

SHARE: [f](#) [t](#) [g+](#) [e](#) [p](#)

4 FAMILY BUSINESS SURVIVAL TIPS

Author: [Matt Alderton](#) Date: March 17, 2014

How to keep your family business running well into the future.

Only 30 percent of family businesses make it through the second generation

Changing with the times, careful succession planning can keep family businesses afloat

Clear roles and responsibilities, as well as mediators, can stave off family feuds

As soon as you introduce money into the dynamic of a family, it's going to cause conflict.

"Think about the psychology of how brothers and sisters feel about each other, how children feel about parents and how parents feel about children. If that gets injected into a business, oftentimes it's toxic," says certified Family Business Advisor Geoffrey Brown, CPA, principal at Bond Beebe Accountants & Advisors in Bethesda, Md.

Despite having the cards stacked against them, many family businesses succeed by leveraging their relationships and values, according to John Ward, director of the Center for Family Enterprises at Northwestern University's Kellogg School of Management. In his 1987

book *Keeping the Family Business Healthy: How to Plan for Continuing Growth, Profitability and Family Leadership*, Ward says that 30 percent of family businesses make it through the second generation, 10 to 15 percent through the third generation and 3 to 5 percent through the fourth generation and beyond. That's roughly equal to the survival rate of companies comprising the Dow Jones Industrial Average, according to an analysis by The Family Business Consulting Group.

"There's the famous saying, 'shirtsleeves to shirtsleeves in three generations.' Most family businesses don't last past the third generation—but some of them do," Brown says. "Those family businesses have found ways to be successful and continue."

There are no magic words or foolproof formulas. But there are some solid rules of thumb. Here are four of the best tips, from family businesses that have outlasted their first-generation founders.

1. Change—but not too much

The Saucedo Company has unlocked the secret to family business success—literally. Fourth-generation owner David E. Saucedo II runs the El Paso, Texas, lock shop along with his brother, his parents and his wife. The 12-employee business began as J.S. Silvano Saucedo's El Paso Key Company, which Saucedo's great-grandfather founded in 1917, when he fled Mexico to escape religious persecution by the Mexican government.

"He put a tin roof over the top of an alley in between two buildings and put a door in the alleyway. That was our first lock shop," says Saucedo, 28.



David E. Saucedo II is the fourth-generation owner of his family's El Paso, Texas, lock shop, The Saucedo Company.

Saucedo's grandfather opened the Edward Saucedo Company in 1956 and rapidly grew the business. When Saucedo's father took over in 1978, the business grew again, thanks in large part to a renovation of the lock shop in 1983, which subsequently allowed the business to offer an expanded inventory of security hardware. Now, with Saucedo and his brother, Maury, in the business, the Saucedo Company is growing yet again: Annual revenues were up 6.5 percent year-over-year in 2012, and the company has grown its service technician staff by four since 2012.

"We've had three large growth spurts in our history, and if you look back, it's always been under the exact same circumstances," Saucedo says. "My grandfather capitalized on the family knowledge of my great-grandfather, my dad did the same thing with my grandfather, and now my brother and I are doing it with my dad."

Indeed, the Saucedo Company has expanded every time a new generation has assumed ownership of the business. The Saucedo brothers, for instance, have modernized the business with new technology, embracing email blasts, Yelp reviews and YouTube videos for marketing purposes. On the operations front, they've added service dispatch software that allows the company to automate work orders and track locksmiths in the field using smartphones and tablets.

"My dad is very antiquated in his ways, but my brother and I kept nudging him," Saucedo says. "Now he sees the results: Sales have increased by 3.1 percent, and customer satisfaction, which was already high, has increased even more."

Because previous generations often cling to their business practices, [innovation can be difficult for family businesses](#). Fifty-eight percent of family businesses say innovation is a major challenge, according to a 2012 survey of 100 family business owners by PricewaterhouseCoopers. The key to innovation is allowing the new generation to push the envelope—but not so far that it loses sight of the values that made the business successful in the first place.

That includes family values. "People need to remember: The business isn't the most important thing; the family is the most important thing," Brown says. "The business is there to support the family, not the other way around."

Saucedo agrees. After college, both he and his brother went to work in corporate America. Ultimately, though, both of them quit their jobs when they felt the inevitable tug of family ties. When they returned to the family business, their goal wasn't to make money; it was to protect and preserve the family's legacy. "My grandfather always told me, 'Take care of this business because this business is never really yours; you're only protecting it for the next generation,'" he says. "That's the message that's been handed down. It's the golden rule around here. The stronger your family is—the tighter those bonds are—the more successful you'll be."

2. Think 'merit,' not 'inherit'

Leather ages well. It's soft, but durable. And it's versatile, to boot. As it turns out, those are some of the qualities that have helped Royce Leather survive four generations as a leather goods business, specializing in handmade leather accessories such as wallets, card cases and luggage.

"My great-grandfather, Joseph, started way back in Vienna, Austria, in the 1880s, when he had a thriving leather craftsman workshop," says marketing director Billy Bauer, 22, who along with his older brother is next in line to the inherit the business, which has 26 employees at its headquarters in Secaucus, N.J. "My grandfather, Eugene, had a full-fledged assembly line in Vienna until the Holocaust, when he fled and set up a production facility in the Flatiron District in New York. My father took over in 1974 and is still running it, although he's slowly transitioning out to allow my brother and I to take over."

A key ingredient to Royce's longevity is that the Bauer boys have to earn the privilege of taking over the business.

"A pervasive issue in today's modern family business is that succession is simply inherited by divine right," Bauer says. "Instead, we strongly believe in meritocracy. If my parents don't feel that the next generation can not only carry on the business, but also enhance its image and profitability, they will sell it. They've always been very clear about that."

To that end, Bauer and his brother must earn their roles in the business by:

- Learning the trade: Although he manages the marketing department, Bauer can sew and stamp leather himself and has worked in every area of the business, from accounting to shipping to customer service.
- Getting educated: In order to inherit the business, the Bauer boys must get MBAs.
- Showing commitment: Every Thursday evening during dinner, the Bauers have a formal family meeting during which they discuss the business. Everyone—regardless of other obligations or relationships—is expected to attend.

"Family businesses that have survived several generations typically have set up parameters by which family members can come into the business," Brown says. "They might be required to go to college, for example, get a graduate degree or work in the trenches for a couple years before they can ascend to management. Whatever it is, they have to come into the business in such a way that they earn the respect of the people working there."

3. Have a plan

Lee Josephson is well aware of the odds against successful family business stewardship. As vice president and second-generation owner of Raymond Lee Jewelers in Boca Raton, Fla., he's doing everything he can to ensure that his family's estate jewelry store lasts. Josephson's father, Jeffrey, started the store in 1983 upon immigrating to the United States from Scotland.

"My father is in his late 50s," says Josephson, 31, whose sister also works in the store. "He's still very involved in the business, but we're at the point now where he can take off for two or three weeks at a time, and I can handle the business without him."

Although a few weeks is fine, permanently handling the business without him isn't something that Josephson likes to think about. But his ability to do so bodes well for the future of the business, according to Brown. Because family businesses often lack a clearly communicated, formally documented and routinely updated succession plan, those that have one are ahead of the curve, he says.

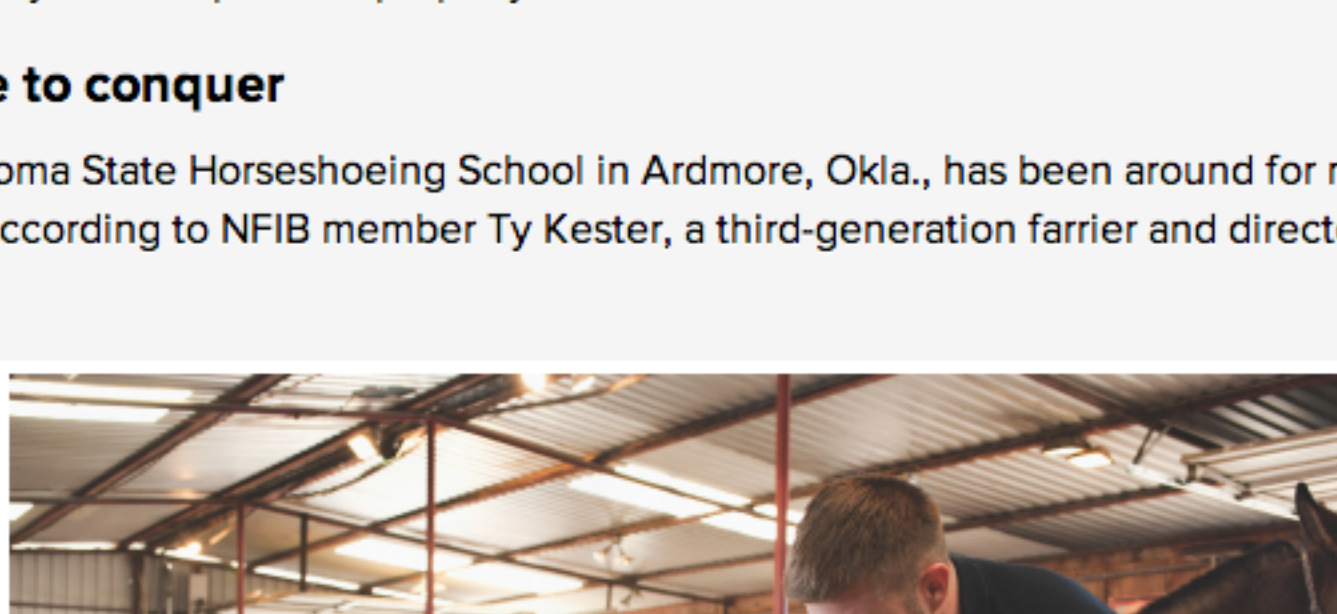
"Succession planning is something most family businesses don't do very well," Brown says. "And yet, it's one of the most important things to do."

Thirty-eight percent of family business owners think succession planning will pose a significant challenge to them in the next five years, according to PwC. Fortunately, Josephson's got it covered: Several years ago, he pressed his father on the issue of succession planning; now, they meet once a year with their attorneys to review the succession mechanisms they've put in place.

"Obviously, the concept of not having all of my family here working with me is a scary thought, but I know it's a very real thing, so I try to be mentally and financially prepared for it," Josephson says. "I've seen way too many businesses liquidated in their second generation because they weren't planned properly."

4. Divide to conquer

The Oklahoma State Horseshoeing School in Ardmore, Okla., has been around for more than 38 years, according to NFIB member Ty Kester, a third-generation farrier and director of the school.



NFIB member Ty Kester is a third-generation farrier and director at the Oklahoma State Horseshoeing School in Ardmore, Okla.

His grandfather, Reggie, started the business with a \$10,000 bank loan in 1975. Reggie Kester attended horseshoeing school in Grapevine, Texas. He stayed on as a teacher for several years upon graduating, then shod horses privately for eight years before starting OSHS.

OSHS—which has five full-time employees, including Kester and his sister, Kash—hosts 18 to 22 students at a time for six six-week shoeing courses every year. The business also includes a farrier supply store, American Farriers Supply, which grew out of the school and is currently among the nation's top eight farrier suppliers, according to Kester. While Kester oversees the school, including teaching, marketing and business strategy, his sister manages the supply store, including finances, ordering and administration. The division of duties keeps the family business healthy by taking advantage of each sibling's strengths and nipping sibling rivalry in the bud.

"Kash is a very detail-oriented individual. I'm more of a big-picture person," Kester says. "Everybody in the family has to know their role in order for the business to work, because it can get sensitive if people start stepping on one another's toes—especially when you're family."

Kester cites one more reason OSHS continues to withstand the test of time: experience—the kind gained not from learning a business, but from living it, which is unique to family businesses.

"The reason the business still works is because we grew up here," he says. "As kids, we were here all the time. We were taught our whole lives how a successful business is managed. From a very young age, it was a constant mentorship from my grandfather, grandmother and father. That's why the school's still going strong."

From The Web

Sponsored Content by Taboola

Classic golf mistake amateurs make at the tee - top coach explai...
Hank Haney University

NEVER Eat This Type of Fish (Everb)
The Inflammation Solution

IT pro solves hundreds of problems with one secret tool
Brother

10 Signs Your Child May Have ADHD
Health Central

25 Fuel Efficient Cars That Are Not Hybrids
MPG-O-Matic

20 Athletes that Died Before Their Career Was Over
Rant Sports

Millennials are Drinking so Much Wine They're Changing How it's Sold
Parade

Eighteen Uncomfortable Engagement Photos
Parent Media

0 Comments NFIB

Sort by Best Login

Share Favorite

Start the discussion...

Be the first to comment.

ALSO ON NFIB WHAT'S HOT?

Restaurant Owners Push Back Against Raising Tip Wage
3 comments • 2 months ago

Delaware Minimum Wage Legislation on the Move
2 comments • 2 months ago

Obamacare Compliance Meeting, Grand Junction
1 comment • 2 months ago

Workers' Compensation Rates Increased
1 comment • 12 days ago

Subscribe Add Disqus to your site

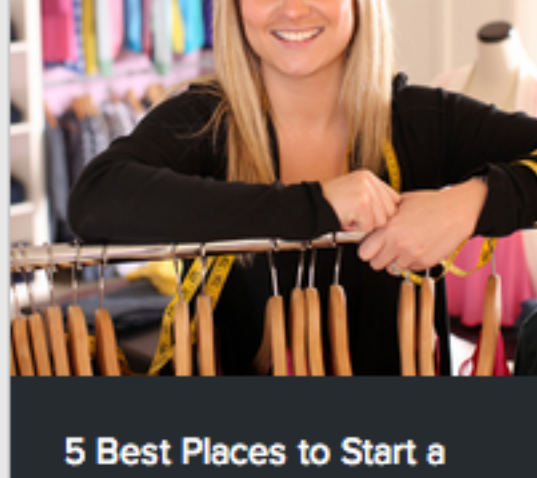
DISQUS

Enter Email Address for Updates SUBMIT

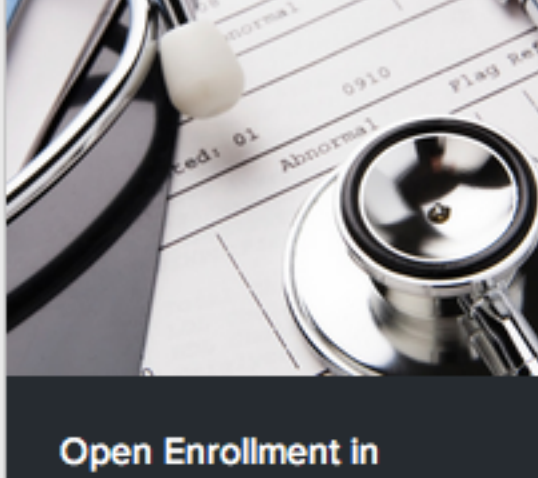
ABOUT NFIB BECOME A PARTNER ADVERTISING CAREERS CONTACT TERMS OF USE PRIVACY

© 2001 - 2014 National Federation of Independent Business. All Rights Reserved

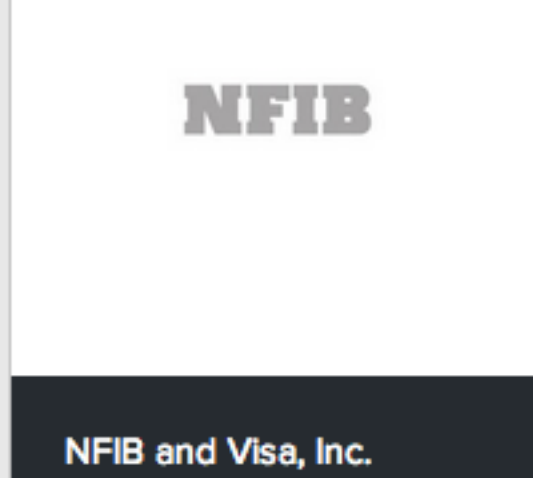
RECOMMENDED FOR YOU



5 Best Places to Start a Business in 2013
www.nfib.com



Open Enrollment in Health Insurance Exchanges Is Here, Sort...
www.nfib.com



NFIB and Visa, Inc. Announce 2009
www.nfib.com



10 Oscar-Worthy Movies Every Entrepreneur Should See
www.nfib.com