When you started your contract shop, you wanted to take your passion — whether it was electrical work or landscaping — and make a living from it. Then, you bought that foundation and built a thriving business. But at some point in the future, you will have to retire, which means that you will have to find a successor to take over your business, or else risk losing the organization that you worked hard to build.

Creating a succession plan is an important step in guaranteeing the future of your business, but unfortunately many contract-shop owners delay the inevitable — and harm their business in the process.

Among family business owners who expect to retire in five years, less than half have chosen a successor, according to the 2007 American Family Business Survey from Massachusetts Mutual Life Insurance Company (MassMutual). Of those expecting to retire in six to 11 years, less than a third have done so. "Generally, small and family business owners do not prepare for succession as well as they could," says Beth Wood, assistant vice president of business markets at MassMutual, based in Springfield, Mass. "As a result, they put their business's future at risk."

Many small contract shops are family owned, and the vast majority of family businesses fail to last beyond the first generation of owners, says Leonard Green, an adjunct professor who teaches family business and entrepreneurship at Babson Park, Mass.-based Babson College. Planning for succession is a long process involving employees and outside consultants — a financial advisor and a lawyer for starters. "Succession planning should start when the owner is in his or her early 40s," says Green. "At that point, they should see if any of their children have the passion for the business. I also insist that my clients form advisory boards with someone like a consultant as a facilitator. I usually invite the owner's spouse as well as the owner's children and even their children's spouse to periodic meetings."

The meetings are held to get a sense of what current ownership and potential successors want the company to be, Green says — what the business should accomplish and strategies for the future, for example.

Who Should Take Over?
The most critical decision, of course, is picking a successor. You need to determine whether you're going to hire internal candidates and, if so, whether that person will be a family member or not. "If your business has been rough and you've come home exhausted every day your children may want to run for the hills when you bring up the subject of taking over the business," says family business consultant and coach Cheryl Stein, president and founder of Montreal-based Stein Consulting and Coaching.

Even if the new boss will be a family member, it doesn't mean that the transition will be swift and seamless. "Businesses can be overly dependent upon the founder based upon his or her leadership style," says Mario Fidanzi, director of the Family Enterprise Center at Stetson University in DeLand, Fla. "That leader has built the relationships and created the culture. You need to determine if your employees, customers and vendors will embrace the new leader."

If you're considering passing on ownership to children, you also should have your children work not only at the family business, but at other businesses as well. "That will give them a comparison of different management styles," Green says. "When they come to work for the family business, they'll bring additional skills that bring more value than simply being related to the owner."

Going Outside the Family
Not all contract shop owners have the option of passing along the business to a son or daughter or another relative. That's when owners need to carefully consider passing the business on to a current employee, or selling it to a third party.

If you want to keep the leadership in house, carefully consider the right candidates, based upon leadership skills and experience. "It's critical to honestly assess the needs of the business, then match those needs to the successor's skills," Wood says.

If that employee isn't available in house, selling to an outside party presents an immediate financial advantage because you get the majority of your money at closing. "Immediate cash translates to less risk down the road," says Bob O'Hara, president and CEO of O'Hara and Company, a Chelmsford, Mass.-based exit-strategy consultant for business owners, including construction-related contract shops. "Also, if the market is 'hot' for your business, you may receive more cash than anticipated. That's why you need an investment banker or business broker on your team if you plan to sell to someone outside of your company."

**CHART:**

Small business owners offer the following insight when it comes to leaving their shops:

Do you intend to get out of your business within the next few years?

- Yes: 23 percent
- No: 73 percent
- Don't know: 4 percent

How Do you intend to get out by:

- Selling the business: 59 percent
- Shutting down the business: 15 percent
- Passing the business on to an heir: 16 percent
- Don't know: 10 percent

**SOURCE:** National Federation of Independent Business

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9/16/2008