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## EXECUTIVE SUMMARY

U.S. TRUST   
Bank of America Private Wealth Management

Campden **Research**  
A division of Campden Media

Prince & Associates, Inc.

# Protecting the Family Fortune

## INTRODUCTION

While there has been a great deal of attention paid to succession issues among family businesses, until now no one has examined the matter with respect to the exceedingly wealthy. This special whitepaper report is the first look at 242 ultra-high-net-worth (UHNW) businesses. Herein we will review key research findings.

In the third quarter of 2007 we surveyed 242 owners of significant family businesses. To participate, each owner had to be a senior officer of the company with a seat on the firm's board of directors. They also had to have a personal equity share of the company of 10% or greater.

We refer to these businesses as UHNW family businesses because they meet two criteria:

- A single family owns 60% or more of the business.
- The value of the business exceeds US\$200 million.

With respect to the second criteria, the family businesses comprising our sample had a mean value approaching three-quarters of a billion US dollars. The median value was US\$572.5 million (Exhibit 1).

## Exhibit 1. Value of the business

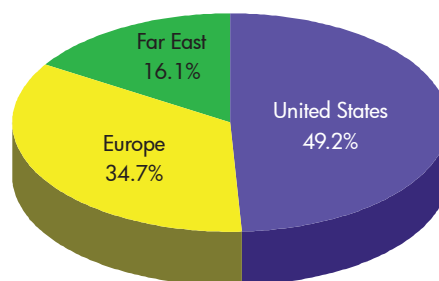
Mean	US\$731.3
Median	US\$572.5

n=242 UHNW family businesses

Our sample of UHNW family businesses came from three broadly defined geographic locations: the United States, Europe and the Far East (Exhibit 2). While we tie these family businesses to these locations, it's important to recognize that most of them have subsidiaries and business connections that extend into other geographic areas.

What proves to be most significant is that we segmented the UHNW family businesses based on psychographics. Using the statistical procedures of factor analysis and cluster analysis, we were able to identify two behavioral segments (Exhibit 3). The decision-making surrounding the Business-focused segment is all about the business. The needs and wants of the family inside and outside the business is not a meaningful consideration when it comes to decisions affecting the business. The Business-focused family business is a business first and a family operation second – if at all.

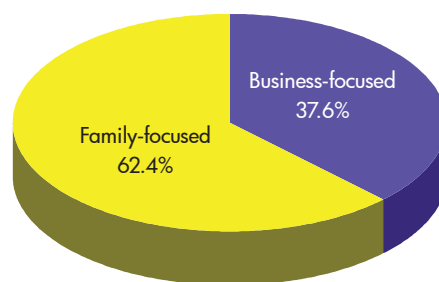
## Exhibit 2. Geographic locations



n=242 UHNW family businesses

In contrast, the Family-focused segment is all about the family. Here, the business is the mechanism to enable the family to achieve and address family concerns and issues. The Family-focused family business is about the family first and foremost. The business is the source of wealth and is in service to the family – and decisions concerning the business are made accordingly.

## Exhibit 3. Psychographic segments



n=242 UHNW family businesses

What we found informative was that the Business-focused family businesses were, on average, worth more than the Family-focused family businesses (Exhibit 4). While we cannot determine the direction of causality, or even if there's a direct causal relationship, what's telling is that, going forward, greater financial resources are being controlled in situations where business decisions supersede family decisions.

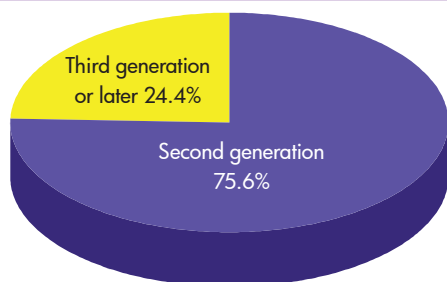
### Exhibit 4. Business valuation by psychographic segment

BUSINESS-FOCUSED	
Mean	US\$814.3
Median	US\$694.2
FAMILY-FOCUSED	
Mean	US\$681.2
Median	US\$499.1
n=242 UHNW family businesses	

### SUCCESSION IN THE UHNW FAMILY BUSINESS

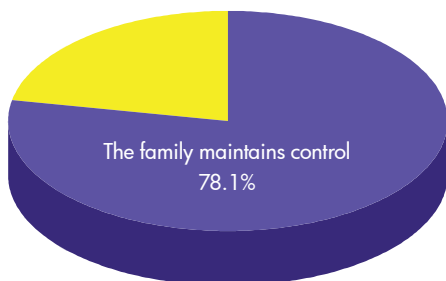
All these family business have successfully moved beyond their founders. Three-quarters are in the second generation, and the remaining quarter are in the third generation or later (Exhibit 5). Therefore, as a family business they clearly have experience with succession planning and implementation. However, as we'll see, many of these family businesses are not currently adequately addressing the succession issue.

### Exhibit 5. Current controlling generation



n=242 UHNW family businesses

### Exhibit 6. Keeping family control



n=242 UHNW family businesses

Nearly four out of five of the UHNW family businesses are expecting, desiring, to keep control of the business within the family as they move into the next generation (Exhibit 6). Not surprisingly, this is more the case among the Family-focused family businesses than among the Business-focused family businesses (Exhibit 7).

### Exhibit 7. Keeping family control by psychographic segment

Business-focused	62.6%
Family-focused	87.4%

n=242 UHNW family businesses

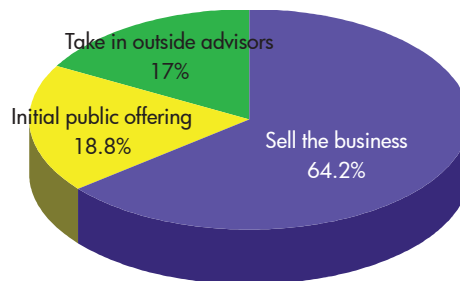
The motivations vary for deciding to relinquish family control (Exhibit 8). However, the appeal of “cashing out” dominates. At the same time, nearly 60% find they do not have suitable family members to take over the business. Fewer see relinquishing control tied to new business opportunities, while only 11.3% see it as a way to downplay the role of family involvement.

### Exhibit 8. Motivations to relinquish family control

Cash out	81.1%
No viable members as successors	58.5%
Expand business opportunities	35.8%
Mitigate the influence of the family	11.3%

n=53 UHNW family businesses

### Exhibit 9. Exit strategies



n=53 UHNW family businesses

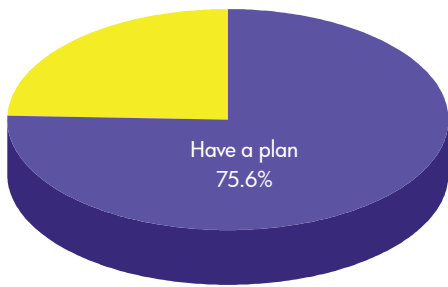
The most likely way for the family to exit the business is by selling it to another company (Exhibit 9). Less than one in five see an initial public offering as a possibility. A similar percentage are looking to stay involved while diluting their position by taking in outside investors.

### THE SUCCESSION PLAN

Whether it's a matter of cashing out or passing the business down a generation, about three-quarters of the UHNW family businesses have a plan (Exhibit 10). A succession plan is much more prevalent among the Business-focused compared with the Family-focused family businesses (Exhibit 11).

While succession plans are far from uncommon, we found that relatively few of the UHNW family businesses are actually implementing them (Exhibit 12). Whether the plans are good or bad is not in question. What is evidenced is that having a plan is

### Exhibit 10. Have a succession plan



n=242 UHNW family businesses

### Exhibit 11. Have a succession plan by psychographic segment

Business-focused	90.1%
Family-focused	66.9%

n=242 UHNW family businesses

not sufficient if it sits on the shelf collecting dust – as is the norm. The Business-focused family businesses were much more likely to be taking action than the Family-focused family businesses – basically twice as likely (Exhibit 13).

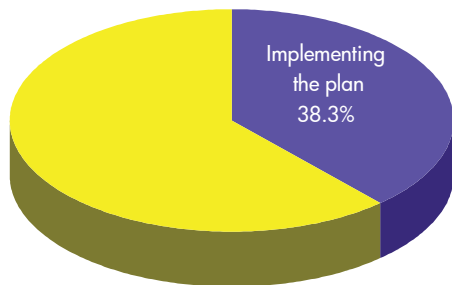
#### THE NATURE OF THE SUCCESSION PLAN

Most UHNW family businesses have succession plans that are sitting on shelves somewhere – out of sight, out of mind. For those with succession plans, we were interested in their orientation. That is, the question as to how important it is to the family to address:

- Strategic business issues.
- Family issues.
- Tax mitigation issues.

For about three-quarters of the UHNW family businesses, the strategic issues dominated (Exhibit 14). For half of them the

### Exhibit 12. Implementing the succession plan



n=183 UHNW family businesses

### Exhibit 13. Implementing the succession plan by psychographic segment

Business-focused	53.7%
Family-focused	25.6%

n=183 UHNW family businesses

family issues were extremely important. Only a quarter of them cited tax mitigation as being extremely important.

When we examine the importance of these issues through the lens of psychographics, differences are made clear (Exhibit 15). While strategic issues dominate for both, half the Family-focused family businesses have made the family issues a critical component of their succession plans, while only 14.6% of the Business-focused family businesses have done so. Meanwhile, about half the Business-focused family businesses and only a quarter of the Family-focused family businesses are actively addressing mitigating taxes as part of their succession plans.

Although “mitigating taxes” is at the bottom of the list for these family businesses, 93.4% of them report wanting to lower the tax bill associated with transferring their family business to whomever. We repeatedly find that the tax issues are repeatedly attended to after these other matters have been dealt with. All too often, doing so limits what can be done to lower the various taxes that have to be paid.

### Exhibit 14. Extremely important in the succession plan

Strategic business issues	72.7%
Family issues	55.2%
Tax mitigation issues	26.8%

n=183 UHNW family businesses

### Exhibit 15. Extremely important in the succession plan by psychographic segment

ISSUES	BUSINESS-FOCUSED	FAMILY-FOCUSED
Strategic business issues	81.7%	65.3%
Family issues	14.6%	88.1%
Tax mitigation issues	46.3%	10.9%

n=183 UHNW family businesses

#### IRS REQUIRED STATEMENT

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