

The Issues Business Owners Face When Working with Family Members

Since I established my consulting firm in 1980, I have worked with mid-market companies acting as their trusted advisor. Often, I had dinner with my clients and they discussed issues with me that they had with family members.

One of them had opened a successful cosmetic supply company selling to the chain drug stores. His employees called him Senior because he was old-world self-made man who lived in a large house in Brooklyn and his front yard faced Brighton Beach Bay. Senior, not forgetting where he came from, provided his employees with excellent salaries, medical insurance and a retirement plan. The new company flourished beyond expectations because Senior's son, who was a super salesman, managed to get big orders from the chain drug stores. The way he managed to achieve this was by going to conferences where the buyers attended. At dinner time he instructed the waiter to put his business cards on cases of Dom Perignon and put them on the tables where the chain drug store buyers sat. When they asked the waiter who sent champagne, he pointed at the son who stood few tables away waving at them. After dinner, the grateful buyers came over to thank him. Senior's son then took them to a night club and picked up the tab. It resulted in his receiving large orders. When he came back he gave the CFO the bills. He looked at them and asked, "How the hell did you manage to spend so much money?"

The son kept a straight face when he responded, "don't complain. Be happy I brought back large orders."

Before the CFO came on board he was a partner at one of the large accounting firms. Senior convinced him to join his company by offering him a very lucrative package. Senior had two nephews who were body builders and worked in the warehouse. I gave them the nick name "Gorillas" because they were arrogant big guys, proud of their physical appearance, and because their uncle was the company owner so they pushed their weight around. One day the CFO came into the warehouse to discuss the large amount of returns they got because of their sloppy packaging. They got angry and told him, "you better get out before we break your neck."

Upset, the CFO walked into Senior's office and told him, "I can no longer deal with your nephews. You better find a new CFO. I'll stay here until you hire the right person and then I will make sure we have a smooth transition before I go back to the accounting firm where I was a senior partner. The managing partner keeps calling, asking me to come back. Senior, who was a six-foot overweight elderly man, got off his chair, hugged the CFO, and told him, "you can't leave. I will make sure it will never happen again." Next, he walked into the warehouse and told the two Gorillas, "both of you go home."

When he came back to the CFO's office he said, "the issue is resolved. I fired my two nephews."

Every Sunday Senior and his family had lunch at his older sister's home after they came back from church. The Sunday after he fired his two nephews their mother told him, "how dare you fire my two sons. You're fat like a pig enjoying my cooking while my grandchildren will go hungry because my sons don't have a job."

Senior, upset, promised her he would take them back. On Monday morning the two Gorillas showed up at the CFO's office, beat their chests saying "Mea Culpa," hugged him and apologized for their behavior promising never to do it again.

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A few months later, another client who was based in N.J. called me and said, "I need to meet with you to discuss a very important issue."

I agreed and told him, "it will take me one hour to get to your office from Manhattan."

His response surprised me: "we can't meet in my office. Let's meet at the Colombia Presbyterian Hospital cafeteria."

When I asked him to repeat this because it didn't make sense he said, "It's a confidential matter that I can't discuss in my office. My father is having three hour surgery and we will have time to talk."

He looked stressed when we met and told me, "my brother-in-law who runs my computer department told me that unless I return the software I bought from the company you represent, he will walk out with the computer consultant who is his friend and put me out of business. I have outdated 20 years old software and would like to replace both it and my brother-in-law. Can you to find me a new computer manager who has worked on the new software we bought?"

My response was, "the manager at the company you visited before you bought the software is looking for a new job."

My client was happy to hear this and told me: "She looked like a competent person who knows the software. What kind of salary she is looking for?"

"She is making \$90,000 per year."

"Offer her a job with a \$10,000 increase if she joins my company. I pay my brother-in-law \$150,000 and his consultant \$100,000 per year. It will enable me to get rid of my brother-in-law and the consultant."

At that point I told him the story about Senior and his two nephews and said, "Your brother-in-law will not be able to get a new job because his knowledge of the computer industry is out-dated. On Friday night when the family has dinner after coming back from the synagogue, your sister will tell your father who founded the company, 'my brother fired my husband who can't get a job and our house will be foreclosed. I'm going to move to your home with my children.' Your father's response will be, 'shame on you. What's wrong with you,' and you will be forced to take him back."

My client, unhappy hearing this, asked, "What do you recommend I should do?"

"I will bring the president of the company I represent and his COO to meet you and your key people. They should all have a list of their requirements and I would like

you to make sure your brother in-law doesn't talk. If he starts pointing fingers nothing will be accomplished."

The meeting went well, the brother-in-law got intensive training and peace in the family was achieved.

Two years later this same client called me and said, "I need to meet with you to discuss an important matter."

"Where would you like to meet?" I asked him.

He laughed and said, "meet me in my office at 12 pm. I will take you to a nice lunch at a kosher restaurant where we will be able to talk."

We were having lunch when my client told me, "I'm going to buy a company that has 25 million in revenue who are in the same industry as I am and have a large internet client. base"

When I heard this I told him, "We need to study their requirements and integrate their software with your company's software. As you know, in the past I brought my client from 6 to 35 million in revenue in 7 years doing the computer integration. The case study was written by "3X400 computer magazine." (link <http://www.smcddata.com/pdf/SMC-3X400-Case-Study.pdf>)

My client responded saying, "They love their old software and insist on keeping it."

When I heard this I told him, "you will end up with two computers systems resulting in losing control of your inventory. One warehouse might have excess inventory while the other will be short. You will not have the ability to transfer the inventory from the overstocked warehouse to the other or ship the orders from the warehouse that has excess inventory. The purchasing agent will order for the warehouse that was short of inventory not knowing the other warehouse had excess inventory. Another factor you will encounter is losing your purchasing power since each company will buy its own inventory. Your sophisticated computer system will not reflect the sales and activity at the company you bought. In addition, your accounting firm will have to conduct two yearly audits for both companies."

My client stopped eating and said, "What you just said confirmed my fear of losing control when they told me that they must keep their outdated computer system."

"I have been your trusted advisor for a long time. Despite this, I feel you should call the accounting firm partner who services your company and ask for her opinion."

The next day my client called me and said, "I'm glad I met you yesterday. When I spoke to my account, she told me that I should follow your advice and not buy the company." The following year later my client bought another company and the company I represent converted their computer information to my client's computer system.

Being the trusted advisor to family businesses often means you have to negotiate delicate interpersonal relationships as well as offering sound business advice as can be seen from the stories above.