

# PREPARING FOR SELLING YOUR LEGACY BUSINESS— AND THE ROLE OF WEALTH MANAGEMENT

John A. Davis, Cambridge Institute for Family Enterprise  
Dr. Jonathan Pellegrin, Advisor

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**CAMBRIDGE**  
INSTITUTE FOR FAMILY ENTERPRISE

On important occasions, we gather for family portraits. If you were to take a picture of your family business today, what would it show?

Family businesses represent the aspirations, achievements, and struggles of one or more generations of a family. We would see all of those things in the portrait of the family business. The portrait of the business would also typically represent more than *90% of the owners' wealth*.

Few families sell their companies and those that do sell generally part with them very reluctantly, given all that selling represents. We sympathize with a family's emotional attachment to its company. But given how fast industries are changing and other factors, more families should consider this move.

If you are in a position to consider selling your legacy business, we congratulate you. You (and all your stakeholders) will hopefully realize the fruits of generations of hard work and sacrifices. Plus, selling your legacy business presents wonderful opportunities. You can update and reconfigure your ownership group with the right owners for your next chapter of wealth-generating (and social value generating) ventures.

*But*, it's important to understand that if this transition is not managed well, the family has a *higher risk of losing its wealth* through bad investment decisions and over consumption. Starting now, before your sale and liquidity event, you need to adopt the attitudes of those families that endure as high performing, enterprising families.

#### **FOUR ATTITUDES OF ENTERPRISING FAMILIES**

- They know their industry lifecycle(s) and get ahead of the curve.
- They understand the family's cash needs, now and in the future, along with the family's true strengths and weaknesses.
- They want to educate themselves about the differences between families with operating businesses and post-liquidity families managing portfolio assets.
- They are willing to face the challenges common to post-liquidity business families that can pose threats to unity of the family and owners.

The attitudes of enterprising families that thrive after legacy transitions seem to lead to these three key activities that achieve, then propel, their success.

#### **HOW ENTERPRISING FAMILIES BUILD VALUE THROUGH LIQUIDITY TRANSITIONS**

1. **Planning.** They develop a *family strategic plan*—usually with the help of trusted advisors—to specify the family's goals and values and clarify how they will achieve their goals. This strategic plan naturally takes some time (often one or two years) to develop.
2. **Redeployment.** Consistent with the family's strategic plan, they redeploy the proceeds of a business sale in assets (usually more diversified assets) that match the family's talents, aspirations, and needs. Short term, families usually place their assets in relatively safe vehicles while they catch their breath and assess their interests, unity, and risk tolerance. Longer term, they might start or buy another operating company, while keeping some portion of their assets (individually or collectively) in other kinds of investments.
3. **Governance.** They develop governance mechanisms (forums for discussions and decisions, plus rules, policies, and agreements) to help the family make decisions and keep the family informed, united, and hopefully committed to future investments by the family.

4. Talent Development. They develop family talent to help manage and/or guide the new activities (business and other) of the family. Obviously, with the sale of the family business, the type of family talent needed for the future will be unclear for a while. As the family settles into new activities, it becomes better understood what family talent is needed.
5. More Planning. Even if the family quickly and collectively redeploys its assets in new business activities, after a sale family members will have more financial autonomy. This necessitates that individuals develop their own life plans and financial plans in the context of greater liquid wealth. There are many great resources out there today to help you with financial planning and asset management. Make the family strategic plan *before you search for investment advisors*. And before you do that, take the time to re-examine individual family members' life dreams, the family's collective goals, and the role of wealth in supporting them. Then please shop for the right advisors to help you at the right price.

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6. Develop New Context Awareness. Value building families also take this opportunity to consider how greater wealth or more liquid wealth will affect family lifestyle, behavior and work ethic. These are all serious ingredients in sustaining an enterprising family.
7. Unite the family. They work extra hard to develop family unity and commitment to the new family enterprise. We can't over-emphasize how important it is, now on the eve of your legacy sale, to focus on unity in the family so you can cultivate and support new family wealth creators for future generations. The family has been the foundation of your success, and it always will be.

Remember, businesses come and go, but business families can last for generations. Maintaining family momentum and growing family assets are the real measures of success from generation to generation. Are you ready for your portrait?

## ABOUT THE AUTHORS

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### PROFESSOR JOHN A. DAVIS

Founder and Chairman, Cambridge Institute for Family Enterprise  
Senior Lecturer, Family Enterprise Programs, MIT Sloan School of Management

John A. Davis is a globally recognized pioneer and authority on family enterprise, family wealth, and the family office. He is a researcher, educator, author, architect of the field's most impactful conceptual frameworks, and advisor to leading families around the world. He leads the family enterprise programs at MIT Sloan. To follow his writing and speaking, visit [johndavis.com](http://johndavis.com) and twitter [@ProfJohnDavis](https://twitter.com/ProfJohnDavis).



### DR. JONATHAN PELLEGRIN

Advisor

Dr. Jonathan Pellegrin was the 2nd generation CEO of his family business before selling the business that his father started. He is an advisor to families on selling their companies and is co-author, with Professor John Davis, on the forthcoming book about strategies for selling the family company.

## ABOUT CAMBRIDGE INSTITUTE FOR FAMILY ENTERPRISE

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The Cambridge Institute for Family Enterprise is a global research and education institute dedicated to the real issues facing family enterprises. It is a place where progressive members of family enterprises come to learn, exchange ideas, develop themselves and position their enterprises to be not only successful, but sustainable over generations. Its sister organization, Cambridge Advisors to Family Enterprise, advises multigenerational families around the world on strategies to sustain their success over generations.