

FAMILY BUSINESS MATTERS

The Newsletter of the Family Business Center of Hawai'i

WINTER 2009

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I feel as if I am fairly new to Hawaii but am now coming to the beginning of my fourth year as Faculty Director of our Family Business Center. I have had lots of help from the members and especially the advisory board members. Our center is a very unusual one in that it is member driven. Almost all of the programs are developed by the membership with Keala Monaco, a program manager at the Shidler College of Business, providing the support needed to have a successful event.

I'd like to welcome two of our newest members—Frank Tokioka II of THYM Inc. and Shari

Ogata of Pioneer Contracting Company. If you see them at an upcoming meeting, please welcome them to the FBCH. One of the most important tasks we face as a group is increased membership. While we have had good attendance at events, our stated goal is to have almost twice as many members as we currently have. New members are extremely important because they also bring new ideas and high energy levels. Most of our events are open so if you feel you know somebody who could benefit from membership please invite them as a guest.



John Butler
Faculty Director
Family Business Center of Hawai'i
Harold and Sandy Noborikawa
Endowed Chair in Entrepreneurship
E-mail jebutler@hawaii.edu
Phone 808-956-8582
Cell: 808-358-2405

THEY PURCHASED IT, THEN THEY RUINED IT

Mervin Morris founded the retail chain Mervyns in 1949 in California. Over the next 30 years the chain expanded to 50 stores in three states. In 1978, Morris decided to sell the firm for \$300 million dollars to Dayton Hudson (Target). Target tended to ignore the stores and slowed expansion, and the facilities acquired a shabby look over time. In 2004, with the chain at 257 stores and 30,000 employees, Target sold

Mervyns to three capital asset firms - Cerberus Capital Management, Sun Capital Partners, and Lubert-Adler. There was a feeling among employees that there would be an infusion of cash to fund needed improvements. However, the new owners split the firm into two divisions, the retail operation and an entity that held the real estate, with real estate becoming their major focus. They closed over 90 stores, in some

cases because they wanted to sell the land on which they sat. They even sold old leases to raise cash, which required the stores to sign new, more expensive leases. Costs had to be slashed drastically to pay for the new, more expensive leases. New buyers for the firm could not be found because the lease holders would not lower the leases. In the end, the CEO filed a suit against the owners and suppli-

ers began to pull back from supplying Mervyns.

The sad part is that Mervin Morris, now 88 years old, lived to see the chain fall apart. When his wife heard about the bankruptcy she said to him "Maybe you shouldn't have sold the company." For more details on the story see "Business Week's" December 8, 2008 issue.

2008 FAMILY BUSINESS RETREAT A BIG SUCCESS

This year's retreat attracted 64 participants, a record number. It was held Friday, September 12th and Saturday, September 13th at the JW Marriott Ihilani Resort. Dr. Marion McCollom Hampton, a co-author of the book "Generation to Generation: Life Cycles of the Family Business" led the retreat. A number of cases were included and participants received the "Bentington Industries" case in advance. The Bentington family was completely dysfunc-

tional but many FBCH members felt they knew of family firms that were in a similar situation. Dr. Hampton pointed out that it is because of the many different roles that are played, both within the family and within the family business, that many of the problems that arise are almost inevitable. (Harvard Business School Press, 1997).

Shelley B. Thompson, Vice Chair and Chief Fiduciary Offi-

cer of Bank of Hawaii, was the dinner speaker. She suggested that keeping wills and trusts up to date is extremely important, especially for family owned businesses, and she provided a number of examples where the lack of wills or not-well-thought-out trusts had resulted in consequences that would not have been consistent with the wishes of the deceased. As with all retreats, the best learning comes from the interactions of the participants, and

feedback from members indicates that this was true this year.

Planning has already begun for the next retreat, which will probably occur on a Friday and Saturday in September. Next year we will try to hold it at the Outrigger Reef Hotel, which has been going through a renovation, which many members got to see during our recent tour of the hotel and the facilities on the Beach Walk in Waikiki.

FBCH PHOTO GALLERY



E & J GALLO WINERY KEEPS THE FAMILY INVOLVED AS 2ND, 3RD AND 4TH GENERATION JOIN IN THE MANAGEMENT OF THE FIRM



The Gallo Family raises a glass to its 75th anniversary

E & J Gallo celebrates its 75th Anniversary this year and has grown from being a supplier of basic table wines to the largest family owned winery in the world, which now produces a full range of wines including super premium wines. A total of 15 family members from the second, third and fourth generation work in the organization. Gina Gallo, a third generation member, is the first

woman winemaker in the family.

The family likes to get children involved in the family business early and believes that it is better for them to work for Gallo than to get their training elsewhere.

Gallo has been expanding both its growing and production in recent years and now exports to over 90 countries.

DENNIS LOCKE ON THE TOPIC OF BUSINESS VALUATION



Dennis Locke, a Principal with Moss-Adams LLP and an expert on firm valuation, spoke at our July meeting. While one would think there is only one

real value for a firm, Locke pointed out that the purpose of the valuation results in some variation that can have significant tax implications. Locke pointed out that a high valuation is desirable if you are selling a business while one that takes advantage of IRS rulings may result in a lower valuation that can be beneficial if one is passing on the business to a family member. This issue is especially relevant now be-

cause the vast majority of business and the demographics of wealth are highly concentrated in the above 55 year old age group. This means that the rate of transfer will be very high in the coming years.

Locke also discussed the upcoming expiration of President Bush's tax laws, and the implications for family business wealth transfer and estate planning.

As with any professional ser-

vice, Locke also noted that it is important to assure yourself that the appraiser is qualified and has experience doing the type of appraisal that you need and has done them for firms that are similar to your firm.



THEY COME AND THEY GO BUT SOME THINGS LIVE ON

After nearly 50 years on Kapiolani Blvd, the Flamingo Restaurant decided to close. In 2006, Francis Camera, another Kapiolani landmark, closed after 45 years in business. Those with longer memories will also remember landmark businesses such as Liberty House, Mark Christopher and Columbia Inn that either closed or were acquired after a long history in Hawaii. In some cases there are identifiable reasons associated with the demise of a long-lived business. Art Hawaii, a second generation family business, decided to close last year because etched glass products from China were selling at prices they could not profitably match. Second generation family firm Marufuku Miso is closing after nearly 70 years in business because the costs of the materials used to make

miso are just getting too expensive. Restaurants also have to cope with generational changes in taste preferences that can impact them negatively if they do not adjust their menus.

McCully Chop Sui was a well known local restaurant that closed several years ago. However, the new occupants of the space felt that their sign was such a landmark that they left it up. Under current city sign regulations the sign is no longer legal so they thought they would have to remove the sign. However several weeks ago the city issued a special exemption and the sign was once again turned on. Thus, although we no longer have the experience of their Chinese food, we can still be gently reminded of a relished piece of history when we drive up King Street in the evening.



The McCully Chop Sui sign remains lit on King Street

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Equipping, educating and celebrating families in business

(Mission of the Family Business Center of Hawai'i)

The Family Business Center of Hawai'i is a nonprofit, member-based forum, housed within the Shidler College of Business at the University of Hawaii at Manoa.

Administrative support for the FBCH is provided by the Pacific Asian Center for Entrepreneurship and E-Business.

Family Business Center of Hawai'i
Shidler College of Business
2404 Maile Way
Honolulu, HI 96822
Phone: 808-956-5092
Fax: 808-956-5107
E-mail: fbch@hawaii.edu
Web: www.fbcofhawaii.org

FBC MEMBERS GET INSIDER TOUR OF BEACHWALK

The Family Business Center held a social event on June 24th that included a tour of the refurbished Outrigger Reef Hotel and the new Beach Walk restaurant and store complex in Waikiki. David Carey, President and CEO of Outrigger Enterprise Group, talked with the group about the background of this project as well as giving us an assessment of the near-term prospects of the tourism industry in Hawaii. He

was a little pessimistic at the time but optimistic compared to what has occurred everywhere in the past few months. After a tour of some of the Outrigger's nicest suites and a stroll through the Beach Walk complex, we ended up at Roy's for some good conversation and refreshments. It appears that the Beach Walk is finally bringing locals back to Waikiki, and just when the area really needs them.



AN INSIDE LOOK AT HIGHWAY INN



FBCH members were treated to an inside look at Highway Inn at the November meeting. Ken Gilbert led the discussion of three experts who helped analyze the goals of the firm with the assistance of the members of the Toguchi Family. The

experts were Accuity's Kent Tsukamoto, Northwestern Mutual's Marcus Boland, and attorney Randall Yee. Though Tsukamoto was not able to attend the meeting, Boland and Yee offered their thoughts about how the family should continue to work on succession planning, resolving business issues, and adequately insuring themselves and the business. They also provided handouts of family questionnaires that are instrumental when working

through business and insurance needs. These handouts were hot items at the end of the meeting. After the experts spoke, Highway Inn owner Bobby Toguchi shared his thoughts on the experience of analyzing the family's situation, and what steps he needed to work on next.

One of the most popular features of the Family Business Center is when the members share insights about their own

companies. Since many firms experience the same problems or face similar issues, this is an ideal way to learn. Highway Inn now has third generation management, something that very few firms achieve.

