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## ICCFA Magazine spotlight



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► EisnerAmper, headquartered in New York City, New York, is one of the largest accounting firms in the U.S. It provides audit, accounting, advisory, consulting and tax services and has offices across the country, India, Israel and the Cayman Islands.



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► Blank Rome, headquartered in Philadelphia, Pennsylvania, is one of the largest law firms in the U.S. and has offices across the country and in Shanghai, China.

## More about this topic



► The ICCFA Convention in Las Vegas, April 18-21, 2018, will include a presentation titled, "Transitioning to insiders: Retirement is an event, succession is a process." (See page 106.)

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## BUSINESS MANAGEMENT

Whether you're hoping to retire soon or not, succession planning needs to be on your to-do list, because there's a lot to consider and there might be steps you need to take long before you leave.

# Succession planning 101: Things to consider at the start

It's tough out there unless you are the "1,000 pound gorilla"—Amazon, Procter & Gamble, Walmart etc.—who dictates the terms. Let's face it, whether you're a funeral operator, a cemeterian, a manufacturer, a service provider, accountant, lawyer or retailer, margins are squeezed, yields are being compressed and we're all being asked to do more with less.

Assume, for example, that you are the operator and president of a second-generation, family-owned funeral home. You have worked and grown the business for 35 years and have begun thinking about retirement.

You believe that the "good life" is three years away. However, there is nobody currently in the organization who is capable of stepping in to run and lead the business. The quandary is that you can't get to the good life without solving this dilemma.

Furthermore, there are three family members working in the business. Their families and future generations are counting on you.

Finally, your dad, who is in his early 80s and who stepped back from management about 15 years ago, reminds you of your responsibility to secure the future of the family business as he did for you.

Succession planning is one of the most important steps to effectuate personal retirement goals and perhaps one of the toughest to execute. It can be unbelievably painful to think about. It is awkward and uncomfortable to discuss because it is tough—almost impossible—to make all stakeholders happy.

However, as one of my clients said to me: "My spouse's biggest concern is that I will become president and CEO of a funeral home which my spouse would be unable to run if I died."

How much easier it would be to

ignore this difficult and unpleasant subject. However, there are dangers in not considering succession—disability or death may occur, leaving the business without management and unable to operate.

The absence of a plan of succession is, by a long shot, the most likely cause when a death-care business becomes distressed, leading to business failure or sale at a distressed price.

As you begin to consider a plan of succession, there are a number of things you should consider.

**1. Should you count on selling your business to a roll-up?** There was a time not too long ago that one could dream about simply selling to a large public company and receiving a big check or shares of stock. After all, if it's trading on the NYSE or NASDAQ, it must be strong. Times have changed; one has to look no further than the dichotomy and direction of two large, publicly-traded death-care companies.

One lost a total of \$56 million for the years 2013 to 2015. As of September 1, 2017, it had not released its calendar year 2016 financials. On the other hand, a second such firm has expanded from Canada into the U.S., has earned \$10 million the last two years and has \$92 million of equity.

Also think back to the consequences of Loewen's failed roll up and ultimate Chapter 11 bankruptcy. It underscores that consolidators like Loewen can overpay for properties, can be poor managers and ultimately can fail.

When they do, the market to sell a death-care property may shrink or even disappear, and a strategy to sell a death care property as part of a succession plan may not be available or may prove flawed. Consider the owners who sold to Loewen and took long term pay-outs, which remained outstanding at the time of the bankruptcy.

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**There may be nothing more important than having the right people. It is critical to assess this as early as possible so there are people in place for the next generation of the business.**

If unsecured, those payments likely were discharged in bankruptcy. However, even if secured, the seller may have had little practical recourse except to take back an impaired business.

If the business is impaired and the seller did not receive the bulk of his purchase price in cash at closing, the seller, who had planned on stepping back, may now need to work even harder to restore the business in order to sell it as part of a new succession plan.

While a sale of the business may not be the guarantee that it once was, it can offer opportunity, especially if approached with a prudent amount of caution and due diligence.

The lesson here is to know your prospective buyer. There are a number of options today, including several national consolidators, and a local competitor might want to buy you out, as well.

There are many things to think about: What does the buyer offer? Strategically, how will the business benefit from this buyer? What is the buyer's track record? What involvement will you have post-closing?

Ideally, the buyer ought to offer capital and resources that will allow the business to grow. An ideal buyer is not one who proposes to pay top dollar based on cash-flow and simply bolt the business onto its existing business.

An ideal buyer offers strategic opportunity not available to the current owner and thereby ensures the successful implementation of a strategic business plan and, ultimately, an effective succession plan.

## **2. Do you have a group of advisors, either formal or informal?**

Most family-owned businesses don't have a formal group of advisors, but they should. A favorite business school professor said, "everybody needs a group of advisors," a combination of both business and social colleagues with whom you can discuss strategies and opportunities.

They should be people in whom you have unequivocal trust and confidence. People who act as your sounding board should know you well so they are comfortable making critical comments and you are comfortable receiving them.

The formal group of advisors should meet quarterly to help you set business and personal goals and objectives, address the issues that arise within the business and your personal life and formulate solutions for these issues.

It is important to have an open mind during these quarterly meetings in order to be able to synthesize suggestions and accept critical comments. While most people don't do this very well, it is a skill that can be learned.

If you don't have a formal group of advisors, consider outside advisors such as lawyers, accountants, wealth management advisors, personal bankers, etc., who know the business and either know you and your goals well or are willing to make the commitment to do so.

## **3. Are you taking a breath and creating the time to enjoy the forest?**

We're all so focused on the day-to-day work, long hours, intense pressures and big decisions that we forget the importance of pausing to catch your breath and setting aside time to think about the bigger picture.

Set a vision, develop a strategy and implement a plan for execution. In describing the late Steve Jobs, Apple's guru, one article said that when Jobs developed products, he focused on inventing and developing products that "We didn't know we wanted, and once we realized it, we couldn't live without them, i.e. the iPhone."

Let's say your particular death-care business has been in existence for more than a century. As planning for the next century is under way, considering the bigger picture is essential for success.

Is the business profitable? What are its long-term prospects? Is it positioned to respond to current trends in death care such as migration toward cremation and away from in-ground burials? Does it have access to capital to meet ongoing needs? Does the business possess necessary management and staff? Is there a business plan which includes a succession plan?

Great leaders and successful organizations have the inherent ability to create and make time for the bigger picture. The bigger picture includes identifying strategic opportunities and confronting challenges, all of which should be outlined in a strategic business plan that includes a component

addressing succession.

## **4. Are you maximizing creativity or solving problems and issues by writing a check?**

When you have money and availability to more via a line of credit, it's easy to solve problems: You simply write a check. When money and funds are not available, problems are solved by being creative.

Most people use the former approach before the latter. The key is doing the reverse: Use creativity first. It will maximize value and will point the way to a successful future, all of which will be reflected in a strategic business plan that includes an effective plan of succession.

## **5. Do you have the right people?**

Wherever the organization is headed, one of the most critical questions is: "Does it have the right leaders and personnel to execute its business plan?" (Hopefully, the business plan has been developed—see above.) A recent article by Robert Katz was titled: "If you don't have the right human capital, it doesn't matter how much working capital there is ... it won't be enough."

There may be nothing more important than having the right people. It is critical to assess this as early as possible so there are people in place for the next generation of the business.

Unfortunately, sometimes this is only learned after the superstars are gone. Retaining or recruiting the right human capital (people) will lay the foundation for what lies ahead.

Further, it may be appropriate to involve key stakeholders in the succession plan. However, it is important not to involve too many—or too few. It is important to get this number just right if the strategic business plan and succession plan are to be successful.

## **6. What's your plan for growing capital?**

The last step in an effective succession plan is growing the capital resources of the business. Doing this requires implementing each of the foregoing steps.

If implemented as part of regular business planning, it will lead to a succession plan that provides for your retirement and allows the business to continue in a way that carries out the other goals of the succession plan. 