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# TRANSITIONING A FAMILY BUSINESS

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Are you a family business owner grappling with the challenges of generational transition? You're not alone. The next generation has a different vision for their future, and the family business may not be part of their plan. So, what steps should you take? In this piece, [Jacoline Loewen](#) shares some tips on how many successful families are managing their transfer of wealth.

## HIGHLIGHTS FROM THE ARTICLES INCLUDE:

- **Shift in Succession Tradition:** The age-old custom of automatically passing down family businesses to the next generation is undergoing a transformation. The younger generation is increasingly opting for a strategic exit plan for the family business.
- **Education-Driven Succession:** The younger generation is actively pursuing education and (their own) purposeful work, challenging the traditional notion of automatically inheriting the family business.
- **Identity Separation Dilemma:** Many family business owners grapple with life beyond their company. Separating personal identity from the business poses a common challenge, impeding the sale despite its potential benefits. Reframing the question from what will I do now? to who will I be? offers a path to a meaningful legacy for the family.
- **Complexity in Wealth Management:** The transition from family business ownership to family wealth management introduces new challenges, particularly concerning the sudden surge of wealth post-business sale. Seeking the guidance of financial experts during this transition is crucial. Utilizing experts reflects strength and wisdom, not weakness, in navigating the complexities of managing your wealth.

# SEVEN SHIFTS IN TODAY'S LANDSCAPE

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In family businesses, a departure from tradition is underway as owners are no longer automatically bequeathing their legacy to their children. The next generation (“next gen”) isn’t exactly clamouring to inherit the family business anymore.

Mike McCarron, a founding partner of MSM Transportation, witnessed this transformation in the trucking industry, particularly in the wake of the company’s acquisition. McCarron started [Left Lane Associates](#), which today is one of North America’s leading mergers and acquisitions (M&A) experts in the supply chain industry. In an industry characterized by fragmentation and a myriad of family-owned businesses, a profound change is unfolding.

“The next generation,” McCarron notes, “is opting for university education and the prospect of jobs with predictable revenues and hours. Having observed the arduous journey undertaken by their parents, the torch isn’t as eagerly grasped. Moreover, the landscape is evolving with more financially liquid options, making M&A an enticing prospect. The huge jump in land valuations over the past decade offers a far more lucrative exit versus passing along the business to the kids.”

In the dynamic world of transportation, McCarron says, “There is an emerging gig economy, where immigrants, many of whom are from South Asia, want to own their own business and bring their own truck, rather than be an employee. It is an increasingly fragmented industry.”

But the road ahead for the next generation isn’t paved with tire tracks. They are looking to explore new opportunities. M&As are now the cool kids on the block, along with offering cash for the business real estate, they also provide fresh financial options.

“As M&A opportunities become available for more family businesses, traditional succession planning is no longer the status quo. Years of toil for a significant cash return is losing its allure and reshaping succession plans.”

Let's highlight seven shifts happening in the family business landscape.

### **#1: FROM STRESSFUL TO PREDICTABLE**

Stress? With worries of payroll and other responsibilities keeping many owners up at night, the last five years have strained many family businesses. Business owners are hesitant to pass this pressure onto their offspring, who, in turn, are wary of the heightened level of accountability. Guess what? The next gen has clocked in, and the grind of their elders is viewed not as a rite of passage but as a cautionary tale. They've seen the movie, and they want a different plot.

### **#2: EDUCATION: THE CATALYST FOR CHANGE**

The conventional approach of handing over the keys to the next generation is no longer the only song on the playlist. Family business owners are embracing a new paradigm, investing time to understand succession best practices, particularly where next gens are required to complete business education. The family business next gens are discovering the value of education and defining what purposeful work means to them, not simply taking what is handed to them.

### **#3: RENTING SUCCESSION EXPERTISE**

Sophisticated sales processes for businesses are no longer the secret sauce of corporate giants. Family businesses are tapping into advisors, shattering the myth that only the big players get a seat at this table. As M&A opportunities become available for more family businesses, traditional succession planning is no longer the status quo. Years of toil for a significant cash return is losing its allure and reshaping succession plans. The next generation is no longer opting to inherit the family legacy.

### **#4: NEXT GENERATION'S DESIRE FOR AUTONOMY**

The next gen wants out, not because they lack ambition, but because the game has changed. Daunting sale prices for the family business and the labyrinth of raising financing aren't their chosen battles. The next generation is attracted to the cleaner option of full sale of the family business. The significant payout, which will become their inheritance, is predictable. Why risk taking over the business built by their granddad when they may not fit the role? The pursuit of personal career choices is prioritized over familial obligations.

## #5: IMPACT ON THE ORGANIZATION

Automatic succession of family members is not always well received. There is heightened awareness among family business shareholders regarding the impact of familial transitions on employees, and this is reshaping succession plans. Instead of automatically hiring a family member, many would prefer to have a professional search firm help with the recruitment process.

## #6: CASH IS KING

Family business founders are discovering that a wider range of buyers enhances the likelihood of fair value and a cash deal – the crown jewels of succession. Cash in the hand is secure. This contrasts with relying on the family business managed by the next generation, where the retirement income stream is less certain.

## #7: THE PRICE TUG-OF-WAR

A generational tug-of-war ensues. As the aging boomers pull for max value, the next gen tugs for a budget-friendly deal. Finding the sweet spot is not just a financial pursuit. It's a delicate dance to preserve family ties. McCarron says, "Snowplow parents are hesitant to anoint one child the leader at the expense of their relationships with the other children. Easier to sell, distribute the wealth, and let them do their own thing."

## SOME FINAL THOUGHTS

As McCarron observes, these seven shifts signify not the abandonment of legacy but a strategic recalibration. The M&A sale option is understandable as it removes the fighting and uncertainty from the gig economy.

Adapting to the evolving contours of succession is the hallmark of resilience, ensuring that family businesses transcend generations without sacrificing financial acumen or familial harmony. The architects of the future, the next gen are driving their own lives, which may or may not include the family business. **B**

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# THE KEY OBSTACLE

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Is leaving a family business legacy essential? Dr. Tom Deans, former business owner and author of *Every Family's Business*, warns that gifting a family business may not be a good legacy. You could risk pigeonholing future generations based on past business interests. Deans notes that: "Many owners make the mistake of instilling pride in the family business, that life is about tradition and not about pursuing their own dreams – and definitely not about reaching their full potential. Imagine if Henry Ford had followed in his father's footsteps as a farmer and Steve Jobs in his father's footsteps as a restaurateur?"

Deans highlights a common struggle among family business owners who are considering selling their businesses: the challenge of envisioning life beyond the company. Owners often face difficulty separating their identity from the business, hindering the sale despite its benefits for the family.

To overcome this obstacle, Deans suggests reframing the question from what will I do now? to who will I be? Adding a personal approach helps define a vision for the family legacy.

## MONEY BRINGS NEW CHALLENGES

Many family businesses reinvest profits into operations, delaying substantial financial rewards for many years. During a business sale, owners often neglect legacy issues like governance and long-term goals due to the rush of due diligence. The liquidity event will bring sudden wealth, which may be a new situation for the family and require careful management to protect it. "Making money is very different from protecting wealth," Deans says, urging owners to understand managing wealth is counterintuitive to their business-building skills. "Owners are good at solving problems, and they can see transitioning as another problem to solve. But managing new wealth is about risk aversion and relinquishing control."

“ Those who make the conscious decision to build a family legacy and get the governance in place to manage their wealth will have a smoother journey ahead. ”

### WHAT TO DO FIRST?

It's common to delay the decision-making process because the first step is the most difficult. It's safer to maintain the status quo than to risk a family argument. Reading stories about other family businesses and distributing case studies amongst family members can begin the conversation. Connecting with experienced owners may also inspire action. Another worthwhile approach is to organize a meeting with other family business owners who have sold their businesses and been through the journey to wealth management will also help.

Transitioning from family business ownership to family wealth management involves co-operation and preparation for heirs. Structuring and managing liquid assets can be challenging, requiring answers to the key question: What does wealth mean for the family?

### PAY FOR EXPERTISE

When transitioning from running a family business to managing family wealth, Deans advises seeking assistance from financial experts. “There are financial advisors to assist business owners through this transition to wealth. Families are complex and emotional. Using financial experts is not a sign of weakness, but of strength and wisdom.”

### UNDERSTANDING RISK TOLERANCE

Each family member's level of risk tolerance is obvious when skiing or driving a car, but not when planning the family legacy. Constructing a risk framework as a family will foster a mutual understanding of family goals and reduce stress.

### PLAN TO PLAN

The road from running a family business to managing the family wealth is well-trodden. It may seem an ideal situation to outsiders, but family businesses who have gone that route know the challenges. One thing is for certain: Those who make the conscious decision to build a family legacy and get the governance in place to manage their wealth will have a smoother journey ahead. As Deans says, “Taking the time to plan the family legacy is how new money becomes old money.” **B**

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