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Family businesses pass the baton

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The Radbel family always had a natural plan of succession and executed smoothly when it came to the financial side of handing off ownership of Main Sporting Goods.

That's one reason Michael Radbel looked forward to entering the business 21 years ago to join the team formed by brother Neal and their father, company founder Bertran Radbel.

"My father and brother had done real well running this business, and we thought bringing me in would take the company even farther," Radbel said on a recent busy afternoon at the sporting goods supplier on Main Street in East Chicago's Indiana Harbor neighborhood.

But Radbel ended up drinking in knowledge of the business from the end of a fire hose, when brother Neal immediately had to take three months off to care for his wife and son after an auto accident.

An industrial engineer with an MBA, Radbel said nothing could quite prepare him for all the details of helping run a sporting goods supplier in Northwest Indiana's highly competitive market.

"It was just hard to fill my brother's shoes," he says now.

Wisdom and wealth of generations

Those are the kind of twists and turns a family-owned business can take, according to experts. That's why a clear succession plan and open discussion among family members are so important to the survival of every small business.

"As soon as one of the children decide they want to be in business, that's when you want to start talking about it," said Tim Scannell, whose Scannell Wealth Management Group advises small business owners across Northwest Indiana.

"It's a real challenge for the family and the business, because it's all about personalities and timing."

It's also about the U.S. economy. Current estimates are that anywhere from $21 trillion to $41 trillion in wealth will be handed off from generation to generation between 1990 through 2040. Much of that wealth is being transferred by the generation of post World War II entrepreneurs.

And most of those businesses are not small mom-and-pop operations.

The results of an American Family Business Survey released two years ago found respondents' businesses had mean annual revenues of $36.5 million and employed a median of 50 full-time people. Six percent of respondents had more than 500 employees.

That survey was designed and conducted by the MassMutual Financial Group and the Raymond Institute, which helps foster ideas for effective family-business management.

At 40 percent of the businesses responding, a leadership change was expected in the next five years. That change includes those family CEOs who plan to fully retire and those who plan to go only half-way by semi-retiring.

It's not all about the owner

James Donovan, the 62-year-old owner and president of Tri-Electronics Inc., in Hammond, says he fits that bill.

Donovan is doing his planning now for the orderly hand-off of his telecommunications business to his son Thomas, 36, who is company vice president. He plans to start that process in the next couple of years.

Tri-Electronics Inc. has a 42-year history in the region. The company has about $12 million in annual sales and 90 employees, according to Donovan.

Concern for those employees and the future of the business are a big factor in all his plans, Donovan said. An accountant by training, Donovan feels his son has more "hands-on" skills than himself in the field and will make a strong leader for the company, having already worked there six years.

Scannell Wealth Management Group President Timothy Scannell, offers a personal approach to financial management for clients throughout Northwest Indiana from the company office in Aberdeen.

"People have to think of this stuff," Donovan said. "Because if they have a business and they are making a living at it and they are 50 or above, they have to think about their employees. What is going to happen if they drop dead tomorrow or can't run the business?"

Donovan is currently consulting with his lawyer and accountant to determine how best to structure the hand-off to take care of his own retirement and help ensure the business' ongoing success.

Death and taxes, sure, but plan

That process is always a balancing act and adds a new twist to the merchant's traditional dictum of buy cheap and sell dear.

"You want to give your kids the ability to run the business successfully," said Tim Scannell. "You don't want to strap them."

At the same time, the business owner likely has most of his equity wealth tied up in the business, and he may need a good chunk of it to retire on.

A common way to hand off the business is through some kind of sale where the new child-owner makes payments over a number of years on an installment plan, Scannell said. The sale generally includes some kind of up-front or down payment.

That kind of sale can be structured to ensure the seller pays most taxes at capital gains rates which are lower than the rates on ordinary income.

Another common means of handing off a business is a tax planning and gifting strategy. The parent-owner can gift up to $11,000 per year to each child without incurring any gift tax.

Under current IRS regulations, the parent-owner can gift up to $1.5 million over his or her lifetime without estate tax being levied against it at time of death. That amount will be increased each year under Congress' plan to phase out the tax.

Trusts generally are used in succession planning to protect business assets for younger children.

The worst-case scenario is to have a business owner pass away with no estate or succession planning, Scannell said. That can subject the business to the full brunt of estate taxes and/or a fire sale.

Scannell emphasizes all strategies for handing off a business have their own complexities and must be tailored to the individual needs of family and business. He meets with each client's accountant, attorney and company CFO at least once a year to make sure that strategy will meet the family's goals.

"When you meet with business owners, they just spend so much of their time and energy growing their business," Scannell said. "They don't really have time to think about what happens when they want to sell the business."

Growing the business, growing into it

With the Radbels, it was never so much a matter of selling the business as letting nature take its course.

Interviews last week with Michael, and his sister, Diane Hudacin, at Main Sporting Goods revealed a family that just grew up with the business.

Both worked there in high school. Michael went on to work for engine-maker Cummins Inc. after college. While still in his 30s, he ran a 300-employee plant for a Cummins subsidiary in LaGrange, Ill. Diane had her own career as a social worker but also continued to put in time at Main Sporting Goods.

But both always admired the job their father did in founding the business and that their brother Neal, who passed away 15 years ago, did to grow it.

"Neal just had real good vision," Michael Radbel said. "He knew how to market. He's the one who really grew the business."

They also appreciated the tradition of trust the two built up with employees, who currently number about 20.

Today, Diane is a 51 percent owner, making the business qualify as woman-owned. Michael and she both know more and more stock passed into their hands over the years, but they barely remember the details.

What they seem to remember most is their father working around the store four-to-six days a week, almost until he passed away two years ago at age 81.

Between phone calls and serving customers, Michael Radbel expressed sentiments that might have been the reason his father went into business for himself 59 years ago.

"It's just a great challenge every day," he said. "It's a big challenge. But it's great because it's all us. You can change the company in a positive way and you don't have to go to a company president to get permission."

Family firms: Add it up

- 80 to 90 percent of all business enterprises in North America
- 62 percent of U.S. workers employed
- $5.9 trillion or 64 percent of GDP
- 30 percent of family firms survive into second generation
- 3 percent survive into fourth generation or beyond
- 382 years: age of oldest family-owned business in U.S. (Zildjian Cymbal Co., Norwood, Mass.. Founded 1623 in Constantinople. Family and business moved to U.S. in 1929.)

Sources: Family Firm Institute; Raymond Institute; Family Business Review