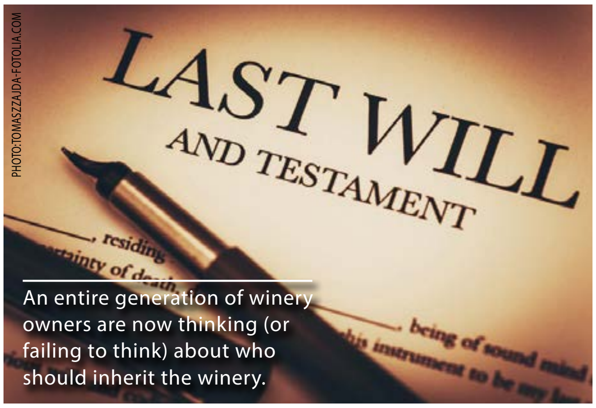
3/18 MEININGER'S WBI

THE HARDEST HANDOVER

Wine businesses across the world are facing questions of how and when to pass the business on to the next generation, says Rebecca Gibb MW.



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An entire generation of winery owners are now thinking (or failing to think) about who should inherit the winery.

Death may not be a favourite for dinner party conversations, but it is a discussion that winemakers need to start having with their peers and loved ones. Baby boomers, who pioneered large swathes of the New World's vineyards, are reaching or have reached retirement age and are now looking to pass on their businesses to the next generation, but many are ill prepared for the transition of their businesses to new hands.".

While some wish to avoid the topic, immortality is not not a succession plan. Succession planning is hardly new – Italy's Antinori family is now in its 26th generation – but it is a timely issue, particularly for many first-generation wineries from Napa to New Zealand. According to the Family Business Institute, 75 percent of businesses don't transition to the second generation and only one percent survive past the third.

In 2008, the Silicon Valley Bank co-authored a report on Ownership Transitions in the Wine Industry, which surveyed close to 250 family wineries across the US and found that 51 percent of respondents were expecting to go through a change in control within 10 years – whether that was handing over the reins to the next generation or selling the winery. Looking back, the Bank believes that its predictions were accurate.

The report's co-author, Rob McMillan, executive vice-president of Silicon Valley Bank's Wine Division, reflects on the decade that followed the publication of the report. "The transition has been herculean," he says, adding that the industry has moved from a period when wineries were never sold, to a decade where "we've seen professional M&A [merger and acquisition] firms evolve to support the flood of winery sales and consolidations, and a percentage of transitions continuing family traditions with next generation assuming leadership".

McMillan adds: "The original report was prescient in pointing to what we've experienced in the last decade." The change is ongoing: in 2017, the Bank's annual report on the State of the Wine Industry found 50 percent of US wineries (not necessarily family owned) deemed it likely or a possibility that they would sell within five years.

With four in five family wineries in the US still in the hand of first-generation owners, the process of planning for the future is a new challenge, which many have failed to tackle. Less than half of the respondents in the 2008 survey had started any form of estate planning, although McMillan notes that in the US, a host of transition seminars were put on by law firms and business planners following the publication of the report.

The unprepared are not alone: in New Zealand, whose wine industry has grown from 131 wine companies in 1990 to 677 in 2017, a large number of first-generation winery owners are apparently unprepared for succession or sale. Auditing company Deloitte undertakes an annual financial survey of the New Zealand winery and succession is low on the lists of winery concerns. In its 2017 report, its authors expressed surprise at its low ranking "given, anecdotally, we understand many view this as an important issue in the wine industry, similar to other agricultural industries in New Zealand. With the age of the country's farmers sitting at an average of 48 and with 15 percent over 65, it is worth considering the extent to which this also impacts the wine industry."

The report went on to say: "While consolidation in the industry can have positive effects, we see the potential for many business owners having to settle for less (lower sale prices) in unplanned succession events, as opposed to those who are planned early and properly."

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Tony Cleary, co-founder, Lanchester Wines and Greencroft Bottling

There are obstacles for transitioning family businesses: there may be no heir, there may be heirs not willing nor capable of taking over the business, or there may be multiple heirs competing for the top role. Coupled with a senior generation who don't want to let go of their business "baby", it's not surprising that many businesses don't take a proactive approach to succession planning; it is both an emotional and commercial decision.

Tony Cleary, co-founder of Lanchester Wines and Greencroft Bottling in County Durham, England, has three children waiting in the wings and admits he finds the thought of handing over control psychologically challenging. "It's extraordinarily difficult because I have been doing this for 38 years and I don't want to retire but we had to start making plans – we have kept the children out for too long." It's a common problem that the senior generation does not want to cede control.

In an effort to progress with the transition, a fellow family business owner recommended an intensive week of succession planning in Lausanne at IMD Business School's Global Family Business Center. Cleary says: "I told them on the first day that I thought our business was different, but then when they started going on about how the owner-visionary doesn't want to let go of the business and so on, and I thought 'Bloody hell, that's me'. As the week went on, I realised we were not as different as I thought."

A seemingly smoother transition has taken place at Napa Valley's Staglin Family Vineyard. Shannon Staglin, daughter of founders Garen and Shari, has taken over the family business as president. "My parents have given me the space to find my way as a leader and given me the opportunity to make decisions and to learn from them," she says. "As long as I provide sound reasoning, they let me proceed. Relinquishing that control is very difficult and often doesn't happen; you have the next generation who feel like they can't effect change and don't have any impact."

The transition has been a long time coming: from day one in 1985, the Staglins had put plans in place for their two children to take over, if they wished, creating an estate plan and gifting shares of the vineyard on an annual basis; each of the siblings own 19 percent of the vineyard today. However, many baby boomers, particularly in a first-generation business, don't wish to force their children into taking over the firm and the Staglins were no different.

Shari Staglin says: "We told the kids: 'The vineyard is our dream but if you want to work for the winery you have to do something else for at least five years, so you can understand what life is like outside the business'."

Children that work outside of the family wine business can bring a new approach and new skills, according to Paul Woodfield, senior lecturer at Auckland University of Technology. He has a special interest in the field of family business for personal reasons: his great-grandfather, Assid Abraham Corban, emigrated from his native Lebanon to New Zealand in 1892 and 10 years later bought a nine-acre block of land in West Auckland. The Corbans became a pioneering New Zealand wine family and grew quickly in the 1960s, with outside investors coming on board, which eventually led to the family selling the business.

Woodfield's work has turned knowledge sharing in family business on its head. Whereas most academic studies have looked at knowledge sharing from senior generation to the younger in-coming generation, he has investigated the knowledge that the younger generation bring to the business. There is anecdotal evidence that the next generation is spending more and more time outside of the family firm, they obtain tertiary qualificiations, work in different businesses and can bring much-needed skills to prepare the business for future success.

"There's a lot of tacit knowledge in the wine industry because kids grow up around wine and that is advantageous when the family comes back together," says Woodfield. "There is a shared culture and the children bring their new knowledge and vocation back to the business."

It is also important for successors to have their own "babies" within the company, whether they want to introduce organic practices to a small section of the vineyard, open a hospitality hub at the winery or create a charitable brand. Cleary's son, Ben, for example, is more interested in brewing beer than bottling wine. "You have to let them do their own thing in the business," says Lanchester Wines' Cleary. "We don't want to force people into careers: the world is full of children who have ended up with parents' businesses that they did not want. Who am I to to be telling them what to do for the next 30 years?"

To acccomodate the changing face of the company, the business now has a family board, owners' board and management board: the family does not lose its control but day-to-day business matters are left to a business-minded management team.

Succession planning can be a decade-long process. To avoid becoming part of the 75 percent of businesses that don't make it past the first generation, getting the right advice from outside experts from business advisers, lawyers and accountants, and drawing up a family business plan, is a positive first step towards a sustainable future because, sad though it may seem, no one lives forever. W

PLANNING FOR SUCCESS

Deborah Steinthal is managing director and founder of US-based consultancy Scion Advisors, which has a speciality in exit and transition strategies for family-owned wine businesses. She offers her expert advice on succession planning:

1. Be prepared for the unforeseen. You should run your winery as if you plan to sell it within 10 years. This philosophy focuses owners on improving performance by applying effective, common-sense business practices that enable their businesses to be strong enough to sustain a major transition in ownership and leadership.

2. Define unambiguous family policies for family business participants. Family business continuity planning is a practice adopted by many successful family businesses and culminates in specific guidelines that address family participation in the company. It involves ongoing family dialogue around issues critical to a family's future, and helps family members communicate, refine and understand their legacy and vision of the future.

3. Establish effective governance practices. The time to add outside perspective to your team is when you commit to succession. At best, the process of succession is a chaotic time, making it very hard for business insiders to focus clearly. As such, successful family businesses embrace advisory boards, while progressively hiring outside directors.

In addition, she advises adopting four critical steps to transition the business:

A. Stop and take stock;
B. Define success;
C. Develop a reality-based plan; and
D. Execute through the right people.

Even if there are no immediate plans to transition the business to the next generation, these tips will help position the winery so that management can take advantage of opportunities and respond to challenges.

Taking the time to consider whether the business is well positioned and prepared for a transition to the next generation, and assembling and talking with a trusted team of advisers will pay off, whether or not there is an exit in the immediate future.