FINANCIAL / SELF-HELP

Becoming a Wealth Transfer Specialist

- A valuable resource for financial, tax and legal advisors wishing to expand their practices by renewing both family and business.
- Karl R. Bareither, Wealth Transfer Specialist, takes you step-by-step through a unique, time-tested approach to family business succession and estate planning.
- The Family & Business Renewal (FBR) Model helps entrepreneurs, business owners and their families transfer wealth to succeeding generations, enhancing family relationships in the process. The FBR Process goes beyond traditional business succession planning by including the entire family from beginning to end.

Karl Bareither
Founder & CEO
FBR System, Inc.

As a family business advisor, you too will benefit by using the FBR System approach with your clients:

- Offer your family business clients a proven, effective wealth transfer planning process
- Enhance your image as a professional family business advisor
- Build a base of satisfied clients and develop a never-ending source of prospects
- Increase your income through value-added planning fees

Here's what other business advisors say:

"As a result of bringing together the entire family, the Wealth Transfer Specialist brought new insight to the family business and me. They were instrumental in initiating the plan-ning process."

— R. Wilson, CPA

"The FBR System approach helps me do a more thorough job for my family business clients. The income from my practice has increased dramatically. No one else offers as complete an approach to helping businesses plan for the future."

— Fred Heyer, CLU, ChFC, Financial Planner

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FBR SYSTEM℠
Family & Business Renewal

Becoming a Wealth Transfer Specialist
Karl Bareither
FBR PUBLISHING

Includes 2013 Tax Relief Act

Becoming a Wealth Transfer Specialist

A proven holistic model for insurance, financial, tax and legal advisors to expand their family business practice

Karl Bareither
Wealth Transfer Specialist

About Karl Bareither and the FBR System℠

Beginning with his father's business and later with his own, Karl Bareither has been devoted to the spirit of renewal. Wanting to share his knowledge, Karl developed a unique system that minimizes the IRS role, strengthens family relationships, and maximizes business profitability.

Karl's wealth transfer journey began in the Midwest among farmers and ranchers, people with a long history of family-owned businesses. In 1981 he discovered that a break-down in family communications hindered quality family and business planning practices. Sole input from the owner, he discovered, resulted in advice that failed to meet the legal, tax, and financial goals of all family members.

To avert misinformation and mistrust, Karl shifted his planning focus from the owner to the entire family. This new approach evolved into the FBR System, a comprehensive, holistic planning model and resolution process that establishes family harmony and business success.

Karl's 30 years of private practice and education makes him unique among family business advisors. As an innovative leader, author, and skilled public speaker, Karl directs advisor training workshops with the same energy and insight that led him to discover the FBR System. His life is the FBR System and he wants to share, and most importantly, renew the quality of life for business owners, family members, and professionals like you.

FBR SYSTEM℠
Family & Business Renewal
Advisor.FBRSystem.com

Since 1969, hundreds of families and businesses have benefitted from Karl Bareither's FBR System℠

Now you, as an advisor, can learn how to better serve your family business clients.

Here's what business advisors say:

"Karl, I want to thank you for speaking to the Yuba Sutter Estate Planning Council. I believe that your remarks were well received and of real benefit to the participants. I was particularly impressed by the questions from attorneys who indicated that they had struggled with the very issues that you were discussing."

— John L. Guth, Attorney, Certified Specialist in Estate Planning

"Thank you Karl for speaking at our National Conference. Your presentation definitely touched the hearts of our advisors."

— S. M., Advanced Markets Consultant

"Karl spoke at our Farmers Tax and Accounting Conference and he received excellent ratings. I was very pleased with his presentation and would recommend him as a speaker."

— Kay Phelan, Director of Conferences
California CPA Education Foundation

"I learned a structure to approaching the business owner: technical plus communication both important."

— T. S., Financial Advisor

"The FBR System approach will cause a serious re-thinking of my role."

— L. G., Planner

Also by Karl Bareither:

Planning a Family & Business Legacy
A holistic approach to wealth transfer planning for entrepreneurs, business owners and family members

Becoming a Wealth Transfer Specialist

A proven holistic model for financial, tax and legal advisors to expand their family business practice

Karl Bareither, CLU
Wealth Transfer Specialist

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Contents

As a note of Dedication I would like to explain that

While in Australia some years ago, a trade association group asked me to write a "how to" book documenting my 30 years experience helping business-owning families transfer their wealth to succeeding generations. They wanted to be able to help association members' tax, financial and legal advisors learn how to move beyond traditional wealth transfer planning and become Wealth Transfer Specialists.

At the time, I thought this would be a relatively easy task, lasting perhaps a few months—certainly not more than a year. Eight years later, I have finally concluded recording my work experiences with the help of many individuals and groups. It seems that just a simple thank you is inadequate for the ideas, encouragement and advice so many have shared with me.

However, there are two people I want to especially recognize for their assistance. Tom Reischl, more than any other person, is responsible for assisting me in writing this book. I'm not sure it would have been completed without his help. In addition to his writing talent, he is truly a delightful person to work with. The other key person is Lillian, my partner for 49 years, who was willing to make many sacrifices over the last several years and encouraged me in so many ways. Without her help, I could not have finished this project. Thank you both!

More than two hundred family business owners, their family members and trusted advisors, have provided me with their various perspective during the past thirty years. This has resulted in my defining the client as the entire family and recognizing that open family communication is essential to a healthy family and business life. They also helped me realize the value of moving beyond transaction orientation to a process planning approach and establishing greater client objectivity by employing wealth transfer planning fees. Many other individuals have assisted me—and you know who you are! I thank all of you for providing input to help me better serve my family business clients—and in some cases, teaching me what not to do.

This book is dedicated to the many business owners, family members, professional advisors, friends and trade associations who have made it possible.

After reading this book, I trust you will consider learning to become a Wealth Transfer Specialist yourself, building upon this model for helping family businesses minimize the role of the IRS, enhance the quality of family life, and increase business profitability. You will find the quality of your own life enhanced as well.

Before we start our book, let me tell you a little bit about myself

I am the founder and president of FBR System, a family business wealth transfer planning firm. I teach advisors how to use a holistic process approach to transfer wealth and renew both business and family. I conduct many workshops and training courses in this unique family-based approach to wealth transfer planning, and have authored the book *Planning a Family & Business Legacy.*

I hold degrees in business and communication at Northern State University, South Dakota. Later graduated from Purdue University's Estate Planning Program and have earned the Chartered Life Underwriter (CLU) designation. I have been successful as a financial advisor and have served as training director and regional sales director for a major financial services company. I have enjoyed active involvement in many professional organizations including several estate planning councils, AALU and The Family Firm Institute. I am a Qualifying and Life Member of the Million Dollar Round Table. I have also been admitted to the Top of the Table.

I am an instrument-rated pilot with a multi-engine rating, enjoy reading, am a student of Eastern philosophy with Western eyes, and I play tennis. My wife Lillian and I travel in our motor home from our residence on the Central Coast of California. We are parents of three children and grandparents of four.

As a Preface to the book, let me note:

If you are currently actively working in the family business market, you probably spend all or most of your energy serving the business owner. The typical business advisor treats the business owner as the only client and confines the fact-finding process to discovering what the owner needs and wants. The business owner, too, generally believes decisions affecting the business are his alone to make. I believe there is a better approach.

The Family as Client

In my work with family businesses, I engage the entire family, not just the business owner, as the client. From the outset, I obtain agreement from the business owner that every adult family member's expectations and goals are considered in order for the owner to make a more informed decision. My objective is to create a plan for the preservation and transfer of the family's entire wealth, not just the business. In order to do that, it's necessary to create a plan that will reflect the needs, desires and expectations of the entire family. Contrast this approach with the typical business advisor who deals only with the business owner and focuses exclusively on the owner's desires.

To develop the information needed, it is important to personally interview every member of the family, including spouses. Frequently everyone in the family does not necessarily share the same objectives for the business as the owner, and the only way to understand what the various attitudes are is to ask. It is important to interview every family member in a "safe" setting where they can be comfortable sharing open, honest answers to the open-ended questions posed. I ask about family relationships, communication problems affecting family members, and probe expectations related to the future of the business and their perceived role in it. Gathering opinions from the owner's other trusted business advisors is equally essential. The information obtained helps me understand the objectives of the family regarding the transfer of the family's wealth.

Once the information is obtained, I work with other trusted advisors of the family to develop a new wealth transfer plan. I use computer software I have developed for this purpose. The software creates a report that describes the current wealth transfer plan and makes recommendations for the necessary changes to meet the objectives. The report is written in layman's language so everyone in the family can easily identify concerns and solutions.

The Family Retreat

The new plan is then presented to the entire family at a family retreat. The retreat is conducted at a neutral site, where there will be no distractions. Every adult family member and their spouse is invited and expected to attend.

The retreat experience is always meaningful. Many business owners I've worked with have told me that this was the first time they ever heard their children speak openly about the business and their expectations. Often, the children's comments trigger deep emotions in themselves and others. Sometimes conflicts arise. These are important to address because conflict and hidden agendas can jeopardize the success of the business, quality of family life, and the wealth transfer plan.

In many cases, the family retreat is the first time the family has ever openly discussed business and financial matters. I call my process "family and business renewal" because, while it helps preserve the business and

other family wealth, it also enhances family relationships by opening the door to better interfamily communication.

Compensation

You may be wondering how I can afford to invest so much time and energy on each case. Well, the answer is simple. I charge a fee for my wealth transfer planning. My clients believe my services provide considerable value. The fee typically ranges from $12,000 to $80,000, depending upon the size and complexity of the case. I have received over $1.5 million in wealth transfer planning fees from my practice. I guarantee to refund the entire fee if the client family is not completely satisfied with my work, eliminating their risk. I find business owners are not reluctant to pay my fee once they understand the nature and scope of the work I plan to do for them.

You can experience similar success in the family business market by following these basic principles: treat the entire family as your client; consider the family's entire wealth, not just the business; focus on a process, not merely transactions; present the new wealth transfer plan in a retreat setting; charge a planning fee for your services.

Introduction

If you currently make your living advising family business owners, you already know that it is a fascinating field of endeavor. Working with family businesses offers exciting opportunities to be of service and be well rewarded in the process. Part of the attraction in working with family-owned businesses is the fascinating interplay of personal, tax, financial, legal and business matters. The family business advisor has to be part technician, part salesperson, part planner and part communication expert in order to be effective. Business succession planning and estate planning is not as straightforward as some might think.

Consider this true story:

Fred, a California business owner client, came to this country as an immigrant, and over 30 years had built a multi-million dollar business empire. His son, Ralph, attended some of the best higher educational institutions and had many of the attributes necessary to run the family business. In some areas, Ralph was even better qualified than his father. Nevertheless, Fred was uncomfortable with Ralph taking over the business because he felt his son lacked humility. The father felt the son had always "had it made" and had never suffered or done without, and therefore, lacked empathy for the employees of the business. The difference between the values of the two generations was massive. And a generation gap like this is often at the root of family miscommunication—in and out of the business.

The reality is that while the need to blend the personal and the business is easy to observe, it is rarely taken fully into account by advisors who work with family owned businesses. That's where this book comes in.

Traditionally, family business owner advisors have stuck to their particular discipline—be it taxes, insurance, financial or legal advice—and rarely ventured into attempting to understand the whole picture of both family and business. Most advisors see the business owner as the "client" and do everything they can to understand that individual's needs and satisfy those needs with advice and services tailored to the owner alone. Isn't it strange then, that so many family businesses fail to survive beyond one or two generations? If the advice is tailored to suit the business owner, why does the plan so often fail? If the business owner is surrounded by technical experts and knowledgeable advisors, why doesn't the family business continue to benefit succeeding generations? Where's the disconnect?

The problem is most family business advisors concentrate on the owner and business to the exclusion of the family. However, in the end, it's the family dynamics that ultimately control the future of the business. Meeting the business owner's needs is only a partial solution. In order to assure the successful transfer of the family's personal and business wealth, the family must be involved; and family issues—however emotional or controversial—must be addressed.

This book is a road map for a process that will take you from being a traditional family business advisor to becoming a Wealth Transfer Specialist. The benefits are many. Helping a business owning family deal with difficult communication issues can be very rewarding personally. I treasure the letters I've received from family members expressing their appreciation for my help.

Here's a typical example.

> *"We want you to know how appreciative we are of the work you have done for our family business. When you started wading through all of the issues and dealing with all of the family members, we could not have imagined that we would be able to resolve some of the difficulties that existed. This would not have been possible if you had not taken the personal interest in our business and in our family that you did."*
>
> *—A. M.*

Not only is there the personal satisfaction of knowing that your solutions will indeed preserve the family and the business for generations to come, but the financial rewards are considerable as well. You're about to learn how to supplement the income you currently receive by working with family businesses and receiving wealth transfer planning fees for work that few are doing. This differentiator will set you apart from your competition and create opportunities you never imagined.

Changing your focus from the business owner to the family is the key to increasing your personal satisfaction with your work and increasing your personal income. Also, moving from a transaction to a process relationship will provide opportunities to increase services and establish greater client trust and loyalty. This book will show you how to do it. I know this model works because I have personally built a successful fee-based family business practice using these principles. It can work for you!

Karl Bareither, CLU
Wealth Transfer Specialist
President and Founder, FBR System, Inc.

As we start

Chapter 1

which is titled:

"My Journey from Advisor to Wealth Transfer Specialist"

I think of Socrates dictum:

Let him that would move the world, first move himself.

The land my family currently lives on is part of what was once a nine-thousand acre ranch, perched above the shimmering California coastline. A successful ranching operation, owned by a single family since 1882, was lost after a 20-year legal battle that tore both family and ranch apart. Had the family been able to successfully plan for its continuation, cattle might still be grazing on the spot occupied by our house. You might say our home is testimony to the consequences of lack of communication between the owners and heirs of a family business.

Not far away, another family feuding over a business resulted in land baron Clarence Salyer losing control of his empire when two of his sons rebelled and forced him out of power. To this day, the family is still split into two irreconcilable factions. About the only time the remaining Salyers get together now is for periodic courtroom sessions.

The case of the Fairview Dairy is yet another example of a failed business transfer plan. (Note: all of the following examples are based on real cases, but names have been changed to protect confidentiality.)

Fairview Dairy is a successful dairy farm owned and operated by Peter, a first generation American who came to this country as an immigrant with no formal education and no capital assets, save his willingness to work hard. Over time, Peter's hard work and excellent management skills resulted in his developing a high-producing, quality milk operation. After many years, he built up a multi-million dollar dairy business. As he got older, Peter decided to bring his son, Tony, into the business with the goal of eventually passing the business on to him. Unfortunately, Tony had other ambitions.

In a private meeting with Tony and his wife, Patty, I learned that their interests were quite different from Peter's. Their dream was to start a small dairy operation of their own in another state. Although Peter couldn't understand why Tony didn't share his vision of keeping the dairy in the family and building even greater production and profitability, he nevertheless helped Tony start his dream operation by giving him enough cows to get started. Tony and Patty moved to another state and began building their dream dairy operation.

The point of this story is that the vision of the second generation may not match that of the entrepreneur when it comes to the future direction of the business. It's important that this be understood in order to avoid a lot of pain down the road. The only way that can happen is if there is open, honest communication among family members when it comes to dealing with matters of the family business.

Having worked with business owners for years as an active financial planner, I dealt with many cases like Fairview Dairy. Businesses that could have—perhaps should have—survived to enrich new generations of family owners, but instead, were liquidated or sold to others outside the family.

Why is it that only 30 percent of family-owned businesses make it to the second generation? What goes wrong? I think I know the answer.

Getting Started

I started in the insurance business in 1958 working my way through college by selling life insurance. Hours of study to learn about the products my company offered were in addition to my regular student workload. It took a lot of practice to learn how to make effective presentations. Countless phone calls and door knocks searching for people to tell my story to. Perseverance eventually paid off; and within a couple of years, I began to experience a fair amount of success.

Success was an opiate to me. A taste of it bred a desire for more. By 1961, I was a full-fledged workaholic. The life insurance business, in those days, presented no limits on the individual willing to pay the price for success—and I was willing.

My hard work paid off. Success brought with it many perks, including a life style many would envy. A beautiful home, airplane, houseboat, and a show horse. Creature comforts. Financial security. All the trappings of a successful, hard-working entrepreneur.

Along the way, I discovered a knack for sorting through complicated situations and developing creative solutions. I gravitated toward more complicated cases such as estate planning and small business succession planning. As time passed, I found myself most attracted to working with small- to medium-sized business owners and their families.

I followed the usual path in developing my skills in advanced marketing. My workaholic nature drove me to pursue additional education in estate planning and business planning. In 1972, I received the Chartered Life Underwriter (CLU) designation.

By 1978, I had settled into a comfortable work style that included conducting financial seminars sponsored by third-party trade associations and banks. Taking advantage of my strength as a technician, I managed to build a very nice, stable clientele base. Clients became friends in the process of helping them plan for the continued success of their businesses, adding to the personal satisfaction I received from my work. The financial rewards continued to pour in. In almost every respect, I had it made. All respects, but one, that is.

The Shoemaker's Children

One feature of my work that always mystified me was the fact that, while the solutions proposed to my business clients were virtually always technically correct, they didn't always solve the problem. Sometimes my ideas worked and sometimes they didn't. The fault didn't seem to lie in the solutions themselves—there was something else happening. Something not clear to me until a crisis occurred in my own family.

In 1986 my only daughter, Karla, died. Not by accident or sickness, but by her own hand. My wife, Lillian, and I were devastated. I had no idea Karla was experiencing major depression. I was too busy to see. In classic workaholic fashion, while busy helping other families with their needs, I had neglected many of the needs of my own family. The shoemaker's family had been going barefoot.

In hindsight, there were signs. One day, not long before she died at age 24, Karla approached me and asked if I would agree to seek outside help and attempt to bring our family of five closer together. Karla knew something I didn't know. While we were obviously prosperous, something was missing. The relationship between Karla, her two brothers, her mother and me was not as close as it might have been. Communication was not as open as it could have been. Karla desperately wanted us to be a closer family; one where each was willing to listen to the others' needs; one where the father had time—quality time—to spend with the family. But while Karla was pleading for me to take time to smell the flowers, the workaholic in me was admonishing her to plant flowers.

To placate Karla, Lillian and I agreed to seek outside help if she could convince her two brothers to participate. We knew Karla would not be successful in convincing her brothers. Frank communication in an open, family gathering environment was simply not our style. I didn't believe it was going to happen—and it didn't.

Eventually, Karla gave up trying to convene the family meeting, and then one day she just gave up everything.

No amount of time, no words, no degree of counseling can ever completely erase the pain of losing our daughter. There is simply no way to

rationalize away the fact that Karla found life unbearable—unlivable. Our family relationship may not have been entirely at fault, but I can't help but think I could have been able to do something to prevent her death. Perhaps if the lines of communication had been more open between us, she could have let the family know of her pain, and we could have intervened with professional help. The unanswered questions and feelings of guilt experienced after a loved one commits suicide are the heaviest burdens you can imagine.

If any good can come from such an awful experience, I like to think it's that I learned something from Karla. I learned the value of family love and the importance of open communication among family members. The value of taking time to smell the flowers after working to plant them. The bitter cost of yielding to the temptation to measure one's worth only in terms of work and accomplishments. Our family can never heal our relationship with Karla, it's too late for that. But the four of us can honor her by working to improve our relationship with each other and by extending the lessons we've learned to other parts of our lives.

Finding Peace of Mind

Given my propensity to overwork, it would have been easy for me to deal with my grief by burying myself even deeper in my work. But that would have required my ignoring Karla's wishes yet again. Instead, I chose to alter my work habits and search for balance between work and family, and at the same time, bring the lessons I learned about the importance of family relationships into my work.

I began to see my work with family businesses in a new way. I began to realize that it wasn't only about technical solutions, after all. It wasn't about finding the most tax-favored way to pass the family business or the most effective estate planning technique—it was about the family itself! I emerged from my grief with a mission: to find a way to literally put family ahead of business.

I hired a firm to conduct a survey of my clients and verified what I had begun to suspect. In many family-owned businesses, a serious breakdown in family communication hindered both quality family relationships and business profitability!

It was during this time that a family asked me to interview all their family members in order to help them prepare a new plan that would meet the needs of all family members. One of the children lived a long distance from the rest of the family and was not actively involved in the business. The family felt it was important to plan for the future of the business while the matriarch was still living and in good health.

Eventually, the planning process resulted in a plan whereby the inactive child was to receive non-business assets instead of a minority interest in the family business. Everyone in the family was satisfied with the results of the planning process. Active family members would own the business, and the inactive family member would receive non-business assets.

Armed with this success, I committed myself to finding a new way to work with family businesses. Instead of working solely with the business owner, I would work with the entire family. Instead of agreeing to develop an owner wealth transfer plan in secret, I would encourage openness on the part of the owner and all family members. Instead of focusing only on the technical aspects of the planning solution, I would search for ways to renew the quality of life for both the business owner and the family members.

Over a period of years, applying these new principles to my work with families and their businesses, a cohesive process with a beginning, middle and end, eventually began to emerge. A process that ultimately leads to a plan for the business that meets the needs of all family members—not just the business owner. A process that also met my own need to apply the lessons Karla taught me and spread the word that having a successful business and a successful family life are not mutually exclusive goals. With this book, I hope to be able to spread that word!

A New Way of Working with Family and Business

Over time, this work has led me to develop a model called Family & Business Renewal (hereafter referred to as the Model). I like to think that

my personal evolution was from a general advisor to a specialist. From a technician—using my mind to match problems and solutions—to an artist, if you will, working from the heart to conceive, design and build something new. Over time, the Family & Business Renewal Model has developed into a truly unique way of doing business. More like building a monument to a family or entrepreneur than simply closing a sale. I began to see myself not as a sales person or simply an advisor, but rather a wealth transfer "architect." The more I thought about it, the better I liked the concept. Karl Bareither, Wealth Transfer Specialist.

The Model begins with the recognition that the client is the entire family, not only the business owner. This in itself was a revolutionary breakthrough in my own thinking about clients. I had always felt that whomever paid my bill was the client. No longer! I'm convinced that business planning cannot be done in a vacuum. Regardless of who pays, it is the whole family that matters. An example will illustrate the importance of family relationships in business planning.

I'm reminded of Arnie, a successful grape producer client of mine. I was enjoying a conversation in the vineyard one day with Arnie's son, Milt. Normally a pleasant, amiable fellow, Milt's demeanor suddenly changed mid-way through our conversation. It took me a minute to realize what had provoked this sudden change in Milt's personality. It seems Arnie was approaching us, and the sight of his father had instantly turned Milt's attitude from positive to negative.

The reason was obvious to me. Arnie had always exercised a great deal of control over Milt, never letting the young man forget who had the power and control—in the family, as well as in the business. Although Milt was heir apparent of the family's business, Arnie had never treated him as anything other than a glorified "go-fer." Arnie's need for power and control over his son prevented him from recognizing his son's potential as a businessman. Arnie refused to invest in Milt by grooming him to be his successor and developing Milt's skills and expertise. Over the years, Milt grew resentful of this treatment, and while he continued to work in the business, his relationship with his father steadily deteriorated. Needless to say, the tension between father and son also prevented any serious planning for business continuation.

Clearly, this is a case where ineffective communication between family members was at the root of the planning problem—and no amount of sophisticated technical training was going to solve it! The family relationship sickness had to be addressed before effective planning could begin. To try to develop and implement a business solution in the midst of the family distrust, hidden anger and hurt would be futile indeed.

As we work our way through the Family & Business Renewal Model, several important principles will be repeatedly emphasized:

- Work with the family, not just the business owner
- Open the agenda to include everyone in the family
- Recognize the most important business asset—the people
- Create a climate for open dialog and communication
- Design a workable solution
- Implement the plan and follow up

These principles and others were developed over time as I gained experience working with families, deepening my commitment to renewing both families and their businesses. The business I created was formed for the express purpose of developing and implementing new ideas for business transfer planning. I chose a motto that I believe says it all: *Preserving the past…Protecting the future…Starting now!*

I've also begun to train others to use the Family & Business Renewal Model and develop their own skills in working with closely held businesses and the families who create them, operate them, and live day-to-day with the challenges they pose. In this book you will learn step-by-step how you can use the Family & Business Renewal Model in your practice to help your business-owner clients plan for the distribution of their wealth and the future of their business. And, in the process, start your own personal journey from advisor to specialist.

Advisors working together

As we start

Chapter 2

which is titled

"The Challenge"

I want to quote a thought from Thomas Carlyle

"From the same materials one man builds palaces, another hovels; one warehouses, another villas; bricks and mortar are mortar and bricks until the architect can make them something else."

If you've been involved for a while in helping families plan for the disposition of their business at death or retirement, you've probably noticed the same phenomenon I have. Sometimes the plan you develop for a client works and sometimes it doesn't—even though the technical aspects of the plan design are fine. Why is that? Why is it that in one case a particular business continuation plan works perfectly and in the next case, with similar characteristics, the same plan fails?

The answer lies not in the plan—the plan design is not the problem. Usually there are a number of different alternatives that can accomplish the objectives. There is almost always more than one way to solve a problem. After developing a plan based on all the information needed, the trick is to get the plan implemented—therein lies the challenge.

Focus on the Business Owner

If you are like most successful small business advisors, you probably focus your attention on the "owner" of the business, typically the entrepreneur who founded it. Indeed, if you are an attorney working with small businesses, you may feel an ethical obligation to work with only the business owner. Some legal experts feel that an attorney can represent only one person in a family, and the concept of including other family members in the business planning process represents a conflict of interest. Other legal experts, however, believe it is ethical to work with multiple family members because the "business is the client." Attorneys practicing in the family business market must consider the ethical implications of working with multiple family members and determine whether a waiver is needed.

Although we generally refer to them as "family businesses," often a small business is really an enterprise owned by an entrepreneur. It becomes truly a "family business" when other family members enter the business as employees or managers, or when the entrepreneur dies or retires and ownership passes to the next generation. Two or three siblings owning and operating a business enterprise pose an entirely different set of problems and challenges for the advisor than a sole proprietorship. Cousins as business owners present yet another set of challenges. Still, planning advisors tend to want to identify the sole owner or the majority owner as the client or "customer," seek to learn what the owner wants and then develop a plan according to his or her wishes. To understand how this approach can backfire, it's instructive to examine how such an arrangement might play out.

In some families, the business owner dictates all the decisions, both business and family. In these cases, you will usually find a great deal of family conflict. The owner often wants to maintain a position of power and does so by employing hands-on control and secrecy.

I remember one case where this was followed to the extreme. Pete was a very successful retailer and wholesaler, and he had a son, Jerry who also worked in the business. Pete had very little confidence in Jerry, however,

and never permitted him to get involved in the management or operation of the business. Pete died at the ripe old age of 85. Jerry, who was age 65 at the time, had never been permitted to make an important business decision and had no idea how to manage the business. Within six years, the bank owned the business. How long could your business perpetuate itself if your heir is no more than a "go-fer" for the parent?

In many cases, this type of business owner doesn't consult with any other family members while planning for the transfer of the business either. Indeed, from the business owner's perspective, there is no need to consult with other family members ("It's my business, so I make the decisions"). As a result, the business succession plan is often conceived and implemented in secret—if at all. It often becomes known only when the business owner dies, and the plan is finally revealed. Perhaps a simple will has been drafted, instructing that all assets be divided equally among the children. The owner feels this is being fair. ("How can I be criticized for treating all my children equally?") In reality, owners could make more informed decisions if they were aware of the children's goals.

From the perspective of the children, however, while technically equal, this arrangement seems anything but fair. Children who have spent years working in the business may feel they deserve a larger share or control of the business. Non-business children may prefer cash or some other asset rather than being tied to a business operated by a sibling.

Let me tell you a real life story about just such a situation.

The Lazy J is a second-generation Wyoming cattle ranch. I first met Jake, the 56-year-old son of the founder, at the conclusion of a business wealth transfer planning seminar I presented to a group of business owners, sponsored jointly by several banks. Jake was one of five children in the family and the only one working in the family business. His brothers and sisters were all well educated and working in professional or highly-skilled occupations. Jake and his wife Martha lived and worked on the ranch with Jake's parents, Mel and Alice, for thirty years. Jake and Martha always assumed that someday, somehow the ranch would be theirs. Whenever Jake asked his father about the future of the ranch, he was always assured that indeed, someday the ranch would be his.

When Mel died, Jake learned that all the ranch property had been owned jointly by Mel and Alice, and that Alice was now sole owner. Jake wasn't concerned, however. He was certain that his mother would arrange to leave the ranch to him at her death. When Alice died, however, her will provided that ownership of the ranch was to be divided equally among her five children. Instead of becoming successor owner, Jake had merely a one-fifth-minority interest in the Lazy J. To add insult to injury, Jake had always worked for low wages—considering it an investment in his future—and the ranch had never installed a retirement plan of any kind. Jake and Martha had very little to show for their thirty-year investment.

The tragedy of this story is that the failure to plan had destroyed the opportunity for the one person with the most interest and experience in running the family business to take it over. Jake couldn't afford to buy out his siblings, so the ranch had to be sold. A business continuation plan could have been constructed that would have left the ranch to Jake, and other property or assets, such as life insurance proceeds, to the non-ranch children. The business could have remained in the family for another generation—and maybe many more! The problem wasn't the lack of a plan—they had a plan. Apparently the plan was for Mel to leave the ranch to Alice, and Alice's plan was to leave it equally to the kids.

The problem was lack of communication! A plan could have been developed with input from all family members. With an open agenda, Martha's concerns about equal treatment for all the children would have been addressed. Jake's dream of someday owning the ranch might have been considered. The non-ranch children's lack of interest in the ranch could have been taken into account. The technical solution would have been a piece of cake for any knowledgeable advisor—but the family dynamics precluded such a solution ever being developed.

Jake told me this story with tears in his eyes. "Who can you trust if you can't trust your own father?" he asked. "I hope you can help others avoid the same fate."

In the final analysis, the only really effective way for an advisor to develop a wealth transfer plan that meets the diverse needs of all the family members, as well as those of the business owner, is to treat the entire family as the client. This may cause some discomfort for the business owner who is not inclined to be open about business planning, but it's the only way to assure the continuation of the business (assuming that remains the ultimate goal) while treating all family members fairly.

To understand how damaging secrecy can be when planning for the future, consider these real life case responses from one family member who was interviewed about the future of the family's business.

What is your major concern about the business?

I want to know when, how and to whom the business will be transferred. There is too much secrecy about the business partnership. I never see the financial statements of the business. I don't know if I will be treated fairly.

How do these concerns affect you and other family members?

I'm concerned about stress within the family and the business. I've developed high blood pressure as a result.

In what areas do you feel the family communicates effectively?

None—other than socially. There's a lot of anger and coded messages. Alcohol is a problem.

In what areas does the family communicate poorly?

Anything to do with money. Decision making is difficult—it's always very non-emotional. Some family members see themselves as victims. Some have poor attitudes and are jealous of other family members. There's very little caring communication.

Are you in favor of the business continuing?

Yes, but only if it stays profitable. Changes need to be made. I need to know what is going on.

What would you like to see happen?

We need a third party to determine the economic value of the business. I think some of the real estate should be sold and a trust established.

Do the family members work together productively?

Only in a crisis. The brothers don't work well together. Someone has to deal with their big egos.

What additional information would be important for me to understand?

My family never includes me. I don't feel close to my family. Alcohol is a problem. We never have business meetings. I don't feel I want to be partners with my family in this business.

Imagine, with feelings like these lurking just beneath the surface, how difficult it would be to develop a meaningful plan for the continuation of this business by talking only to the business owner!

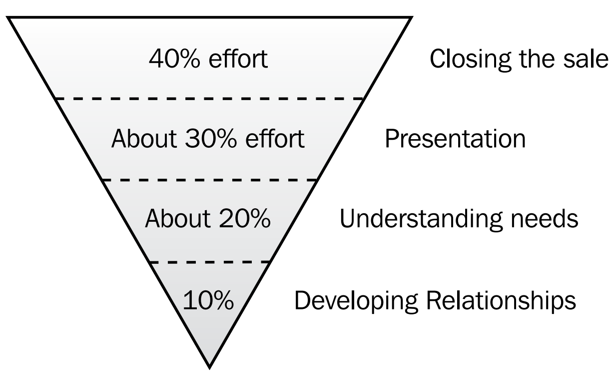
As you can see from the dialog above, failing to gather input from other family members when developing a plan for the continuation of a business can lead to failure—regardless of the technical merits of the plan.

Making the Effort

I think of business wealth transfer planning as a process. However, the typical transaction-oriented sales person might see the process as requiring:

Traditional Transaction Approach

Percentage of Effort

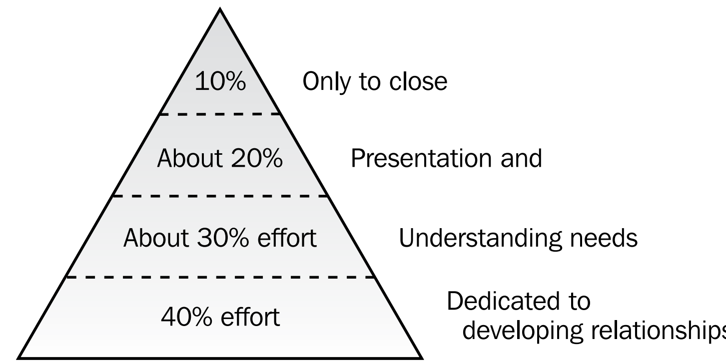


Most of the time and effort is spent making the presentation and trying to close the product sale rather than trying to get to know the family members and discover their individual and collective needs.

I suggest this practice is upside down. Ideally, it should show a percentage of effort dedicated with:

FBR Process Planning Approach

Percentage of Effort



The wise advisor will invest most of his or her time and energy in developing the relationship. That means taking time to get to know not only the business owner, but also all the family members and their spouses—those involved in the day-to-day operation of the business and those not directly involved. The time spent up front building a trusting relationship will lay the groundwork for the development of a business continuation and wealth transfer plan that is not only technically sound, but also has a high likelihood of success. Not only successful from the business perspective, but also successful in promoting a quality family life.

Investing time building relationships also minimizes the effort necessary to close the sale. Once a new plan is developed that takes into account the needs of all the stakeholders, not just the business owner, the solution practically sells itself! When the need is clear to everyone and the solution makes sense, there is little or no resistance to implementing the plan. Problems arise when the solution is based on the advisor's understanding of only the owner's needs, rather than the entire family's needs. That's when time and effort must be spent convincing the family stakeholders in order to close the sale!

Charging Non-Investment Wealth Transfer Planning Fees

Obviously, discovering all the family's needs can be a time-consuming procedure. And how is the sales person compensated for the time spent if the best solution doesn't require a product from the advisor's portfolio? Part of the solution is for the advisor who wants to be successful working with family businesses to change the way he or she thinks about selling solutions. The typical product sales person is paid by commission only, which often becomes the driving factor in the traditional transaction approach. As a result, impartiality is frequently lost and credibility suffers. The sales person's objectivity may be questioned because the owner and the other advisors know the sales person does not get paid unless something is sold.

I submit that the truly impartial advisor adds value to the process by bringing a certain level of expertise to the table. Expertise in tax, legal considerations and financial products is part of it, of course, but expertise in dealing with people—sometimes difficult people—skillfully persuading them to avoid procrastination and take action also adds considerable value. A competent advisor is entitled to be paid for this added value. This expertise can be rewarded financially by charging a fee—I call it a value-added planning fee.

Early in my career, I relied upon product commissions for my entire income. In many cases, I detected a feeling on the part of my clients, their advisors and prospects that my advice was "tainted" by the need on my part to make a sale. A friend of mine suggested that I set myself apart by charging a planning fee for my work rather than just depending upon product sales.

This change was a difficult one for me even though I had been investing a great amount of time in the planning practice. The first time I provided a prospective client with a proposal for fee-based service was a real learning experience. When my client asked me what the cost would be, I was

somewhat hesitant to respond out of fear for what his reaction would be. I finally quoted a total fee of $500. He told me he was surprised that my fee would be so low! I didn't tell him that prior to this quote I was giving my services at no cost other than expecting clients to purchase a life insurance policy from me.

The experience helped me change my attitude toward charging a fee for my services. After all, the owner's tax and legal advisors were all charging fees for their expertise, why wasn't I? Did I think my contribution to the planning process had no value other than when I sold an insurance policy? Besides, there were many times when the owner was uninsurable or resisted purchasing my products for one reason or another. In those cases I was working for nothing. Was my advice only valuable when I was able to sell an insurance policy? I decided it was not.

Eventually I became comfortable with the notion of charging for my services. The lesson I learned from my first fee-for-service client helped me raise my sights. My fees increased over time to the point where it often exceeds $30,000 for a complex case. (See the appendix for a sample client planning fee agreement.)

Charging a fee has another benefit. When the advisor positions himself as a fee-for-service Wealth Transfer Specialist, rather than a traditional product salesperson, the advisor/client relationship changes. Knowing that the wealth transfer specialist is being compensated by a fee eliminates many of the concerns the owner and other family members might otherwise have about the objectivity of the advice they receive.

I believe that it's time financial services professionals stop measuring their value only in terms of product sales made. A very wise person once told me "Only the lead dog in a dog sled team ever gets a change of scenery." If your goal is to change your own personal scenery, to become more than a commissioned product seller, "bean counter" or legal draftsman, you'll have to move up to the lead dog position. That means getting out of your personal comfort zone and working to master new process skills and techniques. Take heart, however. You wouldn't be in this business, reading this book, if you weren't a "people person." Your existing people skills are the very ones you'll need to develop and refine in order to become the consummate family and business advisor—a Wealth Transfer Specialist (hereafter referred to as the Specialist). It merely takes commitment on your part and a bit of hard work and skill development.

I earlier described my own evolution from advisor to a wealth transfer specialist. To make your journey successful will require change, but making the transition to a Wealth Transfer Specialist leads to many rewards—financial as well as emotional. It's very rewarding personally to be able to help families work their way through often very difficult terrain and emerge renewed. Not only in their business relationships, although that is certainly a driving factor, but also in the improved quality of their family relationships. Resolving long-held grudges and dealing with deeply felt hurts and fears breathes fresh air into all aspects of the family relationship. At the end of the Family and Business Renewal Model, not only is the business healthier, but so is the family!

Losing the Sale, but Winning the Peace

There's another reason to charge a value-added planning fee for your work. Sometimes the best solution for everyone concerned doesn't include a product sale.

One case in particular comes to mind when thinking about resolving the business needs without selling a product.

My clients, John and Martha, owned a large and successful dairy operation that they operated with the help of their two sons-in-law. One was in charge of the farming unit, and the other was responsible for the dairy operation. Each son-in-law owned 20 percent of the business; John and Martha owned the remaining 60 percent. To my surprise, the individual interviews revealed that both sons-in-law were unhappy in the business and secretly wanted out so they could start their own businesses.

The two men did not get along and their relationship had been strained for most of the 15 years they worked together. During family celebrations and get-togethers, the two men would sit on the same side of the table, but at opposite ends of the table so they would not have to talk or

even look at each other. John would spend much of his workday acting as go-between trying to keep the peace between his sons-in-law. Martha once told me she could tell how things had gone during the day by how frequently John turned over in bed that night.

In-depth separate interviews revealed that one of the families wanted to move to another state and buy a smaller dairy. The other family wanted to stay in the area with John and Martha, but operate their own, much smaller dairy. Eventually, both couples did just that. Each family owning and operating their own business finally brought peace to the family.

John and Martha hired a non-family general manager, a key person, to help operate their business. After adjusting to the initial disappointment, they became much more content than they were previously. Under the new arrangement, all the stress caused by the family infighting was eliminated from their lives. Without the need to constantly referee family tensions, they finally had time to travel and enjoy themselves. John and Martha are satisfied with their new life and are considering plans to retire and sell the business to another dairy family.

When this case began to develop, there was no hint it would end up as it did. A straightforward business continuation plan, developed without full knowledge of all the facts, would probably have included a typical buy-sell arrangement to ensure the continuation of the business. That plan would probably have been doomed from the start, given the animosity between the two future owners. What would life be like for John and Martha had they attempted to tie the future of the family and the business together using a traditional business continuation plan?

This was clearly a case where the best solution was no sale! But I still got paid. In fact, my compensation was two-fold: the value-added planning fee I received for working through the procedure and the personal satisfaction I got from seeing this family rid itself of the relational poison that had been plaguing it for years.

A Proven Way to Lead

We began this chapter by discussing the stereotype of the hard-driving entrepreneur and the challenges presented when it comes time to consider giving up control of the business. Concentrating on the needs of the entrepreneur is one model for the advisor to follow. A second model is to consider the entire family as the client and look for solutions based on everyone's needs. In the preceding chapter I shared the personal experiences that led me to develop this new model for working with family businesses. I've since spent fifteen years proving that the concept works.

The final Model took some time to develop. At first, I attempted to meet with the entire family as a group to determine their needs. I quickly found out that because of family dynamics and underlying tensions, many family members did not feel safe or comfortable sharing thoughts and feelings openly in front of the entire family. In addition, some family members were not comfortable sharing the family's "dirty linen" in front of a relative stranger. The process improved dramatically when I began to interview family members individually, in a private setting.

The key was to meet individually with family members (and spouses when applicable), to learn in detail about their hopes, dreams and expectations regarding the family business. I assured each one of confidentiality in order to encourage as much openness as possible. Later, when it came time to discuss needs and solutions with the family as a group, I used all the appropriate information I had gathered, but did so with anonymity. All the feelings and concerns were aired, but without the personalities attached to them.

It was like the parting of the Red Sea!

I find that in the proper setting, the family as a group is usually genuinely interested in exploring all of the business and family issues raised by the individual members. The group meeting, or family retreat as I like to call it, provides a sense of openness that encourages family members to respond with empathy to the concerns uncovered by the individual interviews. Each family member feels they are being treated fairly because they see their concerns placed on the table and addressed openly by the family. In return, they feel more inclined to consider concerns raised by others objectively. The open airing of concerns, hopes and needs acts as a catharsis for the family. In many cases, the family retreat experience is the first time the family has ever openly discussed many of these issues!

Think of it! In so many cases, when the business is poised at a critical fork in the road—literally developing a map for its future—much of the most critical information needed to make intelligent decisions is hidden from view or buried under layers of stubborn silence and resentment. Is it any wonder that so many business continuation plans fail? The wonder is that any of them succeed!

Preparing to lead the Family and Business Renewal Model is not as daunting as it may seem. Again, you probably already have many of the skills, abilities and knowledge you'll need. They simply need refinement. We'll examine the role of the wealth transfer specialist and the attributes you need to be successful in that role in the next chapter.

A Success Story

Lest you think that every family business is owned and operated by a dysfunctional family, let me relate a case that was the direct opposite.

John and Nancy were the owners of a very successful cattle ranch in California and the parents of seven sons. Although the early years were rough, the family worked hard and ultimately built a very successful business in partnership with John's brother and sister.

When I first met John and Nancy and their family, I was struck by the atmosphere of love and mutual respect the family members had for one another. No infighting. No animosity. No communication problems. Although family dynamics was not an issue for them, John and Nancy still wanted to work through the Model in order to structure a fair settlement for their children and minimize tax consequences.

This was an awesome family to be involved with, and it was a real pleasure working through the method with them. The result of the planning was to reorganize John and Nancy's one-third interest in the business into a Family Limited Partnership (FLP). John, Nancy and the seven boys were all owners of the FLP with future growth in the value of the business accruing to the boys. The fact that the family all got along so well together made the multiple ownership of the FLP a feasible option.

As it turned out, none of the boys ultimately became active in the business, and the decision was made recently to sell out the family's interest. Because of the structure of the plan, the boys now own the largest share of the value of the business interest. The final result of the sale is that each family member will walk away from the business with his share of the value in cash. And, being minority owners, John and Nancy will be taxed at a lower rate than they might otherwise have been—meaning they will get to enjoy a larger share of their proceeds from the sale.

Passing the business to the next generation is not always the best solution—as this case proves. Sometimes the best solution for everyone is to sell the business and divide the proceeds. In this case, the functional family dynamics made it easy to provide a fair, reasonable solution that benefited everyone concerned—a happy ending for a happy family.

Chapter 2 summary points:

In this chapter we discussed:

- **Most business advisors consider the business owner the client and only take into account the owner's needs and desires when assisting with business planning.**
- **The FBR method treats the entire family as the client and works to discover the needs and desires of all family members, including in-laws.**
- **Many advisors expend little of their energy on relationship building because their focus is only on the business owner. The most time and energy is reserved for attempting to close the sale.**
- **The FBR Process calls for expending the most time and energy on building relationships with the entire family. As a result, the close is almost automatic, requiring far less effort.**
- **The key to success in working with family owned businesses is to charge a planning fee for the added value the FBR Model brings to the table.**