

A Question of Management

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"A Question of Management" is a monthly column published in *Moving World* that answers management questions movers face.

In the April 30, 2001 issue of *Moving World*, the column addressed the question:

I'm a 60 year old president of a moving company. I own my moving company and want to retire in five years, how should I plan for my retirement and the continuation of my business.

Last month we focused on the personal aspect of this question. This month we address the business aspect — who will manage the company and who will own the company. As with retirement, no simple answers exist for how owners plan for business continuation. Statistics tell us that this issue challenges family owned businesses. Since many families own moving businesses, owners should note that 30% of family firms last into the second generation and 10% of family firms last into the third generation. The statistics suggest the importance of planning carefully with a broad base of information about options.

A moving company owner in one of our Profit Enhancement Groups (PEG) had several children working in the business. Each had shown skills in different aspects of the business. The owner did not know how to choose the next president. He finally chose a seasoned general manager to develop all potential successors. He worked closely with the general manager as the general manager worked with the children. Relieved of the day-to-day responsibilities, he observed his children from a different perspective and assessed their skills and readiness. He maintained majority ownership until he chose a successor. In addition, the increased free time allowed him to work with his lawyer and accountant to define an ownership transition plan and to experience a partial retirement schedule. This owner's financial requirements were partially met by maintaining ownership of the real estate after ownership of the business transitioned to his successor.

The owner's retirement choices influence the decisions about management and ownership. In addition, ownership transfer choices influence future management choices. Addressing questions about management will allow the owner to scope the size of the transition task. Does a future president exist within the company or must the owner look outside the company?

Business Continuation — Management

Characterize the business as it functions today — i.e. size, growing, shrinking, stabilizing.

- List the challenges the business faces - i.e. competition, staffing, efficiency, local economy, regulations.
- List the goals for the business — i.e. revenue, profit, expansion.
- Characterize the leader who can address the challenges and accomplish the goals — i.e. ability to motivate, to challenge; understanding of the moving business as it relates to customers, competitors, and partners.
- Does a leader exist in the company? What development does he/she require to lead the company? Who will do the development?
- Could the company benefit from a transitional leader, one who would help determine potential leaders and/or develop the ultimate leader?
- Should the owner look outside the company to fill the position?

Business Continuation — Seeking Management and/or Ownership Outside the Company

When the answers to the management questions lead the owner to look outside the company, another set of questions arise.

- Should the owner maintain ownership, hire an outside person and maintain a revenue stream?
- Should the owner sell the company?

Business Continuation — Ownership

- Has the potential internal candidate expressed interest in ownership?
- Has another company expressed interest in ownership?
- Are assets such as real estate owned separately?
- What is the value of the company?
- What requirements do you have for revenue? I.e. tax implications, yearly financial requirements

Resources

There are many resources available to help you in this process. Talk to friends in other businesses who have gone through this process. Make sure any resource you work with understands what you want out of the process. Do you want the most money? Do you want to ensure that your family keeps the business? Do you have employees you want to reward? Is selling the business a consideration? Here are some of the resources you might work with.

- AMSA provides a rich source for an owner considering management options. In addition to internal development the owner must provide for a successor, AMSA offers development workshops and publications for seeking potential candidates.
- Management Growth Institute offers the Profit Enhancement Groups (PEG) as well as workshops and consulting services. PEG directors regularly provide telephone consulting for members.
- Lawyer — Work with your attorney to understand the legal implications of selling the business or retiring from it or even hiring professional management so you can continue a revenue stream. Your attorney can advise you on the import of estate planning and the various options to explore. He or she can help in negotiating and/or drafting agreements.
- Accountant — Work with a CPA experienced in family and closely held businesses who understands the resultant tax implications of choices. The CPA should demonstrate a good general business sense, since many of the issues may be driven by considerations other than tax or even cash.
- Banker — Does your bank have a trust department and experience with family or closely held businesses? Does your banker have this type of experience? Is he/she willing to finance a buy-out by your family or your employees? Does he/she know of other resources that can help, such as insurance agents, valuation experts, consultants that specialize in generation transfers to family or employees?
- Broker — Knowledgeable business brokers can help you understand the desirability of selling your business. An assessment of the value of your business allows you to know what you may be giving up if you sell it to family members or employees.

With five years, an owner has an opportunity to identify a successor, develop the successor, and review the progress before relinquishing his/her management responsibilities. In addition, appropriate ownership choices can be made.