



# Succession Planning

Information and communication  
are the building blocks of  
business transformation



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No two companies are exactly alike. Therefore, it stands to reason that no two succession plans would be the same. Whether a business intends to transfer ownership to a family member or to a complete stranger, the circumstances vary widely.

What remains constant, however, is the crucial role of communication during the process. And when communication is based on accurate information, all the better.

Those are two of the best-practices of succession planning, gathered from talking to dealers, consultants and other experts. Those who have experienced the transfer of ownership in a variety of forms recommend regular communication, and support of that communication with accurate information. Of course, there's more to it. But that's where a successful business transformation begins.

Given the high-degree of interest in buying, selling and perpetuating the family business in today's industry, succession planning is an increasingly important topic. One reason for the interest is the simple fact that many business owners in the hardware and building supply industry are approaching retirement age and beyond. Entrepreneurs and executives are looking at what

they've created, and looking to keep it going. Others are looking to sell.

Another factor pushing awareness is the general education within the industry —through trade shows, conferences and round tables — on the importance of the topic for the good of current ownership, future ownership and the industry as a whole.

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## Company in transition

At Elmwood Hardware Ltd., operators of four Home Hardware Building Centres in Eastern Canada, as well as a Home Furniture and Lighting store, Luc Léger represents the third generation of the family business.

He is currently operations manager for the company founded by his grandparents in 1974. His father has been running the day-to day since 1990. And the company is on the threshold of a succession planning process



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that will keep the business in the family — and conceivably on firm footing.

The succession is about a year or two away, said Léger, who is 27.

“We’re running five locations with 200 employees,” he said. “That makes it a pretty big ship. We’ve been talking about the succession process, but we haven’t taken that step yet where we sit down together and go over details.”

But such an accounting is forthcoming. And according to Léger, it will play an important role in the process.

“I’m not a big fan of just putting it up in the air and hoping for the best,” he said. “We expect the communication between myself and my father to be on the same page, rather than just saying ‘OK, we’re going to fly by night.’”

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## Stats from researchers

There are many great leaders in the hardware and building supply business. Rarely, however, is planning for future leadership a top-priority in boardrooms or corner offices, even among those who experience the connection between leadership and long-term success of a company.

According to Rikka Brandon, an executive recruiter, it’s a goal that should be part of the vision of any business, whether that business has been in the family for generations, or has turned to Wall Street for public investment.

“Failing to plan is planning to fail,” said Brandon, whose company, Building Gurus, is a boutique executive search and consulting firm that focuses exclusively on building product manufacturers.

She spoke at a recent industry conference of LBM dealers. Because the process can be “overwhelming, political and complicated, it’s not urgent,” she explained. “Other things in our business keep pushing ahead of it.”

That attitude is reflected in the results of a recent survey from PricewaterhouseCoopers of owners, leaders and top executives of family businesses. Based on the numbers, industry education remains in the early stages.

The survey found:

- 73 percent of U.S. family businesses admit to not having a documented and robust succession plan;
- 40 percent found it difficult to hand over control fully to their successors; and
- 56 percent believed they would stay involved in their companies longer than is optimum.

These numbers also suggest that companies are looking for a place to start. It’s the first step that is often the most difficult to make. In that regard, Brandon gets down to basics.

“What’s your vision? You need to know where you are going in order to get there,” Brandon said. “You don’t need every step of the process. You need direction.”

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## Selling the business

There are several key financial considerations that guide the process when selling the company, according to Gary Pittsford, CEO of Indianapolis-based Castle Wealth Advisors. Among these considerations are:

- retirement income for the owner selling the business;
- the impact of the transaction on other family members;
- questions around the ownership of the real estate involved; and
- tax considerations.

That last point — taxation — “is the dreaded foe of the typical small-business owner,” Pittsford said.

“Any business owner who is selling their company after building up the value for the last 30 years would like to minimize the amount of income taxes that must



be paid," he said, in a recent interview. "There are many ways to design a sale, and each family needs to understand what the tax options are that fit their situation the best."

Pittsford, a consultant who has spent many years helping companies embrace succession planning, recommends a three-step, three-year plan for successful change of ownership:

1. Three years out: Clean up financial statements and tax returns;
2. Two years out: Clean up personnel, placing right people in the right jobs; and
3. One year out: Clean up the facility, while continuing efforts in the previous two steps.

The process is designed not only for the owner of the company considering a sale, but also the spouse, the children, the grandchildren and even the "charities and other entities that are important to the owner," he said.

Pittsford and others also recommend a team of advisors to help design a blueprint for a corporate sale. The three key roles on that team are a corporate attorney, an accountant and a financial advisor "who can advise on the negotiation of the sale and retirement-income projections."

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## Keeping it in the family

In the case of Elmwood Hardware, the family business is fully expected to stay in the family. Such a move is made possible partly by timing — one family member advances to retirement age while another reaches the age of business ambition. Another, and more important factor, is the incoming generation's passion for the business.

"Some dealers we know wished that their children were interested in the business," Léger said. "But if they have no interest, it's not worth going down that line. You have to make sure the son or daughter is interested in what's going on in the business and what it is all about — and not just interested in the dollar amount at the end of the year."

Luc Léger is a natural fit to eventually lead the company. And while he has shown interest and ability, his father has shown foresight in preparing the company for transition in the form of investment.





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“Luckily, my father is very visionary,” he said. “He understands the importance of making sure to set me up for success and not giving me a business with old equipment and old assets. He’s not taking all the money and running, he’s making sure that he gets his succession plan in order.”

He added: “Some companies are not willing to put more money into it, they’re just trying to get more money out of it.”

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## Technology’s role

Maintaining and evaluating accurate sales, margin and business information are increasingly crucial to day-to-day operations. And they’re equally important in succession planning. Companies also must know the current reality — and to do that, an efficient ability to track and analyze inventory and customer information is essential.

One area where Elmwood Hardware feels comfortable about charting the new waters of succession lies in its information system. Léger describes the Epicor® Eagle® installation — now in its third year — a big step forward and a major investment that continues to benefit the family business. An up-to-date technology solution helps a company check several of the major boxes of succession planning: Improved communication, check; accurate information, check; ease of documentation, check.

But, there’s also a human relations benefit to systems innovation.

“Having the correct information at the right time definitely makes a big difference in our business,” Léger said. “Also, it’s up to date with the younger generation. We find our training is going on faster with the younger crowd — instead of showing them an older archaic system. It will make a difference, compared to what we had. It’s easy to read, and easy to filter down to the information you’re looking for.”





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## Succession planning principles

Letting a succession happen is easier than working on a succession plan. But those with experience warn against sitting back and letting it happen. Companies that fail to embrace the process not only risk future miscalculations and disagreements, they also send a signal of uncertainty to stakeholders inside and outside the company (customers, vendors, etc.).

The following list of generally accepted best practices sets up a company to make a successful succession:

- 1.** Develop comprehensive business operational and technology practices that are clearly understood and documented so that your business can continue regardless of ownership or management changes.
- 2.** Find a strong resource outside of your business to help you through the process.
- 3.** Keep your business information — inventory, purchasing, and customer accounts — accurate.

- 4.** Ensure transparency of critical business information for those who need the business information, and secure it from those who do not.

- 5.** Develop a succession plan for your business for any key members of your team whose loss would make your business vulnerable — for instance, the loss of a top salesperson, purchasing agent or your bookkeeper. Succession planning is more than just changes in ownership due to retirement or death.

- 6.** Don't let the business coast. Make it the most profitable yet, and work harder than ever to promote the business.

Based on these principles, companies would be positioned to get ahead of the succession process, and lay the foundation for a successful transfer of ownership.

Léger described the stakes this way: "It's a pretty big move financially, and a big move in your life, really."