

Keeping the family business in the business

By MARK BORKOWSKI
Special to Epoch Times

Years of blood, sweat and tears can be lost because of one critical shortcoming: a lack of planning.

In recent years, the number of family owned business that has changed hands because of family squabbles and internal bickering have skyrocketed. The average life span of a family enterprise is twenty-four years, roughly the working life of the founder. The fact is that close to seventy per cent of family businesses fail to make it to the second generation and almost ninety per cent don't make it to the third.

The reason for this lies in both the dynamics of the family and its interaction with the ongoing complexities of a business. Family relationships layered on top of office politics produce an organizational structure that has more in common with a Rubik's cube than with anything found in the traditional texts on management and organization.

The ability to properly pass on the company according to the owners' best of intentions can only be realized with the assistance of outside professionals.

There are proactive steps that can be taken to ensure this does not happen to your family business. The key to succession planning is that business owners should learn to think of tomorrow.

Identify your wants

Business wants should be thought of in operational, functional, and holistic terms. It is much easier to replace an accountant or technician than it is to find someone with an understanding of the WHOLE business. Most business owners have great difficulty expressing their corporate vision to others in a practical sense.

The realization that you will not live forever or that you cannot continue single-handedly to control operations will go a long way to alleviate the stress, associated with passing the business on. In family owned-businesses where parents intend for their children to take over, too often children are allowed to come in and take over operations without the proper knowledge of the entire business. Owner-entrepreneurs have knowledge of their business second to none. This



KEEPING IT IN THE FAMILY: Extending the lifetime of a family business takes planning that could pay off for generations to come. PHOTOS.COM

knowledge is a result of years of work throughout the company. This is the knowledge that you wish to pass on to your successor. Identify those qualities you have so that you know what to look for in others or suggest what they should work on.

Identify your available resources

Once you realize what you need, your available resources can forecast your future needs to a large extent. Money, while important to any business operation, can never replace knowledgeable, experienced and skilled personnel. Having loyal and well-compensated employees that will remain through a transition is crucial. These important human resources will keep you in business long after the machines have stopped. As an owner-entrepreneur, take yourself out of the equation and ask yourself what would happen if I was not here and is this what I want to happen? The difference between what you want and what you have is the gap to be filled.

Document, document, document

Intentions should never be left open to interpretation. Be it for legal necessity or simply as a means to gauge performance, written documentation nullifies the problem of misinterpretation. As an owner-entrepreneur, your intentions are usually not documented in any legally binding manner. Take the time to document, have a legally binding will drawn up to avoid the family squabbles that usually happen everyday. You may believe that you are leaving a lucrative nest egg for your family, but what you might be leaving is a civil war.

Update

Situations change and planning should be a continual process that reflects these changes. The failure to do so, unfortunately, can make well-intentioned documents to be outdated and creates the possibility of ignoring the owner's true intentions.

Get a dispassionate perspective

Although this usually requires a more costly third party's opinion, hiring a lawyer or consultant to review your plans is an effective way to ensure that your beliefs about what you perceive to be wise or even legal is properly documented. As a good example, a common predicament that leads to a number of company breakdowns occurs when an equal number of shares are left to children with different degrees of business knowledge. There is no directing control over who will fulfill the owner's original intentions. Equality can be a wonderful goal in a democracy; however, a business is rarely managed as a democracy—somebody must be in total charge and able and willing to keep the company growing.

Mark Borkowski is president of Toronto based Mercantile Mergers & Acquisitions Corporation, a mergers & acquisitions brokerage specializing in the sale of privately owned businesses. He can be contacted at (416) 368-8466 or mark@mercantilema.com

WTO round is threat to food, nature say farmers

GENEVA (Reuters)—Farmers from Europe, Africa, Asia and Canada warned the World Trade Organization (WTO) on Tuesday that a trade deal being negotiated this week could ruin small farmers, harm the environment and increase hunger.

On the second day of a week of crunch talks seeking a breakthrough to rescue the 'Doha' trade liberalization round, groups representing small-scale farmers told WTO chief Pascal Lamy the proposals were dangerous and unacceptable.

"Further trade liberalization will benefit large-scale corporate farming and multinational traders at the expense of small-scale, vulnerable farmers, hindering agricultural and rural development in countries which need it most," the farm groups said in a joint declaration handed to Lamy.

The Doha round aims, among other things, to open markets for farm exports from developing countries and limit the huge subsidies paid to farmers in Europe and North America which skew the market against agriculture in the developing world.

The coalition of farmers from the wealthy and highly subsidized European Union and producers from some of the world's poorest countries, in east Africa, showed battle lines at the Geneva talks were not based on purely 'north' versus 'south'.

Pekka Pesonen, head of EU farm lobby COPA-COGECA, said the big winners of the proposed liberalization would be large-scale farm exporters, some of which are in the EU, but mostly in Brazil, Argentina, the United States and Australia.

While not against liberalization per se, he said the rules had to allow for subsidies and tariffs to be used to protect livelihoods, the environment and local food production.

European farmers have long been protected by high import tariffs and subsidies totalling more than 40 billion euros (\$63.7 billion)

a year.

Producers squeezed

The farmers are concerned the EU could bargain away too much in reducing import tariffs in the WTO talks while the Africans fear their domestic producers will be squeezed out of their home market by powerful foreign exporters if their tariffs come down.

"We fear that the proposals currently on the table in the WTO will undermine the ability of many countries throughout the world to provide their citizens with urgently needed food security and stability," said the statement, which was also signed by farm groups from India, South Korea and Sri Lanka.

John Mutunga, head of a Kenyan farmers federation, said reforms to global trade that would cut high tariffs on value-added goods would greatly help Kenya, which exports crops like tea and coffee in a less profitable, unprocessed state.

But he said developing countries, which have suffered greatly from global food price spikes over the last two years, had much to fear from the Doha round.

"We support the WTO ... but developments are likely to take away livelihoods, especially in developing countries," Mutunga said. "Food security cannot be solved through the free market."

Under the WTO proposals, countries will be able to shield some of their agriculture from the impact of tariff cuts with developing economies and especially the very poorest nations being offered more protection.

But producers in some developing countries are concerned that such measures could fence off markets for them.

Paraguay Foreign Minister Ruben Ramirez said 70 percent of his country exports, led by beef, soy and maize, went to other developing countries, and he was concerned about possible abuse of so-called safeguard measures.

"This round cannot be allowed to generate new forms of protectionism," Ramirez said.

Slowing economy, competition batter Starbucks Coffee

By HEIDE B. MALHOTRA
Epoch Times Staff

WASHINGTON—This month, coffeehouse chain Starbucks Corp. announced the locations of 616 store closures—16 more than previously anticipated—to be completed by March 2009.

About 54 per cent of the store closures are due to close proximity to other Starbucks locations, according to the Seattle Times.

"Poor real estate decisions that were made, coupled with a very troubled economy, convinced us that these stores would not reach acceptable levels of profitability," explained Starbucks in a recent release.

The message was sweetened with a promise to place many of the affected employees in nearby remaining coffee shops.

In dollar terms, Starbucks estimates a cost of up to \$348 million from the store closures, including write-offs, buying out lease contracts, and severance pay.

However, mixed messages are coming from Starbucks headquarters.

Just a few months ago, the company announced that it grew by 12 percent during 2007 and close to 80 per cent of its earnings came from stores based in the United States.

Although Howard Schultz, Chairman, CEO and President of Starbucks, hinted that its U.S. operations did not bring the expected earnings, the company predicted in April that it would open 400 stores annually from 2009 through 2011 in the United States and 1,050 internationally.

Wake up call

By becoming a public company and subscribing to the typical corporate hyper-growth strategy, some suggest that Starbucks has lost its uniqueness and charm.

"None of [the store closings] need have happened if Starbucks had stayed private and grown at a more controlled pace. To continue to be a premium-priced brand while trading as a public company is very challenging," said John A. Quelch, professor at Harvard Business

School, in a recent article on Working Knowledge, Harvard Business School's publishing arm.

Quelch claims that by catering more to the "grab and go" customer and offering too many new products, Starbucks lost its exclusivity and uniqueness, or what Quelch calls "club-like atmosphere." Many customers moved on to Peets, Caribou Coffee and other competitors. Many of the "grab and go" customers were not willing to pay for higher-priced Starbucks coffee when they could go to McDonald's or Dunkin' Donuts.

Opening too many stores in close proximities also undercut an individual store's earning power.

"Eventually, the point of saturation is reached and cannibalization of existing store sales undermines not just brand health but also manager morale," Quelch claimed.

In early 2007, a leaked Starbucks internal memo from Schultz spoke of a loss of identity in its quest for accelerated growth.

Schultz candidly admits to his part in the cultural change and subsequent loss of what made Starbucks unique to its customers. But he was certain that any equipment modernization and redesign of store appearances could not be faulted, although each subsequent Starbucks redesign distanced the preparation and aroma of coffee from the customer.

"One of the results has been stores that no longer have the soul of the past and reflect a chain of stores vs. the warm feeling of a neighbourhood store. Some people even call our stores sterile, cookie cutter, no longer reflecting the passion our partners feel about coffee," Schultz said in the memo.

The memo was first made public on the Starbucks Gossip Web site, a blog maintained by Jim Romelesko. According to reports, the authenticity of the memo was confirmed by Valerie O'Neil, the then-Starbucks spokeswoman.

The memo served as a wake up call for the company, as it was faced with competitors who had the intimacy offered by the Starbucks coffeehouse of old. The realization that any success would breed competition—especially when a prod-



THE FAMILIAR CUP: Some analysts—and perhaps even Starbucks CEO Howard Schultz—believe that the company's overexpansion during the last decade has affected its uniqueness and intimacy. JOE RAEDLE/GETTY IMAGES

uct could not be patented—came to finally roost in the minds of Starbucks management.

"While the current state of affairs for the most part is self-induced, that has led to competitors of all kinds, small and large coffee companies, fast food operators, and mom and pops, to position themselves in a way that creates awareness, trial and loyalty of people who previously have been Starbucks customers. This must be eradicated," declared Schultz in the memo.

Fighting for supremacy

In the last decade or so, Star-

bucks has become a household name, to the point where critics have called the company "monopolistic." Starbucks saturated high growth areas with its stores to the point where they competed against each other for customers.

"Starbucks has exploited its monopoly power in the specialty coffee retail market to stifle competition through a series of predatory practices including exclusive lease agreements, 'cluster bombing' of stores and competitor buy-out," accused the Seattle, Wash.-based law firm Hagens Berman Sobol Shapiro in a press release, upon filing its 2006 lawsuit against Starbucks.

Within a two-mile radius of Seattle's downtown business district, Starbucks opened 59 coffee shops, with few competitors in sight.

The law firm claims, in the court papers published on its Web site, that Starbucks' monopolistic tendencies have taken on a sinister turn. According to Hagens, Starbucks negotiated exclusive lease agreements by paying "higher than the fair market value" to the owners of Seattle's largest commercial office buildings.

The agreements prohibited other business in the area to make espresso or specialty coffees in any of the prime buildings and required

the owner to cancel any existing independent coffee shop's lease upon expiration.

Predatory practices by Starbucks against small coffee shop owner Penny Stafford, the plaintiff named in the lawsuit, led to the closing of Stafford's store. Employees from a nearby Starbucks stood outside Stafford's shop offering free coffee samples to would-be customers.

"Fair, even bare-knuckle competition is one thing, but we believe Starbucks has repeatedly crossed the line in denying competition the chance to go toe-to-toe with them," said Steve Berman, a managing partner at Hagens, in the release.