

What's Your Exit Strategy?

September 23, 2016



Topics We Will Cover

- What's your shop worth?
- Steps to Succession
- Can You Afford to Retire?



What's Your Shop Worth?

Two Scenarios:

- Sell as an ongoing operation to independent owner
- Sell to another flower shop




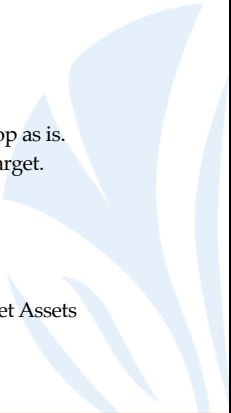
Best Case Scenario

CIRCUMSTANCES:

- Buyer wants to keep running the shop as is.
- You are profitable – 10% Net is the target.
- Lease has renewal options.

RESULT:

- You may get 3-4 times net earnings
Plus (possibly) FMV of Balance Sheet Assets



Two Big Adjustments

- Owner/Manager Salary
- FMV of Rent

- Owner/Manager Salary Formula:
 - 10% of the first \$500,000 in sales
 - 5% of sales over \$500,000

- This amount includes Salary, P/R taxes & Benefits

Best Case Example

- Sales: 1,000,000 (w/o wires)
- Net Profit: 100,000 (10%)
- Owner Manager Salary: 60,000 (plus taxes & benefits)

- Sales Price: 300,000 – 400,000
- Plus (maybe): FMV of B/S Assets

Adjustment Example

- Sales: 1,000,000 (w/o wires)
- Net Profit: 100,000 (10%)
- Owner/Manager Salary: 0 (Only takes draws)
- Salary Adjustment: -75,000
- New Net Profit: 25,000

- Sales Price: 75,000 – 100,000 (based on formula)

However, the minimum value of a shop is 10% of sales (w/o wires), or in this case \$100,000.

Sell to Another Flower Shop

CIRCUMSTANCES

- Buyer doesn't want to keep operating separately
- No obligation to continue the lease
- You are selling:
 - Sales volume, phone number, name, website
 - Possibly selling some assets

RESULT

- Shop's value – 10% - 20% of sales (w/o wires)
Plus FMV of some B/S Assets (some at Garage Sale Prices)

Market Circumstances

THE BAD NEWS

- Since 2000 the industry has lost approximately 14,000 retail florists – doors closed or sold to a competitor.
- Many retail florists have yet to recover from the 2008-9 recession.
- Very few flower shop buyers have cash. Sellers most likely have to finance the transaction.
- The market for flower shops is very soft.

Market Circumstances

THE GOOD NEWS

- The decline in shops has slowed.
- There will always be a need for the retail florist.

Sales Strategies

- First, make your shop profitable.
 - It'll help you now
 - It'll help when it comes time to sell
- You may need to groom your buyer.
 - Maybe identify an employee who ultimately wants to own their own shop
 - Know which competitors might want to expand

Steps to Succession

- Are you ready to let go?
- Do you have a family member who wants to run the family business?
- Is your shop operating well? Profitably?
- Plan the best time to start the process.
- See the "Succession Planning for Small Business" handout for 12 short articles on succession basics.

Can You Afford to Retire?

- Are you out of debt including a mortgage?
- Sources of retirement income:
 - Income: Social Security, 401K, IRA, Pension
 - Savings/Investments you can tap
- What will your retirement expenses be?
 - It is estimated that most people will have about 75% of the expenses they do before retirement.
 - Are there any life style changes you can make and how will they affect your expenses?
- Is it really time to retire?

The Bottom Line

- If your business is operating at a profit, you will always make more money continuing to operate your business than you will selling it.
 - Operating should give you a salary and the profit.
 - Selling will only give 1 – 4 years of profit plus maybe liquidating some assets.

What are the Odds?

- Passing the business on to heirs is pretty much under your control.
- Selling your business is anything but sure.
- The most conservative route if you don't have successors is to plan for your retirement as if you won't be able to sell the shop, i.e. save and retire later.

On to the Panel...

*Martin & Tyler Meskers
Oregon Flowers
Aurora, OR*

*Carol Caggiano
A. Caggiano Inc.
Jeffersonton, VA*

*Kyle Brown
Lone Star Bloom
Austin, TX*

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Succession Planning for Small Business



A series of
12 articles from

Floral
Finance

Paul Goodman,
Editor

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SUCCESSION PLANNING: ARE YOU READY TO LET GO?

Many owners dream of the day they will retire and turn their business over to the next generation or to new owners. This year, *Floral Finance* will explore the many aspects of planning and executing a successful succession.

It's not an easy task. Here's a checklist of questions to consider before you make the move.

Am I committed to family succession?

Between the beginning and the end of the process, you will face many hurdles, challenges and disappointments. It's not a path for the fainthearted.

You must have a strong commitment to stay the course.

Will I be financially secure after retirement?

You will always make more money in the long run by keeping a business than by selling it. A reasonable valuation will only get you about four years of earnings and no salary.

If your retirement savings, the proceeds from the sale of the business and social security are not going to be enough, reconsider retirement.

An ongoing business can provide supplemental income during retirement. Semi-retirement might be a better option.

Have I chosen a successor and set a firm date to retire?

Dreaming is good. Actual names and plans are better.

Do I believe in life after retirement?

Many individuals love what they do and wouldn't be fulfilled doing anything else. If you're one of them, think twice about retiring. It might not be the best plan—at least not yet.

Does a new challenge or interest await me after retirement?

It's not uncommon for someone who has been a workhorse to dream

of retiring on the golf course or on a beach.

The truth? Most people who try to live such a dream are disappointed after a few months.

Humans aren't designed to rest and play all of the time. Work brings fulfillment and stimulation.

If you seek longevity and fulfillment, make sure you move from working in your business to something else that will be personally challenging and stimulating.

Am I able to delegate decisions and authority?

Do you have the skills and character necessary to let someone else be in charge?

Training successors to be good stewards of the business is not easy. You must be willing to let go.

Only through actually managing and making decisions will your successors learn how to do the job. Inevitably, they will make some mistakes.

You have to be prepared financially and emotionally to endure the inevitable stress of seeing the next owner's inexperience on display.

Am I willing to let others take business risks?

Sometimes successors want to take the business in a new direction, try an unproven product line or launch a novel approach to advertising.

These steps can be exciting. They also can be expensive if they point the business in the wrong direction.

But it's all part of the learning process.

Will I trust key people with company financial information?

Ultimately, you will have to give your successors bottom-line responsibility. That means opening the books so they know what they are managing.

The individuals have to be trustworthy, and you have to be willing to let the light shine on your financial successes and failures.

THE BOTTOM LINE

If there is a secret to successfully letting go during a succession, it is first to be running a profitable, financially sound operation.

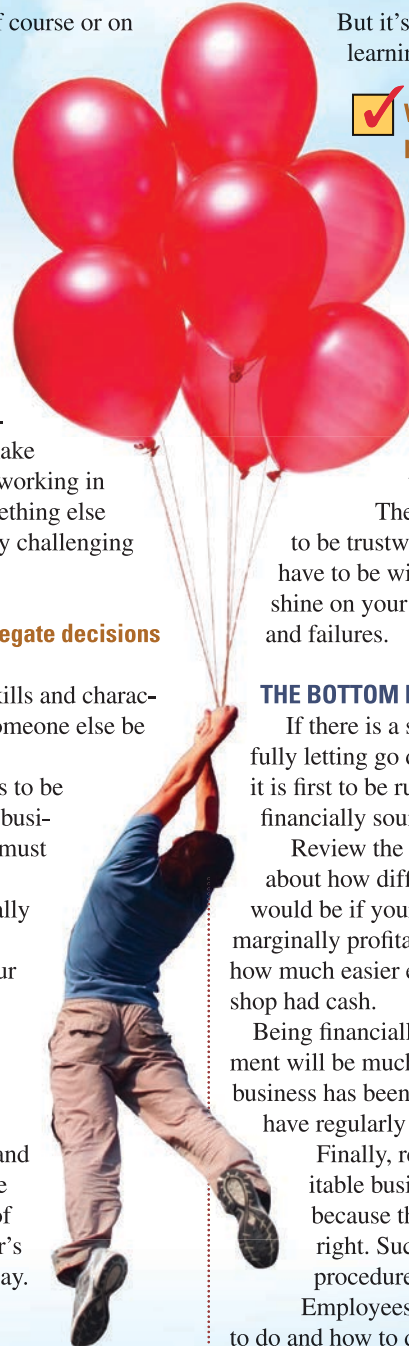
Review the checklist. Think about how difficult each item would be if your business were only marginally profitable. Then think about how much easier each would be if the shop had cash.

Being financially secure in retirement will be much easier if the business has been profitable and you have regularly set money aside.

Finally, remember that a profitable business gets that way because the owner did things right. Successful systems and procedures must be in place.

Employees already know what to do and how to do it. Major changes won't be required to keep the ship on course. A successor can make occasional mistakes, and things will still go smoothly on the whole.

If you're not yet comfortable with your answers to the checklist questions, focus on making your business more profitable until you are better able to make the transition. ☛





SUCCESSION PLANNING: PRIOR QUESTIONS



Some sales personnel might ask a customer, “Which of these products do you prefer?” When this happens, the customer might be thinking, “That’s not the right question. The right question is whether I am even interested in any of these products.”

It’s called a “prior question.” Something that should be answered at the very beginning. Something about which assumptions should not be made.

Prior questions apply in many other business situations, as well. Take succession planning. Before you can begin to consider passing the business on, a couple of prior questions should be answered.

Prior Question #1: **Do my heirs want the business?**

The desire to pass a business on to your children or other heirs is admirable. But don’t get ahead of yourself. First, you must confirm whether they even want to run the business.

From your standpoint, running a flower shop might be a very attractive proposition. Your heirs might not see it that way.

We’ve all encountered pushy parents. They quietly (or not so quietly) insist that their son or daughter become a doctor or lawyer or _____. (You can fill in the blank.)

For some reason, pushy parents see a particular profession as being the only way to go. They don’t want their child to miss out. So they push. The problem is, the child may not want to go in that direction.

Trying to dictate a child’s path is not a good idea. That type of control almost always leads to stress and strained relationships.

Before you assume your children want to carry on the family tradition, you probably should ask them. Hopefully your relationship is such that you will, first, get honest answers and, second, be willing to accept whatever those answers are.

If you had your children early and your health is good, their initial decision isn’t necessarily final. They will have time to try other career paths and come back to the family business if they choose to do so.

Outside work experience can bring advantages. The children learn how to adjust to the real world of expectations, work and performance before entering the family business. They are more prepared.

Children who don’t have that outside experience may carry their home-life dynamics over to their work life in your shop. They know they are accepted and loved by their parents (you). They may assume the parents (you) will “pick up after them” if their work performance is only so-so.

By working for another employer who demands performance, an heir-apparent can learn valuable lessons outside of a protected environment.

Children who first work elsewhere also often change how they think about



the family business. After seeing the difficult realities of other careers, the family business may be a much more attractive alternative.

Prior Question #2: **Do my children have the ability to run the business?**

Most individuals who want to learn the necessary skills for a given profession can do so.

Most, but not all.

So, before you bring your kids into the business, evaluate their strengths and weaknesses. Make sure their skill sets will be well suited to the demands of a flower business.

No parent wants to put a child in a position that will ultimately cause undue stress and failure. Happiness and fulfillment come from doing things that we enjoy and are capable of doing well.

Leaving a retail flower business to your children might seem like an easy thing. However, depending on the size and complexity of the operation, succession planning is anything but simple.

Even after asking the two prior questions here, several other issues must be addressed. Issues like the following:

- How can I minimize estate and inheritance taxes?
- What am I trying to accomplish by passing the business along?
- Where is the business heading?
- What is the competitive environment?
- What position and responsibilities should each child have?
- What ownership percentage should each child receive?
- What about the employees?

If you want a successful transition, don’t cut corners. Ask—and answer—all of the prior questions. 🌻



SUCCESSION PLANNING: WHAT ARE YOUR GOALS?



Last month, we explored two essential questions you should answer before beginning any family business succession.

Question 1: Do your heirs want the business or not?

Question 2: Are they capable of running the business successfully?

Assuming the answer to both questions is “yes,” the next major issue is what you hope to accomplish by passing the business along to your heirs. What are your goals?

The most common objectives typically revolve around three issues: retirement income for the older generation, income/career opportunities for the younger generation and passing on family values.

RETIREMENT INCOME

You’ve worked hard. Now you’re ready to retire. The business is an asset you can use to provide for your retirement income and lifestyle.

Most individuals who own a small business enjoy what they do. That’s why they started their business in the first place. Over the years, they also have built a solid reputation in the community. A part, maybe even a large part, of their personal identity is tied up in their work.

Many of these owners have no real desire to quit completely and just relax.

And that’s a good thing. Studies show that people who retire to a life with little to do typically live only a short time. We are made for work and purpose. When activity and meaning are gone, we often follow.

So, allowing the owners to continue to work—gradually passing operational responsibilities to the next generation over time—is a good strategy for the owners’ mental, emotional and physical health. It provides retirement income. At the same time, bringing the next generation onboard ensures the future of the business.

CAREER OPPORTUNITIES

A second objective of many owners is to pass along a significant career opportunity to their children. A well-run small business often yields a better income than a position acquired through the open job market.

Studies show that people who retire to a life with little to do typically live only a short time. We are made for work and purpose.

A business is an asset with value of its own. As such, it has the potential to produce income for the owner whether or not the owner works in the business.

When the owner opts to work in the business, the potential total income is that much greater. The owner gets a

salary as compensation for services rendered. Plus additional income from the profits of the business.

A small business also provides lifestyle and work-related benefits that can’t be duplicated working for a large corporation.

The business’ reputation can bring respect and leadership opportunities in the community. Plus, running a business brings a certain degree of independence. For many owners, that independence is more important than the income.

Finally, operating a small business demands a great deal of responsibility. High achievers find the role tremendously satisfying.

FAMILY VALUES

Although the focus of a business succession plan may quickly turn to financial and managerial matters, the most important objective may very well be to maintain family values.

For example, small business owners typically want their children to develop a solid work ethic. Immersing them in a situation that requires consistent, hard work is a good way to make that happen.

Selling and passing the inheritance on to the children in the form of cash could have the opposite result. Giving someone large amounts of cash can ruin motivation. The recipient doesn’t gain the maturity and character that can be built through the process of struggling to succeed.

Passing the business along to heirs in a form that will require their continued hard work has the reverse outcome.

The children not only get the monetary value, but they also receive a character-building opportunity. Running a successful small business helps develop a strong work ethic, honesty, integrity, the ability to meet challenges and other positive character traits. ☘



KEY ISSUES IN SUCCESSION PLANNING

Passing your business along to your child(ren) may seem like a natural thing to do.

It may be natural—but it isn't necessarily easy.

Once you've settled on the goals you hope to accomplish in the transition, you need to address several critical factors that will determine the business' future success.

THE FUTURE OF THE BUSINESS

It's a harsh world out there. Markets are continually evolving. Competitors come and go. The speed of change is faster than ever. The factors you need to consider include:

1. **How effectively you are competing.**
2. **Whether anything on the horizon threatens the shop's survival.**
3. **How you can better employ technology to protect and grow your position in the marketplace.**

Fortunately, family businesses have the benefit of being small and autonomous. They can be nimble. Changes can be made with little, if any, red tape.

THE WHO OF SUCCESSION

Successfully transitioning the business to your children requires, first, that the children actually want to run the business. However, desire alone is not enough. They also must be capable of assuming the leadership.

Make a plan to develop your children's skills to a level that will be equal to the management needs of your business.

You also need to consider timing. Do your retirement timeline and the growth of your children's leadership abilities line up?



Conflicts are inevitable. It's human nature. Every family is dysfunctional to some extent. There are no perfect children, and there are no perfect parents.

Agreeing in advance on family/business values, purposes and goals will go a long way toward reducing potential points of conflict. So will understanding and forgiveness when mistakes are made.

THE WHO OF DECISION-MAKING

How will decisions be made in the future? You must set up the organization in such a way that the new leaders will be accountable for their actions.

In a business, it's usually the lack of money that brings stress. As a result, money can easily become the focal point of many succession plans.

If the business is large enough and several family members are involved, establish a system for resolving conflict. Who has final authority? Without a mechanism for making decisions, anarchy or civil war can easily break out. An inability to resolve conflicts may doom the business to failure and the family to dysfunctional relationships.

FAMILY HARMONY

Ideally, all family members should be moving along together toward the same goals and objectives.

However, even in a loving family and well-organized family business,

MONEY, MONEY, MONEY

The Bible does not say that money is evil; it suggests that the love of money is the root of the problem for most individuals.

In a business, it's usually the lack of money that brings stress. As a result, money can easily become the focal point of many succession plans.

What sums will the parents get? How much will the children be paid? How much will actually be passed along after paying the required taxes? How much money does the business need to succeed and grow? To deal with all of these money issues, you need to develop a detailed plan in advance.

Succession planning is not an easy task. The necessary planning and training will require time. You can't skip anything. Each step is an important part of the process.

The next five articles in this series on succession will look at the various issues in more detail. We will start next month with the initial challenge of building a business that is worth passing along—a business that meets your objectives and creates the desired opportunities for your children. 🍀



SUCCESSION PLANNING: THE BUSINESS ISSUES



If you intend to pass your business along to your children, you naturally want it to be solid and successful when it's time. Although you can never ensure how the kids will do, a firm foundation will increase their odds of success.

As a first step, make sure you carefully review the challenges the children will face.

OPERATIONS

If a business is to be successful, it must be well managed. Efficient procedures must be established and followed. Skilled personnel must be hired, retained and used productively.

The three issues that determine profitability for any retail florist are the very ones you want to have under control before your children take over: facilities expenses, cost of goods sold (COGS) for arrangements and payroll.

Do your facilities match your business needs? If you have too much space, your facilities expenses will likely exceed the "no more than 10% of sales" target. You may need to make some adjustments.

Do you have a system in place to make sure the designers are following your pricing formulas? Controlling COGS for arrangements is critical.

Productivity is the most important profitability variable in a flower shop. When productivity is low, your payroll will be too high.

Make sure that you are managing these three key areas properly before transitioning to a new leadership team.

COMPETITION

When was the last time you assessed your competition? Not just the other retail florists in your area, but all of the other floral competitors as well: supermarkets, bucket shops, large discount chain operations and internet competitors.

Productivity is the most important profitability variable in a flower shop.

- What are the strengths and weaknesses of each competitor?
- Are you effectively competing or losing your customers?
- Do you need to change anything to maintain or gain market share?
- What, if anything, distinguishes you from them?

By keeping an eye on the competition, you will see threats coming before they begin to adversely impact your business.

Also look beyond your local community for national trends. Your goal is to prepare and position the business for success under the new leadership.

TECHNOLOGY

Technology boils down to communications and computerization.

- What technology are you using in your shop?
- To what extent have you computerized your operations?
- How old is the equipment and software on which you rely?

- What about your competitors?

Generally, younger people are more comfortable with and knowledgeable about technology. If you have technological deficiencies today, consider involving the incoming generation in planning next steps.

Communications technology impacts both your operations and your marketing.

On the operational side, can your shop communicate with your drivers cost-effectively and efficiently?

On the marketing side, what are the plans for your website? An ever-increasing amount of business is being transacted over the internet. In the future, even more customers will expect retail florists to offer e-commerce. And they'll want to be able to make purchases conveniently on every possible device, including computers, smart phones and tablets.

BUSINESS PLAN

Basically, what we are discussing in this article adds up to a business plan. When was the last time you went through the process of creating a formal, written business plan?

If you want to pass the shop along to your children in the near future, now is an excellent time to go through the process again. Involving the next generation would be a wonderful learning opportunity.

They will learn an incredible amount about your business as you develop the plan. You will have the opportunity to pass along your vision for the future. They will gain a better feel for the challenges and opportunities that lie ahead.

And, just as importantly, you will be able to see your chosen successors grapple with the issues they will have to deal with in the future. You will see their strengths and weaknesses in action. To the extent your plan can build on the former and work to overcome the latter, you will be taking a huge step toward their future success. 🍀



SUCCESSION PLANNING: TRAINING THE HEIRS



It's one thing to want to turn a business over to your children. It's quite another to make sure they are up to the task.

Even if the heir apparent is capable, you'll have to cover a lot of ground before the transition.

IT STARTS AT HOME

Much of the training takes place outside of the shop. In fact, it starts years before the children even begin to think about the business.

Attitudes and habits are formed from a very young age as a part of everyday life. A young person doesn't turn 20 and suddenly develop the skills of an owner/manager.

Some basics about running the business can be taught at the dinner table. You simply talk about what's going on at the shop.

Slowly but surely, your children are exposed to the many aspects of business management. Inventory. Buying. Care and handling. Controlling costs. Being profitable.

The children also will learn about people. Hiring. Firing. Training. Motivation. The characteristics that are important in a good employee.

Another big lesson is the power of a solid work ethic, and how increasing responsibilities should be combined with appropriate discipline and rewards.

Obviously, all of the training in the world won't be much help if the children don't want to take over the business.

If you always grumble about the business at home, what kids in their right minds would want to take on the same struggles? If you want them to be interested, you have to be positive about the business.

Of course, the positive talk must come from your real enjoyment of the work. You can't fake it.

Another key? Expose your children to leadership opportunities—whether sports, school, church or other activities.

Children should get formal education in business or floriculture. It's also usually good for them to get some work experience outside of the family business.

The more chances they have to exercise leadership when they are young, the more comfortable they will be leading when they are grown.

BUSINESS TRAINING

While your children are still in school, they can gain practical business knowledge by working in the shop. They also will gain a source of income, and you will gain a source of labor.

Give them as much experience as possible in every area of the business. Move them around from job to job, but make sure they start at the bottom.

While they are learning about the business, they will be building respect among your other employees.

Other employees will naturally be resentful if the owner's child takes over without having earned it. The flip side is also true. A considerable amount of respect will be built as employees see the child delivering solid service to the business before the transition.

When it's time for you to turn over management responsibilities, strong relationships will already be in place.

The other employees' expectations will be fulfilled, not altered.

OUTSIDE EXPERIENCE

Every parent would like to believe they can maintain a good relationship with their children while training them. Unfortunately, that is rarely the case.

Some conflict is natural as the parent/child relationship evolves. The progression toward independence can be stressful. Add in a business, and the stresses can be even more pronounced.

Don't carry all of the training responsibilities on your shoulders. Children should get formal education in business or floriculture. It's also usually good for them to get some work experience outside of the family business.

Requirements that might seem onerous when imposed by a parent will seem natural in a different context.

When your children come back to the family business, they already will be well along the learning curve. You'll be amazed at the level of maturity they have developed.

TRAINING ATTITUDES

After your children are working in the shop and you are ready to turn over responsibility, how do you maximize the results and minimize the contention?

Don't jump in to fix a problem that you have made their responsibility. If things aren't progressing, talk to them in private. Then, leave it to them to solve the problem.

Meet regularly to celebrate victories and discuss challenges. Together, set the strategic direction and make day-to-day tactical decisions.

When an issue arises, respond only to that issue. Don't make things worse by bringing up other past mistakes.

Finally, don't forget that teachers are remembered more for the success of their students than for their own contributions. Commit yourself to doing what it takes to help your children succeed. 🍀



SUCCESSION PLANNING: *WHO'S IN CHARGE?*



Who is in charge of your operation will determine, to a large extent, the success of the business. It's the most critical issue you face.

After all, every organization needs a line of authority.

The buck must eventually stop somewhere. That's the only way decisions can be made in a timely fashion. It's the only way order and direction can be maintained.

ORGANIZATIONAL STRUCTURE

In most larger corporations, officers run the business and stockholders own the business. Although the officers make the day-to-day operating decisions, ultimately the stockholders (owners) call the shots. They can fire the officers.

In a small business, things are a little simpler. Ultimate control will rest with the owners, who also usually run the business. Fewer owners mean less potential for conflict.

The larger your family, the more difficult it will be to determine clear lines of authority.

Ideally, the person who runs the operation also owns the majority of the business. When more than one person is involved, it's possible that no one may own a majority interest.

This is particularly important if you are looking to pass the business to your heirs. If you have two children, never give half of the business to each child.

That's a sure prescription for disaster. Because no one will be in charge, a nasty stalemate can occur.

In fact, any even number of children (two, four, six or eight) owning equal shares presents the possibility of votes being split 50/50.

If that possibility exists, always give at least one share of stock to a trusted family advisor—like your CPA or lawyer—who can step in to break a tie vote. And be sure to have your lawyer draft a document that holds this advisor harmless when he or she supports one side over the other.

If you give ownership equally to an odd number of heirs, you won't have the 50/50 problem.

ACTIVE VS. INACTIVE

In an attempt to be fair, parents often will give stock equally to all of their children, even when one or more don't want to be active in the business.

In reality, this isn't fair at all. The inactive sibling will benefit from the work done by the active sibling.

A better approach would be to value the business and determine what each child's share is worth. Then, as a part of the transition process, have the non-active child sell his or her share back to the business.

The buyout can be done over time, or the business can borrow money to immediately purchase the share. Either way, all of the children are treated fairly at the point of transition, and all can go their own way, free of encumbrances from each other.

RESOLVING CONFLICT

All families have conflicts. Especially those that are in business together. So you need a system for handling those conflicts.

A board of directors or group of advisors can be set up to help make operating decisions. However, ultimately the control will rest with whoever owns the greatest share of the company. Ownership equals power.

Teach your family members how to listen to each other and to resolve conflicts with their emotions under control. For the lesson to really sink in, you also must model this kind of behavior as a part of the training process.

The alternative to not being able to resolve conflict is anarchy or outright war. A business cannot survive either such situation.

If you have two children, never give half of the business to each child. That's a sure prescription for disaster.

ACCOUNTABILITY

When multiple children take over the business, a clear system of accountability is essential. An effective system of accountability involves two basic steps.

First, each person must be given specific, measurable goals. Second, a performance appraisal must be completed for each individual.

And don't leave the performance appraisal to chance. The transition plan should state who is responsible for reviewing the work of each owner/employee.

TOUGH ISSUES

If you only have one child, or only one of your children is interested in the business, passing along control is relatively easy. However, if two or more children want to be involved, you will have to make sometimes difficult decisions.

As a parent you probably have a fairly good feel for your children's abilities and aptitudes. Make the business decisions accordingly.

And don't forget to thoroughly explain to your children why you are making each decision. Good communication throughout the process is a vital part of the transition program. 🍌



SUCCESSION PLANNING: MONEY, MONEY, MONEY



The Bible doesn't say that money is the root of all evil. However, it does say that the love of money is the root of all evil.

To some extent, everyone desires money. And for business owners who want to pass their operations on to the next generation, money questions get even more complicated.

How much should the parents get when they pass the business to their children? How much should each child be paid? How much is each job/position worth? How much capital should be left in the business to cover operations and the unexpected?

BUSINESS SIZE

The average sales price for a flower shop in the United States is about \$350,000. That suggests that more than half of the shops are below that number. Some, well below.

If your shop is doing \$250,000 in sales, the business' total annual payroll should only be \$75,000. Not much room in that figure to pay more than one owner/operator. And that's a typical scenario. Most shops only have a single owner.

This financial reality complicates many a succession plan. If more than one child wants to be involved, will the business be big enough to support both? If not, you probably should

sell the business and let the children build their careers in some other field.

COMPENSATION

Compensation must always be based upon the fair market value of the services performed. No less. No more. The division of profits can be based upon ownership, but compensation is a different matter.

This principle is especially important in a

succession plan. The money going to the parents should be divided between income for their continued services and proceeds from the sale of the business.

At the same time, since sale proceeds are taxed at a lower rate than wages and are not subject to Social Security or Medicaid taxes, it is to the parents' advantage to allocate as much as is reasonable to the sales price.

BUYOUT RULES

Usually, a buyout agreement will include a method for valuing the business and terms for payment of the purchase price.

Buyout agreements can be fairly complicated. It is hard to anticipate all of the circumstances that will be present when the buyout actually occurs. There is a good possibility that at least one family member will be upset and acting emotionally when the time comes.

The simplest (and often the fairest) buyout agreement has been labeled "The Texas Shootout." We've mentioned this before in *Floral Finance*.

Here's how it works.

Any owner can make an offer to purchase the shares of the other owner at any time. The other owner then has the following two options:

1. Accept the offer and sell his or her shares for the offered price.

2. Buy the offering party's shares for the same amount per share.

In other words, when a co-owner decides he wants to buy the other one out, he will have to offer a fair price because the other party may well turn the tables and buy him out. If he asks to buy at a certain price, he also must be willing to sell at that same price.

The division of profits can be based upon ownership, but compensation is a different matter.

That's the genius of this buyout agreement. There is no stalemate. A buyout is accomplished—one way or the other—at a fair price.

NON-COMPENSATION BENEFITS

When more than one sibling is involved, the succession agreement needs to outline acceptable "perks" for each person, as well as the conditions under which those perks can be given.

You want to prevent the person with more power from giving him or herself insurance, cars, travel or other items at the expense of others.

Any unfair treatment will end up being resented and, ultimately, ruin relationships. A little prevention will pay off handsomely in the long run.

NOT FOR COWARDS

By now, you realize that there are many potential pitfalls in the succession process. That doesn't mean you shouldn't take on the task. It just means you need to cross all of your t's and dot all of your i's.

Careful succession planning is well worth the effort when you want to preserve a strong family legacy and important family values. On the other hand, if the family can't cooperate and work together, you're probably better off selling the shop to an outsider. ☺



SUCCESSION PLANNING: FAMILY HARMONY

Last month, we addressed the need to have systems in place to help resolve conflict. Such systems can bring order out of chaos. However, resolving conflict is not enough by itself to ensure that you have a smoothly running family business.

Ideally, all family members would progress happily toward mutual goals and objectives. It's not always easy, but it can be done.

Keep in mind, though, conflict will always be present at some level. It's human nature. Also, no family is perfect.

Most have natural pockets of conflict.

Hopefully, everyone will do their best and will strive for understanding and forgiveness when conflict occurs.

You can do a number of things to promote common values, purposes and strategies that will support the goal of keeping your family business harmonious.

FAMILY MEETINGS

Schedule frequent family meetings to review the issues and business at hand. Consider setting these up early each Monday to review your plan for the week.

Such meetings can help keep everyone on the same page. Who is responsible for what? When are assignments to be completed?

These meetings are a great time to review common goals and purposes. Relate them to the tasks at hand—and how those tasks fit into the larger picture.

Don't forget impromptu meetings, as well. Keep the communication frequent. Good communication is the grease that makes relationships—and businesses—run smoothly.



It will give you a common approach to problems. Whoever attended the course will know what the instructor recommended in dealing with a certain issue. You will have a common starting point and direction to follow.

The educational experience also will be another shared moment that will build even more history.

AFFIRM & ENCOURAGE

Everyone loves to be appreciated. The more compliments and praise you can give, the more enthusiasm you will build.

Telling another

person how you know “they can do it” is far more constructive in building a positive work environment than planting seeds of negativity.

MOST IMPORTANTLY ... MAKE TIME

So often when managing a business, the focus is on numbers and the bottom line. From there—depending upon the situation—the focus may shift to discipline, tasks or other matters.

An important ingredient is lost.

The time invested in relationships is critical to any success. This is true in life and business.

When you come to the end of the journey, you probably won't be wishing you had spent more time at the shop conducting business. More likely, you will wish you had spent more time enjoying relationships with family and friends.

The most important asset of any business is its people. This is true in spades for small family businesses. 🍀

AIR & RESOLVE DIFFERENCES

Don't let tension build by sweeping things under the rug. Postponing conflict only leads to feelings that are shuttered, only to fester and explode later—and usually at disproportionate levels. Instead, use conflict as an opportunity to build better relationships.

SHARE MEMORIES & HISTORY

“Remember when ...” is a good way to start a conversation that celebrates common memories.

Use your experiences and history together to bind your relationships more tightly. Remind yourself that you share a special history that is unique to your family.

LEARN TOGETHER

Take a design or business class. Apply what you learn to the business—together.

The educational experience will be beneficial in many ways.



SUCCESSION PLANNING: POWER SHARING—THE PARENTS' ROLE



As your succession plan is put into action, you likely will experience a period of time when power is being shared by both generations—and maybe even multiple generations. This could be a time fraught with conflict or, better, a time of real opportunity.

The key to a smooth power transition is to understand clearly the role of each party. Who is responsible for what, and how should they behave?

Usually, at first, parents have the greatest control and influence of the process (i.e., the most power). The following suggestions will help parents use their power wisely.

PLAN/ORGANIZE THE DEVELOPMENT PROCESS

Plan the various learning experiences you want your successor(s) to go through. Make sure each step is completed.

Be flexible. Some steps will take longer than others. Your child will handle some tasks with ease, while other tasks may require extra time and learning.

MAINTAIN CASH FLOW

You are responsible for ensuring that the necessary financial resources are available to make the succession transition happen. This is not a time to be struggling with meeting payroll.

Your energy and attention must be 100% focused toward the transition issues.

DELEGATE REAL RESPONSIBILITY

Power sharing means sharing. Give your children enough space to exercise their authority and decision-making capabilities on a daily basis.

It's like teaching children to walk. You want to be there to make sure they don't take a serious tumble, but you have to let go of their hands so they can learn to walk alone.

DEVELOP YOUR COACHING & MENTORING SKILLS

Listening is more important than ever during a succession transition. Don't be too quick to voice advice or solutions.

For many leaders, this step is especially difficult. Having been in charge for many years, you may automatically want to provide solutions and solve problems. But this does not allow your heirs to grow into their new role.

And, keep in mind, they may not do everything exactly the way you would.

That is okay as long as the end result is solid.

Where you can help the most is in goal setting rather than forcing your way to be the only way to achieve those goals.

REIN IN THE CRITICISM

Don't be overly critical. Most people know when they have made a mistake. Emphasizing someone's errors is not likely to garner enthusiasm to carry forward and find better solutions.

INVOLVE OUTSIDE HELP

Outside mentors, consultants, your CPA and non-family business owners can be brought into the picture. Basically anyone who is trusted, experienced and outside the family may help provide a clear perspective.

It's easy for children to confuse "managing" and "parenting." In their attempt to pull away from you as a parent, they may reject your legitimate managing. An outside perspective can be highly beneficial in such situations.

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As power is shared, conflict is part of the process due to the different perspectives of the parent and child. The chart below from Dr. Craig Aronoff, CEO, The Family Business Consulting Group in Marietta, Georgia, summarizes some of the differences. 🍌

SUCCESSION PERSPECTIVES	
PARENT	OFFSPRING
Conservative	Aggressive
Risk-adverse/ security-minded	Risk-takers
Controlling, fear of losing control	Wanting control
Comfortable functioning in familiar ways	Growth-oriented; Change-oriented; Uncomfortable with business as usual
Managing the past	Managing the future



SUCCESSION PLANNING: EARNING LEGITIMACY



When a new owner steps into the picture, employees will naturally question (at least to themselves) the ability of the successor. It's a natural reaction to change.

A new owner who is a child of the previous owner receives a double dose of skepticism. Employees may believe the heir is in the new position primarily because of his or her family tree—and not ability or experience. Many employees may even feel that they themselves are more qualified to assume the leadership role.

In order to ensure a successful transition, the successor must prove he or she is capable. The following attributes and experiences can help legitimize the successor in the eyes of the employees, suppliers and local business community.

PROVEN SUCCESS ELSEWHERE

There's no better training for a successor than to get experience outside of the business, whether in another industry or in a community leadership role. It allows heirs to prove their abilities on the battlefield without mom or dad there to protect them. And non-floral experience is generally perceived by employees as neutral and worthy of acceptance.

SOLID TRAINING

An heir who begins at the bottom of the organization and works up the

ladder will gain far greater respect than the one who waltzes directly into a leadership position. Each job experience in the shop means better training and understanding. Employees then know the heir has "done what everyone else has done."

On another level,

as with proven success elsewhere, a formal education in business management or floriculture is likely to be perceived as worthy of merit.

PARENTAL SUPPORT

It goes without saying, if the parents are not supportive, others won't be either. Strong parental support will make the path to leadership easier.

CUSTOMER ORIENTATION

The successor needs to show a customer focus. Nothing demonstrates commitment more clearly than a respect for customers. You can't fake it. Since customer service is what retail business is all about, it is hard to imagine any kind of real success without a genuine concern to serve and please customers.

PROBLEM-SOLVING

As the successor encounters and handles real problems faced in the day-to-day grind, his or her credibility as a manager will increase. It's like proving yourself in the heat of battle.

Each time difficulties are experienced and handled successfully, everyone's confidence grows: the successor, employees, customers and parents.

INCREASED RESPONSIBILITY

A combination of inexperience and authority can be chaotic. The goal of

the parent must be a controlled release of power. This is difficult to do consistently, but a schedule of gradually increasing the heir's levels of responsibility is a helpful approach. As each new responsibility is tackled successfully, more can be delegated.

PEOPLE SKILLS

Managing successfully without good people skills is difficult, if not impossible. Similarly, strong social skills are imperative for building relationships with customers.

Nothing demonstrates commitment more clearly than a respect for customers. You can't fake it.

An individual's comfort level in social settings may be largely related to personality. That being said, some interpersonal techniques can be taught. If the heir isn't naturally social, this is an area in which to seek coaching and development.

ACCOMPLISHMENT IN THE SHOP

As the final transition nears, the successor needs to be responsible for bottom-line performance. Can he or she control expenses; staff properly for holidays and non-holidays; buy product with an eye toward price and quality; and carry out personnel tasks (hiring, training and firing)?

STEWARDSHIP

The successor must demonstrate a spirit of stewardship of the business. This means respect for what has been accomplished before and the legacy that has been built.

It also means not wasting the assets of the business—respecting the property, employees and financial resources of the shop. ☘



SUCCESSION PLANNING: PROFESSIONAL DEVELOPMENT FOR THE SUCCESSOR: A CHECKLIST

You've jumped all the hurdles. The decision to turn the business over has been made. The successor has been chosen. The various family and money issues have been worked out. A timetable is set.

Before the transition is complete, you want to make sure that the successor is as prepared as possible. Although a significant portion of the

preparation has to do with values and relationships, important business and management skills are also required. Here is a checklist of experiences and other considerations that can help set your successor up to succeed.

Mentor

Try to match the successor with a mentor. An older, experienced individual who can pass along insight and experience, as well as encouragement.

Aim for someone who has demonstrated business and personal success and who is respected by the successor.

Floral Education

Make sure to take advantage of any industry education available. A horticultural or floriculture degree might be a good idea.

Attending industry seminars is a must. These events educate and also expose the successor to other industry leaders with practical advice to share.

Peer Groups

Ideally, your successor can link up with other successors in the industry.

Currently the industry has several informal associations of retailers from geographically dispersed parts of North America. They get together



periodically to share their business experiences.

These groups have been very helpful to their members. Participating in such a peer group would be a great benefit to your successor.

Responsibility and Rotation

Depending upon the size of your business, make sure your successor has experience in all facets of the business. Only after experiencing the stresses, strains and opportunities of each area will he or she learn how best to manage under any circumstance.

Management Involvement

Involve your successor in management processes, such as cash-flow forecasting, strategic planning, marketing planning and operational meetings.

The idea is to provide experience while the parents are still on the scene to advise and prevent major mistakes.

Outside Experience

Encourage the successor to gain experience outside of the family business for a period of time. Ideally, this company would be in the same business. However, employment in any other small business is beneficial.

Outside work provides the opportunity to experience different cultures and management styles. It broadens one's perspective and, in many ways, increases appreciation for the business being passed on.

Profit and Loss Responsibility

The final test is to actually make the successor responsible for the bottom-line performance of the business.

In other words, allow the successor to make the daily decisions that lead to profit or loss. Buying products, planning advertising and promotion strategies, hiring and firing, directing employees, and many other management duties need to be handled.

The income statement will be the report card. How well was the business run? Did anything unusual happen? Why? How was it handled?

Only when a person is in the driver's seat will he or she really feel the pressures and experience the consequences of decisions.

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Succession planning certainly is not for the weak-natured. Passing along a family business is a lot like giving birth. You are excited about the prospects the future holds for the next generation. You want them to surpass your own successes and climb to great heights. Creating and passing a successful business through the generations is a part of the American Dream for many families.

Provide all of the opportunities available to prepare your children professionally. Then have faith that they will rise to the occasion and your expectations. The odds are high that they will. 🍀