OCTOBER 30, 2022

The Family Corner Newsletter

OCTOBER IS A MONTH TO FOCUS ON FAMILY ENTREPRENEURSHIP

Starting a business can bring family members closer and allow you to build something together.

These businesses can create wealth and opportunities, along with a legacy for future generations.

Investing in the financial education of your family will help you start and run successful and generational business.

It will also equip you with skills on how to invest wisely and how to manage money.

VOLUME 10

Newsletter Highlights

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HOW TO MONETIZE YOUR GIFTS AND TALENTS AS A FAMILY AND START YOUR FAMILY BUSINESS

Families are encouraged to have multiple-streams of income in order to create inter-generational wealth. Family finances is one key focal area that families should look at and put time into planning. When a family neglects discussions about family finances, the lack of or the abundance of finances in a family can cause a lot of problems. Family finances is one pillar that strongly supports the family vision that is why it should not be neglected.

Families can get finances from either being employed or starting family businesses, or both. Reliance on one stream of income is not recommended for sustainability and for developing a family legacy. Some people are very entrepreneurial but others are not natural entrepreneurs. For those who battle to start family businesses the best way to do so is to look at the gifts and talents that family members have. We have neglected the gifts and talents that have been bestowed on us. If we spend a lot of time identifying gifts and talents that we have as a family it is easy to look at the identified gifts and talents and start mapping out how to use them. The good thing about starting a family business that emanates from your gifts and talents is that, there is no struggle for passion and commitment. Gifts and talents are areas of expertise that you do without even thinking which will give you an added advantage when running a business.

Most people have looked at their gifts and talents and have treated them as hobbies and yet if looked at with an entrepreneurial eye can result in powerful family businesses. There are certain gifts and talents that flow in families, they can be identified from one generation to the other. If you are able to identify such gifts, treasure them and spend time figuring out how they can be monetized.

"A man's gift opens doors for him, and brings him before great men' (Proverbs 18:16).

I believe every family has gifts and talents that have been given to them. Spend time together identifying these and take a step further and look at how these can be monetized to start a family business.

Rose Zunga

CREATING LEGACY BUSINESSES - A CASE STUDY OF THE STRAUSS FAMILY

Would it surprise you to know that the Levi's' iconic brand and company is family-controlled – nearly 170 years old and in its 5th generation?

It's an inspiring story of a successful family business that did what was necessary for the longevity of both the family and the business by paying close attention to financial and non-financial goals. Over the decades, this business family encountered peaks and valleys, massive successes and failures, and yet somehow has survived and remained family-controlled to this day. Its revenues are in the billions and it has fostered a rich family history of impactful philanthropy and community leadership.

Levi Strauss & Company's roots are in the California Gold Rush of the mid-1800s. As his company grew, Levi carried on with other business pursuits and eventually became one of San Francisco's greatest philanthropists. When he passed in 1902, Levi and his wife had no children so he passed the family business to his four nephews – a move that preceded decades of significant expansion for Levi Strauss.

Securing the next generation.

In addition to passing on the business, Levi left his nephews (Jacob, Sigmund, Louis and Abraham Stern) with an estate of $6 million, an enormous sum at the time. But, over the years, sales began to plummet – to the extent that the four nephews contemplated liquidating the family business. Fortunately, the next generation of family management – the Haas family, descendants of Levi Strauss via the Stern family – was in the process of joining the business. This move would ultimately secure the family legacy (and business) for decades to come:

- It was now the late 1920s and the third generation for the business. Jacob Stern's son-in-law, Walter A. Haas joined the company and strongly urged keeping the business. He had a vision, and within two years of becoming President of the company managed to significantly boost profits by shifting the business from dry-goods to manufacturing and distribution. The company diversified its product line and began targeting younger buyers of Levi's jeans.
- Walter's son, Walter Jr., joined the company in 1939 and eventually became CEO and President (1958-1976). As the fourth-generation leader (alongside his brother, Peter Haas) he focused on expanding internationally. This led to his decision to take Levi Strauss public in 1971 – a move that increased overall capital and enabled further expansion of the business.

Eventually, the company (and the family) encountered difficulties.

As the fifth (and final) family member to lead the company, Robert Haas (son of Walter Jr.) stumbled. The business became too complex, unfocused, with too many decision makers. The family eventually agreed it was time for significant change. It made the decision to look, for the first time, to hire a non-family member to lead the company. This is a key shift in thinking for many business families.

Chris Bergh, who became CEO in 2011 quickly set out to address fundamental issues the family business needed to fix, including:

- Defining a clear strategy for Levi Strauss & Co.
- Aligning the organization;
- Transforming the brand to compete in an evolving and hyper-competitive leisure-wear market; and
- Creating shareholder value for the Haas family by increasing sales and decreasing debt levels.

Eventually, Bergh decided it was time to take Levi's public once again. So, in 2019, Levi Strauss & Company officially went public for the second time in its 169-year history. This time, the move seems to have produced wins for both the business and the Haas family.

- Despite no family members on the board or in leadership roles, the family remains the largest shareholders, controlling just north of 75% of the company's shares and voting rights.
- Today, the Haas family's shares are worth a bit more than nine times what they paid in the 1984 leveraged buyout. Their collective net worth is over $4 billion. And revenues are up nearly 30% from 2020.

From Levi's original trek to California from Germany – through the ups and downs of a private and public business – life has been a true journey for the Strauss, Stern and Haas families. They stuck with it, endured and survived in challenging times. In the end, their patience and resilience kept the legacy and family business alive – a legacy Levi Strauss would be proud of.

I hope this story inspires you as you embark on a journey to creating your family legacy.

CHILDREN IN BUSINESS - INTRODUCING CHILDREN TO INCOME GENERATING IDEAS FROM A YOUNG AGE

There are kids that grow up ready to take on the world. They have the attitude, the skills and can spot opportunities that are right for them. They are excited about life, they are prepared and know they will handle whatever life throws their way.

More than ever, successful kids are exposed to ideas normally associated with entrepreneurship. To be a successful entrepreneur requires creativity, empathy, communication skills, problem-solving ability, practical mathematics and a knack for spotting something at the right moment and having the confidence to act. Raising a child with an awareness of entrepreneurship and the associated skills can change their life for the better even if they don't go on to start or scale a business. At the very least, the same set of skills will steer them towards opportunities that are right for them.

Your kid doesn't need to actually be running a business, employing people and presenting pitch decks to investors in order to gain these skills - Being a kid is stressful enough. Introducing your child or teen to entrepreneurial ideas can be simple. Things like describing work as something fun and creative, letting kids buy the groceries online, paying pocket-money for results rather than chores and getting a teen to pitch using PowerPoint slides for that pet they want you to buy.

Here are some few ideas that can help you to get started.

1. Develop an entrepreneur mindset - Instil beliefs and values that are aligned to entrepreneurship very early. An entrepreneur mindset will give them an awareness of opportunities to create something of value, to positively disrupt a situation, to collaborate towards an outcome or to make money on their own terms. Rather than seeing the world of work as something to be endured and tolerated, you'll give them an understanding that work can be fun, creative and rewarding.

2. Introduce entrepreneurial skills - Give them a chance to develop skills like sales, pitching, marketing, product creation, accounting, customer service, deal-making, negotiation and leadership will change their life no matter what they eventually do for work. Rather than purely focusing on the academic skills that are needed to get good grades, raising entrepreneurial kids is about developing the soft skills that are often associated with dynamic careers.

3. Give them real-world opportunities - We learn by doing. We also learn by experimenting, tinkering and making mistakes. Rather than shielding your children from the outside world, protect them as they interact with real-life entrepreneurial scenarios that teach powerful lessons.

4. Mentor them (rather than teach) - Entrepreneurs at any stage of business can benefit from the guidance of a coach or mentor. A coach or a mentor guides kids towards more resourceful ideas and behaviors without necessarily telling them the answers. You may also encourage your children to meet and learn about entrepreneurs who create jobs rather than work in them, who have invented something, done deals or managed a successful business. Introducing your kids to entrepreneurial role-models in the real world can leave a lasting impression that "if it's possible for them it's possible for me".

Ultimately the bigger picture of raising an entrepreneurial kid is not about pushing your child to be the next Steve Jobs or Anita Roddick — it doesn't even matter if they never start a business at all in their life. What matters most is that your child feels a sense of control in this strange world all in their life. They feel they have the power to set good goals that are right for them, pursue those goals and pivot when they chose to. These ideas and skills will serve them no matter what they chose to do.

HOW TO PRESERVE FAMILY WEALTH

It is estimated that 90% of affluent families lose their wealth by the third generation.

For example, the world-famous Lacoste sports brand, owned by the French Lacoste family for eighty years, was sold to investors due to a long and angry conflict between the second and third generations about the company's leadership. Gucci, the iconic Italian luxury fashion brand, is another case of how infamous family feuds can lead to losing ownership in a family business.

There is need to take a proactive approach to tackle the inevitable obstacles that family businesses will encounter with succession and inter-generational wealth transition. Family offices should therefore gain a clear understanding of the challenges and risks they may face and learn how to manage and mitigate these.

The following are three reasons for family wealth erosion and the actions that may be taken to overcome them.

1. Embracing The Next-Generation - Too often, family wealth is eroded due to a lack of trust, transparency and communication between current leaders and their heirs. The underlying concern is often that the next generation is not fit for leading the business into the future, nor managing the family's wealth. In order to overcome the intergenerational challenges a family may face, there is need to build trust through proactive engagement, provide the right education, provide mentorship and embrace purpose and impact.

2. Governance - In today's complex business environment, a robust governance framework is critical to the sustainability and success of modern enterprises and family businesses are no exception. Without strong governance, business continuity can suffer causing significant inefficiency and disruption, especially when individuals voluntarily or involuntarily exit the business.
In order to mitigate these risks, families may consider **proactively developing a continuity plan.** This is critical to ensure that the right people are assimilated into the right roles. It is also important to ensure that successors can seamlessly occupy a vacated role that is well-defined in how it functions and supports the business and has a clear mandate in terms of decision-making responsibilities.

3. Financial Planning - Preserving wealth becomes increasingly difficult as it shifts through generations. One simple reason for this is the fragmentation that occurs as the inheritance is spread out across a broad range of heirs and complex geographies. Controllers of the family wealth may also end up taking unnecessary risks or choosing to invest in very low-risk investments and then find the wealth being eroded by inflation. Poor tax planning has also been a major contributor to many wealthy families experiencing a significant reduction in wealth over time.
Measures that can be put into place to mitigate these issues include:

- **A well-drafted will** that takes into account the diverse tax regimes and legislation where assets reside is essential.
- **Establishing a trust and appointing an impartial trustee.** Having a neutral and objective trustee can assist in ensuring that wealth is properly managed and distributed without emotional influences.
- **Creating a family constitution** to instil values and limit conflict, creating consensus on investment strategy and philanthropic vision.
- **Employing a financial planning professional** to assist with creating an investment and wealth management roadmap to guide how wealth will be managed and invested into the future.

By embracing the next generation and actively involving them from a young age, family businesses give themselves the best opportunity to shift beyond wealth preservation into growth and transformation. Coupled with a robust governance framework and sound financial planning, family businesses can build the foundations of a lasting legacy of wealth.

DIFFERENT STREAMS OF INCOME

If you read many stories about entrepreneurship, you've probably noticed that most entrepreneurs have multiple streams of income. Mostly by design, business owners go to great lengths to make sure they have money coming in from all directions – or, as some might say, "making sure their eggs aren't all in one basket." Entrepreneurship isn't easy, and income streams dry up all the time. By having money coming in from multiple sources, entrepreneurs can make sure the money never stops rolling in.

Income rolling in from all over the place sounds great, right? Unfortunately, it's hard enough for some people to figure out how to create a single income stream, let alone more than one. If you're like most people, you probably have one primary source of income. And while there's nothing wrong with that, relying on a single stream of income can be risky. For example, what would happen if you lost your job or your primary source of income dried up? Many experienced this during the pandemic with job loss and furloughs.

Let's take a closer look at the 7 most common sources of income for millionaires.

1) Dividend Income – Income from stocks, mutual funds, and ETFs that are held in a brokerage account. When a company makes profits, it can choose to reinvest that money back into the business or pay out a portion of the profits to shareholders as dividends. The more investments you buy that have dividends, the more money you can make.

2) Rental Income – Money earned from renting out properties, whether they're homes, apartments, commercial real estate, or storage units. Rental income is passive because all you need to do is collect the rent checks! Rental income is a great way to build wealth because it's relatively easy to obtain and maintain properties, and the returns can be very high.

3) Earned Income – Earned income is the money you make from working. It's the most common and well-known type of income, but it's also the least passive. If you want to earn more money, you have to work more hours. There's no way around it.

4) Royalties from books, inventions, etc. - Royalties are payments made to you for the use of your intellectual property, such as patents, copyrights, and trademarks. For example, if you invent a new type of widget, you can sell the patent to a company that will then pay you royalties every time they use your invention. Or, if you write a book, you can sell the copyright to a publisher and receive royalties every time the book is sold. Royalties are a great way to generate passive income because you can earn money without having to do any work!

5) Business Income – Business income is the money you make from running a business. This can be either earned income (if you're self-employed) or passive income (if you have an investment in a business). Either way, it's money that you're making from your business. Business income can be very high, especially if you're running it.

6) Interest Income – Interest income is the money you earn from lending your money to someone else. For example, if you have a savings account, the bank will pay you interest on the money in your account. Or, if you invest in bonds, you will receive interest payments from the bond issuer. Interest income is a great way to generate passive income because you can earn money without having to do any work! The key is to invest your money in a safe and reliable investment that will pay you a consistent interest payment.

7) Capital Gains – Capital gains are profits you make from selling an asset for more than you paid for it. For example, if you buy Tesla stock for $100 and sell it for $200, you have made a capital gain of $100. Capital gains are a great way to generate passive income because you can earn money without having to do any work.

FAMILY ENTREPRENEURSHIP PROGRAMME

A step by step guide to creating family intergenerational wealth

REGISTER TODAY

WHAT YOU WILL COVER:

- Family business strategy
- Creating a family business culture
- Succession planning to entrepreneurship,
- Dealing with family business challenges

WHAT YOU'LL BENEFIT:

- Basic foundation for a truly viable multi-generational family business
- Keeping the business afloat through economic changes and generational changes

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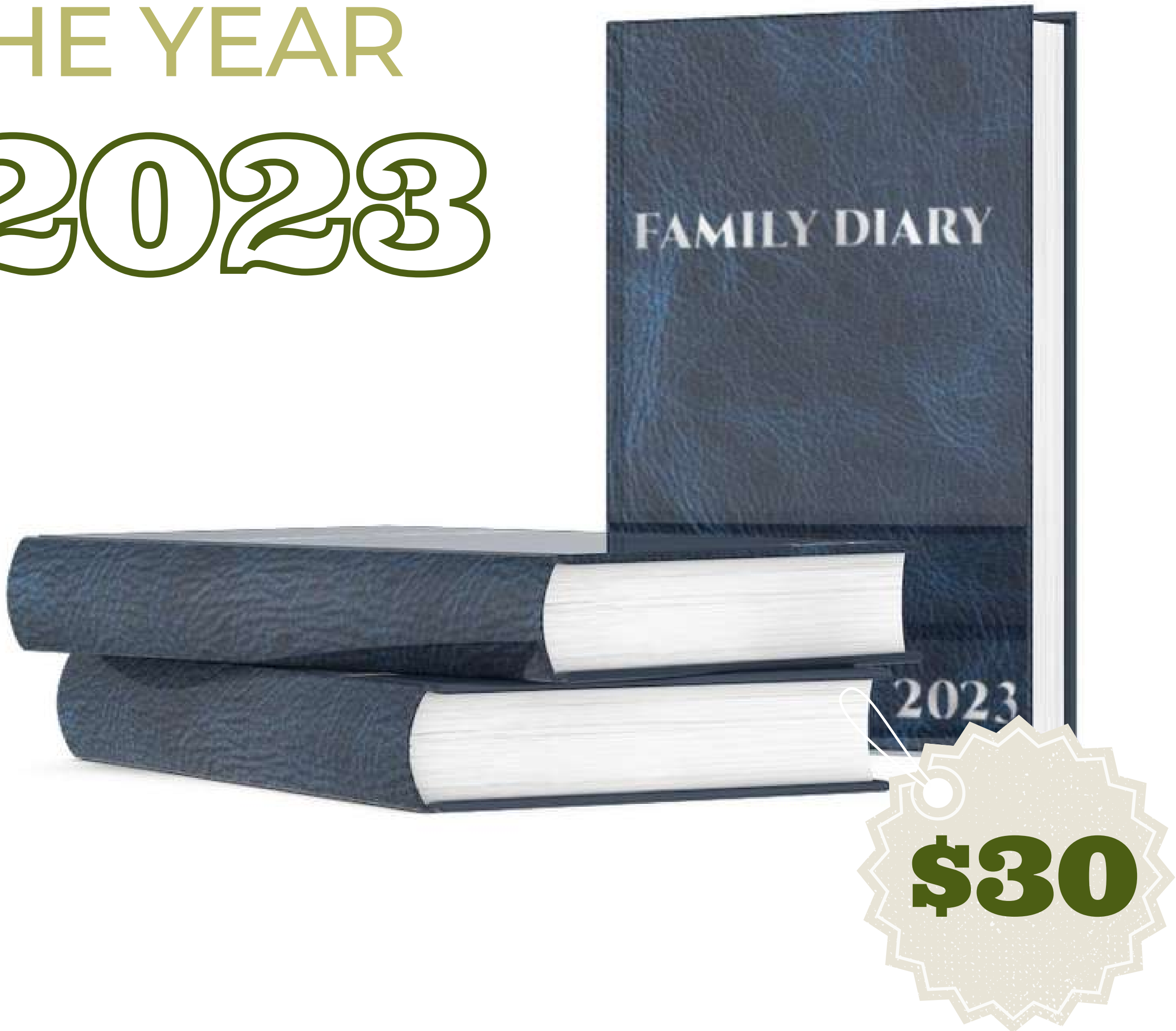
DOMINATE THE YEAR

2023



The 2023 Family Diary will help you to stay on track so that you can achieve the best possible results and reach your family goals.

Using the diary will help you to schedule your family events and align them to your work or business events. Follow us on social media for more info.

WHAT IS YOUR NETWORTH?

THE FAMILY

BALANCE SHEET

Find out where your family stands financially by clicking the link on our instagram bio: **@familydevelopment20**

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August 2023

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An initiative by Centre for Family Development to help families connect and strengthen relations through leisure.