

The *NEXT* Generation

BY SALLY HUGGINS

Unique challenges face family members who lead the company in subsequent generations.

Taking the reins of the family business may sound warm and fuzzy, but statistics show that less than half of such companies survive to the next generation. The percentage decreases even more in subsequent generations.

So what does it take to keep the family business viable after the founder steps away?

According to some area business owners who have been in that position, it takes innovation and change management. Assuming control of the business doesn't just mean you get the big desk.

Diane Forgy, owner of Overland Limousine Service, found herself in charge of the family business when her father became ill. She was fortunate to have her father as a mentor for several months as she learned the ropes before he died. Forgy could see a need to move the company from a mom-and-pop operation to a structured business.

"My mother and father had run it very 'mom and pop' and they had worked hard," she said. "But it needed some structure. I hired a consultant to give us some guidance on how to grow from a small company and how to break out of that mentality."

Kevin Clune, owner of Clune & Company, looked to a strategic planner to move the family leasing company forward after he bought it from his father. The company subsequently implemented a major change in management style.

"I thought we needed to change the way we did things. We have really turned the company on its ear in the past year and a half," Clune said. "We've inverted the pyramid with the team concept. We have vested all of our employees into the company's success. For the first time in 50 years, our employees see our financial statements because a substantial part of their income is based on us hitting the targets that are

appropriate. They have a vested interest in seeing that it all works."

One of the first actions Gina Stuelke took when she became the fourth generation to head Kenton Brothers Inc. Systems for Security two years ago was to change from reacting to events and requests to being proactive in offering products and services.

"That had to take place because this company is 110 years old," she said.

Stuelke recently hired an operations manager to evaluate the daily workflow and processes to improve efficiency and productivity. He will eventually handle the day-to-day operations of the security systems company.

"He is preparing us for growth by improving our internal systems and efficiency," Stuelke said.

To be competitive in the security industry, constantly updating services and products is essential, she said. When the company was founded in 1897, security involved mechanical locks and bolts. Now security includes all types of electronics and specialized security products and systems, she said, and the competition is increasing.

In addition to expanding the services and products, Kenton Brothers also had to improve communication with its customers, she said.

"Our biggest challenge is overcoming an awareness deficit. We are constantly working to improve our communications with our customers. When you have a customer for 40 or 50 years, their experience with us may have been limited to one to two products from years ago. As we expand our offerings, they don't necessarily think of us for that solution because they don't remember that we have added that service. We want to constantly educate our customers," Stuelke said.

For Carter Glass Company, changes in the glazing and window industry have necessitated changes in the business from when Bob Carter founded it in 1961. Terry Carter, president of Carter Glass, is one of six brothers involved in the business their father started. They have expanded on the solid foundation that he built.

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can perceive the past as being something that could make it difficult to operate in the present. We feel what we were given in the past has been an extremely good foundation for what we do now,” Carter said.

CHANGE OR DISAPPEAR

Family businesses comprise more than 80 percent of all businesses in the United States, but only about 40 percent of family-owned businesses survive into the second generation, and only about 12 percent keep going into the third generation.

Often the next generation does not have the entrepreneurial drive or business savvy that the previous generation had. But conversely, the fresh perspective of the next generation as it takes over management sometimes sees changes that need to be made to remain competitive.

For Carter Glass, the advent of energy-efficient glass and custom designs has changed the work the company does and consequently the way they work. In today’s environment, it is challenging to satisfy the architects while performing the quality of work needed, Carter said. The company has worked on such challenging designs as the Bloch Building at the Nelson-Atkins Museum.

Where Overland Limousine had been a very small operation, Forgy saw the opportunity to expand into a corporate clientele. She computerized the scheduling, added an administrative assistant and a salesperson.

“I started to mature the business a little bit. We started to do more marketing and I standardized the fleet and the look of our chauffeurs,” she said. “We utilized a lot of technologies to run efficiently.”

Forgy implemented 24-hour customer service, something she feels brought in a lot of clients who didn’t want to talk with an answering service.

“We’ve grown, we’ve diversified and we have maintained a good reputation,” she said.

Change is essential and constant, agreed Larry Fry, president of Fry-Wagner Moving and Storage Company and the fourth generation to operate the company.

“The business is constantly evolving. If you don’t make changes, you will be like a dinosaur,” Fry said.

For Clune and Company, changes to bring technology into the leasing process have been necessary to be competitive. Where once it took an average of two days to approve a lease application, now it is a couple of hours and they are moving toward instant approval,” Clune said.

“Our business has changed dramatically,” he said. “My father has said if we had remained the same we would be out of business.”

Stuelke described Kenton Brothers as problem solvers for their customers. To continue to provide solutions meant expanding its product offerings. Now the company offers complete security solutions rather than just locks.

“We are in an industry that changes daily and we want to make sure we keep up,” she said.

Keeping up involves constantly upgrading technology and training of associates as well as working directly with customers out in the field, Stuelke said.

“We want to be the company that the customer can depend on. Our longevity exemplifies that and the internal business systems we are implementing makes it easier to be that,” she said.

CHANGE MANAGEMENT

While you are implementing changes, you may have the additional challenge of bringing along the customers and the employees that date to the founder’s era.

Forgy jumped in full-time to the limo business after her father became ill. The chauffeurs found themselves being managed by two women, Forgy and her mother. And

some regular customers weren’t sure how the second generation was going to handle things, she said.

“It wasn’t totally abrupt because I had been behind the scenes and my mother was involved. But when my father died, my mother stepped back and I took the brunt of the work,” Forgy said. “I had to start wearing a lot of hats very quickly.”

She was determined to keep the company moving forward so she hired more chauffeurs and formalized the company processes.

“I certainly didn’t want to see the company go backwards. My parents had put a lot of energy into this small company and I wanted their legacy to continue,” she said.

Some of the changes the Carters have implemented were necessary because while Bob Carter was one man supporting six children, there are now six men supporting six families.

“He wanted to maintain a very small operation, a mom-and-pop operation really. He was very selective about who he did business with. We do that too, but we had to expand to meet the overhead,” Terry Carter said.

The company has expanded by finding new markets.

“Changing was necessary from a financial standpoint to support the numbers. But we have maintained the critical element of his company—his moral character. It is the foundation of how he did business and is absolutely the cornerstone of how we do business,” Terry said.

Clune also has maintained the foundation of his family’s leasing company while changing the structure.

“I had a great legacy of integrity and reputation set by my father. That’s extremely important,” he said.

PROVE YOURSELF

Is taking on the family business an asset or a handicap in the business world?

The scales weigh heavily to the positive with the integrity and reputation built by the founders and previous generations forming a solid foundation, the business owners said.

“People assume that, well, your dad started that business. They assume things are just handed to you. When, indeed, I took a huge risk when I started on my own. The great majority into the second generation don’t succeed,” Clune said.

For many, involvement in the family business wasn’t so much a conscious decision as a result of starting with the business as a youngster and evolving into management.

Fry said he was involved in the company from age 13, initially sweeping floors and folding moving pads.



Left: Kevin Clune, president, and his father, Bob Clune, the founder, review their marketing plan. Right: Bob and Kevin Clune outside their office. Photos courtesy of Clune & Company LC.

"I had the idea I wanted to be in the business because I saw all the opportunities the business could afford me if I was willing to work hard," he said. His brother also chose to be involved and works in the St. Louis office.

Carter became a part of Carter Glass when he was 19, under the mentorship of his father.

"I kind of shadowed him for the first couple of years and saw the way he conducted business. I saw his moral character," he said. Ten years later he became chairman when his father retired.

For Clune, taking a role in the family business happened because he had a semester between earning an undergraduate degree and heading off to medical school.

"I was a chemistry major intending to go to medical school. Dad was a two-man company with a secretary, and the other gentleman got hired away, leaving him with a one-third reduction in his workforce. I needed something to do because if I was going to medical school, that wouldn't start for the better part of a year. He was in need of a warm body. That's as much planning as went into it," he said.

In the case of Overland Limousine, Forgy actually instigated the founding of the limousine transportation company by her parents. While in high school, she rode in a limo and thought that could be a good business. She planted the idea with them but then left for college, she said. It was almost 10 years before she became actively involved in the company after returning to Kansas City.

SUCCESSION PLANNING

Planning how to hand off the family business to the next generation is critical, but it's not something many companies prepare well for. Statistics show that a majority of family-owned companies don't have a formal succession plan in place, which can lead to conflict and mismanagement. A 2003 study found that of family CEOs due to retire within five years, more than half had not chosen a successor.

Clune said he had an agreement with his father that when the elder Clune turned 65, he would phase himself out and his son would be given the right to purchase the company.

"He couldn't give me anything because I have siblings that have not been involved in the business," Clune said.

In 1991, he took over the company with a minority partner, becoming sole owner seven years later.

While he has five adult children who

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have worked at the company during summers and college, Clune doesn't know if any will join the company.

"The jury is still out as to whether any will join the company. If none of them has an interest, I'm totally fine with that," he said.

Fry said two of his three sons have worked part-time in the business, but they are still in high school and college and he doesn't know whether any will join the moving company.

"Getting the next generation involved is harder today with kids having so many other opportunities. And you want them to explore their opportunities before coming into the family business," he said.

To help family businesses plan for succession or exit, the Kansas Small Business Development Center (KSBDC) at Johnson County Community College has created a workshop about developing a succession plan. Topics include looking at the value of the business, tax issues and structuring a transition or buy out. Developing a succession and estate plan well in advance allows for a smoother transition to the next generation, said Cheri Streeter, KSBDC director. The half-day workshop is part of a series of three workshops to help give more structure to family businesses and help them meet their unique challenges.

"We looked for knowledgeable people to help business owners understand their family and their business a little bit better, with the hope that they would have better prosperity for the family business," she said.

"There are a lot of unique challenges because of the family relationships in a family business. We felt business owners were looking for help in integrating the business and the family," she said.

More information about the workshops is available at www.jccc.edu/ksbdc or by calling (913) 359-3878.

TRANSITION

Just as their parents, the current owners see the challenges of working with family members. But, they also appreciate what one generation can teach the other.

"You try to learn as much as you can

from the older generation because many times they have 'been there, done that' before. And they understand how hard it is for the younger generation to enter the business," Fry said. "You always have to have an open policy of communication about issues, and a willingness to listen to the younger generation."

The younger generation, for their part, has to have patience with the older generation, who may not be as quick to see the value of technology changes or difference in work style, he said.

"I look at business through the lens of a paradigm shift," Fry said.

Often employees who "remember when" provide a transition into subsequent generations of management.

"The neat thing about family business is that you not only have the pride of ownership, of it being in your family for an amount of time, you also have employees that have been in the company for 15, 20, 25 years. Sometimes multiple generations work for you," Fry said.

A family business often presents a sense of continuity—even while changes are required, the owners said.

Carter Glass maintains a sense of the company's origins by having business meetings around the old family table in the house the men grew up in. Though the original Carters have died, the second generation kept the family home to use for meetings. Terry Carter said it is a testament to his parents that the six brothers can get along so well and run a business together.

Despite the long odds, a family business can be a strong thread that connects one generation to the next with rewarding results.

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