BNY MELLON
WEALTH MANAGEMENT

Selling a Business: Preparing for the Windfall

Selling a business is more than just a financial decision—it's also an emotional decision, one that can overwhelm even the most seasoned business owner. When you've owned and run your own business, it becomes a part of your identity. You're not just selling the company, you're letting go of a part of yourself.

Suddenly, a significant portion of your net worth goes from being concentrated in a single asset that you control to a more diverse, liquid collection of assets that must be invested in the market. It can be difficult to navigate so much change all at once.

At BNY Mellon Wealth Management, we frequently guide clients through the steps necessary to prepare for the financial ramifications of selling their businesses. This includes assisting them in understanding the tax liabilities associated with the sale, negotiating well-structured deals, helping them exit their businesses on favorable terms and preparing the business itself for the transition of ownership.

But we also pay special attention to the personal impact of selling a business. We encourage business owners to think hard about what comes next. Do they intend to retire or find a new job? Have they considered how their assets will be invested?

Perhaps the most important factor to consider is the effect that the sale will have on the business owner's family—particularly if any of the owner's children work in the business. How involved will the family be in the transaction? Will they personally benefit and, if so, are they ready for that responsibility? Should a governance plan be put in place to protect the family from this wealth?

While it may seem like there's an endless number of possibilities, a thoughtfully conceived plan will help make this process much more manageable.

Profile: James & Lisa

James and Lisa are in their early 50s, with three children—two in college and one a senior in high school. They have a comfortable lifestyle, owing to the successful electronics distribution company that James founded. The cash flow from the business has been substantial enough to allow James and Lisa to purchase a second home. It's also given them the opportunity to get involved in their community by pursuing charitable endeavors that are important to them. They have done some estate planning, having transferred a portion of the business into trusts for their children.

James wasn't looking to retire, but after receiving a number of potential offers on the business, he and Lisa began to think it might be time to seize the opportunity to focus on something new. After much consideration, they sold their business for an after-tax profit of $25 million.

Now that James and Lisa have a significant amount of liquid assets in their trusts, they're suddenly struck by the feeling that they are truly "wealthy" for the first time—and by the responsibility that comes with it.

With so much money sitting in cash, they need to make decisions about how it should be invested. Friends and investment advisors are coming out of the woodwork, offering advice about how to invest the money. James and Lisa spent their lives building a business and were comfortable with how economic factors affected their industry, but never spent much time in the public markets.

They're excited by the opportunities that this money will provide for their children, but also concerned about the impact that this very sudden, very liquid increase in wealth might have on their motivation to succeed. They want to make sure that their children are prepared to handle not just the financial aspects of the wealth, but the psychological aspects, as well.

What they need is a plan.

Preparing Your Family for the Money

Your wealth management plan should include steps to educate your family about the importance of thoughtful wealth management and the impact that this newfound wealth may have on them. In working with wealthy families, we've found that the best way to ensure that children and grandchildren are able to handle their family's wealth responsibly is to get them involved in its management early.

Begin by holding regular family meetings to define current needs, common values and a vision for future generations. Make sure each family member knows his or her role and responsibilities, and is willing to work together to come to a shared sense of risk and reward. You will also want to involve trusted advisors and fiduciaries that you have appointed in these meetings.

Ideally, these discussions should start long before the sale of your business and address important questions, such as:

- How much will we need to maintain our lifestyles as we grow old?
- How much will be enough for our children and grandchildren in the future?
- Will our children and grandchildren be able to handle receiving our wealth?
- How much will we want to devote to our charitable goals?

The answers to these questions will help drive your family's wealth management strategy, which in turn will influence the type of deal you strike when you ultimately decide to sell your business.

What you learn in this process may help you answer more sensitive questions, as well. For example, you may need to decide whether a child who was active in the business should have a greater share of the profits than a child who was not interested in participating. While the decision is up to you, the meetings may provide additional context for your choice and give you the opportunity to be transparent about your thinking on the matter. Failing to address such questions in an open and honest way could be an impediment to sustaining family wealth and promoting family harmony.

Finally, don't forget to discuss the meaning behind the money and the importance of managing it thoughtfully. Lay out a strategy and timeline for ensuring that future generations will be properly educated on both key financial issues and the core values that underpin your wealth.

Outlining these objectives can be difficult, but diligent preparation in the present can set up smoother transitions in the future. As your family's perspective on wealth begins to take shape, so too will your perspective on how best to manage that wealth. With your family's needs and desires in mind, you can begin to make decisions about when and how to move forward with the sale of your business, and how the money you receive should be handled.

Putting Your Life's Work to Work

While your instincts may be telling you that the best thing to do with your windfall is to invest it all right away and put it to work for you in the market, that may not be the case. You may not consciously realize it at first, but this money represents your life's work. The emotional impact of seeing that large sum of money fluctuate along with the market can be more harrowing than you might expect. It's only natural to view any loss in the value of your investment in terms of the effort and time it took for you to earn that money, or how challenging it may be to earn it back again—it's more than just money, it's years of your life.

A more prudent course of action may be to slowly ease into the market using a dollar-cost averaging strategy, investing a smaller, fixed amount on a regular schedule over a certain period of time, spreading out your investments to reduce the impact of volatility. That way, you'll be less inclined to overreact to any large swings in the market.

To start, you can place the funds in a cash management access account at a bank that's known for working with high net worth clients. This should serve as a safe place to hold your funds and earn some degree of interest income while you plan your next steps. At this point, it may be a good idea to engage with a wealth manager who has experience working with transitioning business owners like you. The wealth manager can help you craft a long-term wealth plan that takes your needs into consideration and integrates the appropriate wealth-transfer strategies for achieving your goals, such as trusts or estate tax planning. If you still crave the excitement of betting on riskier ventures, you may want to set 5 to 10% of your capital aside to invest personally, while leaving the bulk of your funds with your wealth manager in less volatile, long-term strategies.

Depending on the complexity of your family's new wealth, and whether or not your family is interested in devoting personal time to managing it, you may want to consider starting a family office. A family office can allow you to retain control over major decisions, while delegating the intricacies of managing your wealth to a team of seasoned investment professionals who work for you.

In addition to single family offices that are dedicated entirely to one family, a number of global wealth managers and specialty firms offer multifamily-office type services. They provide a wide menu of services in a cost-effective way, including coordination of advice, consolidated investment management and reporting, trust and estate planning, and philanthropic guidance.

BNY Mellon Wealth Management Can Assist

You should approach the sale of your business with the care and thoroughness with which you approached its creation. Consult with your family, enlist the help of trusted, experienced advisors and create a detailed plan that guides your actions and decision-making. The skills that aided you in growing your business to this point can be just as useful in managing your newfound wealth going forward.

At BNY Mellon Wealth Management, we know very well that there are no hard-and-fast rules on what to do with the wealth from a business sale—it's more of an art than a science. We encourage our clients to create a plan tailored to meet their particular situations, and caution them to resist the urge to take swift action. Proceeding slowly and judiciously ensures that both the financial side and the familial side of the deal are sorted out, before any changes are made. We have found this to be a key to success for our clients after the sale of a business, and would be delighted for the opportunity to assist your family in reaching that same success.

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