

Family Business

THE GUIDE FOR
FAMILY COMPANIES

www.familybusinessmagazine.com

WINTER 2010

Grupo Ferré Rangel looks ahead to its next phase

*The Puerto Rican media company
values its entrepreneurial traditions.*

From left, Loren Ferré Rangel, VP of new products, El Nuevo Día; Antonio Luis Ferré (seated), COO, Grupo Ferré Rangel; Luis Alberto Ferré (standing), editor of El Nuevo Día, María Luisa Ferré Rangel, CEO of Grupo Ferré Rangel; and María Eugenia Ferré Rangel, president of El Nuevo Día.

- Escaping from price competition
- Obtaining bank financing
- Independent directors' value



Test your planning with a 'fire drill'

If you want to know whether your estate and succession plan will work the way you intend, ask your family to pretend you have died.

NO DOUBT your business has a fire evacuation plan prominently displayed in your office. You may have emergency contact names and numbers posted as well. Your company probably conducts safety drills a couple times a year. You might even have held a fire drill at home with your family.

But have you ever conducted the same type of safety drills for your business and family—an estate and business succession “fire drill”? I have been advising families on “what if” scenarios for years and have also been involved in what happens in

Testing your awareness

How familiar are you with the contents of your estate planning documents? Take this short quiz:

When was the last time you:

- Read your will? (Did you discuss it with your spouse?)
- Asked whether or not your children have up-to-date testamentary documents? (Are you and your spouse named as guardians of your grandchildren? If so, is this still acceptable to you?)
- Read your trust agreements?
- Looked at your buy/sell agreement and other succession plan documents?

Planning a fire drill

A client (I'll call him Steve) recently asked me to develop an estate planning fire drill for him. A friend of Steve's, also a business owner, had just died. Steve's company was involved in several joint ventures with his friend's business.

For weeks after his friend's death, Steve heard the deceased's children complain about how unfairly their father had treated them in his will. The children fought about who would run the company and how they would pay the transfer taxes on the business. Steve was appalled that they seemed to care more about themselves than about the needs of the company or their stepmother. Steve requested a fire drill in an effort to prevent such behavior in his own family.

I had three weeks to plan Steve's fire drill. As recently as seven months prior, we had put forth some major changes to this family's estate and business succession planning. Family members who were crucial to the process were all involved and had input into the final documents.

Steve wanted us to act as if he had just passed away. We planned that his family members, plus all his critical business advisers—his attorney, CPA and financial adviser (me)—would be called to a meeting. We decided against inviting bankers, surety bond agents and key non-family management personnel for reasons of privacy. We also wanted to make sure they didn't ask questions about holes that more than likely would be discovered. And yes, we found a number

Family members assembled and acted as if Steve had died. We tried our best to make this as realistic as possible; Steve sat quietly (for the most part) at the head of the conference room table while we all pretended he was no longer with us.

“real life” when an owner dies.

Have you ever wondered what would happen to your company—and, more important, what would happen to your family—if today were your last day at the office? If you don't make it back to the office tomorrow, who would be the company's “go-to” person? After the death of a family member or a critical business team member, numerous decisions must be made, and they must be made quickly.

- Reviewed your bank loan documents and lines of credit to determine what would happen when a “material change in ownership” takes place?
- Discussed your surety bonding arrangements?
- Reviewed your life insurance contracts and updated the beneficiary information, if necessary?
- Drew up a listing of passwords and other important documents and reviewed where they are located?

of critical ones. We wanted to make sure we "repaired the bridge" before we brought in these other advisers.

Steve told me he wanted his will and all the trust documents read and explained at the fire drill. I explained that he was taking a major risk in showing his family everything while he was still alive. I was impressed with his response. He said he understood the ramifications completely and that he welcomed the opportunity to explain to everyone precisely how he felt.

For our fire drill, the rules of engagement were straightforward. The entire family was flown in to town and was to pretend Steve had died over the past weekend. We tried our best to make this as realistic as possible; Steve sat quietly (for the most part) at the head of the conference room table while we all acted

discussing his future role while his mentor was sitting less than six feet away, still very much alive although pretending otherwise. Steve sensed this tension and coached Brian to work through his fears. As I observed them, I thought of other next-generation business leaders who have lost their parents; how many of them wish they had had the opportunity to have such a conversation?

- Steve's wife had concerns about the trust and wanted the will explained in detail. Once she realized the majority of the assets in the trust would be in cash or conservative investments and would give her access to significant income to replace Steve's income from the company, she was relieved and thankful for the planning.

- Everyone, including the other children, wanted to know how they

annually. It was suggested that the first retreat would lend itself nicely to a follow-up fire drill to see how the critical team members would react if Steve were to die suddenly.

After the fire drill, the other advisers and I received phone calls and notes of gratitude from the various family members. They said we had helped them understand a very cumbersome process and that they were glad that they have time to fix a few critical flaws while Steve remains with us, alive and well.

All business families can benefit from a fire drill. Because new events occur and information changes so often, it's a good idea to repeat the drill every two years.

Business owners who are not comfortable disclosing so many details of their estate plan might consider first meeting with their key advisers to "sanitize" the information before presenting it to family members or top managers.

As I observed Steve and his heir apparent, I thought of other next-generation business leaders who have lost their parents; how many of them wish they had had the opportunity to have such a conversation?

Long-range implications

It's also important to note that your clients and major vendors will be wondering what's next for your company when you are no longer there. It's a good idea to introduce them to your successor and share some aspects of your plans.

You no doubt spend considerable time and money preparing short- and long-range sales forecasts for your family business. You meet with your key personnel regularly to make certain everyone's on target. Why not give your family the same attention to detail? Dust off and review your personal planning documents, and then plan your fire drill. You will be just as energized by the outcome as Steve and his family were.

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as if he was no longer with us. After about 20 or 30 minutes, Steve "came back to life" and began to talk.

We took some time to diagram the estate, the business and all of the assets on an easel. Beforehand no one had really paid attention to the "boring but necessary" parts of the documents. Yet in this type of exercise, even the smaller details beg to be explained.

Lessons from the exercise

To say that the family members' eyes were opened regarding a few important details is an understatement.

- Steve's son "Brian," the heir apparent, wanted advice on how he would make critical decisions. Although Brian is a very capable successor, everyone present at the fire drill could tell he was nervous about

were treated in the will and the various trust arrangements. We illustrated the process with actual numbers. As the discussion progressed, I could feel the tension that had filled the room at the outset disappearing, replaced by a sense of calm and constructive participation.

From the family discussions during the fire drill, we realized that Steve and Brian do not talk about the business strategy enough. As Brian attempted to describe what strategies might be implemented in the first six to 12 months after he took the helm, we found huge differences between his vision and Steve's vision. To resolve these issues, Steve's wife suggested that Steve and Brian meet for lunch each week. The family also decided to have family council meetings and off-site staff retreats at least