

Family Business

THE GUIDE FOR
FAMILY COMPANIES

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Beyond retail

Gary Vaynerchuk revamped his family's wine business and became a social media superstar.

- The hidden history of Maybelline
- Ads featuring family members
- Avoiding succession pitfalls

Gary Vaynerchuk (right)
with his father, Sasha



Your transition plan affects the value of your business

If your presence is essential to the success of your company, then your business is less valuable to others.

DO YOU KNOW the true value of your business? Valuation specialists can provide you with a range of multiples based upon a pretty good set of industry data. But what is *your* business *really* worth? It may not be as much as you think!

Why is this? The answer may involve your "hit by a bus" plan. Has it been battle tested?

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The reason: They have no real succession plan in place.

These same folks can tell you how well their kids or their team can run the company while they are gone for the weekend or for a week or two. But what would the company look like if the owners left for a month, or two, or three? If the answer isn't the same as, or better than, it looked when they left, sound the alarm! The succession plan is a failure—and, more important, the company isn't worth nearly what they think it is.

The owners may or may not be

the face of the business, but are they pushing the rest of the staff to do better and to continue looking for new opportunities?

The more relevant a business owner is to the success of the enterprise, the less value it has to others. Think for a moment about what happens to a publicly traded corporation when the CEO or president leaves. With few exceptions, very little happens to the company or its stock price. Ask yourself how willing you would be to invest your assets in a publicly traded company if it had a weak succession plan, or if all the major creative and strategic talent

were permitted to travel together. Do you think the situation is any different for a privately held company?

A typical closely held business represents well in excess of 70% to 80% of a business owner's total net worth. It is a factor in nearly every monetary decision the owner and his (or her) family make. When the business "gets sick," the personal assets of the owner(s) suffer as well.

Estate planning glitches

I recently met with a gentleman who has a decades-old family business

with several hundred employees. When I asked him about his succession plan, he said he had spent a long time planning out his estate. His wife, children and grandchildren would be well taken care of, and he had purchased a large amount of life insurance. He expressed relief that his planning was done and told me how much he appreciated his advisers.

I asked this older gentleman how his business would survive if he were not there to run it. I suggested an exercise: He had the rest of the afternoon to make certain his business would survive the next 36 months because today would be his final day at the office.

With that, you could have heard a pin drop. It turned out the longest he had ever been away from the office was three weeks. I asked who he left in charge and how many times he had "called in the plays" from his cell phone. You guessed it—every two or three days. His daughter, his son and the non-family marketing manager "ran" the company in his absence. In my opinion, they were high-priced babysitters.

The son and daughter each owned about 15% of the company. Their father had gifted the shares to his children over the past decade or so to reduce the taxable size of his estate. The marketing manager owned 5%; his shares also had been gifted to him.

The children told me they felt confident that they could keep the company going if something happened to their father. But, since their dad

made most of the critical decisions, they wondered whether the employees and customers would take them seriously. I asked them if their dad ever took them to meet his banker. "Sure," they said, "but we aren't permitted to do anything without Dad signing or negotiating."

Battle test your plan

A truly effective business succession plan involves much more than planning out your estate, creating buy/sell agreements or purchasing financial products—although these are all necessary components of a well-thought-out plan. Here are a few of the critical issues we address in our planning:

- Outstanding debt and loan guarantees by shareholders. Whose guarantee do you think is most relevant?

- Control premium on the stock. If the parents intend for the enterprise to remain in the family, why is it necessary for the parents to own a controlling interest in the company?

- Steps in place to ensure true succession. Parents must step back and let their children and other management team members take the reins. The best idea is to set up a plan and then leave for six to ten weeks. Do not "call in" more than once or twice during this time.

- Periodic review of planning documents. Conduct regular "fire drills" to test the plans with the people who will execute them after you're gone.

- Business growth opportunities. Has the elder generation passed on such opportunities because they are in "harvest mode"?

In my career I have reviewed literally thousands of planning documents. I can easily spot the plans that were developed by advisers who never experienced a family dispute or business failure after the patriarch or matriarch has passed away. In many cases a battle test would have demonstrated major flaws in the plan. After the death of the owner it is too late.

I recommend that you seek out only those advisers who are partners

at their firms. Partners are usually owners and therefore they think like owners; they ask better questions and tend to listen more. Seek out a planning firm that has worked with a number of large family enterprises on a full-cycle basis. If they continue to advise family members in successive generations, this is a sign that their advice was relevant.

By now I hope you are thinking about your own company and what would happen to your largest asset if

today were your last day in the office. Battle testing your estate and business succession plans will help you identify their potential flaws. **FB**

> Understanding the Special Nature of Family Business

Drinker Biddle lawyers share a common vision:
To provide exceptional service focused
on the goals of your family business.

Value: You define it.
We deliver it.

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