THE ANATOMY OF FAILED SUCCESSION

or

How Successful Businesses Commit Suicide

THE GREAT BEGINNING

With his great work ethic, boundless energy and product knowledge, youthful George Miles launched Miles Timber Company and never looked back. Year after year, his business grew and his employees and family grew with it. As the decades passed, he and his wife reared four children. With no clouds on the horizon, he had no reason to feel anything but continued optimism about the future.

THE GOOD TIMES

Sure enough, from his meager beginnings until 2007, George experienced nothing but success. That year his workforce reached 70 strong and ultimately Miles Timber's annual sales topped $85MM. The business was simple. Miles bought timber tracts; then cut and sold trees to large pulp and lumber companies. He built strong relationships through sound business principles and personal attention.

THE GOOD JUDGMENT IN GOOD TIMES

As Miles Timber flourished, George had the good sense to train others in the art of buying timberland and dealing with an expanding customer base. He cultivated executive management he could count on. He depended on these close associates, realizing that his children were not inclined to be involved in the business, other than drawing paychecks for very little contribution. His business was in good hands.

THE BAD JUDGMENT IN GOOD TIMES

As a successful entrepreneur and shrewd timber man, George always felt that he had the experience, common sense and foresight to scope out the future without the help of outside consultants. He had a loyal executive team that he felt certain would run the family business on behalf of his family, if and when he decided to step away.

THE SUDDEN, BUT COMMON STORM

But as fate would have it, George didn't step away on his terms. He suddenly took ill and in that same year, died. Unable and unqualified to step in, the family hired a friend to run the business. This acting CEO eventually advised family members that they could manage things; and with that decision, an unexpected storm rocked their foundations.

A. When the best and brightest execs realized that George hadn't planned to include them in ownership upon his exit; and when they knew the family had no intention of sharing ownership, they quit en masse in 2008 and established a competing company.

B. Very shortly after, the storm unleashed its full fury as the infamous financial crisis hammered the housing industry. Miles sales plummeted from $85MM in 2007 to a mere $27MM in 2008.

C. Based on industry averages, no one would have been surprised at a 30% decline. But 68%? The only reasonable conclusion was that $33MM of the drop was the direct result of the loss of key people whose new company siphoned off much of that loss.

THE AFTERSHOCK

The losses terrified the banks who wanted their loans paid down. Ironically, rapidly falling A/R generated cash that Miles used to satisfy the bank. But the bad news kept coming. As the business sector rebounded a little, Miles had no money to buy land or timber and the skittish banks crawled into the woodwork.

PERFECT HINDSIGHT

Certainly, this business disaster could have been avoided. If George Miles had put in place a succession plan well before he became ill, he would have been encouraged to adopt perpetuation strategies that would have:

1. Understood his business goals and personal aspirations.
2. Identified threats.
3. Identified key executives and their personal goals.
4. Created a clean transition that simultaneously would have sustained the company and protected the Miles family.
5. Assured the legacy of George Miles' lifetime of work.