Succeeding the successor

Youngentobs maintain business through generational partnerships.

BY ELIZABETH FUHRMAN

Eugene Youngentob with his son Stuart (left) and Joshua Jeffries.

Being in a partnership with your father can be a blessing and a curse. The blessing is the wisdom, experience and opportunity to work with your father. The difficulty is the ability to grow a business that others may perceive as having limited possibilities for nonfamily members.

"It is more challenging to bring other people into the organization because they fear there aren't opportunities for them when there is already a father-son team," said **Stuart L. Youngentob, J.D., MBA**, a 21-year MDRT member with 14 Top of the Table qualifications, from Bethesda, Maryland.

Nonfamily partnerships also become harder to facilitate. In 2001, Stuart had a chance to merge with three other peers, but being in partnership with his father, who was quite a bit older than these peers, was an obstacle. A deal never happened.

"In hindsight, it's the best thing that I never did," said Stuart, a principal of Arkin Youngentob Associates. "But at the time there was some significant merit to looking at that type of structure."

From father to son

The partnership structure is something the Youngentobs have been familiar with for decades. Stuart's father, **Eugene K. Youngentob, CLU, ChFC**, a 40-year MDRT member, is a principal and founder of Arkin Youngentob Associates. Gene teamed up with Rudolph Arkin in 1978 to form the business, which is now an independent firm adjoined with Partners Financial, a part of National Financial Partners Corporation.

Since its inception, the practice has been a broad-base insurance practice that can be broken down into three components: life insurance, employee benefits and pension/executive compensation. The firm primarily focuses on Washington, D.C.-based closely held businesses, such as white-collar professional services, and high-net-worth individuals who are local industry and community leaders.

"In many cases, the high-net-worth individuals are owners of the businesses we deal with, and the business is their biggest asset," Stuart said. Today, a typical employee benefits client of the firm has more than 100 employees.

Younger advisors had intentionally been brought into the firm from the beginning, and two such partners were singled out for the purpose of succession. Never did it cross anyone's mind that Stuart would enter the business with his father.

By training, Stuart is a lawyer and certified public accountant. He worked as an accountant, as well as in real estate. When the real estate market plummeted, Stuart analyzed his competitive advantage, which led him to financial services and his father.

Stuart entered the business in 1992, and learned the industry from the ground up. Many of his contacts in the real estate market became his clients. His degrees in law and accounting gave him a competitive advantage with lawyers and accountants. About two years after Stuart joined the practice, the firm's two younger partners left.

"When I came into the business, that clearly changed the dynamics. The two younger partners looked at the situation and said, 'Where is my future?'" Stuart explained. "People have to clearly see the opportunity available to them."

Arkin, Gene and Stuart carried forward until Arkin retired in the mid-1990s. Stuart and Gene became formal partners in 1997. The father and son were equal partners within the business, splitting work until 2001 when they decided they needed their own succession plan.

They entered into an eight-year succession plan, in which Gene's 50-50 split of the firm's revenues would decline annually as he worked less. They shared the business's expenses equally, which Stuart said was very fair from the beginning.

"We've been very fortunate that there has never been a year that revenues have declined," Stuart said. "They have continued to go up every single year, and as I became more seasoned in the business, the revenue kept expanding."

Today, Gene, 84, still receives a founder's compensation as a fixed monthly amount, but he has no equity in the business. He comes into the office about four days a week during the summer and spends most of the winter in Florida. While Gene is admittedly not working at the business while in Florida, he has created prospects on which the office is able to work.

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>
> — Stuart Youngentob

"He's phenomenal in public relations," Stuart said. "At the same time, there is still wisdom and there are still old relationships that continue to exist that we preserve and from which we continue to generate new opportunities today."

Positioned to grow

About six years ago, Stuart was introduced to Joshua Jeffries, a young producer who only worked in health insurance. Jeffries soon joined the firm as a producer.

"It helped bolster our benefits practice, as we looked at the benefits practice as a critical core element," Stuart said. "One of the pieces of wisdom my dad has always brought is that if you want to be a top-notch life insurance professional, you have to have a recurring revenue base in your business. We view the benefits practice as our core recurring revenue as it complements the business focus of our life insurance practice. We have decided not to pursue building an investment business."

As the practice grew, Stuart let Jeffries run the employee benefits sector. Jeffries had become an expert in health care reform, understanding not just the rules but the new paradigm businesses faced in adapting to the new benefit planning environment. »

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Given Stuart's previous experience with trying to build outside-the-family partnerships, he wanted to be cautious about not bringing someone in who might be intimidated by the father-son scenario. Stuart and Gene had disagreements on how to add Jeffries into the business, so Stuart decided a family-business facilitator would be an ideal person to help him work through the logistics of making a deal happen with Jeffries.

Often when advisors think about the succession process, they only focus on the financial aspects, but governance and control are equally important parts of the process, Gene said. He advises that the older member take a back seat.

"I do not interfere with operations," he said. "I made a decision some time ago to transfer to Stuart, that this was his business to take it the way he felt best for him and have absolute unconditional love and at the same time recognize his talents for the business."

Stuart concurs with Gene's perception of their succession process. "There was a real willingness to let me run the ship," he said. "I was apprehensive personally when bringing on Josh about how to handle the governance. The facilitator helped me though that."

The process started two years ago, and concluded in January with Jeffries and Stuart forming an equal partnership in the benefits practice.

"Granted, you need the right person to be a partner," Stuart said. "But at the same time, I've been in business now 30 years, and I've had multiple occasions over my career that I would come back and say, 'Never look at what you are losing when you do something with somebody else. Look at ultimately what you are gaining.'"

Stuart and Jeffries are experiencing rapid growth, along with their thriving office of 15 employees. In turn, bringing in Jeffries as a nonfamily member opened up the opportunity to have another young producer who works under Jeffries.

"To me, the industry is fluid," Stuart said. "You have to be opportunistic, and you have to continue to invest in your business and grow your business." RT

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