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Father-and-Son Studio Business Hits All the Right Notes

When you buy tickets to see your favorite band in concert, you expect an epic show. And that doesn't happen by accident. Like any professional pursuit at the highest levels, the band's two-hour performance is dwarfed by the time they spend preparing for a tour.

Wynnsan Moore, president of L.A.-based Third Encore Studios, likens the process to baseball spring training.

"You can't put a pitcher out there and say, 'OK, go throw nine innings,'" he says. "He needs to go through the three- or four-week process of building muscle memory. It's the same when you see the Rolling Stones up there doing 28 songs, and Mick Jagger bouncing around at 79 years old. It took a lot of work to get there."

Building in Stages

Moore's pointed insight comes from years of experience — namely running Third Encore, a family-owned and -operated rehearsal studio in north Hollywood, a stone's throw from the Hollywood Burbank Airport.

The business launched in 1988 as a single rehearsal studio established by two road managers from the Eagles and went through several ownership changes in the '90s. Moore — with a background as a CPA, serial entrepreneur and real estate investor — purchased the company in 1999. The original facility included about 30,000 square feet, with three rehearsal stages and a handful of storage lockers.

Moore saw far greater potential for the concept of serving touring and recording artists in the bustling L.A. music scene. So, he and his real estate partner began buying small industrial buildings and converting them into music studios known as lockouts, which developing artists and bands could rent like apartments and access 24/7.

In subsequent years, they also expanded the main studio business, which features larger stages ranging from 500 to 2,400 square feet. Third Encore now owns eight buildings in the San Fernando Valley and one in Anaheim, with 265 lockout studios and seven fully equipped main studios with 70,000 square feet of total space.

Third Encore Studios has found success providing rehearsal space to musical artists in Los Angeles and the San Fernando Valley.

Riffing on Success

Moore's son, Alex, joined Third Encore as vice president and part owner a year and half ago and, like his father, brings a background in accounting and real estate investing to the business. Focusing on the operations side of the business — while Wynnsan concentrates on financial management — also enabled Alex to develop fresh ideas to build further on the company's reputation in the music industry.

One of the opportunities was to significantly increase their equipment rentals, known as backline, with new and vintage instruments, DJ setups and linear systems.

"Before, artists would call competitors or we would sub-rent equipment to them from one of our partners," Alex says. "Not only have rentals improved our revenue, but we're also providing a better, more full-service business and saving the artists money."

Alex also broadened the company's mindset on the digital side of marketing and promotion, from improving the website to creating Google ads.

"Word of mouth was always my dad's message, and we didn't want to be a target for fans to show up," he says. "But in today's day and age, if people want to find you, they're going to."

Paving the Way

If anything, Alex wishes he'd been involved in the business sooner.

"Honestly, I think my dad postponed way too long," he says. "But I had a really good foundation. He guided me through my career, and we've been talking about Third Encore for a long time. There was a lot of growth available, but no one to really capture and take advantage of it."

Enjoying the combination of mentoring and learning, along with a booming business, the elder Moore doesn't see himself retiring anytime soon. And he is learning about the nuances of running a family business.

"Alex and I get along really well, and we spend a lot of time outside of business," Moore says. "It can be hard to take off your 'dad' hat and put on your 'business partner' hat, and his risk tolerance is very high and mine is somewhat lower, so we have to negotiate. There's mutual respect for each other's skill sets, and because we both have a financial orientation, it's easy for us to communicate ideas to each other."

Artists' Retreat

Third Encore's main studio business runs the gamut of the music world, from legendary rock bands such as the Rolling Stones, AC/DC, and the Doobie Brothers to pop star Billie Eilish and a variety of hip-hop artists.

"At any point in time, we could have all seven of our studios filled with the most prominent names in the industry," Moore says. "And it's exciting because we also see developing artists, so it's both sides of the market."

Artists and bands come into a Third Encore studio space for anywhere from five days to three months to rehearse for a tour or a show in a soundstage environment that replicates what they'll encounter on the road. How long a band camps out depends on what their needs are, how long it's been since they last toured, and changes in the lineup.

"It's more complicated than people realize," Moore says. "Most of the artists are perfectionists — they don't want to rest on their laurels and play the same songs the same way."

Wynnsan Moore, president of Third Encore Studios, and his son Alex Moore, vice president.

Leveraging Challenges to Drive Continuity Planning Opportunities

By Stephen L. McClure, Ph.D., and Richa Singh

Succession planning and continuity planning are often used interchangeably when it comes to passing the torch in a family business. While succession planning implies an event like a leadership transition, we recommend thinking in terms of ongoing continuity planning. This approach is proactive, orderly, inclusive and transparent that starts early and considers much more than just leadership succession.

Of course, a planned path to continuity is much easier said than done. In our work, we recognize that unexpected challenges can serve as new opportunities for families to advance their vision for the future.

For instance, a successful family firm will not easily be inspired to plan changes when it has a capable, trusted business leader and strong, stable, unified family members who see themselves as stewards with enough fairness and wealth. However, if that same business family is presented with a lucrative offer to sell, they may be jolted into asking for the first time, "Do we want to *continue*?" Followed by, "Why continue? What's in it for my family, other stakeholders and me?"

Had they not received an offer to sell, what might have led them to consider continuity?

Identifying and Leveraging Drivers

Every family is unique in their own nuanced way but there are patterns of circumstances that lead families to begin the planning process and successfully follow through. As consultants, once we understand the family, we can identify the pattern and discover what moves them, what hinders the progress, and so on. We can then help the family find and leverage the drivers or tipping points that lead to serious action and commitment to continuity planning.

What are the drivers? The most common one revolves around the obvious need to replace the leader of the business. The leadership succession driver, like the offer to sell, can lead a business family to be strategic about all the factors important to generational transition and continuity. This article explores drivers that occur less frequently, but are common enough to fit into patterns.

Below are four cases illustrating drivers that pave the way for planning and implementing all the necessary continuity planning features.

In this article, we'll refer to the second generation as G2 and the third generation as G3.

Driver One: Phantom of the Past Trauma

The G3 heirs to McCloud Steel Works stood at crossroads. All 15 of them had different aspirations, plans and goals in life — some in the business. They knew that business ownership would ensure a comfortable and secure life for them, but all were keenly aware of the persisting business-related conflicts and estrangements among their seven G2 parents. No one wanted to be a part of the misery they witnessed throughout their childhood.

Some of the older cousins who worked in the business were acutely conscious of the potential to repeat G2's experience in G3. The eldest G3, Adam, reached out to each cousin with an invitation to a meeting at their ancestral home in St. Louis not far from McCloud's first factory. The meeting seemed like a futile exercise to some, but they all showed up and gathered in the large living room — hesitating and measuring their every word.

The message was simple: "Maybe we can't mend what happened in the past, but we can surely agree on our future together. Could we avoid what plagued our parents, overcome the residual family damage, and possibly give our own children a future choice?" This question caused a stir and grabbed everyone's attention. Excited discussion then replaced their previous uncertainty. The meeting ended with a commitment to learn what it would take to succeed together.

Driver Two: What's the Financial Deal?

Miles' grandfather built a successful construction business that was overshadowed by the success of his four children who built it into a large regional general contractor. The business provided exceptional cash flows to the siblings and had greatly appreciated in value over the course of their careers. In fact, the siblings realized it had appreciated too much when their financial advisers explained the capital availability, costs, tax liability and bonding limitations that would take place if they passed their ownership on to their children.

They never questioned if the business would be owned by their kids; they assumed it. But now, they were confronted with how to afford doing so. Miles was alarmed to hear this news as he was positioned to ascend as leader when G2 released control. His dad, aunt and uncles held their cards close to the vest, but he had always assumed they had a plan to get fair value for their ownership and provide an opportunity for his generation to run and grow the business just like their father had done for them.

Fortunately for all, it was not too late. The G2 siblings proceeded to get the best advice possible on a viable financial transaction. But the real value was provided by Miles who worked with his siblings and cousins to answer all the questions associated with G3 family business success.

Driver Three: We Have Ideas and a Voice

The six adult children of George and Susan Davis were all well-educated and possessed great skill sets. Luckily for George, they all wanted to be a part of the family business he founded. George ran the business as a one-man show for 40 years with four of his children working in various roles, two of which were in management positions.

His daughter Alana repeatedly tried to get George to communicate how the business would be owned in her generation, who might be eligible to lead it, and what the timeline was for his own involvement. George focused on the business and was not open to answering his daughter's questions or hearing her ideas.

His son Joe was the head of operations for five years, and abruptly quit one afternoon: "I can't be micromanaged and second guessed any longer." His father's pleas to reconsider were rejected. Alana was not surprised. She gathered her siblings, and they agreed that while their father was a generous, loving dad and a great entrepreneur, he was not a family business continuity planner.

They decided that a respectful, firm proposal was needed that went beyond relinquishing control. Further, it would be in writing with all six signatures. Alana would deliver it and inform their father that openness to listening to their proposal was a condition of Joe's return to work.

Driver Four: A Crisis Is a Stop and Start to Everything

Martha was 68 when she passed away in her sleep. At the time, she was an entrepreneurial legend, having built her family's highly successful business in her field of nuclear medicine. She had been preparing for a board meeting planned for the following morning. Josephine, board member and oldest of Martha's children, was the first to notice that something was wrong when Martha didn't show up to the meeting.

The board was quick on its feet to minimize the media frenzy and allow the family to process the tragedy in their own time. Located around the world, it took three days to assemble all her adult children and grandchildren. Josephine took the initiative to help the family understand the gravity of the situation and apprise them of the lack of continuity planning on behalf of Martha.

The family had never faced anything like this before; they matured overnight. Led by Josephine, they decided that it was best to appoint a nonfamily CEO with the understanding that the family would sort out the future of the business and their continuity as family owners within a year.

Other Trigger Patterns to Keep in Mind

In each of those cases, the families leveraged their unexpected circumstances to advance their continuity planning efforts. Of course, there are other unexpected events that can trigger families to consider their vision for the future including:

- Family shareholders confronted with a strategic business challenge, leading them to ask themselves about the business' future viability, then about family business continuity.
- A family member who proceeds to hire their own children without the involvement, consensus on qualifications, transparency or process to which other family owners feel entitled. This propels action around the owners' expectations and commitment.
- An uprising among nonoperating family shareholders that occurs when their relatives who operate the business seem to say, "Take your dividend, but don't interfere with how we manage the business for you." Once communicated that it will no longer be tolerated, they define the alternative.
- Revisiting and recommitting to family business' vision and purpose can also prove to be the driver for bringing alignment around continuity. As the organization evolves, stakeholders need to ensure that the vision and purpose are relevant to present times and resonate with the current players.

The Right Question Could Be the Answer

The sequence of questions in each case are, "What will happen to us if we proceed as is?" followed by "Why continuity?" then "What do we need to do to ensure continuity?" The answers will not be the same for each business family. Certainly, reserving time and attention to an orderly consideration of each question is desired.

> **Do we want to *continue*? What's in it for my family, other stakeholders and me?**

Alternatively, teasing out a driver or taking advantage of one might be the leverage you need to strengthen and develop enough commitment to comprehensive continuity planning.

Stephen L. McClure, Ph.D., is a principal consultant of The Family Business Consulting Group assisting with family communications and decision making, succession planning and implementation, and governance and management in family firms. Richa Singh is a consultant with The Family Business Consulting Group, specializing in conflict resolution, communication, organizational behavior and human resources.

Six Keys to Successful Family Foundation Creation

By Kent B. Rhodes, Ed.D.

In recent years, the number of family foundations has grown in the U.S. at an unprecedented rate. Nearly 70% were established after 1990, which means that most family foundations are barely one generation old, according to the Foundation Center. By conservative estimates, family foundations also represent more than 60% of the approximately 90,000 grant-making foundations in the U.S., and there are more family foundations than all other forms combined per the National Center for Family Philanthropy.

There is little doubt families associated with successful businesses have been a part of this large increase in the creation of foundations as they establish platforms to manage much of their philanthropic activities. As these families mature into subsequent generations, they are likely to engage in several key developmental exercises, including the creation of a family constitution, the development of a family council and the formalization of philanthropic practices by establishing a family foundation.

In fact, many families readily list supporting their communities and/or social issues as one of their top priorities or values in moving the business and family forward into the future. The National Center for Family Philanthropy found that older and larger family foundations are more likely to focus their giving geographically, while the newer family foundations (those formed since 2010) are significantly more likely to focus their giving on issues such as education, poverty and social services.

In working with families around these processes, we have identified several key best practices in the development and continuity of family foundations.

1. Establish the Mission of the Foundation

Like other family institutions, the mission — or the purpose — is key to providing guidance to philanthropic work over future generations. Here are some questions to consider:

- Does the mission exist for the successful investment and stewardship of the assets that provide opportunities for family philanthropy?
- Does it exist to evaluate and disburse those funds to qualified applicants?
- Does it primarily exist to further specific family legacy projects or institutions (e.g., a school or hospital) or is funding open to a variety of requests?
- Is the foundation a family foundation that serves to further the family's specific philanthropic efforts, or is the foundation seen as a nonfamily foundation whose primary function is to blindly receive and evaluate a multitude of requests and then arrive at a decision to either support or reject those requests?

2. Determine the Vision for the Foundation

Literally derived from the Latin word videre, or "to see," the foundation's vision is a picture of the future that the family wishes to be created by the formation of a family foundation — both in terms of the community and the family. The vision determines the focus and boundaries on giving. Here are some questions to consider:

- What do you want to accomplish year to year?
- How will future generations interact with the foundation?
- How does it align with the vision the family has identified for itself and its members?
- How does it align with the vision of the business?
- For how long will the foundation last?
- What types of gifts are supported (i.e., capital campaigns versus operating budgets versus matching gifts only versus new programs, etc.)?

3. Outline Foundation Governance Structures

Treat the governance of the foundation like you would a business to include accountability, role clarity, policies, etc. The administrator will benefit from a job description and an open door to outside advisers, particularly the accountant, to assure that giving amounts are consistent with law and the vision. Here are some questions to consider:

- Who will oversee the operation of the foundation and the disbursement process?
- Will it be an independent group, or will it be family members?
- Will it be a single individual designated to manage the foundation funds and field requests, determine appropriate fit and eligibility, and to distribute funds?
- Will it be operated as a family foundation that is a natural extension of the family and the business or will it operate independently of the family's involvement? (This will likely be determined on whether the purpose/mission of the foundation is to serve the goals and objectives of the family or of "worthy causes" as they come to the foundation's attention.)
- How will our clear distribution policies be created?
- Does the foundation operate only as its own entity? Or is there a portion of funds allocated for distribution from the foundation to individual families and/or family members at their own philanthropic discretion?

4. Institute a Board of Directors

Depending on the overall mission of the foundation, family members will want to think through the structure of their board. Here are some items to consider:

- What is the process by which foundation board members are nominated, elected, retired or terminated?
- Will family members serve in these capacities? If so, how many at one time?
- Nonfamily foundations embrace outside directors more readily to serve the purpose of furthering that foundation's specified mission in contrast to furthering the goals and objectives of the family.
- What expenses is the family willing to support regarding directors' compensation and travel expense that could reduce the amount of money available to charities?
- Should there be term limits for family members serving on the board?
- Provide a clearly articulated and effective generational transition mechanism.

5. Create Pathways for Family Involvement

Develop the means to pass along the ideals of charity and philanthropy to future generations. Here are some questions to consider:

- How many family members from a single family should be on the board at any one time and should there be rotation? Can a spouse serve as a director?
- Is it realistic to have a junior board that oversees and distributes a limited amount of funds?
- How will the values of philanthropy be taught to the next generation? What role will individual families play, and what role will the foundation play as a teaching tool?
- What are the best ways to engage the younger members of the next generation?
- Whose role is it to pass along the foundation's ideals to future generations and at what point can next generation members be considered to join the foundation's board?

> **Whose role is it to pass along the ideals of charity and philanthropy to future generations?**

6. Investment

Structure the investment committee with objectives that are consistent with the vision (see above), and staff it with knowledgeable people. Develop a thoughtful investment process that will sustain and grow the foundation assets, whether on an annualized basis or over extended periods of time. Here are some questions to consider:

- Will the family business operation make annual contributions to the foundation in order to provide some sustainable growth?
- How will the foundation be funded in the long term? Will it include a simple annual infusion/gift from company sources? Will that gift be based on a percentage of profits (e.g., one family designated 10%) or will it be simply an annual amount? Will it come from a specific endowment? Or a combination of those two?
- Will the foundation actively look for matching opportunities? Don't just look for published opportunities, but partner with other grant makers.

Developing an effective foundation can be an extraordinary way for a family to give back to its communities. It can also serve to draw the family together on a path of shared giving that stands as a strong legacy to all those family members who came before, and set the family on this successful journey. Like anything else in life that is worth doing, it is hard work — but richly satisfying.

For additional ideas on how to bring your family's philanthropic visions to life, excellent resources are available through the National Center for Family Philanthropy and the Council on Foundations.

Kent B. Rhodes, Ed.D., is a senior consultant with The Family Business Consulting Group. He is a leading expert in the field of conflict management in family-owned businesses.

THE COMMERCE BANK OF OREGON

1211 SW 5th Avenue, Suite 1250
Portland, Oregon 97204

tcboregon.com

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