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## ***An Eccentric Succession: Conversations with the Cakebreads***

### **Beating the Odds**

The survival rate of Family businesses in America is dismal. Of the businesses founded in 1994, according to the Family Firm Institute ([www.ffi.org](http://www.ffi.org)), a mere 5 percent survived to 2004. Seventy percent of these will fail the transitions to the second generation. Of the 30 percent of these that succeed, only 10 percent will pass into the hands of the third generation of family owners.

The relatively young California wine industry has only recently begun to confront this first generational hurdle. “There are probably about 1,063 wineries registered in 2003,” observes ***Deborah Steintal, founder of Scion Advisors***, a consulting firm that works specifically with wineries transitioning from first-to-second generation ownership. “I don’t know of any studies done on this, but I’m guessing that a few hundred are now going through succession.”

The industry’s maturity complicates this process for many family-owned wineries. “Families are dealing with a much more complex environment,” Steintal says. “There’s consolidation going on in the industry and tougher competition on the sales and marketing side. Many of these businesses have not been set up to make the difficult decisions they’re facing. They don’t really have professional management or best practices in place.”

Steintal recommends that families first ask themselves what success constitutes for each member. Often, she says, wine families initially respond with ‘lifestyle’. Sustainability and profitability rank second and third. “You’re looking at an enterprise that is very much family first, as opposed to business first. You build a very different business around a company where the objective is lifestyle. For some families, this requires that the entire estate remain intact as it’s moved on to the next generation.”

To accomplish this goal, parents must cultivate the leadership of the second generation by involving them in the business, then stepping away from day-to-day functions. “(Parents) should change their role from the controlling, driven entrepreneur to more of a coach and mentor,” Steintal says, “creating a framework for decision making that is created around the next generation. Frequently, it’s done in the form of a governance structure, which is, I believe, what Jack Cakebread has put in place.”

These governance tools include not only formal family missions that define goals, shared values and entrance/exit options, but also advisory boards. “There are a number of advisory boards in this industry,” Steintal notes, “but they’re mostly comprised of family members. Jack is one of the few who actually established an outside presence. We’re trying to help our clients take a first step toward working with outside directors for objective decision making, because the whole process of managing an advisory board is not intuitive.” *Brett Anderson*