

The Family Love Letter

WEBINAR

October 6, 2022

Presented by:

*Risë Flenner, CPA/PFS, J.D.
Director of Succession Planning*

*Michael Maglieri
Associate Wealth Advisor*



Forbes America's Best Tax and Accounting Firms 2022
Top 100 Firm & Regional Leader | Accounting Today 2022
Top 100 Firm | Inside Public Accounting 2022
Fastest Growing Firm | Inside Public Accounting 2022

Meet Our Panelists



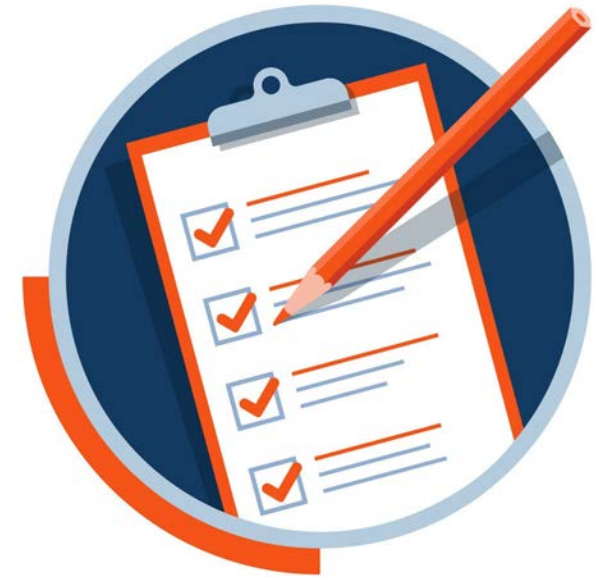
Michael Maglieri
Associate Wealth Advisor
PB Mares Wealth Management



Risë Flenner, CPA/PFS, J.D.
Director of Succession Planning
PB Mares, LLP

Today's Agenda

- Estate Planning Basics
 - ✓ Importance of Planning
- Family Businesses
 - ✓ Wide Scope of Family Business Ownership
 - ✓ Impact Planning Has on Succession
- How the Family Love Letter Leaves a Legacy

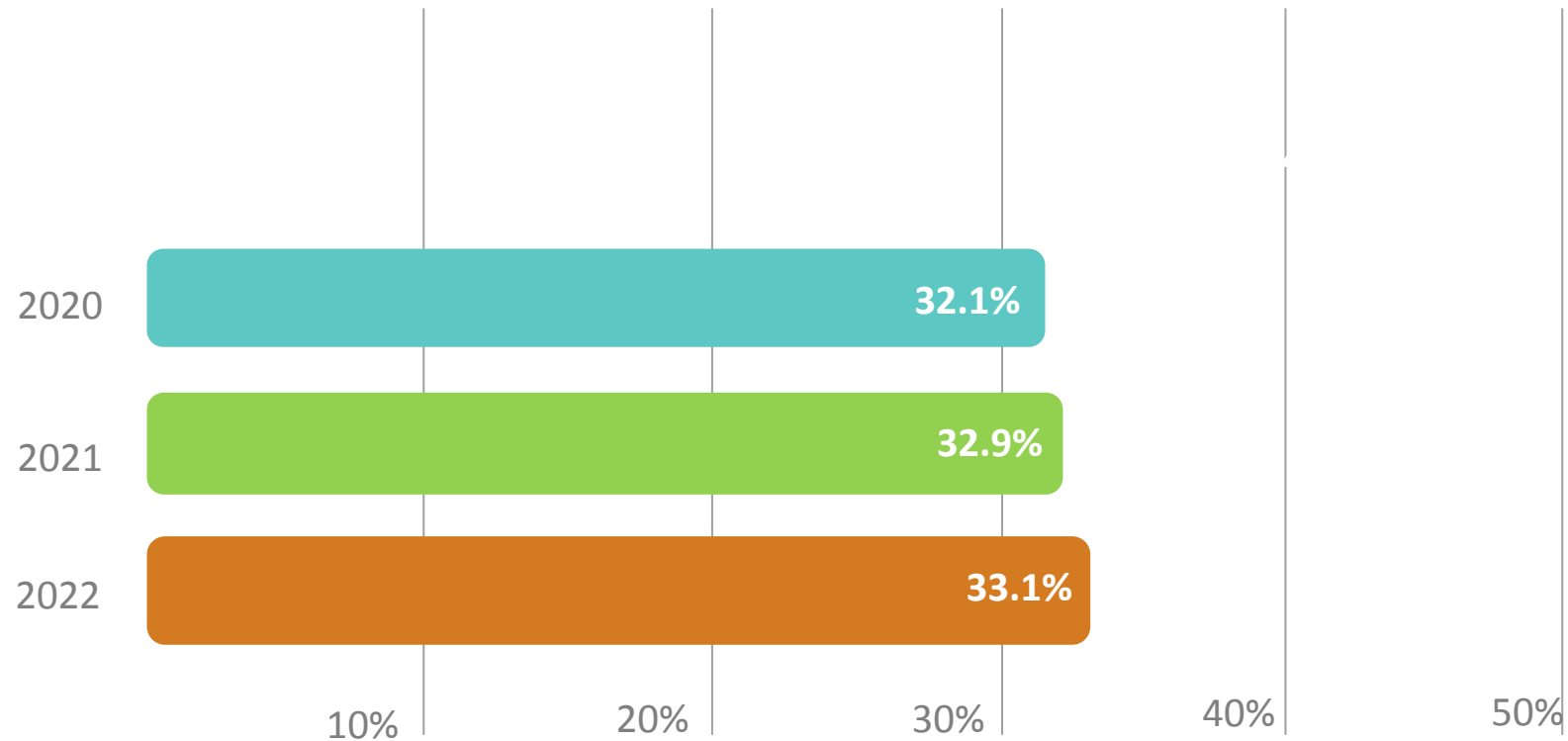


Who Needs an Estate Plan?



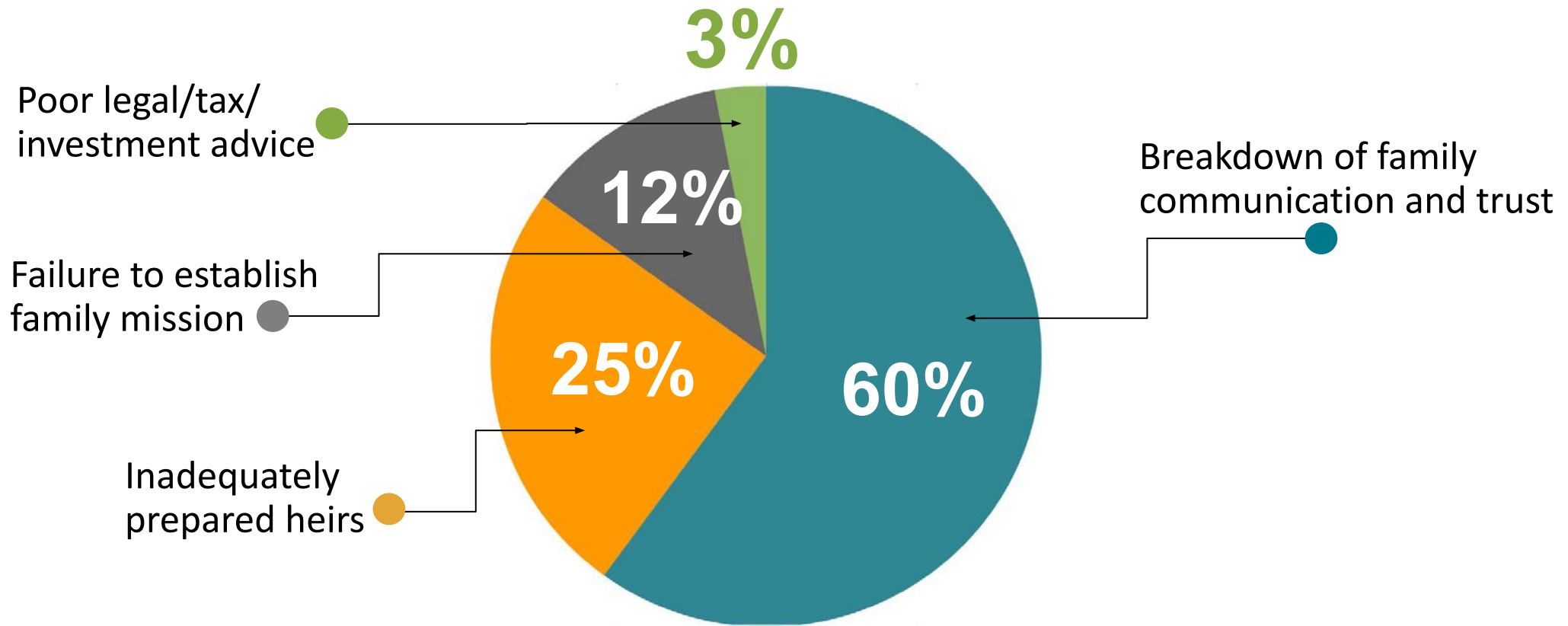
2 Out of 3 Adults Still Don't Have a Will (Despite the COVID-19 Pandemic)

THE PERCENTAGE OF ADULTS WITH A WILL:



Why Does This Matter?

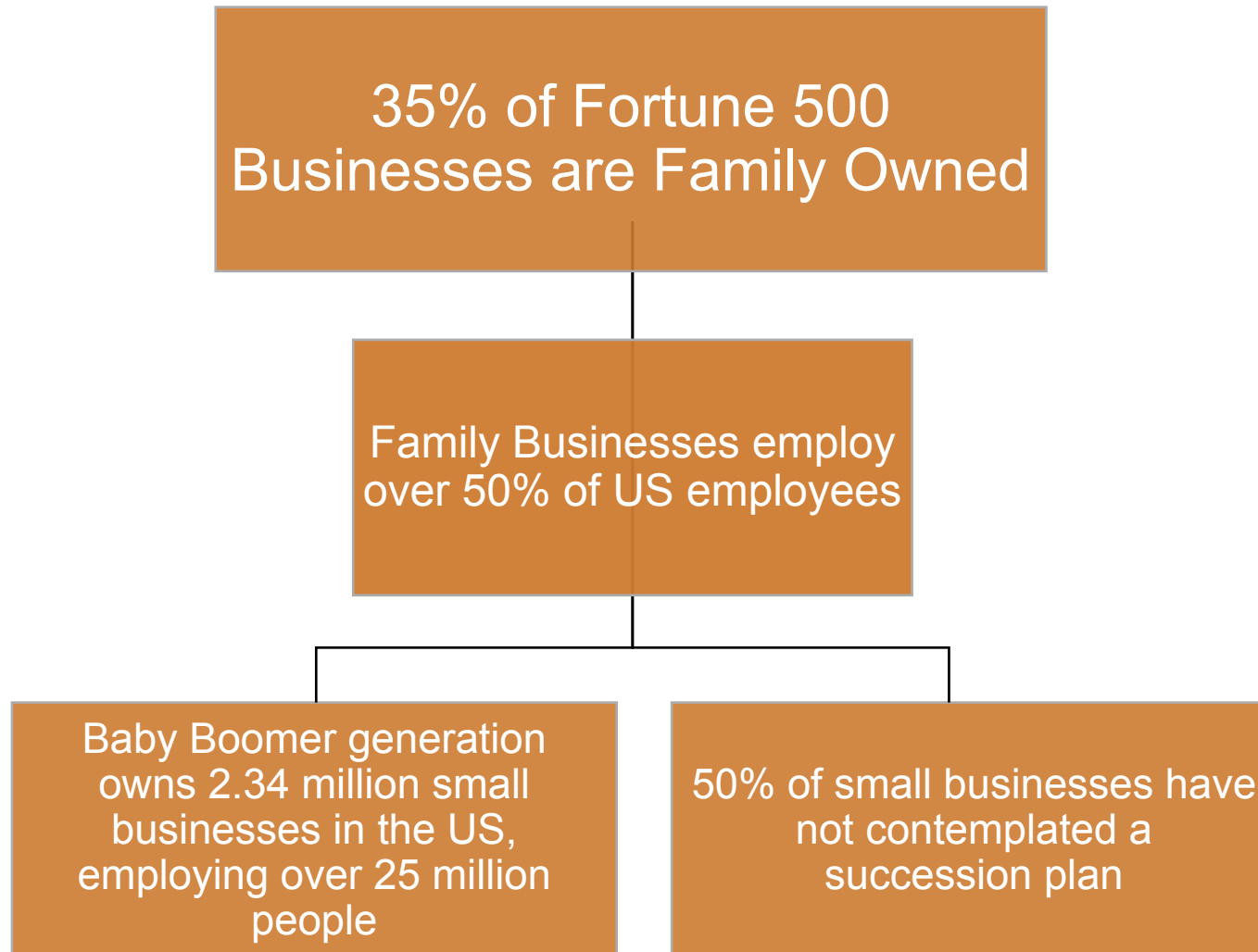
THE CAUSES OF FAILED WEALTH TRANSFER



Source: *The Williams Group*

<https://www.bbh.com/resource/blob/12348/efb7f72e1db41ada8ef1d7d1a28f78f3/crossed-wires--why-most-generational-wealth-transfer-s-fail-pdf-data.pdf>

The Increased Impact on Family Owned Businesses



Source:
<https://www.cnbc.com/2019/12/10/as-baby-boomers-retire-main-street-could-face-a-tsunami-of-change.html>

Source:
[https://www.johnson.cornell.edu/smith-family-business-initiative-at-cornell/resources/family-business-facts/#:~:text=Business%20Survey%202012\).-,The%20average%20life%20span%20of%20a%20family%20Downed%20business%20is,Businessweek.com%2C%202010\).](https://www.johnson.cornell.edu/smith-family-business-initiative-at-cornell/resources/family-business-facts/#:~:text=Business%20Survey%202012).-,The%20average%20life%20span%20of%20a%20family%20Downed%20business%20is,Businessweek.com%2C%202010).)

Challenges in Family Business Succession

Current Generation

- No plans for life's next chapter after leaving the day-to-day operations.
- Believes that the next generation is not ready, and doesn't give them opportunities to learn or become active in the business.
- Not prepared to transfer responsibilities and ownership.

Next Generation

- Not old enough or prepared to enter the business.
- Has not been educated or socialized inside the business so they can learn the sources of competitive advantage.
- No clear or direct next-in-line.

Challenges in the Readiness of Family Business Succession

The Family

- Doesn't have a shared purpose or clear vision of how they want to work together.
- Kept in the dark regarding what the current generation wants to do with the business or their intentions as they work together in the future.

The Business

- Employees are kept in the dark regarding the intention to have a next-generation family member join the business.
- Owner has not prepared the business to operate without them.

Polling Question

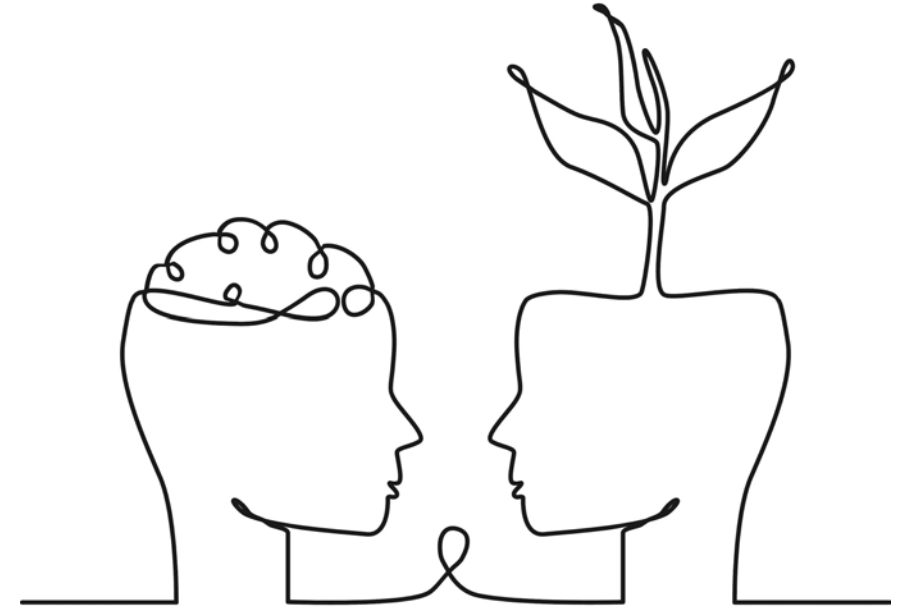
On a scale from 1 to 5, how comfortable are you with your business succession plan?

Family Business Succession – My Observations



Family Business – Mindset

- Unlike large public companies, family businesses are not obsessed with hitting quarterly earnings targets.
- Family businesses think in terms of generations. This mindset frees the owners to take actions that put them in a better position to withstand the temporary ups and downs of the market.



Family Business – Mindset

- Family Businesses have a competitive advantage in situations that demand resiliency rather than rapid growth
- The price paid for this resiliency is the emotional attachment founding members frequently have with the company they founded.



Family Business – Generational Relationship with the Business

- During estate planning sessions founders can be very decisive and practical when making decisions about their brokerage accounts, home and tangible personal property
- Frequently the spouse's wishes are given priority



Family Business – Generational Relationship with the Business

- First Generation business founders do not have the same relationship with these types of assets as they do with the business they founded and nurtured.
- The founder is emotionally invested in the business he or she founded and frequently derives a sense of identity from business and its value.



Family Business – Generational Relationship with the Business

- As a result of this linked identity when the topic of business succession is raised, an emotional response can be triggered.
- Just as spouses do not necessarily have the same attachment to their children, spouses may not have the same relationship with the family business.



Family Business – Life Cycle

- Contrary to what you may have heard, most family businesses do not fail within three generations. This statistic comes from an extremely limited study of manufacturing companies in Illinois in the 1980's – a 40 year old study.



Family Business – Life Cycle

- What the study actually said was that one third of family businesses make it through the second generation. The study defined a generation as 30 years. So one third of family businesses lasts less than 60 years.



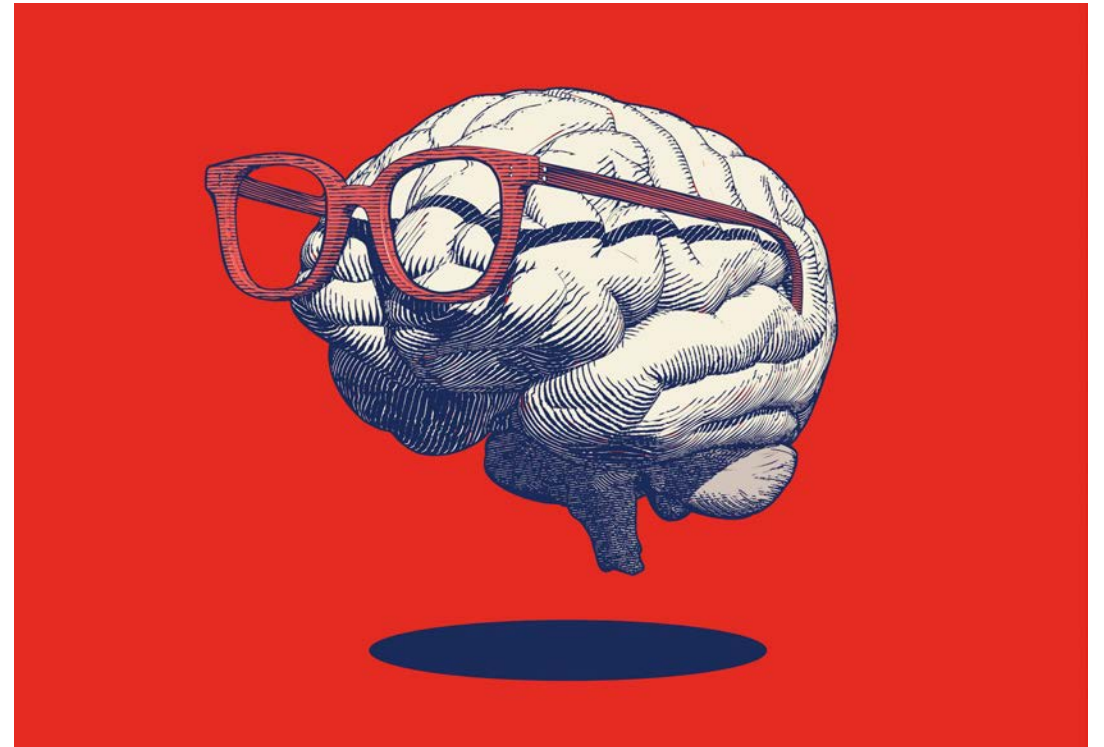
Family Business – Conventional Wisdom



- The job of the First Generation business founder is to be an entrepreneurial “go-getter” whose work and drive results in a valuable enduring business endeavor.
- This goal is too high.

Family Business – Conventional Wisdom

- The job of the Second and future Generations is to focus on sustaining the founder's vision. The primary objective is to keep running the business as it has always been run.
- This goal is too low.



Family Business – Setting the Second Generation and Future Generations Up for Success

- Keep the founder's dream alive without smothering the future generations' spirit and ability to create value.



Family Business – Setting the Second Generation and Future Generations up for Success



- Company Culture
- Proactive mindset
 - ✓ Permission to search for new opportunities inside and outside the family business model
 - ✓ Encourage calculated risks
 - ✓ Include the viewpoints of various family members in the decision-making process

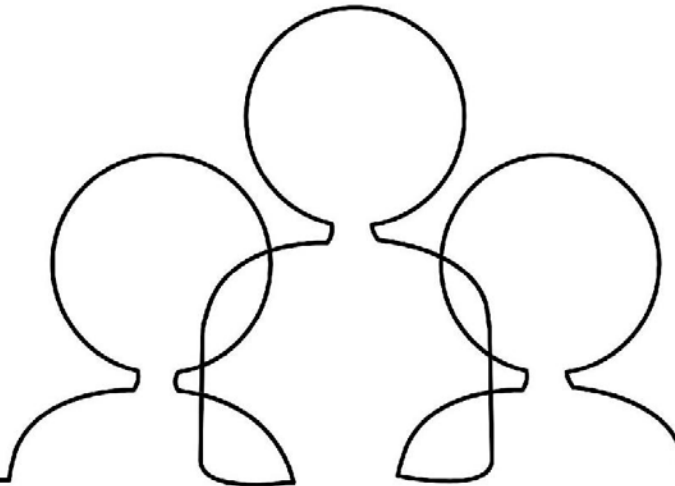
Family Business – Setting the Second Generation and Future Generations up for Success

- Company Culture
- Set the stage for a successful transition to what likely will be a different leadership style.
- Establishing what may be a new Company Culture well in advance of transitioning the business requires intention and may be difficult for founders.

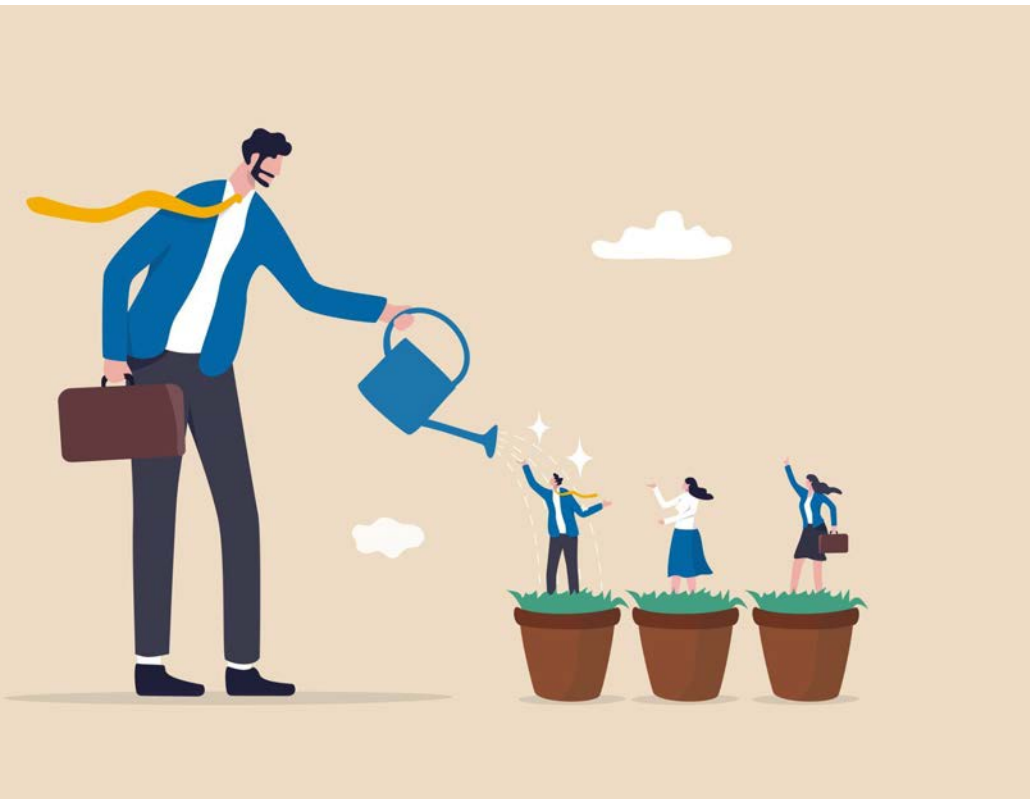


Family Business – Setting the Second Generation and Future Generations Up for Success

- Company Culture
- Make business and family success equal priorities. At times the business will have to take a backseat to family and at other times the family may have to take a backseat to the business.



Family Business – Setting the Second Generation and Future Generations Up for Success



- Good Governance
- Set guidelines for future generations on how business is to be:
 - ✓ Directed
 - ✓ Managed, and
 - ✓ Controlled

Family Business – Setting the Second Generation and Future Generations Up for Success

- Good Governance
- Regulates the interaction between
 - ✓ Administrative and executive management
 - ✓ Draws a line between family and business

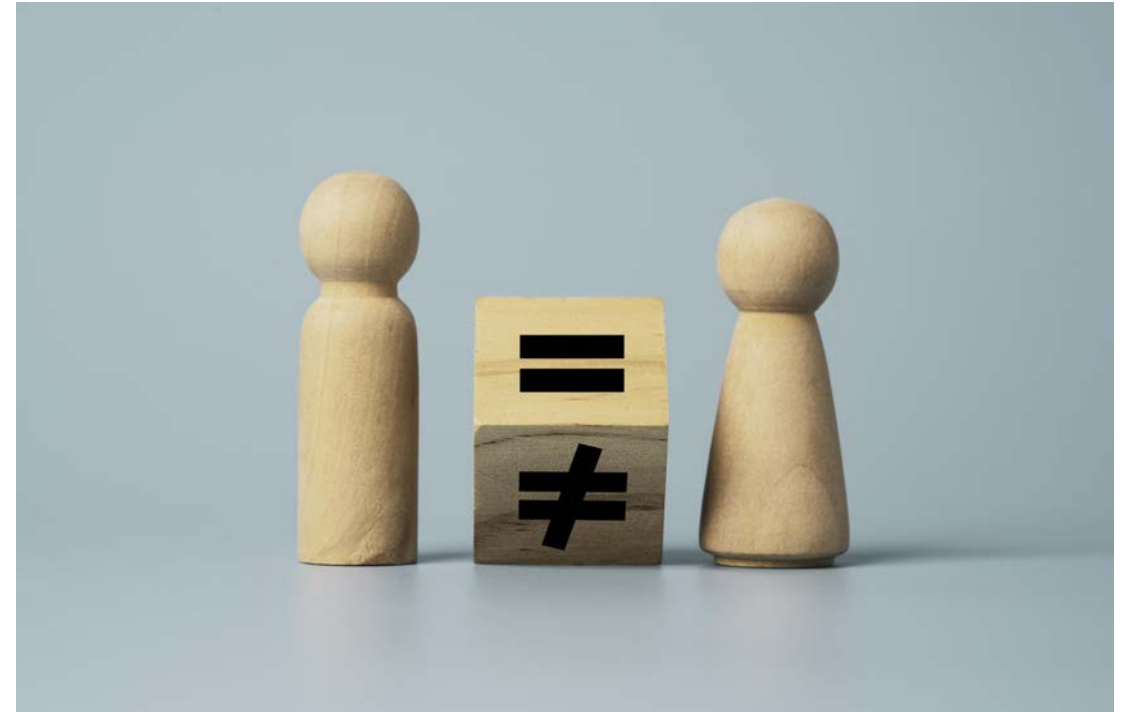


Family Business – Setting the Second Generation and Future Generations Up for Success

- Good Governance
 - ✓ A business is most vulnerable during succession. The absence of a clear succession plan and adequate tools enabling the smooth transition from one generation to next can lead to conflict that threatens the survival of the business.
 - ✓ A governance manual can provide guidance and a reliable path for future generations.

Family Business – Setting the Second Generation and Future Generations Up for Success

- Good Governance
 - ✓ No favoritism – a business environment and culture driven by principles of merit and equal opportunity
 - ✓ The internal policies are impartial and fair and are the same for family members and non-family members



Family Business – Setting the Second Generation and Future Generations Up for Success



- Good Governance
 - ✓ Clear roles and responsibilities
 - ✓ Solidarity
 - ✓ Creates a sense of ownership

Family Business – Setting the Second Generation and Future Generations Up for Success

- Good Governance
- What good governance looks like:
 - ✓ Family Assembly – family only body
 - Financial literacy
 - Philanthropic goals
 - ✓ Family Council
 - Business decisions that roll up to non-family members



What Does the Family Love Letter Cover?

Helps you prepare for...

The avoidance of the death tax

AND

A legacy for the living

Provides your heirs with...

Executed estate planning documents

AND

Basic information and intentions

Will reduce or eliminate...

Dissipation of assets

AND

Confusion, stress, and conflict in a time of grief

Conclusion

- How Can We Help You?
 - ✓ Succession Plan/Estate Plan Review
 - ✓ Family Love Letter Notebook
 - ✓ Family Business Mission Statement



Questions



Contact Us



Michael Maglieri
Associate Wealth Advisor

mdmaglieri@pbmares.com



Risë Flenner, CPA/PFS, J.D.
Director of Succession Planning

rflenner@pbmares.com



www.pbmares.com/wealth
www.pbmares.com

MARYLAND - Baltimore • Rockville
NORTH CAROLINA - Morehead City • New Bern
VIRGINIA - Fairfax • Fredericksburg • Harrisonburg • Newport News • Norfolk • Richmond
Warrenton • Williamsburg