What does it take to make a business last? To not just survive but thrive like a great Sequoia tree? To exist long enough to pass the baton to a new generation of management? Is it luck, product mix, or adhering to a strategic vision that propels some businesses to long-term success?

The answer lies in the hearts and minds of many hardworking individuals in companies large and small. Join Blueprints as we explore the secrets of their longevity in this ever-evolving industry.

Building a Legacy

The phrase ‘legacy business’ has been somewhat tarnished in recent years. Once meant to indicate the proud carrying on of a business tradition, often from one generation of a family to the next, in some circles it has come to imply an antiquated or outdated business model. In today’s world it is often synonymous with bricks-and-mortar retail—considered a waning approach to selling, superseded by new methods of management, growth, and ultimately, success.

Many businesses aren’t even intended to last; some startups are designed to scale up quickly, accumulate value, then be sold and absorbed into larger entities. But building value depends on having a type of strength or unique quality many young businesses are unable to cultivate.

The result, according to a study by the Exit Planning Institute, headquartered in Lakewood, OH, is that as many as two-thirds of businesses fail to develop an effective selling strategy, and do not recoup the substantial capital investments made by owners or investors.

For the purposes of this article, we will define a legacy business as one that has maintained significant continuity over time with a consistent brand name or image; has maintained the same core operational model within an industry; and has been run with a clear line of succession.

Family Ties

With many businesses initially conceived, especially in the early days of the twentieth century, as a means of providing security, employment, and intergenerational wealth-building, it’s no surprise family firms are often considered the default image of American business.

It is estimated by the U.S. Small Business Administration that about one in every five companies is family owned; in the produce industry, nearly 17 percent of businesses are run by a single family.

Because family ties represent a pre-existing personal stake, these individuals already understand the importance of company success since their family’s livelihood is tied to it. As many would say, “it’s in their blood.”

Questions of loyalty and commitment are often moot, which is quite different in companies where ownership may be a distant investment firm and employees are bound together by little more than a
regular paycheck. And although not all employees in a family business may be related, the bond and atmosphere are often more close-knit than other companies.

Cultivating Engagement

Being born into a business, however, is no guarantee of engagement. According to a recent report by Deloitte, younger members of intergenerational companies are very driven by the need to innovate, and cite it as their top issue when working in the family business.

Older generations in ownership are aware of these aspirations, but are less eager to pull the trigger; only 40 percent of those surveyed were willing to take on the risks associated with substantial change to the business model.

For those preparing to assume leadership in a multigenerational company, one third said they had been planning to take part in leading the company since childhood and 44 percent had been preparing for a leadership role even before they actually started working in the business.

Family firms are also slightly more likely to succeed than other types of companies, with a higher survival rate over the first two years by almost 5 percent. So how much of this has to do with blood ties versus other factors?

For Fred Duckwall, president of Duckwall Fruit in Hood River, OR, it cuts both ways: he believes “the sternest measuring stick of all” is employee pride; workers, whether family or not, have to care. “You support what you believe in.”

Fault Lines

Even the most successful longtime companies—family-owned or otherwise—are vulnerable to change precipitated by significant events. Any business without a written succession plan is at risk. While multigenerational companies may rely on informal agreements, this can cause conflict and even jeopardize the business when there is no formal plan concerning who will run the firm and what his or her responsibilities will be.

As many as 64 percent of family business owners take on the mantle of leadership without such written plans, representing a significant degree of risk. Tim Vaux, a strategic planner for consulting firm FreshXperts, states that leadership in
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all aspects of operations is crucial, but even more so in family businesses.

“Writing and regularly updating job descriptions for key positions is a must,” Vaux insists. “Seniority in the family is not necessarily the key to the executive suite; honest discussions must be held to sort out who is best in each key position.

“Ownership and equity for each family member should be equal unless there are extenuating circumstances,” Vaux continues, “and if someone wants to opt out of the business, a buy/sell agreement is important to understand how shares will be transferred.”

Vaux also emphasizes the need to develop contingency plans in the event senior members decide to leave the business. A death in the family is always devastating, but it’s even more so if it precipitates the demise of a company that both family members and others depend on.

To make sure a company is prepared for such events and its fate rests in the hands of those best qualified to run it, Vaux recommends the creation and maintenance of a pool of potential replacement candidates, revisited annually by executive leaders.

**KEYS TO LONGEVITY**

So what are the keys to long-term success? Many startups, whether dependent on family ties or not, experience early success only to falter. And while it’s commonly believed as many as 90 percent of new business ventures fail in their first year, statistics do not bear this out. In fact, almost the opposite is true—some 80 percent of new businesses make it past that critical milestone.

The farther out one looks, however, the lower the numbers get: only half of businesses last past the first five years, and only about a third manage to survive for a full decade. This is often by design, and creating a legacy company isn’t for everyone; but for those who intend to build a business to survive for generations, it’s important to frankly assess what it will take to succeed.

In our research and discussions with industry members about legacy companies, again and again, the overriding factor that helped propel these businesses to the heights of success was innovation.
Innovation, Culture & Values

Continuing businesses are often the first to recognize the need for innovation and change, and the value of recognizing new ideas.

“You need to make sure that your historical success doesn’t foster a sense of complacency,” observes Duckwall.

In his years with this Oregon-based family business, which is nearing its centennial, one thing has become crystal clear: “You have to stay on the cutting edge to stay successful.”

Culture is a nearly universally agreed-upon aspect of building a strong legacy. Espousing and exhibiting a shared set of values—for everyone on the payroll, family or not, as well as customers and those outside the organization—is considered a nonnegotiable aspect of long-term success.

Yet espousing corporate values is not enough; leaders must also be accessible and communicate regularly about any major transitions and the company’s well being—and this includes the balance sheet and company worth.

“It’s important to calculate the fair market value of the business,” recommends Vaux. “This should be assessed on a regular basis, preferably by an outside professional.”

While no one knows the ins and outs of a legacy business like the people who have been there for years, their familiarity with the daily operations can lead to blind spots and a failure to recognize new opportunities. Outside candidates or consultants can look at these issues with fresh eyes to explore the pros and cons without bias.

Leveraging Advantages

Whether a legacy company is still owned and operated by family members or not, its longevity certainly offers tangible competitive advantages.

These businesses offer continuity in operations, products, reliability, and strong relationships in every link of the supply chain—and these strengths cannot be matched by newer firms.

Duckwall calls these strengths the “bedrock” of his company. “You’ve paid the price over a hundred years and established your reputation for integrity, fairness, and product quality,” he says. “It works, and it stands the test of time to prove it.”

MAKING THE TRANSITION

No matter how dedicated management and employees are to a multigenerational business, the devil is in the details. Knowing the concrete facts that will assure continuity of service can make the difference in determining if a legacy business survives transitioning to new leadership.

“It is definitely realistic to believe an operation can endure for decades, but only if care is taken to communicate and execute,” Vaux says. “Vision and mission must be shared by all stakeholders, and all operations must be aligned to achieve the desired future state.”

Maintaining Identity & Brand Strength

Operational considerations and brand building are key elements in handing over a functional business to the next generation. Strengthening brand identity through innovation and added value is important, but there must be a strong identity to build on first. Knowing there are gaps in knowledge is as important as knowing strengths.

“A long-term survivor will have a business plan to guide a company over time and the ability to generate enough capital through sales and investment to generate repeat sales,” explains Duckwall.

“Never let short-term profit interfere with your long-term objectives,” he continues. “The quality of, and need for the product will let the logo and label carry the message to the market for you.”

With legal, financial, and tax issues all needing to be dealt with at the time of succession, making sure the company has a strong reputation and robust systems in place can relieve a great deal of unnecessary pressure. In many cases, an outsider or consultant can lend a hand to ensure the transition goes smoothly.

When interviewing consultants or advisors, make sure they have a history of working with multigenerational companies, as one size most definitely does not fit all. “This is where the outside legal and accounting professionals should come in,” explains Vaux, “but each business is different. Outsiders may be detached from the business, but they understand it, and can act independently and equitably.”

ENSURING YOUR LEGACY

While family companies may have similar structures, product mixes, or approaches to business, there are always crucial differences.

Nevertheless, some of the same words kept cropping up in conversations with people who work in or consult with multigenerational businesses. Values, culture, integrity, and dedication—these qualities of any successful enterprise are of particular note in a legacy company.

Continuing to innovate while respecting tradition in a way that reminds employees of the company culture every day, is what separates the good from the extraordinary.

Leonard Pierce is a freelancer with more than 20 years of experience in the food industry.