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FAMILY BUSINESS NEWSLETTER

Mesher Supply Company: Keeping It in the Family

On the waterfront of Portland's Willamette River, the entrepreneurial legacy of N.B. Mesher still flows through the family business he founded more than a century ago.

Begun in 1918, Mesher Supply Company was passed down from N.B. Mesher to his son, Mark, and then to Mark's daughter, Barbara — the current owner.

Originally supplying more than plumbing, Mark sharpened the company's focus into a specialty plumbing warehouse where customers could find unique and hard-to-find parts.

Barbara and her husband, Jud Longaker, fortified and expanded the business, adding locations in Seaside and Redmond, Oregon.

Today, a fourth generation of the family — the Longakers' daughters-in-law — are helping steer the company into a new era of growth.

After sons Seth and Zac chose to pursue their own entrepreneurial path and start a shoe company, Oddball Shoes, daughters-in-law Connecticut and Nicole Longaker agreed to join Mesher Supply Company on a part-time basis in 2006. Both had young children at the time and were running another business.

When Barbara and Jud approached their daughters-in-law in 2012 about taking on full-time responsibilities, the company's approaching 100-year anniversary and the desire to uphold its longstanding legacy came to the forefront of their decision to go all in.

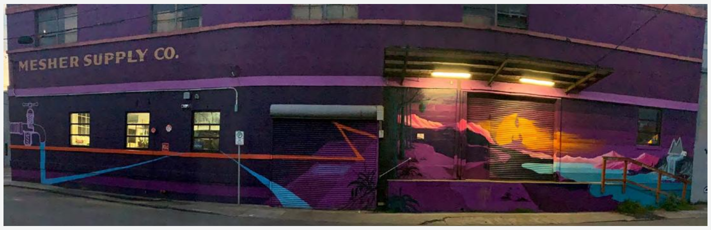
"I wanted my children to have the opportunity to take it over someday if they choose to — it's sort of their legacy — and there had to be an interim between their grandparents and them," Connecticut said. "I wanted to keep the family business going."

Connecticut is now vice president of operations at Mesher Supply Company, while Nicole oversees human resources. Together, they bring complementary talents and skill sets and have helped modernize the company by adopting new technology to improve workflows and inventory control. That wouldn't have happened without the trust and autonomy granted them by their in-laws.

"Nicole and I were given leeway in making changes and pursuing the growth we've made happen," she said.

They also helped transition Mesher Supply from a parts and specialty wholesaler to specialize on commercial construction jobs, supplying plumbing products for residential real estate developments, maintenance and facilities.

The Longaker family and employees celebrate Mesher Supply Company's 100-year anniversary in 2018.



Mesher Supply Company headquarters in Portland, Oregon

In an increasingly tight market, the company has gained a competitive edge by getting certified as a women-owned business. The designation has helped them secure jobs with contractors and subcontractors looking to meet the state's requirements for minority usage.

Over the past decade, these changes have helped generate a 400% increase in gross sales. The growth has helped the company stay relevant and kept its name on the map.

Meanwhile, Mesher Supply Company has stayed focused on service, quality and product knowledge. Maintaining a family business atmosphere comes from creating a culture where all employees are treated like family. The company now has more than 50 employees — some of whom have been with the company for decades.

"What Jud and Barbara did best was cultivate a dynamic of family within their employees," Connecticut said. "I've never seen anything like it. They care about people so much; this is something I learned from them."

Now a fifth-generation family member — the daughter of Connecticut and Seth — is starting to learn the ropes of the family business, working there during the summers.

But whether the next generation ultimately stays in the business or chase a different dream, the same entrepreneurial ideals brought to Mesher Supply Company when it was started will inspire the family to keep creating.

"I hope, even with my children, if they choose not to join this business, they will find their passion and start their own family business," Connecticut said.

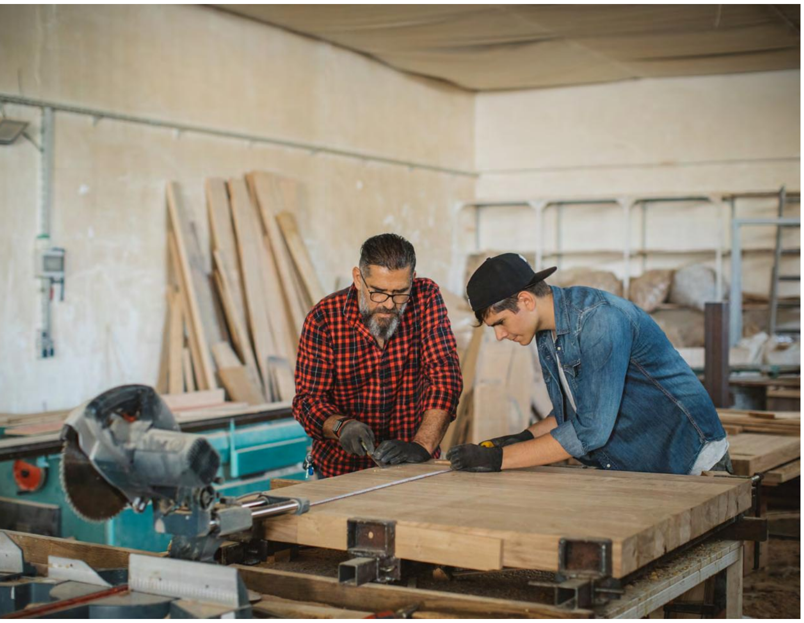
Welcoming Up-and-Comers of the Next Generation

By Christopher J. Eckrich, Ph.D. and Amy Schuman

The rising generation of family members coming up through high school, college and young adulthood also need to be welcomed and educated about the nature of the family and respective businesses. Families seeking ownership continuity find ways to engage the rising generation who are often very busy with school, new jobs and living a full life. We see a variety of exciting and effective ways that families engage their rising generations.

Direct Engagement in the Family Business — Summer Jobs and Internships

Enterprising families often encourage high school-aged family members to work summer jobs in the family business to gain a general understanding about the business. They can also offer college-aged family members internships that are a more intense immersion focusing on a specific aspect of the family business. Ideally, internships align with the college-aged family member's interests and support the individual's career direction. Still, the goal of the internship is exposure to the enterprise and learning more deeply the culture of the business. Internships work best when work responsibilities are well defined, reporting relationships are clear, and the intern both receives feedback at the end of the internship and is asked to present a summary of their experience, including key learnings and observations.



Often, high potential, rising generation family members who meet the family employment policy requirements are directly recruited to come into the enterprise. These families are interested in building family talent within the enterprise and may hire rising generation family members to engage in a specific area of the business (i.e., operations, marketing, PR, finance, accounting, customer service, IT, etc.).

Alternatively, new hires may enter a rotational management program for rising generation family members who wish to gain a broad exposure to their business for eventual placement. Rotational programs require significant advance work to define the rotations, create real work opportunities, clarify desired outcomes and reporting relationships, and monitor progress. Family members rotating through the various functions of the business usually seek placement into an area of the company based on mutual agreement while balancing the rising generation's interests and company's needs. Rotational programs are often used to prepare family members for governance roles as directors or family council leaders as well.

Shadowing

Another learning-focused work opportunity is where family members learn about various parts of the company by shadowing one or more executives. These experiences are time-limited and generally culminate with the young shadower providing feedback to the owner or family on what was learned and whether they would be interested in pursuing a career in the firm. This approach is often used for late high school or early college-aged students who want to explore various aspect of the work world during a school break or other limited time frame. While they do not necessarily need to shadow someone in the family's business, it does provide for the opportunity to discover more about the family business's culture and work processes while learning about an occupation.

Participating in industry-related activities is another good method for young family members to learn about their business and its place in the marketplace. Typically, these experiences are offered to college-aged students, but not mandated. Allowing the rising generation family member to opt in is important so as not to create an experience of negative pressure. Many trade associations have next generation programs, usually for young adults who are post-college.

Many business owners with active boards of directors create board observer seats to allow the next generation to learn how the board functions. While some may do this as a way of training up-and-coming family board members, it also is a meaningful, rich learning experience for future owners who may never serve as a director.

> **It is important for the rising generation group to begin working on teamwork, long before they become active shareholders.**

To derive the full learning possibilities from these experiences, many families schedule pre-meeting calls where board observers can review the board packet with a knowledgeable director or business executive, and then also schedule post-meeting calls where the board meeting can be debriefed for maximum learning. It is important to clarify boardroom protocol and the observer role prior to the meeting so observers are clear about whether they can ask questions or participate in discussions. For most, observers are just that — there to pay attention, listen attentively and learn but not fully participate in board discussions. These experiences are generally offered to rising generation family members after they have completed their formal education.

Structured, Activity-based Education

When a family business has a large number of rising generation family members, they may create specific learning activities designed to expose the next generation to the business and simultaneously build their teamwork. Typically, these opportunities are offered to late college or post college-age up-and-comers. Both family and nonfamily executives can provide support for this kind of activity. We have seen a number of different approaches to this. Here are some examples:

- Dissect the vetting of a new business opportunity or investment.
- Develop a marketing or social media plan for a product or service now provided by the company.
- Conduct a key competitor analysis and make a presentation to the executive team or a shareholder group.
- Create a set of scenarios for how the business will look 20 years from now.
- The executive group assigns the next generation group a real problem for them to consider and solve or to make recommendations. Ideally, the question the cohort group takes on is something the business is currently wrestling with, and the cohort group will make a formal presentation about the matter, concepts to consider, recommendations and next steps.

General Business Exposure

We know of family businesses where the senior generation realizes that it is important for the rising generation group to begin working on teamwork, long before they become active shareholders. Here are a few interesting approaches:

- Start a next generation investment club with seeded money, overseen by those interested in the concept. The goal here is to learn about investing, and the club will need rules so teamwork results from working through the rules of the game and ongoing investment review and decision making.
- Create a limited investment pool that next generation family members can tap into for new business creation. This would require significant clarification of rules for application, methods of review and oversight, accountabilities, and defined relationship between funder and receivers. As the goal is to encourage collaboration among rising generation members, preference can be given to those concepts submitted by multiple family members. While some may prefer a sink-or-swim approach (i.e., go make it work!), senior family leaders can also serve as an informal advisory board should the up-and-coming investors request this feature. Because the goal of this activity is learning, recouping investment capital and growing assets are considered a bonus rather than the primary focus of this approach. Please note that this concept is very different than when families create an investment pool of family assets and allow younger generation family members to pursue wealth building opportunities.
- Private equity research for new investments, overseen by family members who have talents in this area.
- Collective service projects, such as Habitat for Humanity, that the group can complete as a team.

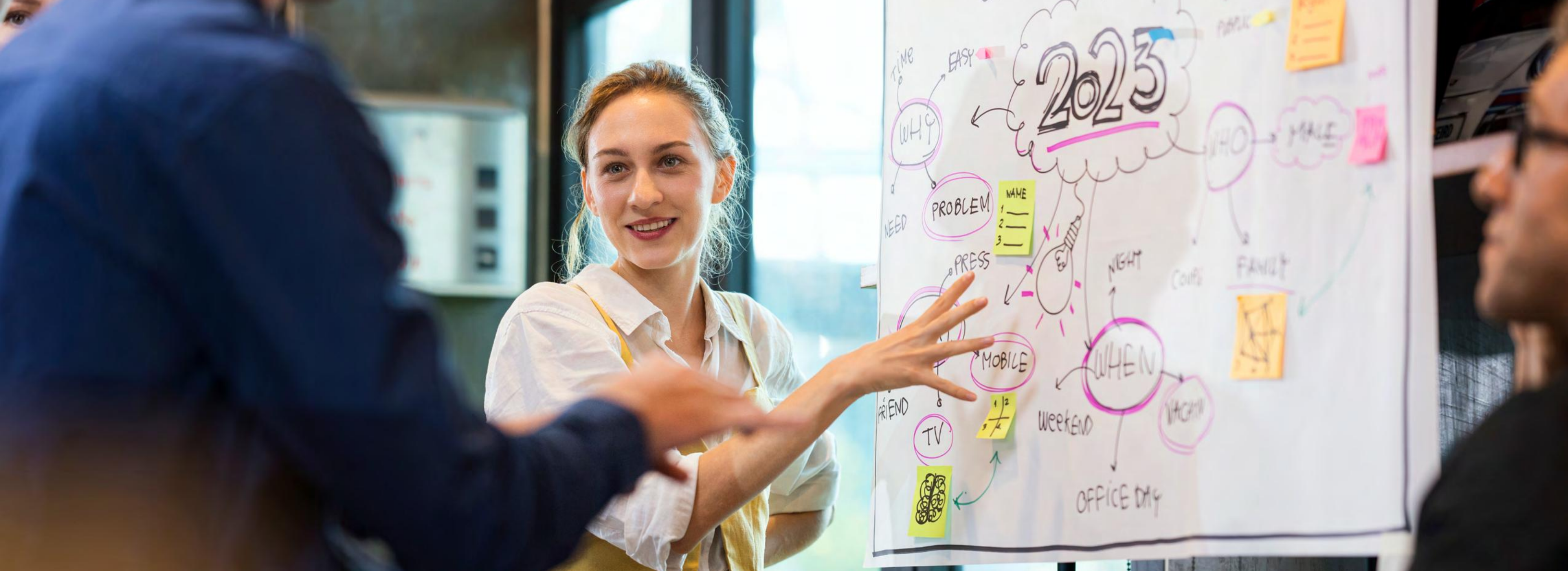
Conclusion

We often hear elder family business leaders express concern that their children or grandchildren do not understand the importance of the family enterprise to the family or to society at large. They wish family members had greater passion and appreciation for the company and all it takes to make it successful. In truth, you can't love something that you do not know well. It is our hope that the concepts presented in this article will help you nurture a knowledgeable, well-educated and appreciative future ownership group.

Consider the following steps to begin this journey:

- Gather the parents and grandparents of the up-and-coming generation to determine whether engaging the next generation is a worthy goal that all can support.
- Identify the types of engagement that up-and-comers could reasonably participate in given the state of the business, and available business resources and family leadership.
- Engage in a discussion with your firm's human resources officer to add input to the discussion.
- Assign a member of the parent or grandparent generation that will lead this process to make sure that the concept of engaging up-and-comers in the family has a champion.
- Bring the next generation together and talk with them about the types of engagement they would like to participate in, perhaps from a limited list developed in the second bullet point above.
- Make it happen!

Christopher J. Eckrich, Ph.D., and Amy Schuman are senior advisors of The Family Business Consulting Group. Christopher specializes in building leadership excellence and maintaining family unity in enterprising families. Amy helps families implement the systems, structures and relationships needed to be effective stewards of their enterprises.



Achieving Ownership Alignment on Financial Goals

By Lisa M. Morel and Joshua Nacht, Ph.D.

The meeting with the non-family CEO and 14-person family-ownership team had started off tenuously but was developing good momentum. They were meeting together to help develop a mutual understanding of the financial goals of the company. The vague statements of the family to "give us a profitable return" were no longer sufficient to help the CEO in his strategic planning. He used a sports analogy to help drive the conversation: "I need to know where the sidelines and end zone are — then I can run the plays. I need to know your goals in a way that are tangible and actionable."

The family realized they had some work to do because they had never quantified their financial goals. If they could agree on a "dashboard" of key indicators, management would understand what was expected and owners, even those with relatively little financial literacy, could track company performance.

Key Indicators for Owner Alignment

One of the most important responsibilities of owners of a family-owned business is to contribute to the long-term success of both the business and the family. They must do so in a variety of ways, including having good governance, effective communication and clear financial goals. Those financial goals include what we refer to as **GRPL: growth, risk, profitability and liquidity**. Ownership families who go through the valuable process of defining what these goals are find the project rewarding and highly useful for the guidance that it gives to the board and business leaders, as well as for the alignment it gives as an ownership group.

Defining GRPL in the earlier stage of a business is something that usually emerges from the small family management team as part of their strategic business planning. But as the business and ownership group grows into a second, third or fourth generation ownership group, GRPL is something that needs to be revisited and re-defined by those owners. However, many ownership groups do not necessarily have the skills or qualifications to define these goals in a way that is useful to the business. Furthermore, managers will likely be very uncomfortable with a group of family owners telling them what their goals should be. This is why we advocate for a collaborative process in pursuit of defining GRPL.

A Southwestern manufacturing family had grown significantly over the years — as a business and as a family. The ownership group now numbers over 30 people, and the business continues to grow at a healthy rate. But when the business hit difficult times because of the pandemic, they were not able to pay the same dividend to which owners had grown accustomed. For some, this was a minor issue, but for others it was a significant hardship. Tensions began to build as some owners requested more detailed metrics around expected rates of return, business growth and dividend formulas.

The family council realized that they did not have shareholder alignment around their financial goals, and this lack of alignment was causing several challenges that could prove problematic if not addressed. After a series of thoughtful meetings, the family council embarked on a comprehensive initiative that sought to define the owner's financial goals. With the help of a facilitator, they began to explore the various aspects of what GRPL means to them.

Growth

Owners define growth in a variety of ways. When establishing key indicators, many owners first take into consideration the nature of their business. For example, in asset or property-oriented companies, growth may focus on growing property value. In other industries, it could mean measuring growth via top line revenue. As owners, you might ask other important questions: Do we want to grow in our same line of business? Do we want to expand geographically? Do we want to diversify our portfolio of products and services?

When owners discuss creating an aligned dashboard for growth indicators, it is as much an exercise of defining how they would like the company to be "driving" the growth, as well as about establishing speed limits and roads (avenues). Owners who speak in one voice to the board and management about what type of growth they expect to see from the business helps communicate clear mandates that will be incorporated into strategic planning.

Here are some examples of growth parameters defined by owners:

- Sales growth in X percentage;
- Increased market share;
- Increased client customer satisfaction score;
- Increased client retention rates;
- Increased value of the assets;
- Increased number of employees; and
- Geographical growth (i.e., opening a new division, factory, office).

One aspect to consider is how owners will support that growth — whether organically, by highly leveraged operation, or through mergers and acquisitions. Many family-owned enterprises have grown organically through consistent reinvestment over the years. Nonetheless, organic growth usually hinders high growth rates. As family enterprises transition, some owners might have different needs and expectations about the speed of growth. Faster growth will most likely require a sacrifice in liquidity or profitability. Alignment on where and how fast owners would like the company to grow is a key component for an aligned ownership vision.

Risk

When analyzing risks, owners first identify what types of risks their business is exposed to internally, externally and even through its own ownership group. Examples of diverse risk considerations include shareholders who will likely want to exit ownership in the near future, political instability in the countries they operate, how much debt to take on and environmental, social and governance practices.

After identifying the types of risks, the next task is to define as owners how you believe these risks should be managed (e.g., through an audit and risk committee on the board), and then creating a unified risk statement.

This was the case for the Bennett family, a third-generation cousin consortium who owned a large real estate company in the Seattle area. At their ownership meeting working through GRPL, the family CEO was passionately convincing his cousins: "Guys, we are grossly underleveraged. The average for our industry is 40%, and we are at 8%." Their independent board had suggested increasing leverage to continue to add to their portfolio. But what were the owners comfortable with?

Through this exercise, the ownership group established the following parameters: low risk meant below 20% debt leverage, median risk from 20-30%, high risk from 30-50%. They polled the group, and the results were pretty uniform that the family would accept a median risk profile, which gave the board and management clearer guidelines for how to manage debt and risk.

Profitability

Profitability in a business is one measurement of value. For family-owned enterprises, it is what drives wealth creation in the business and for the family. Sustainable profits are often central to the reason a family is in business together. If not, family enterprises would be non-for-profit organizations.

A thoughtful discussion around profitability explores the fundamental question: What return are we seeking on our investment at this moment in time? Different industries have different parameters for return on investment and what constitutes high quality profitability. Oftentimes, higher profitability demands will impact the company's speed of growth and tolerance for risk exposure.

Take the case of the Lee family. As a family, they had successfully owned and operated resorts for many years and as a result, also grew a substantial real estate portfolio. The business allowed the family to be able to provide a lifestyle and financial security they all valued. As the family grew and transitioned to the fourth generation, the new ownership group was faced with the dilemma of how to continue to provide the lifestyle they were accustomed to and still maintain a healthy company. They discussed how the profitability goals of the business needed to change in order to meet the evolving needs of the family.

With the input of management, board and financial advisors, they established new profitability metrics that led to the company gradually restructuring the business in order to be able to yield more returns. While previous generations were focused on growth and heavy reinvestments, at this stage, their investment strategy changed to a less growth centered approach — but one that allowed for more profitable returns and liquidity.

Liquidity

Establishing a clear metric for expected liquidity can be a tricky subject as ownership configuration changes over time. Different owners will likely have different needs at different moments in time. At this stage, the ownership group seeks to align themselves by answering several questions: How do we value the trade-off between investments and providing liquidity to the shareholders? How do we value predictability of dividends vs. the opportunity for potentially inconsistent but higher dividends?

> As family enterprises transition, some owners might have different needs and expectations about the speed of growth.

In revisiting the Southwestern manufacturing family, all felt that the company should always provide some form of annual liquidity to shareholders, as it had in the past. They valued growth but many were dependent on their yearly dividends and had college expenses coming up. They worked with a team of stakeholders from the ownership group, management team and board members to establish a 10% minimum dividend policy that gave shareholders a consistent return and was manageable for the business. The collaborative process to arrive at those liquidity metrics was additive and effective because it was a team effort with the goal of team success.

Conclusion

Taking a strategic look at GRPL as a team allows for a cohesive ownership group that provides the board and management with the right information for a balanced plan of attack. They are the "marching orders" that can help build alignment and accountability throughout the system. Keep in mind, it is not just the end result that matters, but the process of arriving at agreement on the elements of GRPL that perhaps matters most. Investing the time in a collaborative process that integrates the perspectives of all stakeholders will result in alignment of financial goals to support the continuity of the business and family.

Lisa M. Morel is an advisor with The Family Business Consulting Group where she works with family enterprises in planning and organizing for growth and continuity. Joshua Nacht, Ph.D., is a senior consultant with The Family Business Consulting Group, working with business families to help them become more intentional and organized to achieve their goals.

4320 La Jolla Village Dr, Suite 250
San Diego, CA 92122

CalBankTrust.com

www.thefbcg.com or 773.604.5005

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