being a

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leader that people will follow, vision, communication skills, and competence all need to be considered when selecting this individual.

**Solution** – We work with a team of professionals who devote their entire professional practice to working with family-owned businesses. These professionals bring many years of experience to help families deal with the challenging job of running a family and a business at the same.

The successful transition of a family owned business will include the following steps:

1. Assemble a team of professionals experienced in family business succession planning. These professionals will begin with a thorough and thoughtful analysis of the needs of both the business and the family. The following types of questions will be addressed:
  - a. What form of ownership is best for our long-term interests?
  - b. How does the family handle conflict between the generations or between siblings?
  - c. To what performance standards will we hold family members working in the business?
  - d. How will succession affect our relationships with non-family partners, key managers, advisors, vendors, etc?
  - e. How will the older generation release and the younger generation earn authority?
  - f. How well does knowledge flow where it needs to go?
2. A written succession plan will be developed addressing these six major areas:
  - a. Ownership
  - b. Management
  - c. Liquidity
  - d. Knowledge
  - e. Emotional Authority
  - f. Planning for the unexpected such as the untimely death of the owner or successor, or a downturn in the economy
3. Implementing the plan

Advisors can only advise, they can't take the steps necessary for success. Ultimately the success of the plan will be dependent upon the effort and commitment put forth by both generations to reach a successful conclusion.

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