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## Members' Benefits

The Northeastern University Center for Family Business offers a select group of family-owned businesses these membership benefits:

- Participation in Full-Day Workshops and Executive Breakfast Case Conferences.
- Constituent Forum Participation.
- Subscription to Family Business Quarterly.
- Discounted tuition for NU's "The Management Update" Seminar Series.
- Invitations to College of Business CEO Breakfast Forums.
- Access to student interns.
- Networking opportunities.
- A family business bibliography and access to NU's libraries.
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# Family Business Quarterly

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## Will Massachusetts Have the Workers It Requires for Future Business Growth? Expert Sees Grim Future

Emerging  
Issues

Long-term problems in the Massachusetts labor market threaten to place a damper on business growth in the state for many years, according to Paul Harrington, associate director of Northeastern University's Center for Labor Market Studies. Harrington spoke at a Northeastern University Center for Family Business Executive Breakfast in September.

Growth prospects for the region over the next ten years "are not very good," he stated. Harrington identified a number of factors working against Massachusetts, and much of New England, including the following:

**Low labor force growth.** This has been a long-term problem that Harrington traced back to the 1970s, when Baby-Boomer-stimulated population growth increased the labor supply in Massachusetts by 30%. Since then, though, it's been downhill, thanks to the stagflation of the late 1970s and the recession of the early 1980s. "By the end of the 1980s, the growth of the labor force had slowed significantly," Harrington stated. By the 1990s, the Massachusetts labor force increased in size by only 1.8% versus a 17% increase nationally, and by the end of the 1990s, there was a labor shortage in Massachusetts, while the Rocky Mountain states, in contrast, showed sizable labor force growth.

He pointed to the state's much-lower-than-average number of new jobs created and posed the question, "Why weren't we able to create more jobs?" His answer: "Because our labor supply went away."

**Inadequate infrastructure.** Harrington blamed the poor Massachusetts showing in labor force growth partly to its inappropriate investment in infrastructure. "We spent \$15 billion on five miles of highway" that is the Big Dig. "We're going to get the Rose Kennedy Park

out of it." He attributed the growth in Rocky Mountain states' labor force to "investing in airports and highways, allowing construction of houses." As a consequence, places like Nevada, Arizona, Utah, and Idaho have seen their labor supplies increase between 76% and 155% during the 1990s, while Massachusetts ranks near the bottom of all states, along with Connecticut and New York.

**Disappearance of manufacturing jobs.** Though Massachusetts has enjoyed a boom in service-related jobs, for much of the 1980s and 1990s, Massachusetts has been losing manufacturing jobs, Harrington said. "Manufacturing jobs are very important to a state because you sell outside the state and you bring income into the state," stated Harrington.

He pointed to two main effects from a loss of manufacturing jobs: a widening of income gaps and a deteriorating ability to export goods to other parts of the country.

**High housing costs.** In an era of increasing labor mobility, housing costs play an ever-larger role in determining whether workers stay or leave Massachusetts, Harrington said. The difficulties associated with developing new housing—because of regulatory, environmental, and other constraints—have contributed to rising housing prices in the region. He quoted a housing developer who said that a significant development around Boston would be 14 new houses, while in Colorado it would be 14,000 new houses. According to Harrington, the ratio of housing prices to income is about five in the Boston area, versus about 2.8 in other parts of the country.

**Poor return on tax dollars.** During the 1970s and 1980s, the Massachusetts Congressional delegation was extremely effective in bringing tax dollars to the state, said Harrington. For a time, Massachusetts

was receiving \$1.15 for every dollar sent to Washington. Now, according to Harrington, "Our Congressional delegation is completely ineffective. We get 70 cents back for every dollar we pay in."

The unfavorable trends for Massachusetts continue today. Harrington noted that since the beginning of 2001, Massachusetts has experienced a loss of 2.7% of its jobs, versus a 1.8% loss nationally. He attributed most of the recent problems to the deterioration of the high-technology area. One ripple effect has been to sharply reduce state tax revenues because of falloffs from the late 1990s in capital gains and estate taxes.



Paul Harrington of Northeastern's Center for Labor Market Studies speaks at a recent Executive Breakfast about the Massachusetts labor supply.

# The Third Generation and the Demise of a Family Business: An Interview with Matt Feuer

*It is widely known that fewer than one out of ten family enterprises survive through a third generation. What happens to those other nine? How do things come apart? Seldom are we privy to the events surrounding the demise of a family business. In this candid interview with Paul Karofsky, Executive Director of Northeastern University's Center for Family Business, Matt Feuer, a third-generation family-business owner, shares the details of the rise and fall of his family's business.*

**PK:** Matt, please introduce us to your family's business.

**MATT:** Feuer Leather Group, Inc. was founded in 1925 in New York as a hide trading company dealing with hides from Europe. My grandfather, Menkes Feuer, brought hides from Europe into the U.S. and sold them to tanneries here. My father, Mike, and his brother, Irwin, joined the company in the late 1950's, and the business grew quickly. They started to process their own hides at contract factories, and ended up buying a factory of their own in the early 1960's.

By the late 1970's, Feuer Leather was one of the largest in the industry, and had a total of eight factories and 1700 workers. The 1980's continued to be strong for the company and our sales volume increased to over \$140 million. In addition to selling to most of the major shoe and garment makers in the U.S., we had military contracts with the American and Chinese governments.

**PK:** How did you decide to enter the business and when did that occur?

**MATT:** I joined Feuer in 1989, and first worked at our largest factory in Upstate New York. Throughout college, I planned to start working in the real estate field in the New York area. However, as the end of my junior year approached, I decided that a better career move would be for me to join the family business, and I started within two weeks of graduation.

**PK:** How was the business doing at that time?

**MATT:** The business was still fairly strong, although the closing of American shoe factories was picking up pace. Peak sales were about \$148 million in 1986. Sales started to decline by 1988, and our profits were shrinking due to huge bank loans and excess inventory.

**PK:** What caused the large inventory and debt position?

**MATT:** In 1989, Feuer negotiated a line of credit of \$68 million, which we ended up using. In addition, we had about 20 million square feet of inventory, and a customer base that was moving to China. The customers moving to China wanted to find local suppliers, and the need to ship leather from the U.S. to Asia was not growing.

**PK:** Matt, you said 20 million square feet of inventory?

**MATT:** Yes. 20 million square feet is correct. We were making so much leather that if we made mistakes or had returns, we just put the leather in the warehouse and figured we would work on it later. We ended up having to rent warehouses to store the surplus inventory.

**PK:** Many family businesses find that strategic planning, often with outside facilitators, helps companies get a clearer handle on the future to better position the company. Did your family business engage in this process?

**MATT:** We started this process, but never really took the experts' advice. We had begun to consolidate, but it was too little too late. Upper management [father and uncle] did not wish to invest into Asia.

**PK:** How were major decisions made? In other words, how was governance handled?

**MATT:** My father and Uncle were the key decision makers, and handled major issues. We had a CFO, but most of his ideas were overruled by my uncle. My father mostly handled the sales end. Manufacturing was handled by my older cousin, who

came directly into the company after high school.

**PK:** When did the Company cease operations?

**MATT:** The massive debt and inventory forced the Company to file for protection under Chapter 11. Chapter 7 followed and the Company ceased operations in 1994.

**PK:** What was the nature of family relationships outside the business? How did your father and uncle get along? What about you and your cousins?

**MATT:** The relationship between my father and uncle was very odd....very business like, but tons of emotional decisions and older vs. younger brother issues. There was not really a power struggle between them, but there was between my cousins and me.

**PK:** What subsequently happened to family relationships?

**MATT:** When Feuer filed Ch. 11 in 1994, one of my cousins and I decided to leave and start a new business within the industry. We were approached by the owner of a successful company in our industry. He wanted to start a new division of his company, so we struck a deal to do so. We had financing behind us, as our reputations were the cleanest in the industry. This did not go over well with the family, and we were viewed as traitors. My father did not speak to me for over two years. When my wife became pregnant with our first child, my father finally decided to start speaking to me again. I also had to write an apology letter which, in retrospect, was appropriate.

**PK:** Why was your father so upset that you and your cousin had started your own business?

**MATT:** He felt deserted... he had wanted to start something else, but my cousin and I did not want to be a part of it. We wanted a fresh start, and my father and uncle resented our decision.

**PK:** What about the apology letter?

**MATT:** I wrote it directly to my father... basically explaining why I left and why I made the decisions I made. It also thanked him for teaching me the business and allowing me to make a living.

**PK:** Tell us about your career now? What are you doing at this time?

**MATT:** The initial venture I started was doing well, but the "money guy" wanted me to move to China to continue to build the business. Since I had no desire to move to China, I decided to move my customers to a new business with me. So I started The Leather Group in 1996, and act as a leather agent/broker now, and supply leather to Timberland, Reebok, Rockport, and other major footwear brands produced in Asia. We work only with Asian based tanners to support our customers' local requirements.

**PK:** How would you sum up the rewards and risks of family enterprise?

**MATT:** This is a tough one. The largest risk is the relationships you can either build or destroy. Working so closely with your family, and still trying to maintain a relationship that was not related to business was impossible for us. The reward was that I learned about a business very quickly, and was introduced to the major players early. My last name was famous in the industry and it opened many doors for me.

**PK:** What "one liner" words of advice do you wish to offer to family members in business together?

**MATT:** Try to keep your business life and family social life completely separate. Work out issues at the office, and do not bring them home.

## Meet the Sponsor: Shaking Free of Accountant Perceptions



The last year has been a tough one for accountants, Peter Berenson told a recent session of Northeastern's Center for Family Business. He is a partner with accounting firm and NUCFB sponsor Forman, Itzkowitz, Berenson & LaGreca.

He cited some of the new executive designations: "CFO is now Chief Fraud Officer and CEO is now Chief Embezzlement Officer."

In a serious vein, he said, "The last few months have been an opportunity to reaffirm our values."

He said Forman, Itzkowitz works mostly with small and mid-size closely-held busi-

nesses, up to \$150 million annual sales. "A good number of our clients are family businesses."

He cautioned that new legislation designed to prevent accounting firm conflicts of interest-by prohibiting firms from doing bookkeeping, actuarial, and other work if they are doing audits-could create challenges for family businesses. Family companies that have audits may have to adjust their relationships with accounting firms to ensure compliance, and combat the industry's past excesses. "The trend and the message are clear," he stated.

## Succession Planning: The Key to Business Survival

by Carrie Seligman

It takes a special kind of person to turn a dream into a successful new business venture. To be your own boss and succeed as an entrepreneur is, for some, the embodiment of the American dream.

In this country, nearly 90% of all businesses got their start as family-owned enterprises. Millions of American businesses have come to rely on the pioneering vision of their owner to keep families and employees prospering.

That dream can be short-lived if careful thought isn't given to business succession – who takes over the business if the owner dies, is incapacitated, or retires. The business survival rate diminishes considerably if left to chance. All businesses, regardless of size or structure, should address the issues of succession planning.

Looking ahead to your own retirement, disability or death isn't the kind of thinking that comes easily, but to ignore these risks could be a costly mistake. Studies have shown that the average family-owned business lasts just 24 years, and fewer than 20% survive to a third generation. You also should give consid-

eration to your successor as your role changes with the growth of your company. This role-change typically occurs years prior to retirement, a disability or death, and this planning should not be overlooked.

There are specific steps you should consider and implement if you want your business to survive. As a business owner, you should develop an exit strategy and do long-range financial planning in anticipation of the day you turn the business over to others.

The earlier that financial planning begins, the better. The most cost-effective options are available to owners in their 40s and 50s. By funding a tax-qualified retirement plan up to the legal limits early on in your business career, you not only create a significant amount of capital for retirement, you create important options for satisfying succession issues. One owner of a family business who took this approach was committed to having enough money set aside to be able to leave the business to his three children without having to burden the children or the business with payments to him. His strategy proved successful.

Here are several prerequisites to successful planning for every owner of a family business:

### 1. Find the best possible financial professionals.

Financial professionals who can assist in identifying and setting personal goals and helping develop an exit strategy. Once a structure is in place, an attorney who understands the implications of tax laws and the complexities of buy-sell agreements can draft the right documents for your company. Your financial professional will be key in making certain that the agreements are funded with the proper planning tools that will turn your financial dreams into reality.

### 2. Avoid family conflict.

Owners need to step back from the emotions that often bind families, and consider strategies that address the issues regarding succession considerations for everyone involved. Family conflict can be the ruin of successful planning. Treating all family members fairly can be accomplished, but does not mean that all family members must be part of the business.

### 3. Keep an open mind about succession issues.

One of the most difficult challenges is dealing with family members who choose not to be a part of the business. Also recognize that your vision and that of your successors might be very different. Deal with the issues openly and honestly, because to ignore them could be costly. You can eliminate the sources of potential conflict, and still give the business the liquidity it needs to survive a transition in leadership.

### 4. Provide adequate funding to see your vision fulfilled.

This can be done via tools like life insurance, individual disability insurance and overhead disability insurances. These products provide the dollars needed to keep your business running smoothly. They also provide a fair share of the company's worth to all involved with minimal conflicts. As one example, life insurance proceeds are income-tax-free dollars that are available for the payment of estate taxes—a key issue for family business owners with estates valued at more than \$2 million. But planning is necessary to ensure that the funds they offer are available when you need them.

Your key employees, partners or even a knowledgeable competitor can be beneficiaries, assuring they will have the funds



Carrie Seligman, JD, LLM

to purchase the business entity from the remaining interested parties and continue the business when you either retire or die.

### 5. Link succession planning to estate planning.

Keep in mind that any financial planning for the business will have a direct effect on your estate. Careful consideration should be given to the estate and gift taxes associated with transferring your business interest to family members. Your financial professional should be instrumental in defining these pitfalls and helping minimize the possible transfer headaches. Your financial professional should be aware of all the pieces and can help design the most effective method for passing on your business. Don't fall into the trap that jeopardizes too many family-owned businesses – the failure to properly prepare for a transition in ownership or a lack of adequate funding to complete your financial goals.

*Carrie Seligman, JD, LLM is the Director of Business and Estate Planning with Northwestern Mutual Financial Network based in Boston for The Northwestern Mutual Life Insurance Company, Milwaukee, Wisconsin.*



### Northeastern #1 In Co-ops

No other university is as committed to integrating work experience and classroom learning; no other university does it as well – a fact recently recognized by U.S. News & World Report in "America's Best Colleges 2003." Northeastern University was ranked number one in the country among "programs that require or encourage students to apply what they're learning in the classroom out in the real world."

# Family Business Forums Expanding in Response to Growing Member Interest

NUCFB's Advisory Board



Members at a recent meeting, from left to right, David Gumpert, Karen Bressler, Jeffrey Wolfson, Janice Shields, Peter Talbot, David Feldman, Jim Molloy, Jim Kaloyanides, Paul Karofsky, and Peter Berenson.

Northeastern's Center for Family Business is considering adding a new constituent forum addressing the challenges facing siblings and cousins, according to Paul Karofsky, the center's executive director.

"Our three existing forums have become extremely popular with members, he said. The existing ones address issues in the following areas:

**Seniors.** This includes members mostly in their 50s, 60s, and 70s dealing with matters that face the senior generation in family businesses, such as "letting go" and involving members of the younger generation.

**Leadership development.** This includes members mostly in their 20s, 30s, and 40s, who are preparing themselves to assume more responsibility within their family businesses.

**Intergenerational.** This forum brings together representatives of different generations in family businesses – fathers and sons, mothers and daughters, etc. Within the forum, they discuss their different perspectives on the family business.

The forums have been as successful as they have, according to Karofsky, "because, family businesses don't want to be spoken to. They want to be listened to." The forums "give them the feeling, 'I'm not

alone.'"

For further information about becoming involved in a forum, contact Karofsky at 781-320-8015, or email him at p.karofsky@neu.edu.

## Core Program Schedule Falls into Place

The core program at Northeastern University's Center for Family Business for 2002-2003 has been finalized. The first session was held September 25 (see article on page 1). Details of the remaining sessions are as follows:

**A TOUGH NUT TO CRACK: An Edu-tainment Dinner Theatre Presentation (October 24).** Based on a true story about a father and a son, this one-act play is written by Ira Bryck, director of Umass Family Business Center. For Ira, who spent 17 years in his family's business, this is his third play about family enterprise. The evening with cocktails, dinner and drama allows you to be a "fly on the wall" and view many classic family business issues. It might even help break the ice and stimulate dialogue among members of your family around issues critical for survival.

**WHEN THE GOING GETS TOUGH...A Family Business Case Study (November 21).** Kathy Bartlett is a woman in what has traditionally been a man's business. As third-generation heir to leadership, Kathy has to contend with a chauvinistic management team, a major plant relocation, an economic slowdown, pressure from their lender, an ineffective president, and a need to plan for the future in the midst of abundant uncertainty. Oh, to boot, she's a single mom with a young child! How can she possibly do it all?

**PERFORMANCE ENHANCEMENT THROUGH STRATEGIC QUESTIONING (March 13).** Have you ever noticed how hard it is to break through your old assumptions about business, change, people, and even yourself? Do your family members and staff often respond to new ideas with doubt, cynicism, and resistance? Do your questions strike others

like blunt weapons? Enter Strategic Questioning and Paul Lipke, Director of Programs and Training of Sustainable Step New England. This highly interactive workshop will enable you to use a questioning technique that will break assumptions, allow for fresh perspectives, and re-energize family and staff. Participation by multiple family members will allow for maximum effectiveness and practice implementation.

**A Business Family Case Study and Panel of the Experts (April 29)** The Center's sponsors bring enormous knowledge and skill to the fore as they again grapple with a real family business case study and share their expert perspectives. At round-table discussions, participants will examine issues of their own concern as they relate to the matters in the case. After the group discussions, attendees will have the opportunity to have coffee with the sponsor panelists in small-

group settings to explore, one-to-one, the issues of their own immediate concern.

**THE FAMILY BUSINESS RETREAT: Your Investment in the Future (May 20)** A retreat is a special time to set aside in the busy lives of families, where family issues can be addressed in a non-confrontational atmosphere. This reduction of conflict provides an opportunity for communication, problem solving, policy making, future planning, and strengthening family relationships. With noted family business experts, Drs. Joyce and Bob Brockhaus as our guides, we will learn how the retreat can also serve as a time to celebrate family and business accomplishments and provide educational opportunities for the younger generation. This workshop will serve as your roadmap to the entire retreat planning process, including an assessment of needs, identification of goals, agenda development, some "dos" and "don'ts," and the role of a facilitator.

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### Goulston & Storrs, P.C.

With more than a century of experience in advising family and closely-held businesses and their owners, Goulston & Storrs is skilled at representing businesses at each stage of development and often over the course of several generations, guiding our clients through the most significant events in the lifecycle of their businesses. With over 150 attorneys in our Boston office, we provide sophisticated legal services in virtually all areas of the law to a broad range of local, national and international clients. For more information, please visit us at [www.goulstonstorrs.com](http://www.goulstonstorrs.com). Jeffrey S. Wolfson is available at (617) 574-4146.

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### Citizens Bank

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Citizens Bank is New England's second largest banking institution with a full array of commercial and consumer banking products and services. Our Corporate Banking Group is especially focused on serving New England's privately-held family businesses, their owners and their employees. For assistance with your banking needs, Lisa Murray is available at (617) 725-5667.

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Forman, Itzkowitz, Berenson & LaGreca has been building long-term relationships with clients, their businesses and their families for over 60 years. In addition to traditional accounting and tax preparation services, we provide a full range of financial services and consulting designed to minimize taxes and maximize wealth in accordance with each client's goals and objectives. Our medium size enables us to offer clients the best of both worlds-technical expertise and close personal attention. Peter Berenson and Carl LaGreca are available at 617-964-2800.

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Northwestern Mutual, established in 1857, manages \$86 billion in assets, receives the highest ratings possible from all four major rating services, and has been recognized by FORTUNE as "Most Admired" Corporation 1983-2000. The Northwestern Mutual

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### Shields & Company

Shields & Company was founded in 1991 to provide investment banking services to private and public New England companies. The firm assists its clients in achieving their long-term growth and shareholder objectives. Clients today include over 150 private and public New England companies and generally range in size from \$25 million to \$500 million in annual sales. Investment banking services include mergers and acquisitions, capital raising (including recapitalizations), business valuations and fairness opinions, and financial advisory assignments. Shields & Company's managing directors serve on the corporate Boards of Directors of over 15 New England public and private companies. Shields & Company personnel include fourteen professionals, including six managing directors. Jan Shields can be reached at 617-946-2900.

For More Information—Call (781) 320-8015; <http://www.cba.neu.edu/fambiz/> – e-mail: [p.karofsky@neu.edu](mailto:p.karofsky@neu.edu)

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