

## Entrepreneurs and Their Communities

### Preparing to Transfer Your Family Enterprise

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## Housekeeping Details

- If you haven't already done so, enter your name/email address into the chat box
- Session will be recorded
- Feel free to type questions/comments at any time
- Evaluation @

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# Preparing to Transfer Your Family Enterprise: How, why, when and to WHOM?

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## Objectives for Today

1. Understand the system and WHY the process can be so complex and difficult
2. Principles and best practices to follow when planning for succession
3. The varying timelines for ownership transitions and the types of retirement styles
4. How to overcome the odds against successful transition to the next generation
5. Passive and active ownership scenarios
6. Principles for choosing the next generation of leaders

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## Question 1:

### Who Are You?

1. Farm/Ranch Business
2. Family Owned/Private Held Business
3. Extension Educators
4. Non-Profit
5. Other

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## Why is it important to understand?

From first to second generation – 33% success ratio

From second generation to the third generation – 12%

From third to fourth – 4%

*"The journey of a thousand miles begins with one step" Leo Tzu*

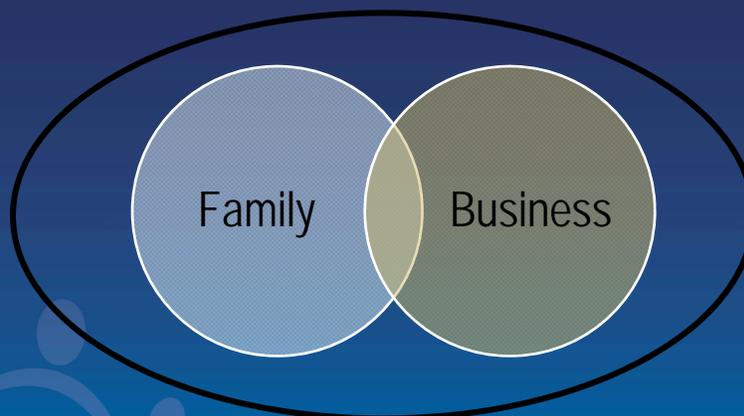
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## The Family Business System...a clash of economic systems



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## Family: Socialism

- Born into
- Allowance
- Permanent position
- Need based
- Qualitative

## Business: Meritocracy

- Qualifications
- Pay for performance
- Temporary
- Merit based
- Quantitative

*Successful Succession Planning-It's harder than people say it is!*

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## Question #2:

As of today, do you plan to transition your business to family members, employees or a third party sale?

1. Family Member(s)
2. Employee(s)
3. Third Party Sale

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## Sale to a third party or transfer to a new generation?

Planning for transition is the culmination of the owner's stewardship over the family business.

- It's inevitable....year's away or in the near future
- Control your business transition or be controlled by the situation
- Have the financial resources needed to enjoy the reward



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## Best Practices & Principles to Follow

- Meritocracy leads to Legacy, Socialism leads to overthrow
- Goal is to protect and grow the Golden Goose
- Current generation must initiate and support the process
- Clarify expectations early and often
- The best families plan one generation in advance
- Don't fall in love with your plan-develop PLAN B
- Respect and encourage individual strengths and choices

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## The varying timelines for ownership transitions and the types of retirement styles

Question #3:

The Ownership Questions: When should I pass ownership?

Answer 1: It is most tax efficient to start now

Answer 2: When you believe the recipient is ready

Answer 3: Never! Those "greedy buggers"...

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- Even if there are no plans to leave today, "what if" scenario's should be developed (disability, divorce, death).
- Worst case - minimum of 5 year plan prior to planned leave. Business are valued based on last 3 years of results...5 years allows enough time to determine where you are.
- Start with retirement dates (from operations, from board)
- Back up 3 years (Year one-you decide, successor shadows, Year 2-Decide together, Year 3-Successor Decides, you shadow)

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# Individual Retirement Styles

By Jeffrey Sonnenfeld

1. Monarch - Won't let go
2. General - Lets go to return
3. Ambassador - Retires and advises
4. Governor - Retires and disappears

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## How to overcome the odds against successful transition to the next generation:

1. Identify Current Generations Hopes and Goals
2. Identify Next Generations Hopes and Goals
3. How much time will I spend in each area in 5 years, 10 years, 20 years, 50 years?
4. Develop a Written Plan
5. Communicate the Plan to Family & Business: We will be thorough, fair, careful...(process)
6. Process of developing vision, leadership & accountability in the next generation takes a lifetime

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## Passive and active ownership scenarios

Question #4:

Do passive / active sibling partnerships work?

1. Yes, they are a practical way to be fair
2. No, you are teeing up perpetual conflict
3. Maybe

It all depends on what/who you have to work with

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## Identifying Goals

*"Begin with the end in mind"* – Stephen Covey

Do I want to pass my company to my children?

Why?

How do I want to be remembered?

What does my spouse want for the future?

What dreams have I not yet fulfilled?

What hopes do I have for my children, my business?

What do I fear most about the future?

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## Principles for choosing the next generation of leaders:

1. Who Chooses
2. Criteria: Integrity, Leadership skills, communication, relationship skills, technical knowledge, credibility with employees/family, work ethic.
3. Credibility
4. Be aware of Leadership Gap (Current vs. Future Skills)

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## The Credibility Curve

*When I was a boy of fourteen, my father was so ignorant I could hardly stand to have the old man around. But when I got to be twenty-one, I was astonished at how much he had learned. Mark Twain*

- Teenagers, your credibility is zero (with adults)
- In your twenties, it isn't much higher-focus on learning
- In your thirties you have book smarts, start applying it
- In your forties, you have arrived-you are credible
- In your fifties, you are at the peak
- In your sixties, you start to be seen as "over the hill"
- It's all down hill from there
- Understand, in the end, credibility is GIVEN not EARNED

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## Successful Transfer: Must Haves

- An open stance
  - \* Allowing for new leadership style, goals, strategies
  - \* Ready to advise when needed
- The ability to walk a mile in the other generations' shoes
  - \* Clearly, this is easiest for the Current Generation—been there!
  - \* Next generation-be sensitive, thoughtful!
- Excellent communication patterns
  - \* The ability to listen to each other
  - \* A sincere desire to understand the other's point of view
- Respectful, grateful celebration
  - \* A positive focus toward new adventures in both generations
  - \* Sincere gratitude for leadership and service to the company
  - \* Recognition and remembrances for achievements

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## Leave a Legacy

Family or closely-held businesses will endure or die depending upon how effectively they plan for the future.

Those who survive will have managed to re-create the energy and wonder that fueled the original entrepreneurial spirit!

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Thank you for participating today!

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## Thank You!

- Mark your calendars for the upcoming webinars of this season – January 12, 2012, 1:00 pm CT / 2:00pm ET
  - In January we begin a 3-part series with **Maps, Apps and Mobile Media Marketing** which will introduce opportunities for mobile media marketing to improve business visibility, connectivity, customer relationships and bottom line. Participants will gain access to mobile media marketing examples and resources.

- Evaluation @

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