Livelihoods and Legacies
Tales from the front lines of contemporary family businesses

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Livelihoods and Legacies
Tales From the Frontlines of Contemporary Family Businesses

On March 2, the San Diego Business Journal hosted the Family Owned Business event at the Hyatt Regency La Jolla at Aventine. A panel of expert advisors discussed strategies on how to structure a business, the current regulatory climate and, of course, succession planning. A panel of four family business owners talked about relationships, community involvement, being stewards of a company for multiple generations, and how they view the future of their companies.

The excerpts on the following pages are edited for clarity and brevity.

The panel of family business owners at the Family Owned Business event discussed how they approach family dynamics in the business environment. These excerpts are edited for clarity and brevity.

On transitioning...our daughter was born into the company and has been a part of it her entire life until she got out of high school. Then she went out and worked on her own for 12 years and decided, being very familiar with what went on, that she wanted to be part of it. So our daughter has come back into the company and started working in the role of artist relations and has proven to have tremendous talent for it. And we really look forward to the time when she is at the reins and can let that horsepower be the vision into the future.

Janet Deering, co-founder, Deering Banjo Co.: We also have divided up who does what in the company. I actually do the CEO job. I run the company. And Greg does the creating of the company. He is the founder. He researches and develops the new products, gets the patents, trains people how to do it, and even builds machines. So he has his hands on one side of the company, and I run the company on a day-to-day basis.

So in the decision-making it depends on which area we are deciding about. You know, he calls the shots on his end, and I call the shots on my end. We coordinate where we need to on matters where there is a financial decision to make or something, but we work together in that capacity. We also have a clear-cut agreement that Greg has final say, and that is since he really owns 51 percent.

Our daughter doesn’t want to be CEO. That is not really what her personal drive is. She wants to be a public relations and art activity relations. So that presents a still a gap in transitioning, because we do need somebody else. So I have another kid, the lucky duck, coming in late and leaving early. So you have to understand those priorities and dynamics, because you have to work twice as hard to overcome them.

Leigh Keith, COO, Perfect Bar: The whole reason for starting our business was not to grow a company and be wealthy and have some cool vision. No, it was the best idea we had at the time to come together and take care of our parents.

I remember we created an org chart six years into our business, and you are putting your siblings’ names on a paper, drawing a box around it, giving them a title, and all of a sudden your name is above theirs, and they are older than you. It started to become real that this was going to be a business.

It was interesting that everybody can be president of everything when you’re in a family business. You are president of this of that, and vice president, and all of a sudden we have a big change. We are going to look at your skill set, your experience. We really tried with our younger siblings to say, “Go out, get a college degree, work somewhere else.” We are struggling on that part.

Luckily, I think our siblings are really trusting in the direction that Bill and I have taken the business, and it is nice to say that when you are doubling the business size every year. I think if things went the other way, I would be saying things differently now.
Community Involvement Essential Part of Being a Great Company

The panel of family business owners at the Family Owned Business event discussed how the importance of engaging with the local community or the community of their industry. These excerpts are edited for clarity and brevity.

Keith Jones, managing principal & partner, Ace Parking Management Co.: We strongly believe in being a great member of our community and being good corporate citizens. One thing that is near and dear to our family mantra is to be a great company, a national company, you’ve got to be great in your own hometown, and so you have to be a pillar of that community.

“We are a local business in San Diego. There is a lot to be learned there. But that’s an unknown for my brother and me. Our younger siblings feel like a second generation in our business. Having the entitlement and thinking something is theirs because by blood or relation is definitely one that, you know, should be pushed a bit to the forefront and should be acknowledged as you are sitting there and making a plan for the future.

In our business, we spend actually a good 15% of our time on strategy with this. But should be pushed a bit to the forefront and should be acknowledged as you are sitting there and making a plan for the future.

Deering Banjo Co.: The more immediate challenge is how do Greg and I delegate and learn to empower others, because when you have been doing it for as long as we have, it is very hard to let go.

Janet Deering, co-founder, Deering Banjo Co.: We developed these Mumford & Sons Gentleman of the Road banjos that are custom made. And our daughter Jamie puts them up on eBay and auctions them off and the proceeds go to charities like the Red Cross, orphanages, homeless shelters, women cancer research.

Over the last four years, we raised over $100,000 that has gone to charities with the banjo auctions. So it is real satisfying. It is a nice part of what we get to do.

Leigh Keith, COO, Perfect Bar: We really try to come a little closer to home for us. We partner with the Skin Care Foundation, recently partnering with Protect the Kids, which is a foundation set up to raise skin care awareness right where it starts.

Last year we partnered with more than 26 charities here in San Diego. We are obviously always happy to give our product out and sponsor charities in that way, but in this last year we said we want to make this a stronger initiative so there will be 20 hours a year per employee available. So we will go and volunteer at Feeding America or the Food Bank here in San Diego, and by giving our own family something in addition to product, it moves the needles by hundreds of thousands of dollars of manpower that we can put directly into these charities, which usually our products are involved in, as well.

Our big initiative moving forward in the next couple of years is going past skin care to prevent cancer, which is really near and dear to our family’s heart, to partner one-on-one in educating kids on how to eat healthier.
Owners See Challenges in Aligning Family Passions and Skillsets

MARCH 13, 2017

Leigh Keith, COO, Perfect Bar

It has been an interesting journey. The biggest pivot has been bringing on private equity two years ago. That was a huge one for us to turn around and pull the family together and — and decide, knowing that this is going to change the dynamics within our company. We were profitable.

“We tripled the size of our personnel a couple of years ago. When you start being responsible to other people, their full-time jobs and livelihoods, and they are bread winners for these families that work for your company, that’s an added sense of responsibility.”

Leigh Keith, COO, Perfect Bar

We were cash flow positive. We were self-funded. But we knew that our sector, which is fresh snacking, was blowing up right now.

We wanted smart money sitting around our table and also to bring in talent to run our suite from marketing op sales and finance. They didn’t necessarily want to come in and join some rag-tag kids, we needed to formalize our company, and so we decided to sell a minority stake in our business.

We really try to say what is best for our business is going to be best for our family. So all egos aside, where is your stake in your business.

Janet Deering, co-founder, Deering Banjo Co.

Having been in business for 42 years now, we started before computers were even on the scene. The advent of the web has had a huge impact on buying and selling and shopping for everybody.

Staying up with technology has been the most important thing that we have had to do, and it is sometimes hard because there is this new technology, you hear about it in the wind, and you are not sure it is important. Luckily, we had gotten a website up very early, and our website is one of the first and oldest and most connected in the music industry.

So that kind of tipped me off to staying progressive and made me realize the importance of always adopting new technology, looking for it, seeking it out, finding out as quickly as possible how can we use this.

One of the hardest transitions we made when we hired an outside director into our office we him saying, “You are doing too much paper. You are spending so much time shuffling copies of invoices, filing invoices. Go electronic.”

A holistic and collaborative process to realize the unrealized value of the business that interferes the least, yields results, and frees up time for the business owner.
Transitions Can Be Trickiest of All Family Waters to Navigate

The panel of advisers at the Family Owned Business event discussed the challenging task of how to approach succession planning for a company. These excerpts are edited for clarity and brevity.

Alex Pellegrino, partner, Sequoian Investments: On making changes and getting buy-in in my siblings said, “This is how dad did it,” and they were terrified to do anything other than that. I let them discover the solution themselves by letting them see what was going on and all the possibilities. So it is always better if it is their idea.

It is funny how families can flare up, but in the public they change their tone. They have to come back to normal when dealing with other people.

On transition strategies, when someone passes on, there is the potential that you are going to have a huge recapture from the IRS and the death tax. I am an advocate of potentially selling percentages of your business to people outside your family. That way you gain the cash to pay the IRS if you don’t have life insurance and things set up, and at the same time it is almost like implanting your own board so they can be the voice of reason.

Carmen Bianchi, founder of Carmen Bianchi Family Business Associates: One of the biggest things I deal with is entitlement. How do you get the next generation involved?

I love to do shadow boards and have them shadow the board of directors where they can actually participate without speaking, but listening, and be at the family council meeting. We have open discussions about what the board does, how the board decides, and just get them involved.

In dealing with a strong family leader, you get him to take off his “dad’s hat.”

You are a professional. You know what you are doing. And so often you ask yourself, “Is this family first or business first?” There is no right; there is no wrong. It can be a hybrid of the two.

But the thing is to get the family/business head to understand that you are an expert in your field. This is the direction that you want to take. So the best thing for you to do is get someone to facilitate and to be able to create this family council where you can discuss these issues and for them to understand.

I work with the family, and basically when you are doing a transition, and 40 percent of the companies are going to transition on the next couple of years because of baby boomers getting into their late 70s and early 80s, and they have a fear of letting go. If you can deal with that fear and really understand where they are coming from and explain to them that they don’t want to leave a legacy that these are the steps they need to take, and that all goes back to the constitution where we have exit strategies and how to work with the founding members.

I’m working with a family where we have four octogenarians who are still drawing a full salary and the company wanted to grow. It wanted to grow from a $30 million company to a $70 million company, but they were still drawing big salaries. So we had to transition them over a five-year period, slowly but surely, and get them off the payroll.

So it is all a case of education and working with people through the family council and giving them options, because the fear is that the phone is not going to ring anymore, that they are not going to be needed. You transition by putting them on a board of directors. You make them chairman emeritus. You put them on other boards. I love putting people who have real industry expertise on other boards to help those families thrive and become what they need to become. So exit strategies are very much a part of the constitution.

Joseph Strazzeri, attorney and partner, Strazzeri Mancini LLP/The Founders Group: Transition doesn’t necessarily mean sale. It doesn’t necessarily mean transfer within the family. It might be something else. And the further you get from the founder, the more complicated we get.

“If all of you were to consider your family business, and what would it like look like three generations from now and the interlopers that would come in by then, what will happen during that time? The conversation is sometimes private equity — are they lending to us or are we selling part of the company? By doing that, do we take the business to a new level because of the talent we bring in or cash flow, and is it solving for one of these issues?

So we are back to the transition, in whole or in part, internally to our family or to team members, executives that got us there, or externally to some outside whole or part private money where everybody is buying in and how they take care of it.

And then there is orderly process. Those are the things we have to consider if we are looking into it. It is one of the most scary roles you can have. Transition makes everybody freak out. Because the concern within the family and within the company is, “How does it affect me?”

So quietly doing this and having somebody find out is dangerous to the family organization. So when you decide, do your research, be as transparent as you can to let people feel comfortable, keeping the value of the family business up.

Regarding resistance to transitioning with a strong central family leader, I think it is true that you can either attempt to be that transition counselor yourself or with an outside expert that he holds in high regard. If he holds that expert in high regard, at the end of the day, the conversation is happening.

Robert Rivinius, executive director, Family Business Association of California: The rough numbers are about 30 percent of family businesses make it to the second generation, around 15 to a third, and three or four to the fourth. So really the funnel goes down very quickly, and one of the things we all would like to do is make sure family businesses succeed and stay as that.
Experts Agree on Importance of Communication, Guiding Principles

The panel of advisers at the Family Owned Business event discussed the advantages of creating family constitutions or other documents and structures to guide how decisions are made in regard to family dynamics and company goals. These excerpts are edited for clarity and brevity.

“...when you create the family constitution, you put in the criteria: If you want to come into the family business, you have to have a university degree, you have to have a minimum of two years experience — outside experience, job promotions."

Carmen Bianchi, founder of Carmen Bianchi Family Business Associates

For example, when you create the family constitution, you put in the criteria: If you want to come into the family business, you have to have a university degree, you have to have a minimum of two years experience — outside experience, job promotions — and maybe you’ll realize that your dad isn’t the domineering man that you think he is when you go and work with someone else.

I’m sure you’ve all heard that the CEO of the family council is never the CEO of the business, and it is the chief emotional officer as opposed to the chief executive officer.

So we always really try to differentiate between one and the other. But the thing is how to get the young people to understand this wonderful legacy that they have been handed down and not take advantage of or destroy it.

Joseph Strazzeri, attorney and partner, Strazzeri Mancini LLP/The Founders Group: Families first come to you because they are facing a decision. “Do we transition or not. Do we need to increase cash flow or increase the family business now or forever and how do we do that?” Is it transitioning all of the business or part of the business internally to my family or internally to my team members or externally to an outside source? Lastly, what does that process look like?

Communication is a huge issue. I know you hear that a lot, but if you think about it, communication is very different when my business partner and I are starting a business and how we operate and when my son or my daughter who are now 15 and seven, but someday they are going to be ones that may want to join the family business. Their first issues in joining that business after Steve and I have been doing it for 30-plus years, that communication style is very different. So communication is something that has to be revisited.

The other part that is very important is successful family business owners become experts in filtering. You are constantly bombarded with ideas from within your company of how to make it better, what to do. You have an understanding of nuance that you don’t do anything in a big way. You do everything a little bit. You look ahead and you see that there can be trouble. You adjust the course, not knowing why you adjust the course, but because you sense it. That is something that is very hard to teach.

Remember, the filtering from the founder or somebody who took over that has been doing it 30 years, it happens within their gut. That often doesn’t get translated. The next set of people who take over will have a different gut, but they still need to develop that particular filter.

Alex Pellegrino, partner, Sequoian Investments: When I see what happened with us and other family-owned businesses, I feel like there is a patriarch or matriarch that creates a structure and then implements that structure down. I think that is a big mistake. I think you need to look at who is going to take over and bring them in early on so that everyone’s desires are met upfront. I learned that the very hard way.

I was in my family business for six years or so, and I said, “Hey, why don’t we outline what our roles are?” And then let’s create a vision for it.”

So when you saw everyone else’s goals on paper, we said, “Oh-oh, we are in completely wrong seats.” The problem is the positions were already set, and because of that there was entitlement and power struggles.

So I think if you set up early on to delineate who is right for what position, I think you save yourselves some time. I think if you create a vision board or mission statement, company culture, core values, it is fantastic.

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Ability to Revisit Critical Issues Provides Path for Agreements

Joseph Strazzeri, attorney and partner, Strazzeri Mancini LLP/The Founders Group:

Documents are battle plans. If you approach it with the idea that that’s not going to solve everything, it is what we agree to now but we still need to listen to each other and work on it. If someone goes wrong at least you have a way to deal with that.

“Legal documents are battle plans. So the ability to have a structure where at least once a year you revisit those issues, to be able to redraft what is inside that document, in other words, a living document, helps a lot.”

Joseph Strazzeri, attorney and partner, Strazzeri Mancini LLP/The Founders Group

Often people get fooled into believing that a document is going to help. There is almost no legal document I can draft that is going to help you. Every document I can draft is going to cause strife. Remember, legal documents are battle plans. So the ability to have a structure where at least once a year you revisit those issues, to be able to redraft what is inside that document, in other words, a living document, helps a lot.

During your lifetime you can set up a structure that allows your businesses to pay less in income taxes. You can also set up a structure such that the transfer between generations costs a lot less money, and the family keeps more during your life or after you pass. There are ways to do that.

The trouble is we’re back to documents. And those documents that do those things don’t do very well when changing circumstances happen within the family, and you have a death or a disability, an exiting person, a departing spouse or your sibling, there is a divorce, things like that.

On the other side, I think what you are getting to is the orderly transition conversation. The valuation, assessments, where-do-you-want-to-go conversation with your family and then your executives and your team about what needs to happen, and then the enhancement issues from those that cause a greater cash flow and a greater multiple.

Alex Pellegrino, partner, Sequoian Investments:

Finding a quality estate planner is worth their weight in gold. I can’t stress that enough. I think after death you have nine months to pay up, and you can elongate that, and then you don’t have to deal with an audit, and that audit can be two or three years. So if you can have a few layers of perceived lack of control, it makes a huge deduction on what you pay.

Let’s say you want to bring finance to your company or asset. That’s great, and a bank will say, “Well, that person only owns 10 percent.” The bank doesn’t care. They want everyone to sign. The delay becomes you have to go to court and make the judge sign for them…. It can also be its own process, not as painful as other things, but it is a painful process.

Robert Rivinius, executive director, Family Business Association of California:

When we poll our survey members, the No. 1 issue they have is regulations. When you have one employee in California, there are 25 HR regulations the state has that impacts your business. And as you grow, you get up to 75 employees, and you are hit with 38 additional regulations.

One of the bills by Senator Jackson would mandate 12 weeks of job-related maternity leave for small companies and three additional months for companies with 20 to 49 employees. It sounds great on the surface, but how do you deal with that as a company, a small company? There is a movement in Washington to try to eliminate the death tax, which is a 40 percent tax if you or your estate is worth over $5 million, basically. And that would be nice for family businesses. In California in 2015 it generated $4.5 billion. Senator Wiener from San Francisco has introduced a bill that would try to capture that money for California. So as a family business your estate would no longer theoretically be taxed by the federal government. We would pay the same thing to the state government. We really have not made any progress at all.
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Event Information: Contact the Events Department at 858.277.6359

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In Association With
The San Diego Business Journal hosted a forum featuring some of San Diego’s most successful family owned businesses and their leaders on Thursday, March 2, at the Hyatt Regency La Jolla at Aventine. The event was attended by more than 175 local professionals who heard from panelists that included experts in legal, financial and organizational issues along with founders and other generation owners of family owned and operated companies. The event was supported by title sponsor Cox Business; gold sponsors Baker Electric Solar, Sequoian Investments Inc., and Strazzeri Mancini LLP/ The Founders Group; and in association with the Family Business Association of California.
1. Erin Elk, Daily Bagels Café; Rick Hackley and Leslie Hackley, both with Boll Weevil Restaurant; Nels Jensen, Editor in Chief, San Diego Business Journal
2. Panelist Janet Deering, Deering Banjo Company Inc.; Drawing Winner Erika Weitzeil, Wells Fargo Bank
4. Sean Scofield, Caitlin Scofield, Pat Scofield, all with California Home Builders Inc.
5. Allyson Robinson, Gold Sponsor Sequoian Investments Inc.
6. Mike Hale, Sean Mazzel, Elyse Kleit, all with Gold Sponsor Baker Electric Solar
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9. Melisa Silverman, Gold Sponsor The Founders Group; Tony Espinoza, Project Success
10. Ed Ashley and Jim Hamerly, both with California State University San Marcos
11. Panelist Keith Jones, Ace Parking Management Inc.
12. Robert Ponsford; Panelist Joseph Strazzeri, Gold Sponsor Strazzeri Mancini LLP
13. Tom Forsythe and DeLinda Forsythe, both with Innovative Commercial Environments LLC
14. Alan Grant, Alta Company LLC, Panelist Carmen Bianchi, Carmen Bianchi Family Business Associates; Mary Curran
15. Scott Jones, Ace Parking Management Inc.
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