

# FAMILY MATTERS

## Exploring the challenges and opportunities in operating family-held businesses

Family-held firms are critical to the local economy – from the employment opportunities they offer, to the products and services they sell, to the good they do in the community. However, operating a family business and successfully passing it on to future generations presents unique challenges. The Milwaukee Business Journal recently held a morning-long conference on the concerns family businesses must address. Presented here are the highlights of the panel discussion, case studies and break-out sessions provided by Bentley World Packaging, Old National Bank, Reinhart Boerner Van Deuren s.c., and Smith & Gesteland.



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## FAMILY-OWNED BUSINESS EVENT PANELISTS



**THOMAS H. BENTLEY III—OWNER & CHAIRMAN OF THE BOARD**  
Bentley World-Packaging (BWP)

Tom Bentley has provided leadership, expertise, and more than 40 years of experience to the export packaging industry. He has managed Bentley World-Packaging through mergers and acquisitions, growing the organization to

export manufactured products to over 100 countries as a service to more than 400 manufacturers as of 2014. Under Tom's leadership, BWP has become one of the largest export and specialty packaging firms in the eastern region of the United States. Historically, the Bentley family has been in business for almost 170 years through its construction company and is listed as the 72nd oldest family-owned business in the United States.



**PATRICK FLESCH—VICE PRESIDENT OF SALES**  
Gordon Flesch Company

Following his graduation from Miami University, Patrick followed best practices in family business succession by working outside the business as an account manager for CDW for four years. He joined the Gordon Flesch Company

in 2006 as Territory Account Executive. Since then he has served as a Major Account Executive, Team Leader, and Sales Manager. Today he is the VP of the Sales for the company's Western Region. He is responsible for coaching his Sales leadership teams, striving to develop their expertise as consultative solutions providers. He also focuses on GFC's ability to deliver on the promises we make to our customers.



**DAPHNE JONES—PRESIDENT & CEO**  
Malone's Fine Sausage

Daphne Jones is president and CEO of Malone's Fine Sausage, an award-winning manufacturer distributing specialty pork delicacies to grocers across the Midwest and customers throughout the U.S. Jones, a third-generation entrepreneur and second-generation executive for Malone's, has led

the Milwaukee-based company since 2006. Jones' parents, George & Glorious Malone, began distributing their gourmet recipe in the late 60's from a corner store. Under her leadership, Malone's has been recognized with excellence awards from the Governor's office and the University of Wisconsin. She serves on the boards of The Business Council and Milwaukee Metropolitan Association of Commerce.



**CHRISTOPHER A. RUUD—CEO**  
DeltaHawk Engines, Inc.

Christopher's family purchased the majority interest in DeltaHawk Engines in 2015. DeltaHawk is designing and developing a replacement to the piston engine for propeller airplanes. Ruud's family has the expertise of commercializing products from design to manufacturing and market-

ing. Before his current role, Ruud served as president of Ruud Lighting until the acquisition by Cree in 2011. During that time, he was instrumental in launching the BetaLED product line in 2007, which helped Ruud Lighting become the largest family-owned lighting company in the world. Ruud is President of the Ruud Family Foundation, serves on the board of advisors for Forward Racine, and the board of directors at Pepperdine University and The Prairie School.

## FAMILY-OWNED BUSINESS EVENT MODERATOR



**SHERRY HERWIG, EXECUTIVE DIRECTOR OF THE FAMILY BUSINESS CENTER AT UW-MADISON**

Sherry has been with the FBC for five years and has worked in every role within the center. Sherry's education background includes a BS in Psychology from UW-Oshkosh, an MS in

Organizational Leadership & Quality from Marian University, and the Family Firm Institute Certificate in Family Business Advising. Her experience is varied and includes supervisory roles, operations management, sales and adult education. Sherry understands and appreciates the uniqueness of family businesses.

**SHERRY HERWIG (MODERATOR): WE KNOW THAT FAMILY BUSINESSES MAKE UP 80 TO 90 PERCENT OF BUSINESSES WORLDWIDE, AND THE IMPACT THEY HAVE ON LOCAL, NATIONAL AND GLOBAL ECONOMIES IS SIGNIFICANT. WE HAVE A LOT OF HISTORY HERE ON OUR PANEL. WHAT IS YOUR OPINION ABOUT THE STATUS OF FAMILY-OWNED BUSINESSES? ARE THEY THRIVING? ARE THEY FALTERING? AND WHAT NEEDS TO BE DONE TO MAKE THEM SUCCEED?**

**TOM BENTLEY:** I am an advocate of family businesses, but you have to be aware of the potholes. One of the biggest challenges is keeping up with changing business models. Retail businesses are really having a tough time. In a family business, you have to make sure your business model is sound so that you will have something to pass on to the next generation. You also have to be careful of changing technology and new competitors who can come from anywhere.

**CHRIS RUUD:** Innovation and disruptive technologies are going to succeed, whether from a family business or not. Large businesses enjoy economies of scale, but smaller businesses can move faster because they are more flexible. It's a matter of finding a niche where you can succeed with the right entrepreneurial spirit and the ability to commercialize your idea.

**PATRICK FLESCH:** I think communication with employees is a big part of being successful. We don't have a lot of layers, so our employees have direct access to the senior leadership and owners. That makes a big difference because they know what we are doing and where we are going as a company.

**DAPHNE JONES:** In addition, you have to be able to translate your passion so that people appreciate not only what the business means for you, but what it means for them.

**HERWIG: WHAT ARE SOME OF THE BENEFITS OF FAMILY BUSINESSES?**

**JONES:** Family-owned businesses inspire people. They empower others to make a similar decision.

**RUUD:** I have worked in both publicly held and privately held family businesses. Far and away, family-owned businesses have a longer-term perspective. They are not about hitting the numbers for this month or this quarter because

some analyst says this is what you should be able to do. It is more about doing what is right for the long-term benefit of the business, which is better for stability.

**BENTLEY:** There is a lot of pride in a family business, in following through with tradition.

**HERWIG: TRANSITION PLANS ARE CRITICAL FOR ANY BUSINESS, BUT MAY BE EVEN MORE SO FOR A FAMILY BUSINESS GIVEN THE DYNAMICS INVOLVED, THE EXPECTATIONS OF THE FAMILY MEMBERS AND THE DESIRE TO CONTINUE A LEGACY. IF A FAMILY WANTS TO TRANSITION THE BUSINESS TO THE NEXT GENERATION, WHAT ADVANCE PLANNING SHOULD TAKE PLACE TO ENSURE IT IS A SMOOTH TRANSITION?**

**BENTLEY:** You've touched on what is probably the trickiest part of the whole deal. I think it helps to bring everyone into the discussion and get their input even if they don't want to be part of the business. And for those who want to be part of the business, you have to make sure they have a passion for it because it is not going to be easy. Their family has to be on board as well because they are probably going to be missing some soccer games.

**RUUD:** My father was good friends with the late Sam Johnson of SC Johnson. One of the things Sam told my dad was to make sure your kids go to work for someone else before they come into the family business so they can learn their own value. The 12 years or so that I spent outside of the family business included great learning experiences that prepared me for the family business.

**FLESCH:** The incoming generation has to earn the respect of the employees. When I was in high school I worked in the warehouse. I delivered copiers off the truck. During summer in college I was a sales intern and made 60 cold calls every day.

**JONES:** There are different ways that people enter into a family business. Some are planned successions. Sometimes you are popped into it. I grew up in the business. I was out of the business as an adult, but would always come when my mother needed me. When she became ill and asked me to come into the business, it was very meaningful to me. She passed sooner than we would have liked so she was not able to give me all of the pieces about what to do and how to do it. I had to learn them by the seat of my pants. But I appre-



ciated that because it gave me the opportunity to really understand how things run.

**HERWIG: LET'S TALK ABOUT THAT CONVERSATION WITH THE NEXT GENERATION AND WHETHER THEY WANT TO BE A PART OF THE BUSINESS. TALK A LITTLE ABOUT WHAT THAT CAN DO TO A FAMILY RELATIONSHIP.**

**FLESCH:** Growing up, my father never spoke to my brother and I about being a part of the business. I think he waited for us to decide whether we truly wanted to be part of the company, and I am thankful that is the way it happened.

**JONES:** First I think you have to make sure that the next generation

wants to do it. If they don't, they just won't care as much. It is very important that they want it more than you want it for them.

**HERWIG: TALK BRIEFLY ABOUT THE LAST PHASE OF THE TRANSITION: WHEN THE CURRENT LEADER STEPS OUT AND THE NEW ONE COMES IN. ARE THERE ANY ISSUES WITH THAT OVERLAP, OF LETTING GO?**

**JONES:** There are no other family members at the business but myself. My children have their own careers, which they are going to have to do first because they will never come into the business if they are feeling they are losing something by doing that. In the meantime, I have to develop dif-



1 - Panelists respond to the first set of questions.

2 - Andrea Newman and Sean Auger of Smith & Gesteland.

3 - Heather Schommer of Smith & Gesteland presented the first case study, "Success and Recovery."



## CASE STUDY

# ALIGNING MANAGEMENT & TARGETING GROWTH

## Smith & Gesteland

A third-generation, family-owned construction manufacturer was transitioning to fourth-generation ownership during the recent economic downturn. Revenues had dropped 50 percent and there was no management transition plan in place. Smith & Gesteland focused on three areas to stabilize the company and ensure a smooth transition:

- It helped to identifying the company's most profitable work
- It helped to align and optimize the management team
- It helped to install solid processes to ensure continuity and stability

Smith & Gesteland used its Profit Enhancement Solutions 80/20 system to identify the company's core, profitable businesses and the market opportunities for each of those businesses. Aggressive pricing and sales strategies were then developed to increase the volume of this "wheelhouse" work.

Smith & Gesteland recommended dividing the company into four clearly defined segments based on job type and assigning a segment champion to each. This allowed the company to become very focused within each segment and provided management a clearer picture of where its profitability was.

Smith & Gesteland also identified the critical roles the current president played and developed a plan to backfill for those roles during the transition. It cross-trained some current management members and assisted in the development and hiring of new members. Once the transition team and strategy were in place, the company instituted monthly, quarterly and annual goal setting.

As a result of these efforts, revenue grew 80 percent in the first year and 30 percent in the second year, with the bottom line increasing 57 percent and 88 percent, respectively. The company also successfully transitioned to the fourth-generation with a solid management team and governance processes that will allow the company to continue its growth.

## The 80/20 Principle: Simplify, Focus and Drive Profitable Growth

Thursday, April 27, 2017

8:00am – Registration

8:30-10:30 am – Presentation

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Continental breakfast provided

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ferent pieces of the business so people can step into them when the time comes.

**BENTLEY:** I did not really have a problem because my dad was laid back and the construction company was doing well. He played golf and sheepshead. My son isn't quite to the point of taking over. He would probably like me to retire, but I want to make sure I leave the company in a good spot.

**RUUD:** My father and I still work together. He does the engineering and I run the rest of the company.

We have the ability to work together quite well.

**FLESCHE:** My brother and I are not quite ready, and I think it is very fortunate that we have my father and two uncles as mentors. They will know when it is time and we will cross that bridge when we get there.

**HERWIG: WE TOUCHED ON THIS BEFORE, BUT HOW DO YOU KEEP FAMILY BUSINESS FROM BECOMING TOO ISOLATED FROM BEST PRACTICES IN THE BUSINESS WORLD? DO YOU HAVE A BOARD? AND HOW HAS THAT IMPACTED YOUR BUSINESS?**

**BENTLEY:** I have an outside board of directors that is very helpful in bringing in fresh viewpoints. But you have to be real careful in how you pick your board. Friends may not tell you what you need to do, but a board member will if they are doing their job. Also hire from the outside and get the input of your attorney and your accountant.

**RUUD:** I always find that sitting across the table from our customers is the most insightful way to make sure that we are on target. The other half is hiring. When you bring in people from the outside you are bringing in a fresh set of eyes, skillsets and experiences that will enrich the company as a whole.

**JONES:** In the beginning, I did not see value in having outside people telling me what to do. I also did not have the time. I have since developed a virtual board that I can turn to with questions or for advice. I am really blessed to have those people.

**FLESCHE:** Our board is made up of internal employees, but we use outside counsel, including Smith & Gesteland to take critical looks of our company. I think it has been beneficial for us to have a board that is representative of the company combined with outside counsel.

**HERWIG: OTHER OPPORTUNITIES WOULD BE MEMBERSHIP IN OUTSIDE GROUPS AND PEER GROUPS. DO YOU BELONG TO ANY OF THOSE GROUPS THAT COULD POTENTIALLY CONNECT YOU WITH OTHER OWNERS?**

**BENTLEY:** Roundtable groups with a coach can be very valuable. I was in a CEO roundtable group and my son is in a TEC group.

**FLESCHE:** We have created a nice network of dealers who are outside of our footprint so they are not competitors. They provide a sounding board where we can bounce ideas and strategies off of each other.

**JONES:** Being part of a CEO group is very valuable, but I struggle with the time commitment. If you don't attend, the group feels that you are not part of it. You can end up harming yourself and harming the group.

**HERWIG: WHAT ARE SOME OF THE CHALLENGES FAMILY BUSINESSES HAVE WITH PEOPLE WHO ARE NOT ACTIVE IN THE BUSINESS?**

**JONES:** One of the biggest challenges is keeping people from feeling slighted. You can have people who aren't involved but feel they should be, and others who feel guilty because they really don't want to be involved.



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- 1 - Panelists discuss second round of questions.
- 2 - Case study, "Helping Family Business Navigate M & A," presented by Kevin Anderson, Region President, Old National Bank
- 3 - Kevin Anderson, Len Devaisher, Regional CEO Wisconsin, Old National Bank, and Patrick Flesch



**RUUD:** In a family business, one of the biggest challenges is the family. You have to struggle with the family side as much as you have to struggle with business issues.

**FLESCHE:** We are fortunate in that non-active family members stay out of the way. But we are open to questions and are happy to share information. If you are transparent and communicate well you should be OK.

**HERWIG:** ANY THOUGHTS ON HOW TO DO COMMUNICATIONS OR FAMILY MEETINGS THAT MIGHT OVERCOME THOSE FEELINGS OF BEING UNHEARD?

**BENTLEY:** I try to meet with my daughters and their husbands every three or four months to make sure there is communication and conversation.

**RUUD:** Communication is the key. One-on-one or small-group communication work the best.

**FLESCHE:** Our non-active family members are invited to annual board meetings and operations meetings but they rarely show up. You have to play it by ear as it comes, and be as open and transparent as you can be.

## CASE STUDY

# HELPING FAMILY BUSINESSES NAVIGATE MERGERS & ACQUISITIONS

## Old National Bank

In addition to financing, Old National Bank has offered a variety of services to help Midwest-based, family-owned businesses grow.

A family liquor store with more than two dozen locations wanted to purchase a competitor of similar size in another city. The management of the acquired entity did not want to assist in the transition and the \$1.25 million first-year expenses for rebranding and inventory conversion had to be funded through operations. Old National Bank used a stair-step, debt-repayment structure that offered lower principal payments in the first year. This allowed revenue from the consolidated operations to pay for a new point-of-sale system and store signage. Since then, the company has grown to 76 locations through acquisitions financed by Old National.

A funeral home operator had an opportunity to purchase a Texas-based funeral home operator that owned land potentially containing environmental issues. There were several other issues as well. Information on pre-sold cemetery plots and contingent liabilities was not readily available. The seller was a second-generation family with four siblings who were not in agreement on what to do, offered no financing assistance and wanted to close the deal in a matter of weeks. Old National helped its client negotiate seller holdbacks to cover potential liability regarding the pre-sold plots or environmental issue and to close the transaction on time.

A steel business that wanted to purchase a fabrication subsidiary of a larger company was concerned because the selling entity wanted to keep its accounts receivable, which would create post-purchase cash-flow issues for the buyer. Old National assisted in negotiations for a seller holdback to cover any issues that might arise with orders already in process. This proved critical, because approximately 60 percent of the seller holdback had to be utilized for issues that arose post-acquisition.

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Kevin Anderson  
Milwaukee Region President

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**OLD NATIONAL BANK**

At the conclusion of the moderator's questions, Milwaukee Business Journal Advertising Director Steven Broas asked questions that had been submitted by the audience.

**STEVEN BROAS: HOW ARE YOU ADAPTING YOUR BUSINESS TO MILLENNIALS?**

**FLESCH:** We believe we can continue to attract millennials because we are in the technology business. The challenge is that they work a little differently. Going out and cold calling does not appeal to most of them. In order to get the right candidates you have to do a better job of recruiting and hiring.

**BENTLEY:** You have to adapt to millennials and not just as employees. You also have to adapt to them as customers, as purchasing agents. They interact differently.

**RUUD:** We are fortunate that aviation and aerospace are attractive to bright, young minds. We have a young workforce and what they like is a collaborative work environment.

**STEVEN BROAS: WHAT CAN NON-FAMILY BUSINESSES LEARN FROM FAMILY BUSINESSES?**

**FLESCH:** One of the great things about a family business is the culture. Treating people with respect and creating that "we are all in this together" attitude goes a long way.

**JONES:** There is intensity in a family business: A drive to be the best and to be sustainable for the future. There's a passion that you don't have with other jobs. It's in your blood.

**RUUD:** To use a cliché, it is about making every employee feel like they are part of the family.

**STEVEN BROAS: WHAT IS ONE OVERLOOKED ACTION ITEM THAT CAN IMPROVE MARGIN, GROW REVENUE AND GROW THE BUSINESS THAT YOU WOULD ENCOURAGE PEOPLE TO THINK ABOUT? I WOULD LIKE YOUR THOUGHTS AS WELL, SHERRY.**

**HERWIG (MODERATOR):** One of the things that we spend a lot of time on at the Family Business

Center is communication. You have to be willing to have those difficult, uncomfortable conversations. We find that family businesses that do that will succeed. So I would recommend that whatever those conversations you have been meaning to have - family wise, business wise - you should have them and have them sooner rather than later.

**FLESCH:** If you have a sales-driven company, arm your sales team with a compelling tool that shows why people should do business with you.

**JONES:** I think the biggest thing is to take the time to understand how you can make the best use of your time - including time for yourself.

**RUUD:** Begin with the end in mind. If you are very clear in your goals and aspirations, the day-to-day decisions will tend to fall into line.

**BENTLEY:** Focus on the margins. Find out where they are and where they are not. Develop those customers who will pay a good price for your services and politely move away from those who will not.



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1 - Family-Owned Business attendees listen to panelists reply to audience questions.

2 - Daphne Jones (left) and Katrina Thompson



3 - From left, Martin McLaughlin, Andy Narrai, and Jennifer D'Amato of Reinhart Boerner Van Deuren

4 - Martin McLaughlin of Reinhart Boerner Van Deuren presented the third case study, "Planning for Transition in an Uncertain Future."



## FAMILY-OWNED BUSINESS BREAKOUT SESSIONS

Breakout sessions followed the panel discussion. Tom Bentley, Bentley World Packaging, shared the ups and downs of running a family business. Kevin Anderson, Old National Bank, discussed how mergers & acquisitions impact family-owned businesses. Jennifer D'Amato, Reinhart's Trusts and Estates Practice, presented a breakout session on business legacy and the steps owners should take to preserve and transition family wealth. Jim Chapman explored where to find most profitable growth.



5 - Tom Bentley listened to audience question during his breakout session.

6 - Jennifer D'Amato addressed why tax uncertainty should not diminish a business legacy.

7 - Mergers and acquisitions and their impact on family businesses was the topic Kevin Anderson tackled.

8 - Jim Chapman presented the 80/20 principle.

## CASE STUDY

# SUCCESSFUL PLANNING IN AN UNCERTAIN FUTURE

Reinhart Boerner Van Deuren s.c.

A family-owned company that was experiencing significant growth was faced with numerous opportunities and growth-related challenges and sought assistance in planning for its promising, yet uncertain future. The parents wanted a certain level of financial security while still growing the company. Their three children were still at home or in college and it was not certain that they would ever join the business.

Reinhart's corporate finance team introduced the company to various venture capital and mezzanine capital providers, eventually helping them undertake a leveraged recapitalization that generated the parents \$30 million. The law firm then developed a family estate plan to ensure the children's future financial security using a dynasty trust that allowed the parents to transfer a significant ownership block of the company and complete ownership of a separate real estate firm that leased land to the company. The trust was set up so that the transfer did not trigger a taxable gain for the parents, but any income generated by the trust would be taxable to the parents, which would effectively reduce the size of their estate for tax purposes.

When the family and the mezzanine partner ultimately decided to sell the company, Reinhart's mergers and acquisition team interviewed several regional and national investment banking firms. A comprehensive auction process generated multiple bids from strategic and financial buyers. Working with the investment banking firm and the company's management, Reinhart's M&A team negotiated a significant increase over the winning bids final price.

Following the sale, some family members continued to work with the company, but ultimately their entrepreneurial spirit drove them into other pursuits. Not surprisingly, the second generation of the family started its own thriving business that could become the foundation for the third generation.

**Reinhart**  
Boerner Van Deuren s.c. Attorneys at Law