The Oil & Gas Advisor™

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A Short Story All Family-Owned Businesses Should Read

When it comes to selling a family-owned business there are no shortage of complicating factors, but one in particular pops up quite often. This article contains a true story about a popular family business that was built up from the ground up only to later meet a very sad ending. While this is just one story, there are countless similar situations all across the country.

Once upon a time, there was a family-owned manufacturing company that had millions in sales. They sold their products to a range of businesses including contractors and government agencies. The founder had five children and split the business equally amongst them. Complicating matters was the fact that the children didn't feel compelled to work in the family business. As a result, they turned the operation of the business over to two members of the third generation.

Once the founder's children reached retirement age, they decided that they wanted to sell. So, they hired an M&A Advisor. The M&A Advisor began the search for an appropriate buyer, however, there was little interest. After considerable effort, the M&A Advisor found a successful businessman who offered to buy the manufacturing business for 50% of the sales, which was a good price. The M&A Advisor took the offer to the five owners and that is when the problems began.

A huge family argument was unleashed and the M&A Advisor was cut out of the loop. Later the offer was turned down flat and worst of all there was no counter-proposal, no attempt to negotiate price, terms, conditions or anything else. In short, the offer was finished and done. In the end, the M&A Advisor had lost several months of hard work.

Wondering what had happened, the M&A Advisor learned that two of the third-generation members who had been operating the business didn't want to sell out of fear of losing their jobs. Over two decades later, the business has experienced almost no growth and is essentially breaking even. The owners, now in their 70s will likely never receive anything for their equity.

What you have just read is a true story, although the specific business type has been changed. This story serves to outline the problems that can arise when it comes time to sell a family business, especially if there is no agreement in place. Passing on this deal meant that the five children lost a considerable amount of money; this would have of course been money that could have made their retirement much more pleasant.

The story is both tragic and cautionary, in that this great business built from scratch by its founder was, in the end, left to flounder.

There is a moral to this story. Family-owned businesses need to have strict guidelines in place concerning issues such as salaries, benefits, what happens when one member wants to cash out and more. Such issues should be worked out with professionals, such as M&A Advisors, years in advance.

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