

# Inside Family Business

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*Not The Same Old Bottom Line*

# Don't give up the ship

Disaster recovery planning is key to surviving calamities

**H**urricane Katrina. The Sept. 11 terrorist attacks. Tragic events such as these serve as chilling reminders that the potential for disaster — whether a force of nature or human act — is real and omnipresent. Fortunately, you can prepare for it by creating a disaster recovery plan.

## Identify potential threats

To develop an effective disaster recovery plan, first assess all potential risks to your company. Depending on your type of business and where it's located, certain types of events will naturally pose a greater risk than others. Here are some types of threats to consider:

- Natural** — earthquakes, storms, wildfires, flooding, and freezing or scorching temperatures,
- Economic** — depressed consumer demand and spending, supply disruptions, and rising business costs,
- Energy and utilities** — gas and oil shortages; electric, gas and water service outages,
- Technology** — downed phone and cable lines, communication service disruptions, and internal equipment and computer network system failures,



- Transportation** — accidents, service disruptions and strikes, road and bridge closures, and
- Labor** — employee and industry disputes and strikes, and workplace violence.

Keep in mind that there are other potential threats, such as hard drive and program crashes, that can be just as disruptive as the threats mentioned here.

Starting with your most vital asset — your employees — assess the potential outcome of each disaster type in terms of injury, illness or even death, as well as their ability to leave or get to your business. Then consider the disaster's impact on your company's facilities, operational processes, equipment and systems, and finances. And don't forget the domino effects up and down the supply chain on your suppliers, customers and community.

## Develop your plan

After assessing your risks, develop a plan to help your business survive the disaster and speed recovery. It should address business priorities, staffing contingencies and operational support and funding. Your plan should also include details on how you'll handle these areas:

### Preventive measures and maintenance for your facility.

Make needed facility repairs and upgrades to prevent or minimize the effects of a potential disaster. This may include replacing a deteriorating roof, reinforcing structural supports and exterior walls, repairing plumbing leaks, regularly servicing heating and cooling systems for proper and safe functioning, and creating proper drainage for any flood-prone areas on the property.

If you haven't already, install security and sprinkler systems and fire doors and place fire extinguishers and emergency phones throughout your facilities. Lastly, periodically check that safety systems and equipment are in working order and entrances and exits are properly marked and well lit.

**Emergency supplies.** Store some essential equipment, parts, supplies and inventory off-site or make arrangements with suppliers to have an easily accessible emergency supply. Invest in backup power generators to sustain vital operations and systems, including heating, cooling, lighting, security and computer systems, during a power failure. Also, maintain an emergency supply of drinking water, and survival and first aid kits.

**Key plan documents.** To successfully carry out your plan in the midst of a crisis, you'll need quick and easy access to essential business infrastructure documents such as:

- Organizational charts and descriptions of functional areas,
- Contact information for employees, advisors, suppliers and customers,
- Building facility layouts and property maps,
- Insurance policy information, and
- Property and inventory lists.

Organize and store these documents in a central location on-site, keep copies off-site, and give several key employees access to this area — in case the few individuals who would normally have access to this location are delayed because of the disaster.

**Insurance coverage.** Annually review your insurance policy so you know what is covered and for how long. Ensure your coverage is adequate to restore, rebuild or, if necessary, relocate your operations. It should allow you to replace assets and equipment at current cost, lease equipment and hire temporary workers.

General casualty policies often have coverage exclusions, so you may want to buy riders for additional coverage such as for windstorm or flood damage. Also, consider business interruption insurance to help cover employee payroll, inventory and creditor expenses during the recovery period.

Once you have a plan in place, ensure it remains inclusive and realistic by periodically testing and updating it as your business changes.

## 3 steps to protect your data and technology

A business trying to run without its information technology systems in today's digital economy is like a ship trying to operate without its navigation and sonar equipment on the rough and open sea. Any disruption such as a loss of communication capabilities or data can seriously disrupt your company or even put it out of commission. Here are three steps to develop a disaster recovery plan for your family business's technology:

**1. Perform regular backups and save copies both on- and off-site.** Maintain copies of your company's computer operating system, boot files, software, logon codes and passwords, and critical information and records, including employee and payroll data, accounting, tax and other financial data, operational and production data, supplier and customer information, product formulas and product inventories.

**2. Detail the recovery process for your network, systems and data.** This includes designating a team of qualified internal and, if needed, outside technical resources to handle system repairs and restoration. Also, the plan should address each network component — servers, bridges, routers, databases and individual employee computers — as well as how and where you may be able to get replacement hardware.

**3. Develop a process to test company systems.** Procedures for ensuring all systems are operating normally will help your business resume operations more quickly. They should include a test of computer network hardware components and software. Don't forget to make sure system security features, such as antivirus software and firewalls, are running properly.

## Sink or swim

Disasters usually strike without rhyme or reason, often making them impossible to prevent. But by anticipating their potential and planning for them, you can at least minimize their impact and give yourself a fighting chance to swim safely to shore. Otherwise, without a disaster recovery plan, your family business could sink. 🚢

# Back off, world

## Standing up to global competition

**W**hen you think of global competition, the big multinationals likely come to mind first. They have the advantage of a large and diversified market base and economies of scale in production, affording them the ability to swoop in and undercut smaller, local businesses on price. They also compete on price by taking their manufacturing or staffing services offshore where labor is less expensive.

Then there are the smaller, savvy e-businesses entering the global arena in droves thanks to the Internet, which has provided easy, affordable access.

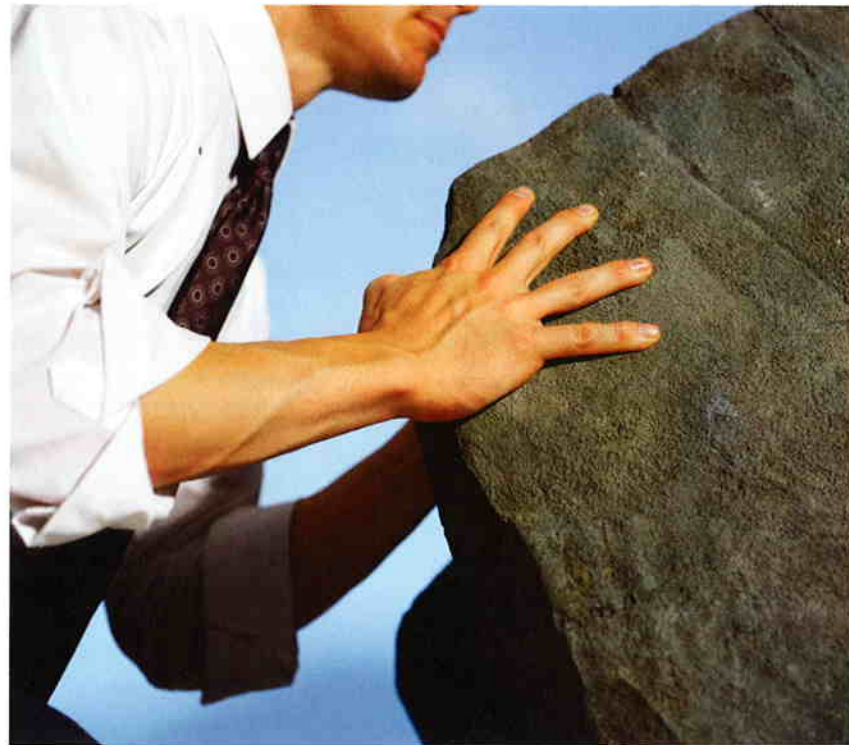
So does all this globalization mean doomsday for family businesses? No. In fact, your company has an opportunity to capitalize on its special position in the marketplace.

### 4 strong legs

Family businesses need to first surrender the inclination to try to compete with global companies on price. It's simply a no-win situation. Rather, family businesses can stand strong against the competition by playing up these four distinctive merits:

**1. Agility.** Bigger isn't necessarily better: International conglomerates often operate with complex and cumbersome organizational structures and several layers of approval, making it difficult for them to quickly make decisions about strategic direction and adapt to changing market needs. Family businesses, on the other hand, can leverage their lean and simple structures to enable speed of innovation and continual productivity improvements.

**2. Quality.** To offer products or services at lower prices, competitors often must skimp on quality somewhere along the way. Although customers may initially be attracted by cost, they'll be turned off later when items break quickly or the promised customer service fails to deliver essential product support. This is your cue to demonstrate your family business's unwavering commitment to delivering high-quality products and service.



**3. Proximity.** Your company may have an advantage over Internet-based competitors of being conveniently located just minutes away, right in town. Customers can walk in and try out products — something you can't do on the Web. The close proximity also enables customers to buy with confidence and receive highly personalized service.

As for the big conglomerates, they may well have a superstore in the area, but their staff's knowledge and service will generally pale in comparison to what your employees can offer.

**4. Reputation.** Family businesses are known to take great pride in their work and demonstrate integrity and fairness in their relationships with customers and suppliers. After all, they have their family names and long-standing reputations in their communities at stake.

Big globals and Internet companies have less to lose, considering their customer bases are diversified across different markets, their family names are likely not associated with the companies, and they probably have no personal ties to the communities they do business in.

### Reinforcing benefits

To capture what's special about your family business, develop a unique selling proposition (USP). It provides the basis of your marketing strategy and communicates what's extraordinary and different about your products or services. In effect, your USP serves as a succinct and easy-to-remember message for reinforcing your company's benefits.

Benefits may include, for example, a commitment to providing quality products or service. But you must frame the USP specifically and measurably to prevent duplication by competitors.

For example, "Sterling Family Jewelers Specializes in Quality Jewelry" is too broad and intangible. A more effective USP is: "Sterling Family Jewelers: Quality Guaranteed or Your Money Back."

### A matter of merit

For family businesses, globalization is a powerful force to be reckoned with and it's here to stay. Your company should embrace — not fight — globalization by focusing on earning its share of the market. By playing up your merits for producing products and services of higher value, you'll continue to capture customers' hearts and wallets. 🏠

## Are your employees burning the candle at both ends?

### Boost productivity by helping them balance work and personal lives

How many of your employees can say they're leading a balanced, picture-perfect life? More than likely, the answer is few to none — most workers struggle to meet ever-increasing personal and work demands.

The picture may include parents who both work full time to make ends meet, single working parents, adult children working full time while caring for parents, or individuals who work full time while attending college or graduate school. And little or no time for exercise and relaxation combined with poor eating habits also takes a toll on employees.

Consequently, your business is left with exhausted, overextended workers, which translates into lost productivity and revenue. So how can you ease this problem? Help employees balance their lives.

By adopting a family-friendly work policy, you can cost-effectively provide employees flexibility and options to honor their personal responsibilities while nurturing your company's needs. Your business will benefit from reduced absenteeism, enhanced morale, improved retention and increased productivity.

Some ways to help include:

- Alternative work options** — flexible hours, compressed workweek, telecommuting, part-time work schedules and job sharing.
- Child and adult care assistance** — on-site care services, referral services for nearby care, subsidies and business discount arrangements.
- Leave** — time off of work to care for a family member, make arrangements for care or nurture a parent-child bond (includes maternity, paternity and adoption leave).
- Tax savings** — a cafeteria plan, which allows workers to have a specified amount withheld from paychecks before taxes are applied to pay certain child care costs.
- An employee assistance program** — access or referrals to counseling and support groups for family, marriage, financial, legal, substance abuse and stress problems, and
- An employee wellness program** — on-site fitness or relaxation facilities, fitness center memberships, exercise program discounts, and referrals for diet and weight management support groups.

When workers have personal concerns under control, they can lead a more balanced life, allowing them to focus on their work and be more productive. Having a family-friendly policy is just one way your company can help them do this.

# Great expectations

One family's struggle to split assets fairly among heirs

**W**hen estate planning, you're inevitably faced with the quandary of how to split assets fairly among your heirs. The company is a top concern and matters will be complicated if only some family members work in it. In addition to the financial considerations of dividing up such an asset, there are psychological factors because some family members will probably be upset no matter what decision you make.

In fact, managing your heirs' expectations may be even more critical than minimizing the estate tax burden. Let's look at how one fictional family handled this situation.

## Family background

Julie, a family business owner in her late sixties, knows she needs to review her estate plan. Her situation isn't too complicated — or so she thinks. As Julie delves into it, she realizes that even a seemingly straightforward estate can have many issues.

Julie has three children, and their goals and financial situations vary. Her son, Greg, has been working with her for years in the company and is poised to take the reins. He currently owns 25% of the business and earns a good salary. Greg is intent on pouring time, energy and money into the business.

**Inheriting \$1 from a retirement fund isn't the same as inheriting \$1 from a nonretirement account, because the heir would have to pay income tax on the withdrawals, reducing the inheritance by as much as 35%.**

Neither of Julie's daughters followed her into the business. Her older daughter, Karen, hit it big in the technology explosion of the late '90s. Laurie, the youngest, is the executive director of a not-for-profit. Although Laurie is currently doing all right financially, Julie knows she'll be more comfortable after inheriting her share of Julie's estate.



## The estate's value

Valued at approximately \$2.4 million of net worth, Julie's estate has various liquid and illiquid assets. For instance, her business interests have been recently valued at \$800,000, but it's unlikely there would be an immediate market for its sale.

Julie's condominium is worth \$500,000 and is owned outright. She has an additional \$500,000 in liquid assets, mostly made up of her IRA and 401(k) accounts. A \$600,000 vacation home, also mortgage-free, represents the balance of her estate.

As the estate tax exemption is now \$2 million, there will be a tax due if Julie passes away this year. Julie's estate will be liquid enough so her family could easily meet the tax burden. But Julie wants everything to be split equally at her passing — she feels each child should receive a third of each asset.

## An important meeting

Mindful that each child has different needs, Julie holds a family meeting to discuss her estate. Greg is the first to speak up, wondering aloud whether his sisters want

ownership in the business. He expresses concern that, once Karen and Laurie have an ownership interest, they'll be constantly looking over his shoulder.

He is also worried that having additional partners — even if they're his sisters — will add to his already stressful job of running the company. And, he admits, the added pressure of having Laurie's financial future depend on how well he runs the business is also daunting.

Greg further reasons that, because he's the one who has worked in the company, he should inherit all of it.

Karen agrees that Greg is an integral part of the business, but points out their parents started the business and, for that reason, she's interested in owning part of it. She understands Greg's concerns, and assures him she won't be a backseat driver.

Karen even offers an olive branch, saying she'd take a minority interest or convert her shares to nonvoting, so Greg wouldn't have to worry about her blocking his decisions. When asked, Karen said she has a soft spot for the vacation home and identifies her parents with it as much as the company — and so she's willing to forgo business ownership if she receives the vacation home.

Laurie comments that having an interest in the company could be a good investment opportunity, but, though she has an affinity for the business and all it represents, she isn't interested in ownership. She'd prefer to have the liquid investments and be able to use the vacation home.

## Decision time

Julie listens intently to what her children are *and* aren't saying. She wants to do what's best for them and respect their wishes. She also knows that, as things stand, there will be a federal estate tax of \$184,000, leaving a net estate of \$2.216 million (ignoring the potential state estate tax).

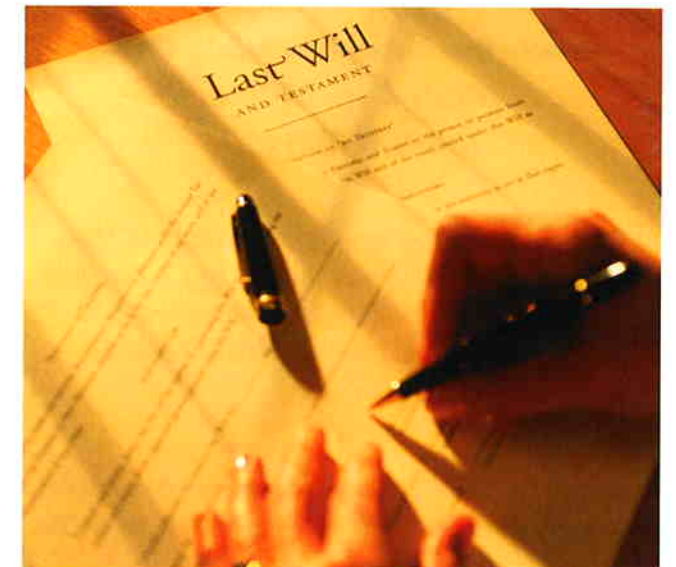
So, if Julie were to die this year, each child would receive just under \$739,000 in assets. And if Greg were to inherit the company, which has a value of \$800,000, he would owe the estate, or in reality his sisters, \$61,000.

She decides that, if her children are comfortable with leaving Greg the business and splitting the other assets between Karen and Laurie, so is she.

## Tax issues

Julie must also consider the tax issues of leaving property and retirement funds to her daughters. For example, inheriting \$1 from a retirement fund isn't the same as inheriting \$1 from a nonretirement account, because the heir would have to pay income tax on the withdrawals, reducing the inheritance by as much as 35%. But if the retirement funds remain intact for as long as possible, thereby allowing the funds to continue to grow tax deferred, inheriting those assets could be as valuable or more valuable.

With her children's input, Julie decides to give Karen the retirement funds and a 50% interest in the vacation home. Laurie will receive the other 50% interest in the vacation home, the securities and whatever cash remains after selling the condo. Any amount Greg owes will be allocated as necessary to ensure that each child receives one-third of Julie's estate.



Julie also provides for the real possibility that the asset values will change before she dies by having the children all agree — both in principle and in writing — as to how to split her estate.

## More talk, fewer problems

As Julie's story illustrates, it's important to understand your family's dynamics and talk to your heirs about what they would like. By doing so, you may be able to prevent some of the problems that can arise when family business owners make this decision on their own. 🗨️

# Creative solutions based on solid technical competence

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