

Research conducted by:



# THE OWNER'S JOURNEY

Experiences shared and lessons learned from  
entrepreneurs who successfully sold or transferred  
their businesses to family members

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## A message from U.S. Trust President Keith Banks

It's often said that experience is the best teacher. In *The Owner's Journey: Experiences shared and lessons learned from entrepreneurs who successfully sold or transferred their businesses to family members*, we feature the first-hand experiences of eight entrepreneurs from diverse industries who have tackled this

critical transition. We are indebted to the Eugene Lang Entrepreneurship Center at Columbia Business School for collaborating with us on this project. And we are deeply grateful to the entrepreneurs who shared their stories with candor and graciousness.

As the following case studies attest, entrepreneurs encounter distinctive issues with every exit. Each situation is unique, reflecting the diversity of business owners and enterprises. One theme recurs, however: the magnitude of this transition. Selling or transferring a business has critical ramifications for an entrepreneur, his or her family, employees, and community. Entrepreneur Charles Scheidt aptly reflects, "building and nurturing a fascinating business is immensely demanding and ultimately satisfying. Letting go of it, selling it, is both a very difficult decision and a stressful process."

The most successful transitions require entrepreneurs to orchestrate finely tuned exits. But in a lifestyle that is already supercharged with responsibilities and deadlines, taking the time to initiate the planning process early is often neglected, a situation that can greatly affect the choices available and the ultimate value of a life's work. Without this planning, "business owners are often forced to exit on other people's terms."

We at U.S. Trust commissioned this study to help our clients and other entrepreneurs direct successful transitions. We hope that the study's findings are a springboard for practical reflection and sound planning. Our advisors are skilled in navigating a variety of business transitions, sensitive to the unique circumstances of each client. Above all, they are mindful of the sacrifices that entrepreneurs have made in nurturing their businesses over many years. The stories that follow testify to the dignity of that effort; we seek to honor their work through our own dedication as advisors and fiduciaries.

A handwritten signature in black ink that reads "Keith T. Banks". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

**Keith T. Banks**  
President  
U.S. Trust, Bank of America Private Wealth Management



# Introduction

Few entrepreneurs start companies with the sole goal of getting rich. Often, they launch companies to fix a problem, to create something new, to act upon an insight that only they see, or even simply to make the world a better place. In many ways, entrepreneurs are like artists, bringing huge passion to what they are doing and creating. Making money may be important to them, but it tends to be only one of many motivating factors. Often, it is far down the list.

## Entrepreneurial research — expanding the scope

Historically, business schools and business journalism focused on the culture, success and management of large, publicly held companies because these large employers once powered the overall economy. That has changed gradually and steadily, and today there is a more widespread recognition that privately held companies play a major role as job creators. The early stages of entrepreneurship have garnered serious scrutiny from academics and journalists for some time, and people now have a better understanding of what it takes to move from an idea to a startup. Somewhat less attention has been paid to the next stage, which is how a small but proven business scales to become a major enterprise.

An even more neglected topic is the subject of this white paper: how founders or their successors create financial value in their businesses and prepare them for ownership change, whether through a sale or through transfers to family members. While getting rich may not be the primary motivation at start-up, capturing wealth and ensuring the sustainability of one's life's work becomes very important later.

## Business ownership and wealth creation

Entrepreneurship in the United States continues to be a major path to wealth creation for individuals and their families. Yet many companies do not create wealth. They are essentially self-employment and never survive the founder. These small companies can provide a wonderful lifestyle, pay mortgages and put kids through college, but they are not

designed for growth and to thrive on their own. They are an extension of the entrepreneur and die with him or her.

What distinguishes firms that survive the founder from those that don't? First, do the business have some special characteristic, knowledge or asset that gives it a competitive advantage? If not, survival is unlikely. Beyond the nature of the business, has the entrepreneur put the necessary elements in place for the business to have a life of its own? Has the entrepreneur conceived the business as an entity unto itself, with its own needs and trajectory?

The critical difference between failure and success is how well the entrepreneur personally adapts over time. Many entrepreneurs fail because they get stuck in the routines that led to their initial success. Continued growth and success requires continual change. Entrepreneurs must embrace change for themselves and their companies, and they must deal flexibly with the various stages and steps.

## Planning for the transfer

Preparing a company for sale or transfer of ownership demands a special kind of personal growth and planning. Unfortunately, most entrepreneurs have no plan for who eventually may take over the business and how that transfer will occur. In fact, two-thirds of business owners who responded to the 2014 U.S. Trust Insights on Wealth and Worth Survey<sup>1</sup> do not have a formal succession plan, including seven in 10 business owners over age 50. And for those who do have plans, many never get around to implementing them.

<sup>1</sup> [http://www.ustrust.com/ust/pages/Insights-on-Wealth-and-Worth-2014.aspx?cm\\_mmc=GWIM-USTrust\\_-\\_MSN-PS\\_-\\_wealth%20and%20worth%20survey\\_-\\_Wealth%20Worth%20Survey%20Phrase-Wealth%20Survey%20General%20Phrase](http://www.ustrust.com/ust/pages/Insights-on-Wealth-and-Worth-2014.aspx?cm_mmc=GWIM-USTrust_-_MSN-PS_-_wealth%20and%20worth%20survey_-_Wealth%20Worth%20Survey%20Phrase-Wealth%20Survey%20General%20Phrase)

The reasons for this planning gap? They are as varied as the entrepreneurs themselves. Some business owners are reluctant to cede control of their company or to make decisions they cannot change later, particularly with regard to ownership and management. Some want to avoid management or family conflict and rivalry. Some are waiting to see if family members are ready or willing to accept the leadership. Still others are simply consumed with the many day-to-day responsibilities of managing their business, and succession planning inevitably slips down to-do lists, even when they recognize its importance.

...two-thirds of business owners...do not have a formal succession plan.

Whatever the reason, in the absence of a plan, business owners are often forced to exit on other people's terms, selling to the first suitor who comes in the door, or rushing into a sale because of other external factors. Without a timetable and specific strategies to create value, an exit also may not occur when the owner wants. Most important, the planless owner may become reactive rather than controlling and yield to pressure to sell the business at a less than optimal price. Or, in the event of an untimely passing, they may jeopardize business continuity and leave unprepared successors to navigate a mess.

Even worse outcomes are possible. Uncertainty can lead to anxiety and departures for valued executives and employees. On the personal wealth planning front, the lack of estate and family wealth transfer planning can result in much higher income taxes on a sale, ruinous estate taxes, or negatively affect family harmony. Not planning can result in a lifetime of great ideas and hard work disintegrating.

### Entrepreneurs and selling a business

In the last few years, a number of Internet sites have been created to help in the sale of privately held companies, and they provide a window into a complex market. Bizbuysell.com,

a leading Internet site for buying and selling smaller businesses, shows over 45,000 businesses for sale as of February 2015. They report that over 1,000 businesses a month are selling through their platform. Bizbuysell attributes the record number of companies coming up for sale to the fact that their owners are baby boomers heading into retirement. Just clearing out the current inventory could take years.

With this greatly increased inventory of businesses for sale, multiples for smaller businesses have been eroding. Smaller sellers are now lucky to receive multiples of only one- or two-times earnings, which in effect will only pay owners a price equal to a couple of years of the income they have been taking out of the business.

That said, over the past two to three years, the market for medium-sized companies (companies with revenues of between, say, \$25 million and \$1 billion) has been robust. In 2014, middle market sale activity—in terms of both volume and value—was historically high, and competition from strategic buyers and private equity firms for high-quality businesses was particularly stiff.<sup>2</sup> The combination of a generally stable economic outlook, cheap and readily available credit, and renewed C-suite and board-level confidence all created a seller's market in the middle market space. Consensus expectations are for more of the same in 2015, notwithstanding the likelihood of higher interest rates, which may result in a dampening effect on deal valuations.

But what are the exit strategy options for an owner of a privately held company?

- Liquidation and bankruptcy are real, but obviously unappealing, options.
- Going public is possible, but only for a small number of carefully groomed companies that have achieved a critical size with clear growth prospects.
- Transfer of ownership to employees, management, or partners is an option.
- For most companies, the most plausible options are to transfer ownership to family members or to sell to a financial or strategic buyer.

## Challenges of family business succession

Transferring ownership within the family is often the preferred exit plan. Entrepreneurs are often more focused on the people and culture of their companies than on squeezing the last dollar from a deal. They also see that keeping the company in the family may be the best way to sustain income flow and increase wealth. As committed creators, they find it much more satisfying to pass their legacy on to someone who shares their passion and pride of ownership.

However, transferring a business to family members can be challenging. If the decision is to sell or transfer ownership to more than one family member, they must choose who will have a say in the running of the business and ultimately make final decisions about the business. Questions of leadership and control can put family dynamics front and center. Are all successors equal? Should succession be based on birth order, experience or interest? What vehicles are available through estate planning to help minimize wealth transfer taxes?

A host of factors needs to be considered when choosing the best buyer for your company.

These decisions are further complicated by family members who work in the business but do not own shares, family who are not involved in the business, family who are owners but not working in the business, and owners who are not the final decision makers. And then again, many nonfamily members who are management, key employees, shareholders, partners, or investors must be considered.

Choosing a nonfamily buyer, whether financial or strategic, can seem like a simpler matter in comparison.

## Considerations in selling to a financial or strategic buyer

In general, financial buyers (private equity firms) are investors focused on the financial return they can achieve by purchasing a company — either in terms of expected future earnings growth or the return from a future sale (perhaps to a strategic buyer) or IPO (initial public offering) of their acquisition. Financial buyers may be looking to enhance the company's cash flow through revenue growth, cost reductions, or even by creating economies of scale by acquiring additional similar companies.

Strategic buyers, on the other hand, tend to be companies focused on seeking acquisitions as part of their own long-term growth strategy. Maybe they are looking to eliminate competition, strengthen their company's operations in certain areas, enhance vertical integration, expand horizontally into new geographic regions or products, or otherwise achieve economies of scale and other synergies.

Is one type of buyer preferable? That really depends upon one's specific situation, priorities and goals. Often, strategic buyers may be willing to pay a higher price than financial buyers. On the other hand, strategic buyers are more likely to eliminate employees and otherwise restructure the acquired company. A host of factors needs to be considered when choosing the best buyer for one's company.

In either case, owners who wish to sell in the next few years will likely face stiffening competition. Owners who have not created healthy cash flow or taken other measures to make their businesses valuable and more saleable may well encounter difficulties.

Not all businesses are saleable. Even long-standing, successful businesses will face challenges if they have not been deliberately managed for sale. Although no two deals ever look alike, professionals tend to mention the following as the characteristics that make a business of any size attractive to a buyer:

- Contractually recurring and stable, healthy revenue stream and cash flow
  - Good visibility into future financial performance
  - Strong history of profitability with the potential to expand over time
  - Strong industry fundamentals
  - Leading and defensible or unique market position
  - Diversified and loyal customer and supplier base
  - Proven, strong, competent and remaining management team (or belief that value can be created through management changes/additions)
  - Tangible assets—equipment, inventory, property, computers in good shape
  - Intangible assets—patents, brand, proprietary products, trade secrets, copyright
  - Desirable location
  - Growth potential (organic and/or through acquisition)
- In sum, creating value to sell or transfer a business and creating a succession, transition, estate and exit plan are complicated processes. ■



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managed for sale.

# Case studies

This white paper presents eight owners who have sold a business to a strategic or financial buyer or have transferred ownership to a family member for at least one generation. These businesses are diverse, ranging from an electrical distribution company to an eight-year-old Internet company that built a community of designers, from an innovative “as seen on TV” company to an orthodontist’s practice. Some are led by women, some by men, and others by a family.

We don’t assume that our eight case studies are representative of all small- to medium-size businesses that have experienced a transition or sale. In each case, we explore how the decision was made, what happened, and then elicit their advice for others on how to best accomplish a transition or sale. Finally, we look for common patterns across the cases.

The cases were built on interviews and publically available information. Each owner discusses the personal challenges of making the decision to sell or transfer ownership and leadership to a family member. They also reflect on the best and worst advice they received from professional advisors and key lessons learned in the process.

The paper concludes with a summary of tips from these owners on how to best sell or transfer the ownership and leadership of a company. We hope that these examples will encourage and inspire more entrepreneurs to consciously create value and wealth through their business with better planning.

## Deirdre<sup>3</sup>

Age 51, CEO of a prominent industrial services firm

*Transferring ownership from father to daughter*

A few years ago, Deirdre became the fourth generation CEO of a well-known, medium-size industrial services firm. The firm has over \$400 million in revenues and is a significant presence in its industry.

Deirdre's great-grandfather and several friends founded the company in the Roaring '20s. His wife funded the startup with her savings. The company prospered during the boom years, finding a lucrative niche in New York City and nearby areas, capitalizing on the region's light manufacturing activity. With the crash, the firm struggled, but survived. In the 1930s, when one of the first partners died, the great-grandparents bought controlling interest in the business.

World War II triggered a significant increase in the company's services, particularly for defense production, which further enhanced growth. After the great-grandfather died, the great-grandmother, and then her son, took over the business. The son's death in the late 1960s left the company in the hands of a trusted financial professional as executor. For a while, no family member was directly involved, and the company was heading into serious economic difficulty. Ownership of the company eventually was given to a remaining son — Deirdre's father.

Deirdre's father proved to be a gifted leader. He viewed the company not as an impersonal investment or a stock listing, but an important part of his growing up. He knew almost every employee by name. By then, Deirdre's father had married a business woman and Deirdre and her brother were young children. Realizing that something had to be done fast to protect the family's investment, the parents ran the company together.

For most of the 1970s through the 1990s, the company grew slowly under the parents'

management. By 2000, they had built a healthy and vibrant organization. From 2006 to 2009, its revenues doubled.

Initially, Deirdre's interest lay elsewhere. She studied the arts in college and wanted to pursue that as a career. But she also studied economics. She remembers a persisting side of her that enjoyed studying finance and economics: "When one is part of a family business, one is intrigued to learn more about it."

Her father supported her artistic ambitions, but insisted that she get a "real" job when she graduated from college. Her first position was at a large investment bank as a marketer. After four years, she quit and secured a position in marketing, public relations, and fundraising with a major arts organization. A few years later she married, moved west, had two children and completed an MBA, as well as serving on the boards of both her family business and the arts organization.

In the 1990s, her father asked her to move back to the East Coast to help run the company. Her parents were approaching 70 and felt they were due for serious discussions about what would come next. Deirdre agreed to move back to the East Coast. As she describes, "It was the weird, messy time, which comes in every family business, when neither my brother nor I knew precisely what our future roles would be in the company or the long-term strategy. It was time for the difficult conversations and planning that every family business must go through." Soon she was immersed in the company, eventually becoming head of sales and marketing.

At the time Deirdre joined the company, her brother was still working as an engineer and designer on the West Coast with no intention of coming into the company. Then, in the mid-

<sup>3</sup> The names in this case were changed to protect privacy but were based on real interviews.

1990s, he had a change of heart. He moved east and was given the role of starting a new division devoted to sustainability-related products.

The parents undertook several planning and succession measures. In the early 2000s, the family's team of advisors—including an estate attorney and life insurance specialist—was assembled by a young wealth manager who had impressed the parents and who remains a key advisor to Deirdre today. It took the estate attorney about three years to understand the complexities and to set up appropriate trusts. The timing proved advantageous, since most of the company's strong, recent growth has now been pushed into the trusts.

Deirdre became president in 2008. Her brother's involvement in the company did not work out, and, eventually, he sold his shares back, left the company and went back to his former work.

Her brother's departure prompted more active estate planning. Deirdre is very appreciative that her father took the lead in this role, looking for a fair outcome for both her and her brother. The majority of the company was transferred into a trust for Deirdre's benefit, and she was made CEO. To balance this, a large life insurance policy has been put into a trust for her brother. In Deirdre's mind, this is financially equitable, although she does note her added responsibility of running a large company.

A trust company was hired as cotrustee with Deirdre for these trusts. From Deirdre's perspective, her goal is to have the cotrustee become fully engaged in the business and ask her more about her business and her needs.

Looking to the future, she does not expect any of her three children to work at the company, though she would be thrilled if any expressed interest. She believes her oldest, who just completed a degree in film and business, would be great for the company, but he is fully absorbed in a film-related career. Deirdre believes she is the last family member who could run the business because the company has become "too big for nepotism."

Her goal is to build a stable company that can weather any future. She has built a professional, actively engaged board of mostly nonfamily

members. Deirdre and her father are the only family members on the eight-member board. Succession planning and strategy are the board's key tasks. Every year, the board has a two-day retreat to review the current leaders across the company and their possible successors. All leaders must present their plan for their succession, and this has created a culture of thinking about the future. Everyone working in the company knows who the next leader is, no matter what. Moreover, this depth of management adds significant value to the business in case of a sale. Deirdre imagines that in the future she will become chair of the board and will hire a professional CEO to run the company, ideally a woman.

You must always have your company ready for a sale. It is just good business practice.

The company is doing very well under Deirdre's leadership. She believes that her father taught her the analytical and strategic way to run a company, and her mother taught her how to run a business with "heart and soul." Still, she does mention the sacrifices she has made for her own life and her children's lives as the CEO of a multi-million-dollar company.

Asked about her challenges running such a large family-owned business, Deirdre states, "Our family is terrible at communicating about the financial and business sides of our lives. We put the money back into the business, so there is some stress with some family members that they do not see the benefit of keeping the company." She adds that "an outside, professional, neutral family business coach can be very helpful in the stickiness of family business dynamics."

If something were to happen to Deirdre, her shares would go to her oldest child. She imagines that the company would then be sold. Her key advice to all is "that you cannot count on a world which will let your business go on forever. You must always have your company ready for a sale. It is just good business practice." ■

# Gina Addeo

Age 50, ADCO Electrical Corp.

*Transferring ownership from father to daughter*

Gina Addeo began working for her father in his electrical contracting business in her early teens. It was inevitable that she would eventually become its CEO. ADCO is now one of the largest electrical contracting businesses in New York City with revenues over \$200 million, with an additional \$100 million in New Jersey. Gina is managing her own succession planning more deliberately than her father ever did.

Gina's father started his business out of their family's Staten Island, New York, home in 1977. He had grown up in Bay Ridge, Brooklyn, and worked as an electrician for others. At 33, he felt it was time to have his own business. He had a van, a house and one landline phone. At that time, cell phones, beepers and personal computers didn't exist, so every day when Gina returned home from school, she knew her father would call her from a pay phone to learn what had come in the mail. At 14, she became the accounts payable and accounts receivable clerk, reporting to him each day on what bills and checks had arrived. When her father moved the business out of their home in her junior year of high school, she began to work officially in his office after school, on breaks and on weekends. As she looks back, she marvels at how her father engaged her in his business at such an early age.

In 1980, her father took on a 25% partner. Her father was technically adept, and his partner understood the financial services industry. They created an excellent team and grew with the New York City financial services industry, which expanded dramatically in the 1980s. In 1987, they purchased a New Jersey company and found themselves at the forefront of the financial services industry's "back office" and data-center expansion in New Jersey.

After high school, Gina attended college, securing a B.E. in electrical engineering in 1986.

Her dad and Gina agreed that she should work for someone else before coming into ADCO so that she could understand what life was like at another company. She joined a firm specializing in installing and servicing computer systems for securities trading floors and became an expert in servicing the video feeds that brought securities prices to traders. Although Gina loved this work, the development of Windows made the video technology obsolete, and the firm began shrinking. After the October 1987 stock market crash, the company started to lay off people. Gina asked to be included in the layoff. She and her father agreed that it was an excellent time for her to come to work for ADCO.

Gina initially worked for her father's company as a project manager. Sometime in her fourth year, Gina remembers her father telling her, "If you were a boy, you would get a master electrician's license." In 1993, at 29, Gina became the first woman in New York City to secure a master electrician's license, which meant that she could own her own electric contracting business and manage electricians.

Who ultimately makes decisions, and how those decisions are made, also needs to be included in an estate and succession plan for a family business.

In 1993, Gina left ADCO and, with her own savings, started her own electrical contracting business, GMA Electrical Corp., taking advantage of many of the early programs for women-owned businesses in the construction field. The Port Authority of New York and New Jersey became one of her largest clients.

For seven years, Gina built her business, carving out a niche and carefully avoiding competition with her father.

In 1999, Gina's father spent the year caring for her ailing mother. When her mother died in 2000, her father asked her to come back to work at ADCO. She rejoined as project manager.

Gina remembers that some of her father's employees and managers had some difficulty accepting her as the possible heir to the company's leadership. Paradoxically, Gina believes that being his daughter and a woman made it easier for her than if she had been a son. "Being a woman gave me an edge. Some people who had issues just did not know how to deal with me." She adds that none of the people who had issues with her stayed with the company after she took over. Among those who stayed were the longtime partner of her father and another older minor partner.

...the division of ownership shares is a first step in estate and succession planning.

When Gina rejoined the company, she discovered that her father's year of caretaking had taken its toll on the company. The processes that were in place were not being adhered to as diligently as they had been in the past, and they were badly needed. After the October 1997 stock market mini-crash, ADCO flourished as the financial services industry went through numerous mergers that entailed endless rewiring to make the merging computer systems compatible. From 1998 to 2002, the company's growth exploded. Because of high demand and the company's reputation for excellent service and technical skills, the company expanded in spite of lax management. With business booming, however, there was little time for building better management systems.

In 2002, Gina's father did some estate and succession planning. At that time, Gina purchased shares from her father for 37.5% of the company and paid him via an annuity.

Once she purchased her shares, her father expected her to become more involved in the running of the company. Her father's longtime partner retained 25% of the company and her father retained 37.5%.

In 2005, after two years of illness, her father died. Upon his death, his 37.5% went to Gina's younger sister, who had not worked in the company. Although Gina's stake was out of the estate, she shared in paying the estate taxes for her sister's share. Gina became CEO. Her sister became vice president of the company, taking over the roles their mother had played—organizing the parties and charity events that were important to the brand of the business. In sum, after her father's death, Gina and her sister each owned 37.5% of the company, and their father's partner owned 25%.

The time after her father's death through the 2008 financial services meltdown was wrenching for Gina and her company. In addition to her personal loss, many of her largest customers, such as Lehman Brothers, went out of business. In hindsight, she now understands that these terrible events forced her to make many good decisions that clarified her role as CEO and professionalized her company.

It took Gina and her sister a couple of years to work out their roles. Initially, her sister, as a new owner, felt that she should be very involved in the management of the business, particularly in hiring and firing. It took a few difficult conversations before her sister accepted that it was best that Gina lead the company. Her sister came to understand that she made almost as much money from the business as Gina. Gina says that she and her sister now have a good relationship that reflects their roles and the ways that they have traditionally interacted.

Gina's advice to others passing businesses to family members is to remember that the division of ownership shares is a first step in estate and succession planning. She urges others to think about creating controlling and noncontrolling shares and expects to implement that concept in her own future planning. Who ultimately makes decisions,

and how those decisions are made, also needs to be included in an estate and succession plan for a family business.

Her father's longtime partner is in his 70s. ADCO also has another older minor partner. Both men have sons in their 40s. What happens in the management structure of the company when these shares are passed to those family members remains unresolved. Gina has no children, so her shares would go to her sister in the event of her death. She also realizes that her management and employees would like to have a better idea of the eventual succession plan.

Gina has begun looking for advisors to help her with the next stage of succession planning. She has found her wealth manager to be an anchor for helping her begin her research and find estate planning professionals and is impressed with his exceptional network.

"My father did not read business books," Gina says. "He made decisions intuitively." She wishes that he had expressed his wishes

in writing to clarify how the businesses should be led. Gina advises that "the person with the most control in a business should very clearly set up things for the future. When you control, you should use that control. Succession planning for family-owned businesses is difficult and often emotional. If one has nonfamily partners, that further complicates things."

She has found her wealth manager to be an anchor for helping her begin her research and find estate planning professionals.

Gina now looks forward to making the decisions about the succession plan for her company. Her desire for future clarity is very strong. ■

## Anita and Ashok “Chuck” Khubani

Ages 50 and 53, OnTel Products

*Transfer of ownership to their children*

Ashok “Chuck” Khubani comes from a family of entrepreneurs. His father, three brothers and son have all successfully launched new businesses. At an early age, he and his wife have made thoughtful plans for passing the business to the next generation.

In the 1950s, Chuck’s father emigrated from India to Hong Kong, Japan, Africa, and finally the U.S. Shortly after arrival here, his father founded Azad International, an early importer and wholesaler of electronics from Asia. Chuck and his three brothers were born and raised in New Jersey.

Chuck grew up in the electronics distribution business and then started his own company selling electronics, while branching off into other consumer products sold to retail stores.

...they know many friends who have talked about this type of planning for years but have never completed any required documents.

Anita Khubani was born in India, migrated to the U.S. at age nine in 1974 and grew up in Queens, New York. Her father was an attorney, her grandfather was a judge, and her mother worked in the insurance industry. Anita and Chuck married in 1985 and have a daughter and a son. Anita earned a college degree in business and for 10 years worked in the garment industry in New York City in sampling, designing and office management.

In 1994, Chuck founded OnTel Products with the simple mission of creating products that people want and that make their lives more enjoyable. The company initially focused on

importing products from China and selling to retailers, while progressively moving towards marketing through direct response advertising.

OnTel continued to grow throughout the 1990s and 2000s with the launch of popular items such as the Inkjet Refill Kit, Microfiber Cloths, Dryer Balls, Swivel Sweeper, Iron Gym, Dreamlites, Pillow Pets and more. Over the last 20 years, OnTel has launched some of the best-known retail brands, and they are now sold in over 40,000 stores in the U.S. and other countries worldwide. OnTel has stayed true to the same basic principal that it started with—creating top-selling consumer products that simply make life better.

Today, OnTel develops its own products with inventors and other companies to help bring their innovations to market or to improve already existing products. Working with their team of highly experienced product designers, engineers, and manufacturers, OnTel can launch products on TV and in retail stores everywhere. Direct-response marketing is the cornerstone of OnTel’s product launch strategy and the key vehicle used to build brands. For every product the company develops or represents, it creates and tests compelling direct-response, 30-second and two-minute TV commercials. They then expand to Internet and print ads. Once they prove demand, they sell their successful products through catalogs, small retail chains and mass-market retailers. OnTel now is one of the top five “as seen on TV” companies at retail.

Two of Chuck’s brothers started similar businesses and are also two of the other top five players in this industry. The brothers each decided to start their own company, believing that this was more conducive to harmonious family relationships.



...one must take one step at a time and work on one aspect at a time. One should expect estate planning to be a work in progress.

Anita and Chuck see their success as the result of hard work, honesty, integrity and a reputation for the consistent delivery of affordable products that make people's lives easier and that have the quality that they themselves would demand. OnTel's website says "we attract kind, loving, humble and performance-driven people into our lives." Family, making a difference, creativity and honesty are their values.

Their son, Amar, has had an entrepreneurial mind from a young age. At 14, he built computers and sold them to his teachers and others at school. He also sourced items that were not readily available and sold them at school. As a student at Babson College, he won a number of awards and competitions for creating revenue-producing products. He gave most of his financial awards to the nonprofit Habitat for Humanity.

Amar initially had dreams of founding his own company. But his father continuously briefed him on the possibilities and direction of OnTel. When Amar finished college in 2010, he decided that working at OnTel would be his best opportunity. Chuck has always welcomed Amar's brainstorming. Chuck, Anita and Amar (now 26) expect to be working together for a long time.

Chuck and Anita's daughter recently graduated from college with a degree in psychology and business. At this time, she is seeking a master's degree in consumer psychology at New York University.

In addition to OnTel, the Khubanis also acquired residential rental real estate in Florida as a result of visiting their daughter, who was attending college there. This began as a hobby and has evolved to another substantial business.

Anita also is a manager and decorator for this rental business.

Making things clear for their children was a motivator for Chuck and Anita's extensive estate planning. Anita has taken the leadership at a relatively young age to ensure that the legal work has been done for her family's meticulously worked out succession and estate plans.

While still in their 40s, the Khubanis began conversations with their wealth, tax and estate advisors on what they should be doing to protect their children and plan sensibly for transfer of wealth and their estate. Their wealth manager was the first and lead advisor in the process and introduced them to the team of experts that helped them create their plan. The Khubanis also did their own research and brought ideas about what they wanted to do to their advisors.

The first trusts, which were set up in 2008, have transferred 15% of the ownership of OnTel to Amar and his sister. Other planning is in the works, and by 2016, 49% of the company ownership will be transferred to their children. Their son will receive 39% as he will actively run the business in the future, and their daughter will receive 10%. Their daughter has other trusts which balance this through the profit distributions from the company. The Khubanis have also set up dynasty trusts for future generations and are currently working on second-to-die life insurance. A trust company serves as trustee of their children's trusts.

The Khubanis recognize that this degree of estate and tax planning at the relatively young age of fifty is unusual. They are pleased that they actually have completed most of the required documents and note that they know many friends who have talked about this type of planning for years but have never completed any required documents. Concern about the future of estate taxes has driven them. The Khubanis also live in New Jersey, which has one of the lowest state estate-tax exemptions in the country at only \$675,000 as of 2015.

You must do the best you can to protect your assets, to protect your family. If nothing is done, one is leaving one's situation to chance, the government and God.

"We know that our children have a secure financial future," Anita says. They can also be confident that their children will have clear guidance about how the estate should be handled and have identified competent trustees and advisors to help them.

A challenging part of their estate planning was that they felt that it was becoming too complicated. They stressed to their advisors that they wanted a simple plan that could be easily understood and explained. However, they came to realize that there is no such thing as simplicity in good estate planning.

The Khubanis urge families to recognize that with complex estates "one must take one step at a time and work on one aspect at a time. One should expect estate planning to be a work in progress." There were days that Anita was frustrated with the progress, and her advisors had to remind her to just move forward on the plan a little at a time. "Once I saw it as a puzzle and that it was not static and could be changed, I became more comfortable with the process," she says.

The Khubanis' advice is that anyone who has children should start an estate planning process as early as possible. The laws and circumstances can change. "You must do the best you can to protect your assets, to protect your family. If nothing is done, one is leaving one's situation to chance, the government and God." Their hope is that they have taken steps to ensure the legacy of their name and that OnTel will continue to grow and will last for many generations. ■

# David Karangu

Age 47, Ivory Chevrolet

*Sold to a strategic buyer*

Coming from Kenya at the age of 17, David Karangu dreamed of success in the U.S. but certainly did not expect great wealth at a young age. Selling his auto dealerships at a very high price left him wrestling with an unexpected new identity as a person of wealth.

David's parents first came to the U.S. via the Airlift program, which was started by President Kennedy to bring African students to U.S. educational institutions. His parents divorced shortly after David was born, and his mother took him back to Kenya. His father became a professor at Morgan State University in Baltimore.

David came back to the U.S. in 1984 to attend Morgan State University, where he studied marketing and accounting. A year later, he accepted a student internship for two summers at a Chevrolet dealership in Baltimore. The first summer, he did manual labor, carrying parts and emptying trucks and then moved to the service department. The second summer, he focused on finance and sales. While he was finishing school, the dealership hired him as a part-time warranty clerk. He loved the work and decided at age 18 that owning a car dealership was his dream for his life.

When David finished college in 1987, he decided that he had a solid understanding of the car dealership business and wanted to gain experience with an auto manufacturer. For the next eight years, he worked for the Ford Motor Company at various dealerships located in Florida and Detroit. His job was to help dealers in sales and service.

In 1995, after deciding it was time to take the next step, he quit his job with the auto manufacturer and went to work for one of its dealers in Florida. From the 1970s until the 2008 meltdown, the auto manufacturer had a program to help minorities buy dealerships. Through this program, the auto manufacturer

arranged a multi-million-dollar loan for David. In 1997, David became the owner of his first dealership with a partner, a non-minority dealer in Augusta, Georgia, and a good friend. The deal helped his partner expand, and it gave David a launching pad. David owned 51% of the dealership.

David had a dream to be a millionaire by the time he was 30. He paid off his loan in a record 14 months and accomplished just that. He attributes his success to hard work and the fact that he loved what he was doing. He notes as well that his past work experience in the industry and attending the National Automobile Dealers Association academy for a year were invaluable.

David has learned that just because he was skilled at making money did not mean that he was gifted at investing it.

David and his partner bought one more dealership together. After that, David had established his own relationships with banks and did not need minority program help. He grew his business aggressively by buying his own dealerships without a partner. He eventually sold his interest in the jointly owned dealerships to his partner. His third venture was a Mercedes dealership in Augusta. This operation was extremely successful, and he believes that success was a result of being at work almost every day and giving the very best personal service.

Wanting to buy more dealerships in Augusta but not finding any for sale, he looked to the nearest city, which was Columbia, South Carolina, about 60 miles away. There he

found a dealer who was terminally ill and not comfortable with his children taking over his business. He wanted to sell a group of dealerships, but David wanted only one of them. The seller insisted, however, and David eventually purchased five different dealerships from the seller.

Over time, he sold three of them, leaving him with two thriving dealerships. David was enjoying his life.

Just after his fortieth birthday in 2007 and right before the financial crisis, someone from a large, publicly traded holding company for car dealerships called his office wanting to buy his entire portfolio of dealerships. Before this call, David had never thought about his exit and declared that he was not interested in selling.

The caller countered with an offer of a very large amount of money.

David went home to think. When he told his wife what had happened and the sum of money on the table, she immediately said, "Sell!" Once David decided to sell, it was a simple transaction, which he handled by himself. They started negotiating in August and closed in December for all cash. In December 2007, at age 40, David was wealthier than he had ever dreamed.

The Monday after the closing, he got up and put on his suit and realized that he had nowhere to go.

His timing was great. He was leveraged before the sale, and he knows that the 2008 meltdown would have brought him to the brink of disaster. David stresses again that he "never, never, never" thought about selling his business before this call came in. He also knows that he had to sell because the offer was "crazy." He definitely would have regretted it in the future if he had not sold at that time.

David became friends with the president of the acquiring company, who gave him the best advice of this transaction: "Don't be

aggressive with this money. Work to preserve it and be happy with a moderate return." Given the history of the financial world since December 2007, this seemed like good advice, and David appreciated it.

David was a young man. In selling, he was giving up his company, his employees, and in a way, his identity. The Monday after the closing, he got up and put on his suit and realized that he had nowhere to go. His entire adult life had been built around the auto dealership world. Within a week, he realized that all of his friends, all of the people he played golf with were all linked to his car business. He had all the money in the world but he was "extremely" unhappy.

The next two years tested David. His father passed away. His son was diagnosed with aplastic leukemia, and the family moved from Augusta to Atlanta for better medical support. He was well known and liked in Augusta after living there for 10 years. Moving to the much larger city of Atlanta, where few people knew him, added to the disorientation of his journey. When his COBRA insurance ran out, he was very appreciative of his fortune. He tried to start another business, but it failed, and other investments sputtered.

In July 2010, he bought another car dealership and now has a large Chevrolet dealership in Atlanta. This has given him a better footing, but he notes that it is not the same as the first build. Now that he has sold his several businesses, he has come to understand that he can make more by buying and selling dealerships than by running them. He has been very successful building a few and then selling them, and it has changed his attitude to his business.

David notes that the big change in his life is that he went from being a car dealer to being an entrepreneur. He is now looking outside of the car business for his next growth, both personally and financially. He wants to find something that he can start and grow with the same passion and success as he did with the car dealerships, perhaps growing it to a billion-dollar business. He particularly hopes to find a business with international scale.

He advises anyone who sells a business to be prudent with their money and focus on its preservation.

David also has some guilt about having so much money that he channels into philanthropic work. His son has been in full remission for a few years. He has learned to be more careful with his investments, particularly in startups. He is more cautious and practical. David has learned that just because he was skilled at making money did not mean that he was gifted at investing it. He advises anyone who sells a business to be prudent with their money and focus on its preservation.

It is not atypical for an entrepreneur to have a difficult time after the sale of a business. David has had a particularly rough time in the last few years, but he notes he now finally sees the light. With sadness in his voice, he says that he still is trying to find that old person but is beginning to accept that is not possible. He is a different person now. ■

# Scott Belsky

Age 34, Behance

*Sold to a strategic buyer*

“It’s not about ideas: It’s about making ideas happen.” These are the words on the home page of scottbelsky.com. Scott is an Entrepreneur with a capital E. On his investments page, Scott states that he looks for “Mission-driven teams that want to lead something worth changing.”

Scott grew up in Boston. His father was a surgeon, and his mother was an educator. Design fascinated him as a way of communicating and helping people to understand the world. At college, Scott started as a business major but quickly added design and environmental analysis to his areas of study. Adept with tools like Photoshop and Illustrator, Scott notes that throughout his life, whenever he has grappled with problems, he has used design to create solutions.

Graduating college in 2002, his first job was at a prominent investment banking firm. After almost two years in a finance position, he moved to the executive office to work on special projects around succession planning and leadership/organizational improvement. Scott was able to see how an executive team worked. He also saw the importance of design and used it to show executives how to grasp their problems in new ways. One of his favorite projects involved using design to help build leadership capability. He developed a tool that clearly showed the questions leaders should ask as they were making a decision.

For years, Scott knew that he didn’t belong in investment banking. He also saw that the creative community was one of the most disorganized groups on the planet, and yet it was the one that moved people the most. It was the community that “compelled us to take action, to buy things, to become passionate about something, to understand our environment. These are the people that make culture, that move the world forward.”

Scott knew that his mission was to organize the creative world. He hired a freelance designer to work with him to flesh out the concept for a new business and at the same time applied to Harvard Business School, as a hedge. In April 2006, he left the investment banking firm and started Behance, a website where people could “Showcase & Discover Creative Work.” Behance comes from the word “enhance,” which means making one’s self or something else better.

Scott was so passionate about his mission and building the company that he had little thought for anything else. He never pondered the endgame.

In September 2006, he started at business school, created an LLC for Behance and hired the freelance designer as his first full-time employee. At business school, he quickly found a professor known for her work on creativity in business. He did all of his second-year research under her and lived in New York. At the same time, he worked on building Behance, studied the creative community, and attended classes on Mondays and Tuesdays.

His research encompassed people in all disciplines — musicians, entrepreneurs, and graphic designers who had a history of execution and were especially prolific. That research became Scott’s book, published in 2010 and entitled *Making Ideas Happen: Overcoming the Obstacles between Vision and Reality*. Scott published this book for creative professionals and was surprised when it became a national bestseller. His research also clarified the core values for him and his company.

He finished business school in the trough of the economic meltdown in 2008. He remembers that 2008 was a very difficult year for Behance, with many sleepless nights. Behance survived, however, and Scott intensely bootstrapped its growth by using only resources at hand. His motto is that “resourcefulness is better than resources.” Behance became the LinkedIn for creatives, connecting millions of creatives all over the world. It is a place where creative professionals post their portfolios and connect with opportunities.

From the beginning, Scott hired only people who wanted to transform the creative community and build something that would give creative people more opportunities. He avoided people who just wanted to be part of a hot startup, and preferred initiative over experience. He would employ the person who wanted to be the incredible front-end developer, not the person who was that already.

Over the years, Scott made his first employee his cofounder/partner and told his team members that he could raise their salaries — or he could give them equity and have funds to hire more people to work with them. The team always asked for equity. From the beginning, Scott wanted his team to think and act as owners.

From 2006 to 2012, he had no more than a few hundred thousand dollars of “friends and family” money come into the company. During this time, Scott was so passionate about his mission and building the company that he had little thought for anything else. He never pondered the endgame. Even when he made his first employee a partner, they did not discuss the exit plan for another five years.

The first time they discussed their exit was when they raised their first round of funding in 2012. Scott notes, “Does an artist think about the price they will sell a painting for when they create their work? We were just passionate about making this happen. We were relentlessly focused on what our customers were struggling with and the problem we were trying to solve. Financially for the first five years, we just wanted to break even after fairly paying ourselves and our team.”

Eventually the team made it clear to Scott that Behance needed money. If the team was to do the very best, they needed more people, faster servers and a long list of other items. Scott knew that if he wanted to keep the excellent team he had hired, he had to bring in capital.

Scott personally handled the fund raising. He crafted the road show and negotiated its details. He admits that he almost ran out of money before closing with investors. Three months before the close, he was confident that the funds would come in, so he encouraged his team to start running the company as though they already had the investment. He sought long-term funders who valued network growth over returns, who had experience with social networks and who were “founder friendly.” He rejected some investors who offered higher valuations, but with restrictive terms and board control.

It was a close call, but in early 2012, Scott found the right backers. Behance closed on its first round of funding. They raised about \$6 million on a \$36 million valuation. Scott notes that they did not have to sell as much of the company as is typically sold in a Series A round of financing, and the majority of the “cap chart” was Scott and his team.

In hindsight, Scott asks himself whether he bootstrapped too long and possibly starved the business of some earlier opportunities. But he concludes that the early austerity allowed Behance to clarify its mission and purpose without the distortion of outside investment. The positive outcome was that Scott and his team were able to own a larger portion of the business through the financing and eventual sale than is typical. He also believes the bootstrapping created a more creative and capital-efficient company.

At the time of the investment, Scott had no clear exit strategy, and the goal was to use the funds to grow. The team grew from twelve to 32 people and focused on the product they were offering, eliminating things like ads previously used to bootstrap them. Behance now had a purer product for its customers, which significantly boosted its growth. The Behance network of creatives quadrupled in one year.

For the four years before the first round of fundraising, Behance had been talking to a large, diversified software company about ways to work together. The company had been a major source of software for the creative community, but it needed to transition to a service business. As a software developer, it had little connection to its customers. Once it made the strategic decision to become a subscription service, Behance became incredibly valuable to it. At the end of 2012, less than a year after the close of the raise, the software company came to Scott and Behance and stated that its future was “community.”

Scott felt that he had control and could take some steps that would benefit his team financially.

Scott initially thought that it was way too early to be acquired. But the software company kept raising the price, and the more Scott learned about the company's plans, the more comfortable he felt. He used his partner, a couple of key employees and one of his angel investors, a serial entrepreneur, as a sounding board and then took the offer to the team. It was a very lonely time, and he used graphics to help him sort out his thinking. He did not use any paid advisors, as he felt they would be void of emotion. He stresses that only a real entrepreneur who has gone through this ordeal can really give sound advice at this time. In the end, he felt there were four reasons to merge with the software company.

First, financially, the Behance team was in the enviable position that there had been only one capital raise with limited dilution to their ownership. They had two choices. They could say no to the software company but would have to do another raise later for \$10–\$15 million with further dilution and could build the business for a possible \$300+ million valuation down the road. The software company was offering \$150 million now. In Scott's view, taking further dilution

and market risk into account, this was virtually an apples-to-apples financial choice.

Second was what this meant for customers. The next step in Behance's mission was to connect the creative community through the creation tools themselves, and the software company was the key maker of these tools. Scott believed that integrating Behance's services into that company's tools and cloud offering could make a great impact on the creative process of millions of professionals.

Third, and most important to Scott, was what was best for the team. Scott could see that there were other possible strategic buyers, but he felt they would be unlikely to keep the team together. He felt like this had to be the right move for him, both from a career perspective and financially and culturally. He saw that the software company prized the team exactly as it was and wanted them to continue.

Last, Scott felt that he had control and could take some steps that would benefit his team financially. He believed that the software company's offer was the best investment for Behance's future. The deal closed in late 2012. Twelve members of the 32-person team became millionaires. Scott and his partner continue to work together. In fact, all 32 people who were with Behance at the time of the acquisition were still with the company two years later (at the time of this writing). This is Scott's ultimate litmus test of a successful merger. Two years later, Behance has maintained its culture and is still in the same workspace.

Money has not made much difference in how Scott and his team work and live. The team has stuck together and has been given more opportunities, and the new company continues to reward Scott and the team for doing extraordinary work. ■



# Dr. M. Alan Bagden

Age 61, Orthodontist

*Sold his practice to a strategic buyer*

Dr. Alan Bagden has had a long-term plan to sell his practice and retire in March 2017, at the age of 65, and he has successfully implemented every step. Still, he was surprised by the actual selling process.

Alan began his journey with a middle-class childhood in suburban New Jersey. His father's lifelong career at Western Electric began as a floor sweeper and advanced to senior management. Alan saw his father put himself through college and earn an MBA, working during the day and attending classes at night and on weekends. He also saw his mother commute every day to a job as an executive assistant, which was rare at that time in New Jersey suburbs.

Alan remembers that from a very early age he wanted to be a doctor. While in college, though, two summers spent as a scrub nurse convinced him that he did not want the "on call" life of a doctor. After finishing college in 1974, Alan was awarded one of the 50 scholarships for a full dental school education in exchange for working for two years for the Public Health Service in rural Virginia. At the end of the two years, ownership of the dental practice was transferred to him, and he built it for an additional five years.

However, attending a wedding in New York City, he and his wife realized they wanted a more urban lifestyle. Alan also had a professional goal—to become an orthodontist. Approximately 300 people a year are trained in orthodontics in the U.S. In 1985, Alan sold his rural Virginia dental practice, and the University of Maryland gave him the opportunity to specialize via one of the few coveted spots in orthodontics with an educational stipend.

In January 1986, Alan saw an advertisement on the university job board posted by a 55-year-old orthodontist seeking a young person to buy

into his practice. In 1962, Dr. Bill Wallert had begun his practice as the first specialty dentist in the suburbs outside of the Washington D.C. Beltway. In 25 years, his practice had exploded with the growth of these suburbs. His philosophy was to ask high fees to enable a comfortable volume, while maintaining the highest possible quality. In 1987, Dr. Wallert and Dr. Bagden became partners.

Don't be afraid to have someone come in and look hard at what your company is doing before calling in a broker or banker.

Alan used the proceeds that he had received on the sale of his first practice to buy the hard assets of Dr. Wallert's practice. Because of his scholarships, he had no debt. To complete the purchase of the partnership, for the next five years, both Dr. Wallert and Dr. Bagden were paid the same amount, but Dr. Bagden worked four-and-a-half days and Dr. Wallert worked three days each week. As planned, as of July 1998, 10 years later, Dr. Bagden acquired the rest of the practice. He was 46 years old. Dr. Wallert retired at 65.

As sole proprietor of the practice, Alan continued Wallert's credo: comfortable volume, high fees, and work of the highest quality. As Alan states, "There is always a market for quality, for doing the best job...No one can compete with you when you focus on being the best." In the first years of his sole ownership, he ran the practice by himself and focused on making as much personal income as possible.

He became a recognized leader in his field, becoming a contracted spokesperson for a revolutionary orthodontic technique, which led

him to speak on the technique in more than 40 countries and throughout the U.S. His mantra was to be recognized as the highest quality service provider and to market by building the best relationships with his clients. His growth was almost exclusively because of his reputation and word of mouth.

In 2003, he hired his first orthodontic associate and began taking methodical steps toward building a saleable practice. A key step was to move into an exceptional new space. He invested in state-of-the-art technology and created a lab on the premises to do the highest quality work, which he could control and monitor. All along, he invested steadily in his office's appearance and in technology, which added considerable value to his business.

Though neither of his sons chose to follow in his steps as an orthodontist, their careers were highly influenced by Alan's orthodontic practice. As the result of a beach conversation with his father, one of his sons started a Web and search-engine optimization firm that specializes in doing work for orthodontists and other boutique businesses. His other son secured a business student internship through a patient of Alan's. That son went on to work for the patient's company after graduation and is currently in a prestigious MBA program.

A few years ago, as Alan approached his 60th birthday, he began to seriously contemplate the options for the sale of his practice. He had a formal review with his wealth manager to understand the net worth he already had created for himself, his expected ongoing expenses, the number needed for his retirement, and the outline for a financial plan for his retirement after a sale.

But whom to sell to? His sons' business careers meant that a family transfer was not possible.

Alan's first thought was to duplicate what Dr. Wallert had done with him — sell to an ambitious, younger orthodontist. But the younger orthodontist (49 years old) then working for him did not want to buy. She saw that by the time she owned the practice, she would be at an age where she would have to sell it.

Alan then looked into finding a younger orthodontist. He quickly discovered that most young orthodontists now carried student loans with up to \$700,000 of debt. He could not find a young orthodontist with the wealth or credit history to make a suitable partner. In fact, his practice had become too large and successful for any young orthodontist to be a credible buyer.

With his leadership and stellar reputation in the orthodontics field, Alan easily found the best consultants to advise him. For years, he had used one of the top orthodontic business practices consultants. This long-time advisor introduced him to a business broker specializing in the sale of orthodontic practices. He started working with his broker a year before the sale closed.

Alan's broker was known for favoring the seller. Other brokers who sell professional practices favor the buyers, which means they primarily look for residents still in medical and dental schools and put a low price on practices. The process of working with the broker began a year before the sale with a retainer and a valuation of the business.

Alan notes that the worst piece of advice that he got in the process of selling his practice was to start with as low an asking price as possible. The logic was that this would make the sale faster and easier with more bidders. Alan did not follow this advice and went with a high asking price. The stellar reputation of his practice made that the right strategy.

The 90 days of due diligence before the final offer was the most exhausting and arduous time for Alan.

The broker looked for established and growing corporate buyers. Alan liked having a middleman marketing his practice anonymously. Trust, honesty, quality and integrity were his personal brands. He was looking for those in a buyer, and he made sure his broker kept that in mind.

Within a couple of months, the broker had secured two corporations and an individual as potential buyers. The ideal buyer quickly became very clear to both Alan and the broker. He liked the group as people and felt they were honest.

This buyer offered several important advantages. They would allow Alan to work as much as he wanted for the next few years after the sale. He did not want to abruptly leave working, but he also wanted a definite deadline for stopping. He also liked the fact that this was a roll-up, where his practice would be “the biggest fish in the pond.” He saw that there could be opportunities for him to consult as the company continued to acquire smaller practices. After a thirty-six-hour visit to his facility, the buyer and Alan signed a binding letter of intent for exclusivity for 30 days and a commitment to close within 90 days.

The 90 days of due diligence before the final offer was the most exhausting and arduous time for Alan. He was surprised at the probing questions and the detailed reports required to complete the final valuation. He admits he learned a great deal about his practice in the due diligence process. In hindsight, he wishes that he had had a valuation of his practice done a few years before he started the sales process.

Even though Alan had taken many astute measures throughout his career, the sale process taught him what he might have done to increase the value. He recommends paying particular attention to making one's receivables current, understanding any cyclical nature of one's business and having a detailed analysis of the demographics of one's customers. Before one puts a business up for sale, one should streamline business processes and audit all costs and contracts. Had he done that,

he knows that he could have found ways to further improve the valuation. He learned that he had perhaps relied too much on employees for information. “It is okay to delegate, but be sure to have controls that regularly make you look at the details of each aspect of your operation,” he says.

Alan successfully sold his practice in October 2014. He has an agreement to work eight days a month at the practice for 24 months and more if he chooses. He also may be hired as a consultant for other acquisitions by the corporation that bought his practice. His facility, clients, brand and employees will remain relatively unchanged.

Before one puts a business up for sale, one should streamline business processes and audit all costs and contracts.

Alan's number one counsel to others is to “be as firm and detailed as possible in your letter of intent. It is the time to list everything that is important to you about your employees and yourself, such as health insurance, consulting and work obligations, and ongoing payments to your professional associations. The purchase agreement then easily flows from the letter of intent.”

His final reflection: “Don't be afraid to have someone come in and look hard at what your company is doing before calling in a broker or banker. Ask for totally honest feedback. “Tell me what I need to know to sell my business at a higher price.” ■

# Lawrence Herbert

Age 86, Pantone

*Sold to a strategic buyer*

Color was Larry Herbert's destiny. As he explains in his book, *The King of Color*, successfully selling Pantone to a financial buyer was never a key motivation. Nevertheless, in 2008, he sold his company to a strategic buyer for substantially more than he and his bankers had expected.

Larry began his journey to becoming "the King of Color" as a 12-year-old student in a print shop class in Brooklyn, New York. He was enjoying classes in electrical wiring and sheet-metal crafts when the print shop teacher recognized that he was especially talented at setting type and other printing skills. The teacher encouraged Larry to concentrate on that. At that time, printers set type by hand, carved images out of tiles and brushed paint over the molds to print. Larry became the head of the print shop for the school. The highlight of this early experience was winning a graphic arts contest by cutting an image of a leaf into a linoleum block and printing it over and over again to show the changing colors of a leaf through the seasons. To achieve this, he reworked the ink fountains of the press to flow the colored ink a new way, which he called the split fountain press method. He won the national graphic arts contest and felt sure that one day he would use his invention in a bigger way.

After school and during War World II, he started working at a commercial printing plant. He worked during the day and went to college at night and during summers. At that time, Larry was considering becoming a doctor, and he graduated in 1951 with a degree in biology and chemistry. With medical school in mind, he joined the Army with the goal of receiving a veteran's grant for his education. In 1956, he went back to school and took a temporary job at Pantone. At that time, Pantone was owned by two brothers

and had two businesses; one did displays, and the other was a small traditional print shop. Larry worked there during the day and went to school at night, but his plans changed when his wife became pregnant. He decided that he did not want to sacrifice 10 years of his life to go to medical school and build a practice. He remembered his earlier dream about his split fountain press method.

Larry brought his invention to Pantone and created a process that divided the ink fountain of the press, enabling a press to accurately print many colors at the same time. At that time, printing press operators used cellophane tape on rollers to attempt to do this. Only Pantone could offer multiple solid colors with guaranteed consistency. Larry did not get a patent for his process because he would then have to divulge what he did. Instead, he made it a trade secret, which can potentially result in better protection.

Find out how other deals were structured. Know your bottom line position. And don't be afraid to ask for much more than your advisors recommend.

By 1962, he was selling a lot of printing ink color charts for Pantone. At the end of that year, he was given a much smaller bonus than he had expected. When he did not show up for work the next day, Pantone's accountant called to find out what might lure him back. He asked for and received ownership of half the company. At the age of 34, he became partner and owned the printing business while the brothers took the display business. Within a year, Larry bought out the brothers and was in total control of Pantone.

He then invented and released the Pantone system for color. He created books with hundreds of colors with numbers and formulas. If a marketing person, an advertising art director, a printer, or anyone else wanted something printed, there was now a universal definition of a given color, denoted by a specific number, that could be created consistently with a specified mixture. It's no exaggeration to say that he revolutionized color in the printing industry. Larry also notes that Pantone was the perfect name as it was easily understood in many languages—“pan” meaning wide and “tone” meaning color.

Larry's secrets for building a company of value included having a unique product, building it at the cheapest possible price, and knowing where there was a need for it. Larry's advice for entrepreneurs is simple: “Find the need, and then fill it.”

Thinking ahead, Larry set up trusts in 1984. At the eventual sale, those of his children who worked in the company would receive bonuses that reflected their contribution to the value they had helped to create. After those payments, all four of his children would be treated equally in his estate plan.

Larry's secrets for building a company of value included having a unique product, building it at the cheapest price possible, and knowing where there was a need for it.

In 2002, Larry knew it was time to decide whether he would transfer the business leadership to a family member or sell it. His first step was to see whether any family member was strong enough to run the business. In preparation, he had made sure all four children were well educated. His oldest child, a daughter, ran the consumer side of Pantone's business. His oldest son had the better business education and ran the

licensing of the color system to technology developers. His youngest daughter handled special projects, like color charts for wines, or for checking the fat content on liver transplants. His youngest son was too young to be involved in the business.

To help him with succession issues, Larry hired an industrial psychologist, who encouraged him to offer his oldest son the position of leadership. His son had an excellent education in business administration, international finance and computer science. He had worked throughout the company since 1985, having set up the Pantone electronic licensing business and doing an impressive job against competitors. In 2002, Larry moved his son, at age 40, into the position of president. For a few years Larry watched his son carefully and monitored the financials.

In 2004, a friend who specialized in mergers and acquisitions pushed Larry to decide whether his son could permanently lead the company. At that time, Larry and his son agreed that it was time to look at selling the company and brought in a top investment banking firm to help prepare them and the company for sale. Larry's son hoped that he would be able to stay on as president with a new buyer. They took a few years to prepare their company for a sale and created marketing materials.

In 2007, Larry's son—as Pantone's president—made presentations to potential buyers, and 12 suitors emerged, a roster that included both strategic and financial buyers. In the end, the final bidding came down to two. One was a private equity firm, and the other was a company that manufactured color measurement instruments. The price was bid up to a level that was 50% higher than the best price that the investment bankers had thought possible. The final bids between the financial private equity firm and the color company were \$5 million apart, but Larry chose to go with the lower bidder—the private equity firm. He felt it would be more respectful of the company culture he had created and more dependent on the people who worked for Pantone.

In particular, Larry felt that the private equity buyer would be more interested in keeping his family members working in the business.

Thinking the deal settled, Larry headed to Turkey for a leisurely vacation. While he was dining, his attorney called and informed him that the strategic buyer, a public company, had come in with a much higher second bid. Larry called his three children working in Pantone and all agreed that it was best for the family to accept the higher price, even though it would probably mean that the children would lose their jobs. At the closing dinner, the CEO of the acquiring company explained that he could not sleep until he acquired Pantone. The acquisition was strategically too important. He needed to acquire the iconic Pantone brand and was willing to pay whatever price necessary.

Start working with professionals like an investment banker *years* before you want to sell. Have a valuation done *years* before selling. Learn what you can do to make your company more valuable.

Everything seemed settled. During the final closing meetings, though, the acquirer disclosed that the commitment from their banker had been canceled; they did not yet have the money to conclude the transaction. They asked for six weeks to secure the financing with an interest rate of 12%. Despite this hiccup, the deal finally closed with all cash in October 2007.

Larry kept money in cash as he educated himself about wealth management. As a result, he managed to avoid the 2008 market crash and began to invest money in 2009. When the acquirer's stock dropped from \$14.50 to \$1.26, Larry had the opportunity to rebuy Pantone at a lower price but chose not to. His children worked at the company for 18 months to five years, and all eventually left.

Larry's advice for selling a company? "Most important is to trust your gut.... Your gut is better at knowing what you should do than any professional advice. Do not deal with friends. Start working with professionals like an investment banker *years* before you want to sell. Have a valuation done *years* before selling. Learn what you can do to make your company more valuable. Train the management team to give top presentations. Take copious notes during the bidding process. Find out how other deals were structured. Know your bottom line position. And don't be afraid to ask for much more than your advisors recommend."

Larry's parting counsel is entirely in character: "In all that you do in life, be sure it is very colorful!" ■

# Charles Scheidt

Age 69, Roland Foods

*Sold to a financial buyer*

Charles Scheidt (“Charlie”) successfully sold Roland Foods to a financial buyer in 2013. Given the extraordinary history and legacy of the founding of the company by his father, Bruno, this was a difficult journey.

Charlie’s parents, Bruno and Suzanne Scheidt, arrived in New York in 1939. By that time, Bruno had already founded and sold two businesses, the first one in Frankfurt, Germany, which he had started at the age of 19, and the second in Paris, which he had started in 1933. Both businesses had been sold under duress, in the face of the Nazi threat to Jews in Frankfurt and the looming danger in Paris. In Germany, the business was in Bruno’s last name, but the company name in Paris was Etablissements Roland, thus avoiding the German-sounding family name, Scheidt.

Upon arrival in the U.S., Bruno went to work immediately, starting his third business in a third country, a third language, and a third, very different culture. Within a month of arriving here, he contacted his supplier of dried wild French mushrooms, announcing that he and his wife had moved and asking for an offer. The supplier quoted Bruno a price, some product was shipped, and the business began slowly but surely. Charlie has often marveled that his father, within a month of arriving, could sell French dried mushrooms profitably in this market.

Once he was assured that the name “Roland” worked in America, Bruno felt comfortable keeping the brand and company name that had been successful in Paris. While Charlie was growing up, he recalls his father traveling every second week all over the U.S. to sell Roland brand imported foods and twice a year leaving on extended trips to either Europe or Asia to meet with suppliers. Charlie’s mother, Suzanne, worked full time and ran the office. For Charlie, his parents’

courage, hard work, and creativity were a lifelong model.

Charlie discovered that Roland Foods was too large for some smaller strategic buyers and too small for some larger ones.

In 1966, Bruno died suddenly of a heart attack. At the time, Charlie was pursuing a degree in law and a master’s in international and public affairs. He had just arrived at The Hague to begin a summer fellowship at the International Court of Justice when he got the news.

Charlie knew immediately that his responsibility, as an only child, was to take care of his mother. Most of the estate’s net worth was in the business. The choice for Charlie was either to sell Roland Foods for the value of the inventory and some goodwill, and then practice law, or commit to learning and then managing the business. After giving himself several months to make a decision, he realized that the entrepreneurial spirit was alive and well in his bones, and he would try to make a career in the family business. He worked part-time until he graduated with both degrees and passed the bar. Unsure he would succeed, he wanted the option to provide for his family by practicing international law.

All key employees remained with the firm, but Charlie and his mother initially had a hard time establishing credibility with the bank and company suppliers. Over the years, those problems receded as the company grew and prospered. All efforts were directed at growing the Roland brand. New markets, new products and new suppliers powered the growth, as did key new hires. Excellence and innovation continued to be core values for the company.

By 2012, the company was buying and selling its Roland brand specialty foods in over 50 countries.

Charlie continued his father's policy of respecting and hiring excellent, diverse talent, no matter the accents. Suzanne remained active in the company until her death in 1988. Even as the company grew to over 150 people, the atmosphere of a family business and unique culture was maintained. The company's excellent reputation in the U.S. and throughout the world was critical to its success. The firm maintained long and constructive relationships with suppliers and customers, and had a particularly stable workforce. This unique culture provided the foundation for the many years of substantial growth. Charlie also feels that his law degree allowed him to avoid situations that could have led to litigation or other difficulties. During his tenure, the company had only one major lawsuit, a successful trademark case they brought in the 1980s to protect their key asset, the Roland brand.

One of Charlie's mentors was Bruno's right-hand man, George Winkel. His wife was a well-known sculptress, and one day George told him, "My wife is a superb artist, able to take a piece of stone or wood or metal and out of it, over time, fashion a beautiful and meaningful object. That's not one of my talents. But every day when I walk into the office, it is my job to create. Once a business becomes routine, the business suffers. Creativity is key to survival, success, and ultimately to enjoying your profession." That became Charlie's business approach—constantly to create, innovate, move the business forward, and most importantly, to enjoy the process of building a solid business.

Both of Charlie's sons worked in the business while in their 20s but eventually decided they had other interests and passions. By the time he was in his mid-60s, Charlie had spent about 40 years in the business. He became increasingly concerned about what would happen to the business if he fell ill or died suddenly, like his father. He could "go out

feet first and leave a mess to his family and associates to clean up" or, more preferable, he could manage a planned and timely sale of a wonderful organization. As he notes, "I felt I would not only maximize the value, but I would also facilitate the transition to a new owner. I understood the business well, as did my team. The business was built on a solid foundation, and its future was bright." He adds, "As one ages, one is increasingly aware of one's legacy, and critical to me was to leave this stage and transition to the next stage of my life in a thoughtful fashion, not only for myself but also for those I cared about." In addition, Charlie wanted the opportunity to spend more time on his many nonbusiness interests.

Three years before the sale, Charlie began thinking about an orderly transition. The first feeler was to his longtime accountant, who helped him understand the process and put him in touch with various resources, including about six investment bankers.

...building and nurturing a fascinating business is immensely demanding and ultimately satisfying. Letting go of it, selling it, is both a very difficult decision and a stressful process.

Interviewing investment bankers was eye-opening. He was surprised at how much their styles and personalities differed. His advice is to look carefully at a variety of investment bankers. In the end, Charlie was drawn to an investment banker who, he felt, better understood the company and its values, was well organized, and was someone with whom he could work over time, including during the inevitable rough patches. The banker's offices were not far from his and that proved a wise decision since there were numerous meetings at their offices.



Roland Foods was an entrepreneurial company. Charlie's team had difficulty coping with the requests for so much analysis and so many detailed reports from the investment bank for potential purchasers. In hindsight, he wishes that he had brought in a financial analyst years in advance to prepare his financial systems: "My team and I were in for a rude awakening, not to mention untold hours providing analysis and figures. Fortunately the investment bankers were willing to invest considerable time helping us organize and present the numbers we did have."

Charlie initially thought the logical choice would be a strategic buyer, reasoning that such a buyer would have a better understanding of the business and its potential and would have a longer-term commitment to building the company to the next level. Charlie discovered that Roland Foods was too large for some smaller strategic buyers and too small for some larger ones. Strategic buyers who were competitors were also eliminated. Charlie came to understand that a strategic buyer may or may not be as good for one's staff and for the company culture as a financial buyer. In the end, the sale was to a financial buyer, and Charlie feels it's essential to keep an open mind during the sale process.

Charlie found the process long and grueling, but in retrospect, fascinating. Essential to him was to have not only his key staff members, but a team of professionals at his side, including his accountant, banker and legal team, who provided him with their experience, intelligence, and sensitivity to his priorities. In the end, he sold to the financial buyers who had done the most thorough analysis of the company. The price they offered was not the highest, but it was the firmest bid, and he felt that they would both respect the company's culture and take the company to the next level. Charlie felt he could trust them.

Charlie wishes he had been warned about the sheer exhaustion that a seller can feel as the time approaches to finally seal the deal. He realizes that in the closing days of the

transaction, he was under tremendous pressure. After nearly two years, he felt as if he was near the finish line of a marathon, duly exhausted, and wanted to close.

Charlie is pleased with both the process and the outcome of the sale. Despite the pressure of the process, he and his team were able to successfully manage the day-to-day operations of the business. They were also able to keep the negotiations and the sale confidential, avoiding problems with staff, suppliers, and customers. In addition to providing for his family and creating a charitable foundation, Charlie was able to protect his staff for a time and to contribute a significant amount to the company retirement plan, thus benefiting staff. The deal closed at the end of September 2013, and Charlie's successor CEO came on board in January 2014. The company has continued to be successful and is growing.

Charlie's final advice is to remind entrepreneurs that the buyers and advisors have their own pressures. The deal is critically important to the seller, but the advisors and buyers are working on multiple deals. "Entrepreneurs tend to be passionate and committed to what they have created and the people who have helped bring us to this point," he says. "We have an almost instinctive understanding of our unique businesses and why they are successful and valuable. Sometimes we make decisions based on our values and culture and what is important to us as people. Professionals helping with a company sale and investors often have different issues and pressures, and it is essential to be cognizant and respectful of these factors."

He concludes: "To spend one's lifetime building and nurturing a fascinating business is immensely demanding and ultimately satisfying. Letting go of it, selling it, is both a very difficult decision and a stressful process. One must be realistic, when looking to the day after the sale closes, that one's role in the business one has built and nurtured will be totally different. The child has grown up and is now moving on." ■



# Conclusions and recommendations

Every story is unique. Each of these cases has its own cast of characters with different skills, personalities and ambitions. Each has different industry and competitive dynamics and future prospects. Each has been shaped by its own history. But are these cases really as unique as they seem? At the highest level, four themes emerge.

## 1 Estate and succession planning are extremely important and *different* issues

All business owners need an estate plan to identify what happens to a company at their death and to adequately prepare for any estate taxes. Also, all businesses need a succession plan to ensure ongoing, empowered and capable leadership. Part of the succession plan deals with the owner, and when and how she or he will eventually exit the business. These planning processes are intertwined, and dealing with both of them together is the hallmark of a good and complete planning process. Planning is not easy for any business owner, but those with children have additional challenges in this planning as family dynamics mix with business dynamics.

We see this pattern in several of the cases. With four generations of family leadership, Deirdre should be celebrated for her success in navigating family succession and growing to a \$400 million business. She learned from the mishaps in her family when there was not clear planning. She knows that an unambiguous plan for leadership succession at every level of the business is essential, and she has recruited a professional board of nonfamily members. She also works closely with a trusted advisor to ensure that family estate planning matters are handled responsibly and equitably. And while tensions may persist between family members running the business and those who are passive beneficiaries, Deirdre knows that it is her job to provide strong leadership so that the company prospers.

An important part of that discipline is to ensure that the company is always ready for a possible sale. This benefits everyone.

Gina Addeo of ADCO has also learned the need for clarity. In her case, the needs of the family were not separated from the needs of the business. When her planning-averse father passed away, she and her sister were equal partners. It has taken some time for them to figure out how to separate ownership interests from management responsibilities, and it is further complicated by two minority shareholders who themselves will be transferring ownership of their shares to their own children. Similar to Deirdre, Gina realizes it is her job to ensure clarity for everyone.

It is good to be proactive. The Khubanis started their estate planning early, and offset equity in the business with other assets to acknowledge that their children had differing roles to play in the business. Larry Herbert was far-sighted in setting up trusts in which his children would benefit equally, but he also developed a plan where the children who had worked in the business would receive differential bonuses at the time of a sale to recognize the value of their contribution to the company. Larry also was extremely thoughtful about giving his son the opportunity to demonstrate his ability as a president, independent of the estate planning efforts.

The lesson is clear. Families who have significant business assets need to acknowledge that there are two dynamics: one for the family and one for the business, and these dynamics need to be addressed in coordinated estate, exit and succession planning.

## 2 Both estate and succession planning are complicated and time consuming

In fact, they are probably best conceived as ongoing processes rather than fixed plans. While both estate and succession plans will have trigger events and definable milestones, they are most effective when seen as flexible frameworks that allow key individuals and families to grow and change, and interact with a business that has its own leadership and management logic.

The Khubanis were very proactive but found the slow speed and complexity of estate and succession planning frustrating. They became more comfortable when they began to view the process as a puzzle. They realized the plan wasn't static and could change over the years. Relevant law and tax structures change periodically, and the estate plan needs to adapt to these changes. At the same time, the interests, capabilities and life ambitions of both the current and the next generation develop and change as well. What's right in a particular era can be inappropriate when circumstances change. Succession planning is also a work in progress.

...none of the founding entrepreneurs or subsequent family leaders focused on creating liquid wealth as a top priority.

The time and effort consumed by estate and succession planning was a common theme in the case studies. If a transfer is to happen within a family, even beyond all the estate planning issues, the next generation often needs a long stretch to demonstrate their interest and capability in running the business. This may not correspond to the owner's preferred timetable.

If the succession plan is to sell to an outsider, that can also unfold slowly. Owners should

not delay or stint on learning about possible buyers and how they will value the company. There are often actions required to enhance the value of the business. It takes some prolonged education to fully understand the difference between financial and strategic buyers, to seek buyers while avoiding competitive disclosure, and to manage the due diligence and bidding processes. Alan Bagden, Larry Herbert and Charles Scheidt spent years preparing their businesses for sale and managing through these complexities. In all of these undertakings, nothing is simple and straightforward.

## 3 The role of luck (both good and bad) and timing

Of course, there are exceptions to every rule. Two of the companies in the case studies were sold quickly and unexpectedly.

It was certainly good fortune for Scott Belsky when the software company decided that its future was in "community." Scott had not set out to build a business for sale, let alone craft it for sale to a specific buyer. But luck favors the prepared. Scott had been building his company to scale, had raised capital from a highly regarded venture firm, and had been proactive in building a relationship with the new firm.

And David Karangu, while not actively looking for a buyer, had spent 20 years learning how to own and operate high-quality car dealerships.

Both of these individuals were "lucky" to be sought out by aggressive buyers, but that luck was the result of years of hard work and value creation.

Bad luck, or adversity, also plays a role in our stories. Both Gina Addeo and Charles Scheidt took over their businesses as a result of the unexpected deaths of their fathers. Starting his business in the trough of the economic meltdown in 2008 forced Scott Belsky to rely on "resourcefulness" instead of resources. Being denied a fair bonus for his contribution led Larry Herbert to ask for and receive a large equity stake.

These unexpected and unforeseeable events are impossible to plan for but have significant consequences. Larry Herbert knew he needed to educate himself about investing, so he kept the proceeds of his sale in cash and rode out the market contractions of 2007 and 2008. David Karangu's timing was no less perfect. Selling his car dealerships deleveraged him at just the right moment and made him wealthy. Yet he was unprepared for his new life, which turned out to be an unexpected misfortune.

Unexpected things, both challenging and fortunate, will happen. The trick is to be prepared for both.

The Khubanis' luck is also something that they cultivate. They are a very entrepreneurial pair, and whether through nature or nurture, their children share that trait.

The broad theme here is that the future is unpredictable. Unexpected things, both challenging and fortunate, will happen. The trick is to be prepared for both. Appropriate planning can help you deal with both adversity and opportunity.

## 4 Money isn't everything

Perhaps the most surprising pattern in these case studies is that none of the founding entrepreneurs or subsequent family leaders focused on creating liquid wealth as a top priority. In each case, the owners were more concerned about creativity, innovation, continuity, sustaining growth, meaningful jobs, competitiveness, reputation, quality, culture, and caring for customers and employees. Our protagonists are more problem solvers than wealth maximizers. Revenue growth and profitability is a means to an end and a way to continue the legacy and brand of the business. It is more about sustaining a lifestyle than getting rich. It is also about responsibility — not leaving a mess behind for others to sort out. ■

## Tips from experience

In addition to the four themes listed previously, the subject of every case study offered important hard-won advice:

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**Selecting advisors** A comprehensive advisory team may include a private banker, investment banker, accountant, lawyer and business consultant, among others. A good place to start is by obtaining recommendations from existing advisors and friends.

Multiple investment bankers or business brokers should be interviewed. Consideration should be given to their experience, contacts and industry knowledge. Geographic proximity could be a plus.

Likability can be important for times when things get rocky or go wrong.

In addition to the advisors that you'll need to help you through the sale, consider the advisors you'll need after the sale — accountants, lawyers, investment managers, etc.

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**Understanding the real value of your business**

Have a third-party valuation of the company years before the sale.

Learn what a buyer might regard as important when examining your company.

Meeting with anyone who approaches you about a potential purchase of your business can often provide valuable new perspective.

Be wary of competitors who are not serious buyers.

Learn the common questions and reports needed for due diligence so you can assemble information over time.

Understand how different types of buyers approach valuation.

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**Selling a company is complex and can take time**

Have a strong management team in place so you can devote time to a sale without detriment to the business.

Take care not to be swayed by the process and nonfinancial aspects of the buyer, such as credentials and chemistry.

Take copious notes throughout the process.

Determine, if possible, whether any members of the management team are planning to stay with the new company.

The Letter of Intent is the place to record the smallest details regarding your desires in a sale: sometimes more is more.

If it is a family business, have all interested family members involved in the decisions and key negotiations, and determine who will represent the company as a speaker in presentations and/or negotiations.

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An owner cannot always count on his/her children as the exit plan

Communicate your goals regarding the company with family members regularly.

Expose children to the business at an early age.

Encourage children interested in the business to educate themselves in appropriate skills with formal education and job experience outside the firm. Determine the appropriate person in the family with the right temperament, skills and experience for leadership.

Working with a professional psychologist can help with decisions about family succession.

Having a board with a majority of nonfamily members can be helpful in professionalizing the plan.

Regular family meetings, which can include a third-party expert in family business dynamics, can be helpful.

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When events move quickly

Always have the business ready for sale and regularly monitor the landscape to understand if any large strategic buyers are coming into the market.

If faced with the prospect of an unexpected sale, think about the many implications of selling the business and its possible financial — and nonfinancial — impact on you and your employees. Consider what comes next.

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## Looking forward and back

The unknowability of the future bedevils every decision maker, not just those selling a business. It is hard enough to make decisions for yourself. The person you are today may be quite different from the person you will be in 20 years. It's even harder to make decisions for others and for future generations. Today, we can only guess what will be possible and best for our future selves and for future generations. The challenge is to create a structure and process that makes sense for today and will be flexible enough to adapt to future needs. Planning can sometimes be difficult and time consuming, but it's the best tool we have. And the earlier it is started, the greater the likelihood of a favorable outcome. ■

Our advisors...were hearing a consistent and passionate message that early planning and enhanced education about exit options and the exit process were in great need.



# About the white paper

U.S. Trust was inspired to commission this paper to address what we observed to be a critical need: better preparing business owners for the eventual transition of their companies. Our advisors, in conversations with entrepreneurs, investment bankers, family business consultants, CPAs, attorneys and others were hearing a consistent and passionate message that early planning and enhanced education about exit options and the exit process were in great need. In our quest to focus on this issue, we came across an earlier Columbia University white paper on exit planning that shared personal stories and insights from owners dealing with reinventing their lives after the sale of their companies. We found their personal journeys to be highly instructive and recognized the opportunity to add to this knowledge base by approaching Columbia<sup>4</sup> to author a follow-up paper to study the exit process from the beginning, to capture how entrepreneurs approached the decision and navigated the transition. The power of their first-hand experiences and the corresponding lessons learned are now captured in this paper and can be accessed by those who have yet to embark upon this journey.

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<sup>4</sup> Prepared by Eugene Lang Entrepreneurship Center at Columbia Business School, in collaboration with U.S. Trust, Bank of America Private Wealth Management, and funded by a grant from Bank of America. This report does not necessarily reflect the views of the Eugene Lang Entrepreneurship Center, Columbia Business School, or any other persons or entities affiliated with the Center.

Planning can sometimes be difficult and time consuming, but it's the best tool we have. And the earlier it is started, the greater the likelihood of a favorable outcome.

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Eugene Lang Entrepreneurship Center at Columbia Business School aims to create a community of business practitioners with a lifelong commitment to achieving social and economic progress through entrepreneurship. Entrepreneurship is integrated throughout the core MBA curriculum. The Center generates research and case studies on entrepreneurship and offers a comprehensive program of specialized courses, labs, workshops and funding opportunities. For more information, visit <http://www4.gsb.columbia.edu>.

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In addition to her current work at Columbia, Barbara is trained in facilitation and mediation, and certified in coaching by the Hudson Institute of Santa Barbara. She works with CEOs and owners of venture-backed and family-owned private companies as a board member and coach/consultant in all stages of entrepreneurship from startup through sale, and works with families on succession planning. She also chairs peer learning groups at TIGER 21 and the Women Presidents' Organization and runs succession planning workshops for the NYC Economic Development Corp. and New York Public Library. [barbara@brobertsco.com](mailto:barbara@brobertsco.com).

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Low consults for both small and large companies, family businesses and not-for-profits. He teaches executive seminars in the areas of entrepreneurship and innovation, and makes frequent presentations to academic and industry groups. He has published widely in academic and practitioner journals and is a regular commentator in the media. He is an active advisor, board member and angel investor. He is chairman of Trupanion, a NYSE listed pet insurance company (TRUP) and chairman of Julia B. Couture Linens, LLC.

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# U.S. Trust

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...entrepreneurs are like artists,  
bringing huge passion to what they  
are doing and creating.



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