



# Passing the Torch

## Growing the Family Business

By Nancy Huddleston

There's no "how to" manual that provides step-by-step instructions to guide family business owners about passing the torch from one generation to the next. That said, although the transition is different for every manufacturer, the key to success is to have a plan.

Ritch Sorenson, academic director of the Family Business Center at the University of St. Thomas, said formulating a plan strengthens family businesses in more ways than one because it brings about a level of professionalism to the business, which is good for the family and the employees, but also for the economic vitality of the company.

"You have to formalize ownership in order to make things work in the family business - qualifications for ownership, owner structure (majority, minority,

etc.), how ownership decisions are made, possibly develop an owner council, etc." he advised, "There needs to be a business organizational system in place that puts the right people in the right roles and addresses how everyone is doing those roles."

### *Family Experience*

At ZTECH Precision in Elk River, the original plan was that father and son, Don and Ben Zoubek, would open a small machine shop in early 2012.

"I had sold my interest in the last business a few years before and missed the industry. I got back into it working for a friend's manufacturing business and by then Ben had found his way into the industry as well," said Don, who has spent his career in manufacturing and is a long-time MPMA member.

As the precision machined components business rapidly grew, Jane Zoubek started coming in part time to do the books, while working full time at her own job at a different company. But things got so busy that Jane quit her job and began working full time with Don and Ben. In the meantime, Matt Zoubek was going to college and working part time at a machine shop. He began working part time at ZTECH after he changed his academic direction and began studying at Dunwoody. Once he earned his degree in machining and mechanical design, he began working full time at the family business, too.

Today, Don and the boys are partners. He is the President, Jane is the Office Manager, Ben is the Operations Manager, and Matt primarily programs and does

setups in the milling department, but is also involved in engineering and design. Their roles have evolved as the business has grown, but each person took on a role that fit their strengths.

Jane and Don say they take their mom and dad hats off when they walk in the door at ZTECH. “I know I have to keep my dad hat off and interact with the boys as co-workers, like I do with the other employees,” Don said. “The only difference is they are also my partners.”

They all agree that another key to keeping the family business running smoothly is to keep their relationships at work as professional as possible and to maintain a high level of respect for each other and the business. “The roles we have in the company just fell into place, but we’re a close-knit family and we know each other’s strengths,” Don said. “And we all know you’ve got to maintain respect for each other and try not to let ourselves fall back into our family roles.”

Mike and Eva Gramse, owners of MRG Tool and Die in Faribault, agree. “We operate by a set of values and having respect and understanding of other family members and your employees is at the top of that list,” Mike said.

Several years ago, when Mike decided to begin to scale back his involvement at MRG Tool and Die, the family brought in someone from the outside who has been providing guidance not only about transitioning from one generation to the next, but also putting a plan in place to help everyone at the 60-employee company work together toward a common set of goals.

“We are all in roles that match our interests and skill sets – throughout the company – not just the family members,” explained Rodney Gramse, MRG’s Director of Operations. “We all have different skill sets and as a team we strive to work together to make the company stronger. We did a cultural assessment and skills testing to find everyone’s area of strength and where we could make the best use of those in the company.”

For Mike, this was a totally different way of doing business. When he founded MRG Tool and Die in 1979, he was the boss and made all the business decisions. But he’s come to realize that the skills assessment was important to the process of transitioning the business to the second generation.



Russell Gramse, Eva and Mike Gramse, Rebecca Gramse Thomas, and Rodney Gramse (left to right) of MRG Tool and Die in Faribault. Other family members not pictured here include Ryan and Rochelle.

“I went from working in a monarchy to a democracy,” he admits with a laugh. “But the way we’re doing things here now is good. The kids are doing a great job – and are doing a better job running the company than I ever did as far as organization, teamwork, and making sure everyone is accountable for what they do.”

Eva agrees, saying, “It’s a huge blessing to see them succeed. As parents, it’s nice to see and it’s great that they are willing to take over the business.”

## First Jobs

When you’re the owner’s kid, your first job at the family business leaves an indelible stamp on your mind.

“What was my first job? Other than cleaning forklifts and washing walls? The water jet - I ran it, did the programming and maintenance and figured out how to incorporate it into our work load,” said Rebecca Gramse Thomas, who now oversees project management, market review, and performance work and operations at MRG Tool and Die.

That willingness to take on a job earned Rebecca respect amongst her co-workers, pointed out her mom. “She made that job her own,” Eva said, “And she did something that had never been done here. That goes a long way.”

Often, people have the wrong perception of the owner’s children – believing they make a lot of money or have it easy.

Don and Jane, and Mike and Eva never expected their children to have it easy when they came to work at the family business and indeed hold them to a higher standard. “I’ve certainly been

harsher on my family members than the other employees,” Mike admitted.

“I’ve always told them that because your last name is Zoubek you have to work twice as hard as everyone else to earn their respect,” Don said. “You are employees of this business but also owners, so you have to hold yourself to a different standard. Whatever decisions we make here cannot be for personal gain, but rather what is in the best interest of the company because our livelihood and the livelihood of our employees depends on the company’s success.”

## Making It All Work

The Family Business Center has been around for 25 years. It provides practical tools to help family businesses make decisions, and offers a community of support for family businesses, connections to other family business members, and an environment to explore challenging issues. This is done with panel discussions, full-day classes, and roundtables for members of family businesses (go to [www.stthomas.edu/familybusiness/](http://www.stthomas.edu/familybusiness/)).

Sorenson said family businesses that have an organizational system in place must continually work at it. “One of the problems in a family business is that families tend not to want to talk about their issues and problems outside the family,” he said. “At the Family Business Center, we provide structures and ways to talk about these things, which is the best tool we have for families.”

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Matt, Jane, Don, and Ben Zoubek (left to right) of ZTECH Precision in Elk River.

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For instance, the women in a family business often fill a role that isn't found in the organizational structure – Chief Emotional Officer. “They help manage the relationships between family members within the business,” he explained, pointing out that it is a critical role. “Who (a good people person) or what (family council) will take the role in the next generation?”

“Typically women fill this role - because they have better interpersonal skills - but it can be anyone in the family,” he said. “They help maintain relationships from one person to another or one group to another. And it's a role that should be developed just like other ownership roles.”

## Succession Plans

Another area that is critical to the well-being of the family business is the succession plan. Experts say it needs to be tackled early and can take a least 10 years to come to fruition. That's because the ownership of the company goes hand-in-hand with the succession plan. Some of the questions that need to be answered include: “Who can be an owner? Who can run the business? Is the will coordinated? This is where the family should consult experts and advisors,” Sorenson said.

In the long run, Sorenson advises, families need to make changes in their organizational structure in order to continue to make the business professional, profitable, and growth-oriented.

Don and Jane Zoubek agree, saying their business structure is evolving, and as it does, they are making sure it makes sense. “In the beginning, Ben was going to eventually take over the business,” Don

explained, “A year ago, Matt became a stakeholder, so we're all partners now. The long-term plan is that the boys will take over the business, but that's a good 10 years off. Right now we're creating a solid foundation to allow that to happen.”

The same is true at MRG Tool and Die, where the Gramses are using foundational leadership training and individual coaches. “Having that builds our capabilities within our organization and has been a good resource for everyone - not just the family members,” said Rod Gramse.

Sorenson said developing plans takes time, but is necessary because “it gets everyone on the same page and families need to discover how to work more formally together, particularly regarding ownership, how everyone works together, how decisions are made, and what are the company's objectives. Making decisions as a sibling partnership or cousin-consortium is much different than making decisions as a sole owner.”

## Workforce Development

Family businesses are one of the foundations of workforce development in the manufacturing industry. They are often small to mid-sized companies that provide the backbone to the industry, all while being operated with more care and compassion than typically is found in larger companies.

“That's what separates family businesses vs. non-family businesses,” Sorenson said, “There is more focus on fundamental values, which begins when the new generation of owners are children. It's an important link that is often sustained in the next generation and in the big picture plans for the business.”

Rod Gramse shares that same philosophy when it comes to MRG Tool and Die. “We're more than just a company, we have an affect on the marketplace, manufacturing, the MPMA, and Faribault,” he said as he pointed out that 60 families depend on the family's company. “When you run a family business, the whole company is your family and you try and meet the needs of all of them.”

Laurent Deconinck agrees. “It's fun to build a workforce and relationships with your employees and know that your workforce depends on you.”

When he opened Machining Technology Inc. in Fridley three years ago, he “wanted to be able to own something and to impact the environment, community, and my family instead of working for a company where you are just a number.”

Deconinck also started his business differently than most other owners. He doesn't work for his father, rather, his father works as an advisor at the company and brings 40 years in manufacturing experience with him. “He's retired from 3M, so now I get to spend more time with my dad than I did in the past because I see him every day at work,” Deconinck said.

The impact of these family businesses can be found in a variety of studies. A 2014 study by the Family Firm Institute found that:

- In virtually every sector of the world's economies, family enterprises are the most common form of business entity.
- In the U.S., at least half of all companies are family businesses and just over half of all publicly-listed companies are family owned. (Harvard Business School)
- An estimated 70 - 90 percent of global Gross Domestic Product (GDP) is created by family business.
- Between 50 - 70 percent of jobs in most countries worldwide are created by family businesses. (European Family Business) 

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# Succession Planning Q & A

With Leon "Ben" Flottemesch, CPA/CEPA

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## Q: How long does it take to draw up a succession plan?

**A:** Couple buddies, a few beers and a bar room napkin, maybe 30 – 60 minutes. Might not work out as well as you liked, but hey you got a PLAN!

The real answer is, "it depends." People and businesses are unique and the solutions differ. Transition planning is a PROCESS that assists the business owner in defining where they are today and where they want to be when they exit.

## Q: What factors need to be considered when embarking on creating a succession plan?

**A:** Peter Christman, co-founder of the Exit Planning Institute (EPI), describes this process as follows:

A "successful" exit strategy has three legs:

- Maximizes the value of the business.
- Ensures you are personally and financially prepared.
- Ensures you have planned for the "third act" of your life.

As a CPA it is easy for me to focus on the dollars, but experience has taught me that it is not just about money. It takes a team of people with different skills to help a business owner create a successful transition plan.

## Q: How long does it take to implement a succession plan?

**A:** Remember, "it depends." But in general terms, I would estimate two to five years, especially if there is a significant gap. In general, implementation progresses along the following path:

- Discover – define who and where you and your business are today.
- Prepare – evaluate personal financial and third act plans, business value improvements, de-risking etc.
- Decide – grow or exit, depending on the answer the cycle may repeat.

## Q: Can a business owner create a DIY succession plan?

**A:** ABSOLUTELY, but it might take you a while to develop the skills needed to complete the process. Oh, and tell me, again, why haven't you started?

Someone with training and experience can better organize the business owner and his or her other advisors. It is a more efficient use of the business owner's time and generally will yield a better result. Managing this process, bringing in other advisors as needed, and making sure they have all of the background information is a significant endeavor.

## Q: What's the average cost of drawing up a succession plan? Does it require legal paperwork to be drawn up?

**A:** Since every situation is unique and, multiple professions are involved, I do not have an average cost. In addition, some of these professionals are fee based and some are compensated by selling product. The business transition is perhaps the most significant financial transaction that a business owner will enter into during his/her life.

The process brings together business advisors from several backgrounds, although one individual may serve in more than one capacity, I have yet to find one that I feel can do it all. The following professionals can help in this process:

- Business and estate attorney
- Certified Public Accountant (CPA)
- Business coach
- Wealth management/financial planner
- Life coach
- Insurance
- Investment banking/business broker
- Banking

## Q: What if a business owner doesn't draw up a plan?

**A:** Remember every business owner will transition. The choice is whether or not he/she wants to plan for the process!

I can't say that not having a plan will result in a total loss, but it likely will result in many more sleepless nights for you or your spouse, should something happen to you.

By the way, if the big one happens, would your spouse know where to start, who to call, etc.? These things are part of the plan:

- 70 - 80 percent of small closely-held businesses put on the market never sell.
- 80 - 90 percent of most business owners' net worth is tied up in their business. Losing that asset likely will impact their retirement lifestyle.

## Q: If you had to give a business owner one piece of advice about succession planning, what would it be?

**A:** Assume you're GONE, your employees know the business will be sold, and they presume it will be moved. How likely are they to stay? Once a few key employees leave, the exodus begins. Consider the impact on your business value.

If you have any responsibilities to other family members or feel any responsibilities to your employees regarding continuity of your business, start the process - even if you only de-risk your business in the event something happens to you so that there can be an orderly transition.