

Changing Lanes

Transition planning for entrepreneurs and family businesses

Volume 2 | Issue 1

with compliments from



Edward Rosenfeld



Guiding Family Business. Now to Next.

So you love to drive in the fast lane!



Yet you know that you can't stay there forever. At some point you will run out of gas!

Don't wait too long. It's dangerous to cross a three-lane highway in one swoop. You've seen others cause some serious collisions – some involving their own family members.

It's much safer to gradually move over to the right-hand lane while allowing your junior driver to transition to the fast lane. Learn how to change lanes safely, while being aware of the traffic conditions and possible roadblocks. Remember you need to check your blind spot often and signal your intentions!

Any business owner who has successfully transitioned a business will acknowledge that it takes a long time – sometimes ten years – to put processes in place that enable the business to run successfully under new leadership. Unfortunately, the vast majority of business owners think they can wait until they are almost ready to retire to plan their exit. It's no surprise that only one-third of those transitions survive the next generation leadership.

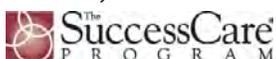
Ask your trusted advisor about the SuccessCare® approach to identifying the steps that will reflect your goals for yourself, your family, and your business.

Your trusted advisor has the knowledge, skills and experience to help you. Together you can ensure you have easy access to the exit ramp when that fuel warning light comes on!

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The Third Child

In a recent meeting with a business owner and spouse to discuss their estate plan and how they wanted to treat their two children fairly and equitably, they suddenly brought a third child into the equation.

This third child was their term for their passion for creating something that would be a permanent part of their family -- something that would not only directly influence their son and daughter, but would also have a profound impact on generations to come.

Upon further questioning, it became clear that what they were trying to formulate was a way to bequeath a strong value system about wealth, either in their lifetime or through their respective wills. They were both aware of the story "shirtsleeves to shirtsleeves" and wanted to ensure that this 'affliction' didn't hit home.

Shirtsleeves to Shirtsleeves is an all-too common story about how a business is created by a hard-working, frugal individual whose attire is generally shirtsleeves instead of a

Wealth in the third generation has no purpose. It is disposable – and dispose of it they do!

business suit. The wealth that is created during his reign is passed along to his children who then enjoy a good lifestyle. From there, the wealth is inherited by the grandchildren who, not knowing any lifestyle outside of large amounts of money and the freedom to spend, promptly deplete that wealth entirely. At this point, the family members are back to their shirtsleeves and working hard to make a living!

The moral of the story lies in the fact that the wealth for the third generation has no purpose. It is disposable – and dispose of it they do! You may be familiar with Gandhi's Seven Blunders of the World. He recognized that *wealth without work* was indeed a mistake. If we don't understand the true power of wealth, it can destroy us.

The key to bequeathing wealth is to attach purpose to it. For example, building a family business has purpose, but how do you ensure that purpose is transitioned along with the

shares? We need to learn not only to preserve the wealth we create, but also pass it along in a way that it can provide a purpose for multiple generations.



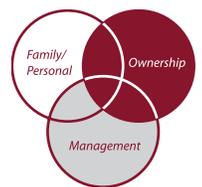
The Rockefeller family has had significant family wealth for several generations. There is a story about how they coach family members to use their wealth for a purpose. The concept involves three piggy banks, each for a specific purpose, in which family members are to deposit funds regularly.

The first piggy bank is to contain monies to be set aside for living expenses – money that each person will *spend*. The second bank is for the money that is to be set aside for personal stability and family support – that incorporates the money each person will *save* for the future. The third is for monies that each person will *give* – to enhance their values and their community.

This concept is still valid today. In planning your wealth transition, give some thought to how you can create purpose.

Where Can Wealth Play a Positive Role?

A focus on the Family circle in planning your transition is just as important as creating the Estate Plan in the Ownership circle, or making good business or investment decisions in the Management circle.

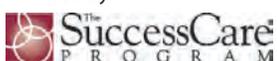


One of the objectives within the Family circle is to transition key values. This is a great opportunity to create that third child so that your wealth can play a positive role and have purpose. Philanthropy can be a very valuable tool in establishing this purpose.

Philanthropy

Philanthropy is about using wealth to create a lasting benefit. The focus is on preserving the capital but using the income from that capital to create and support specific programs that ultimately benefit others in the community or the family.

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The Third Child *continued*

Philanthropy is focused on the long-term and is very different from charitable giving which is more a result of humanity wanting to have an immediate impact.

Charitable giving enables an existing cause to fund specific initiatives. We all appreciate the fact that we can collectively provide relief for Tsunami or hurricane victims or help to fund research into finding a cure for cancer. Charitable giving is very important but we have little or no say in how the funds are disbursed nor input into the policies of the organization.

In adopting a philanthropic approach, you will establish a fund that can create income for a specific purpose. You will not only have more input into how the fund is operated but also how the resulting income is deployed. You might choose to establish a fund that will benefit your whole community or one that will benefit a specific group of people.

Take a moment to talk to your trusted advisor about the options available in creating purpose for your wealth to pass along the right values to your children and grandchildren. No matter the focus of your initiative, it will have a significant impact on your family. Some will choose to be involved in the governance of the initiative, but all will learn the value of using wealth for a purpose. Philanthropy can be the foundation of your legacy. 

A Hundred Years Later

A hundred years after the establishment of an education fund, the Harland family (not their real name) is discussing how it can establish a second philanthropic initiative.

The education fund, which was originally established before the family came to North America, has been in existence for several generations now. The original benefactors are long gone, but their vision for the family has become an empowering legacy.

The income from the fund is now benefiting the current generation. There are branches of the Harland family tree that don't have personal wealth but, because of the generosity and foresight of her predecessors, one cousin was recently able to enrol in higher education and fulfill a dream that would not otherwise have been possible. She plans to one day create a legacy of her own.

Philanthropic Initiatives

Family Foundation – a trust that dispenses funds annually (downside: administrative costs, time, personal agendas).

Community Foundation – create a named fund (they take care of all administration).

What is a Transition Plan?

In the previous issue of Changing Lanes, we stated that a comprehensive Transition Plan should meet the objectives of all three areas of your business: the family or personal goals, the ownership objectives and the day-to-day management of the business. We identified the sub-plans that will address these objectives and highlighted the importance of a *Post Transition Plan* to create "shape, purpose and possibility" for this phase of your life.

In this issue, we turn our attention to the *Communication Plan* which is a very critical component of any Transition Plan as it impacts all three areas of the business.

A Communication Plan is vital to ensuring a voluntary sale of your business and providing you with a choice to sell internally or to someone outside the family business. The

objective of the *Communication Plan* is to create governance structures that will:

-  Initiate policies around the criteria for family involvement in the business.
-  Determine how family members are compensated.
-  Establish procedures for making decisions.
-  Manage differences of opinion and use them to strengthen the business.
-  Develop family traditions that promote the values that are the foundation of the business.
-  Create a purpose for the family wealth to prevent the 'shirtsleeves to shirtsleeves' affliction.
-  Plan for the transition of the human, intellectual, financial and civic capital that is critical to the ongoing success of the business.

Your trusted advisor can help you develop a plan that fits with your objectives. 

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Get Directions First!

Transitioning management and ownership responsibilities raises many questions and many decisions have to be made. For example, who will take over leadership of the business? Are the successors competent enough to run the business? Will the next generation work in harmony? Will the retiring generation be able to support their current lifestyle? Is there a chance the business will fail after the current owner retires? Is there life after retirement?

As an entrepreneur, you have worked hard to make your business a success so your concerns for its future are entirely reasonable. If the process is not managed correctly, problems can arise that will not only threaten the viability of the business, but also the family harmony.

"The time to mend the roof is when the sun is shining"

J. F. Kennedy



Yes, we all know how true these words are, but in today's world we don't seem to have any time to think ahead. We constantly struggle to keep balance in our lives.

In the Fall 2005 edition of Changing Lanes we looked at the top reasons why entrepreneurs do not adequately plan for the transition of their business and discovered that 28% of business owners cited time restraints as the reason they haven't planned ahead.

As business owners, there are numerous demands on our time so we have great difficulty setting aside the time to plan for the eventual transition of our business – to work ON the business in addition to working IN the business. But it is the working ON the business while the sun is shining that will protect our families and our businesses from the rainstorms that loom ahead.

As family business consultants, our mission is to help you incorporate working ON the business into your schedule by partnering with you in identifying the goals for your business and then simplifying the steps to achieving those goals. We will provide as much support as you need to design and implement a transition plan that fits with your objectives.

Don't wait until you are ready to retire or are faced with health problems; begin the planning process now – while the sun is still shining! 



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