

# Northern Michigan **BUSINESS**

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# Preparing for

Business succession planning is an important



Although business succession planning is a personal and private matter for owners, it is also vital to the employees and communities affiliated with the companies. In this interview, Daniel Wolf identifies the key components to business succession planning, bringing more than 30 years of corporate and consulting experience to the topic. He leads the strategy consulting practice of Dewar Sloan, and he provides professional advice and counsel to corporate, middle-market, institutional and nonprofit clients throughout North America.

Wolf is the author of two books—"Prepared and Resolved" and "Boards and Strategies"—numerous management articles and a resource library of working papers on business strategy, policy, organization, leadership for management and governance, and other subject matter including succession planning.

He has served on several boards in Northern Michigan, including the Traverse Bay Economic Development Corporation, the Traverse City Area Chamber of Commerce, Munson Healthcare System and the CMH Foundation. He has also served as an independent director to private companies and is an advisory board member of the Business School at Michigan State University.

Wolf is a frequent presenter to management and governance groups, college and university audiences, and venture investment groups. Some of the planning methods developed by Dewar Sloan under Wolf's guidance are standard practice in companies and business schools around the country. He holds BA and MBA degrees from Michigan State University.

**NORTHERN MICHIGAN BUSINESS:** Please briefly explain what succession planning is and why it's important?

**WOLF:** Succession planning is a general term that covers the preparation of a company and its people for change. It can apply to specific individuals and/or the broader organization.

Succession planning is important for a number of reasons:

- It helps the company evolve with the right talent in the right roles, for sustained leadership and for the perpetuation of the business.
- It helps guide the generation, preservation and management of strategic and economic value over time, for current and future stakeholders.
- It helps assure that the organization continues to serve as a commercial and social enterprise, shaping employment and local impact.

These reasons apply in large and small companies, nonprofit organizations and other institutions, all of which evolve over time. It's about future-readiness.

**NORTHERN MICHIGAN BUSINESS:** Does the planning process differ based on the size of the company?

**WOLF:** Succession planning may reflect formal and informal processes that are shaped by policy, culture, resources, structure and specific conditions of the company. While succession planning, in some form, is important in every organization, larger and more mature organizations tend to have a more disciplined process for the management and governance of succession decisions and succession planning work, in general.

**NORTHERN MICHIGAN BUSINESS:** Does the planning process for a family-owned business differ from a non-family business? If so, how?

# *the future*

element of economic development

**WOLF:** Private, family-owned businesses have succession plans that deal with the company as an enterprise and the family as a specific shared-interest group. Typically, the transition and succession plans of family-owned businesses take into consideration a number of tax and estate planning issues that are unique to the conditions of the organization and the family.

Businesses that are not family-owned may have similar transition concerns, but their succession planning stakeholders tend not to be attached in personal and legacy politics as much as the family-owned enterprise. There are obvious exceptions.

**NORTHERN MICHIGAN BUSINESS:** When should a business begin thinking about preparing a succession plan?

**WOLF:** Succession planning should be an integral part of a company's ongoing development, so it's always time to think about it, not just before a specific transition event.

By definition, succession planning deals with preparing talent and leadership capacity for the ongoing success of the business. That means paying serious attention to the succession of talent and bench strength for near-term and long-term organizational readiness—getting the right people ready to assume leadership and management roles at the right level and at the right time.

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## ACCESSING MORE INFORMATION

### BOOKS

Family Business Succession Handbook edited by Mark Fischetti (Family Business Publishing, 1997). Chapter 6: "Transferring Control and Ownership," and Chapter 9: "Estate Planning and Taxes."

Sustaining the Family Business: An Insider's Guide to Managing Across Generations by Marshall B. Paisner (Perseus Books, 1999).

McGraw-Hill Guide to Acquiring and Divesting Businesses by Edward E. Shea (McGraw-Hill, 1998).

### INTERNET

How to Create a Business Succession Plan  
[www.investopedia.com](http://www.investopedia.com)

How to Value a Young Company  
[www.forbes.com](http://www.forbes.com)



## PREPARING THE LEGACY

### AMERICAN SPOON PREPARES FOR CHANGE

AS AMERICAN SPOON FOODS PRESIDENT JUSTIN RASHID PREPARES FOR THE next phase of his life, he's preparing his business for the same. Justin, his son, Noah, and other managers are working through a succession plan, a new top executive and cross-training to deepen the bench.

The company-wide approach has become part of the regular workflow. Much of the discussions are happening at the executive level, with attorneys and accountants providing counsel.

"Timing is everything and when I looked around and realized how many people would likely not be here 10 years from now, including myself, I knew we needed to work on a plan," Justin said. "A company depends on the passion, willpower and commitment of the people to keep it going."

Passion, willpower and commitment created the company from a loose agreement Justin had to ship fresh, Northern Michigan bounty to Chef Larry Forgione in New York. Within two years, in 1982, their appreciation for fresh, local ingredients expanded into creating specialty fruit preserves, which continue to be cooked and packaged in Petoskey, Michigan for global distribution.

Noah will officially take over as President in June 2012. After working in Chicago and Los Angeles, he returned to the company seven years ago. He currently oversees branching, marketing, catalogs, the website and retail operations. A transition is already occurring, enabling his father to ease into a supporting role while Justin and his wife remain primary shareholders.

In addition, the company is developing the bench. With about 50 full-time equivalents, managers are going through current positions to identify and document areas where only one key player is trained. Position-by-position, backups are being trained.

"Life is full of surprises and you can't put the whole enterprise at risk because of one Achilles heel," Justin said. "Your strength can become your weakness and you can become too reliant on high-performing people. You run lean in seasonal business, but if you run too lean and don't retain people year-round, you can become very vulnerable."

Within the next two years, the company will have multiple employees able to perform key tasks. Cross-training is being built into the operational structure.

Business succession planning is something that must begin at the top. Employees will not feel comfortable discussing leadership changes unless upper management engages in the discussion, in essence, giving employees permission to discuss potential changes, according to Justin.

"When you invest 30 years of your life into a business like this, it's your legacy really," he said. "It's an honor if your legacy continues into the next generation or continues after you. To be honest, it would be a great disappointment if everything I've built simply liquidated or was sold off."

"I never had a right to count on what is happening, but I'm thrilled," he said.

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Succession planning is relevant to the organization when people leave the company, when people are struck down by tragedy or personal loss, when the needs and goals of the organization change and when individuals are placed in different roles or replaced for some reason. It's a critical organizational subject.

**NORTHERN MICHIGAN BUSINESS:** What are the key issues to consider when preparing a business succession plan?

**WOLF:** Among the key issues we consider in the assessment of succession needs and transition moves are strategy, culture, resources and structure. These are the foundations of business success, and they help frame the right approach to succession planning. Specifically:

- What is the company's strategic agenda for growth, performance and change? Does it make sense?
- What are the cultural and subcultural principles, values, belief systems and norms? Are these evolving?
- What are the technical, human, operating and system resources that keep the business running? Are these current?
- What is the structure of the organization and how do people interface to make decisions? Bench strength?

There are other preparatory questions, of course, but these provide a good picture of the current and future needs of the company in succession planning terms, focusing on developing talent, bench strength, systems and structure.

**NORTHERN MICHIGAN BUSINESS:** What is the average timeline for developing such a plan?

**WOLF:** The time requirements for succession planning depend on the nature of the company and its ownership and governance model. A typical family-owned business succession plan could take a year to:

- Address the enterprise and its evolution.
- Deal with ownership and personal choices.
- Cover the key financial tax/estate matters.
- Deal with organization and bench strengths.
- Address capital and resource matters.
- Assign new/next organization roles.
- Assess the value of the company.
- Evaluate the risks of the company.
- Develop legal/operating agreements.
- Explore transition and exit alternatives.

There are choices to be made, policy issues to address, personal concerns to resolve or direct, conflicts to prevent or disperse, valuations to define and a number of other issues to frame and deal with.

**NORTHERN MICHIGAN BUSINESS:** Can an owner prepare their own plan or is it important to consult an expert?

**WOLF:** Some aspects of succession planning are subject to financial and legal considerations and owners are typically advised by their attorneys, financial counsel, banking partners, governing and/or advisory boards and other consultants/experts on these matters.

Other aspects of succession planning are suitable for owners to tackle on their own, with some advice and counsel from those who have some working knowledge of the succession and transition process. For example, strategic plans, organization design, resource plans and risk management are subjects company execs need to address. Succession conditions are truly unique to every organization and what works for one company can be inappropriate for another.

Sound practice in private company succession planning should be shaped by regular planning and review processes that connect the key elements with a periodic reality-check. Succession plans should be reviewed annually at a minimum.

**NORTHERN MICHIGAN BUSINESS:** Succession planning helps a business remain active after its founder or a previous generation exits, but how is it important to the greater community?

**WOLF:** Succession planning is essential to employment growth and sustenance because it helps assure business continuation, development and perpetuation. Companies of all types have what we call natural goals and these include:

- Financial performance.
- Customer connections.
- Competitive advantage.
- Corporate stewardship.

Most companies in modern free-market systems exist to deliver on these natural goals and corporate stewardship is a piece of the equation. The late Peter Drucker spoke of the “social ecology” of business, which refers to the employment pact and covenants companies choose to make in their respective connections.

**NORTHERN MICHIGAN BUSINESS:** With Northern Michigan being so rich in small businesses, is succession planning a key in the region’s economic stability?

**WOLF:** Succession planning does indeed shape economic development and economic stability in a region, whether that involves metro areas like Silicon Valley or areas like Northern Michigan.

Smaller companies may have more difficulty in the formation, integration and execution of succession plans than larger organizations. It follows that “attention invested” in succession planning in smaller companies has broader social and economic development impact in regions that are populated mainly by smaller companies.

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## GOING AGAINST THE ODDS THREE BROTHERS TRANSITION INTO LEADERSHIP AT MARSH AUTOMOTIVE

IN AN INDUSTRY WHERE PASSING THE BUSINESS TO THE NEXT generation is riddled with challenges, the Marsh family found its interests aligning and the clock ticking—all leading to business succession planning. Founder and father Bill Marsh had led Marsh Automotive for decades. His three sons had grown up around the business, left for college and taken jobs outside the company.

A natural evolution brought the boys home and after they settled into working at the Traverse City-based dealership, Bill decided it was time to look to the future.

“My father realized that it was not a foregone conclusion that we would assume the business until we had all worked outside the business or in the business for some time,” said Mike Marsh, who now oversees sales and operations.

The company sought the help of an expert, Dan Wolf at Dewey Sloan, in making the transition. The financial aspects were straight forward and left in the hands of trusted accountants. There would be no negotiating with Dad and the sons would each purchase their portion of the company.

How the leadership would unfold involved exploring and writing personal mission and vision statements. Success was defined through conversation and on paper long before the sons found themselves working equally toward it.

“You have to share values, credit and accountability,” Mike said.

The outcome involves each brother overseeing a different aspect of the company. In addition to Mike overseeing sales and operations, the younger Bill heads marketing, including e-commerce and philanthropy. Jamie oversees fixed assets and supporting businesses. In addition to five dealerships, Marsh also runs a service department, body shop, brake and alignment center, Thrift Auto Rental and JD Buy Righter, a financing arm.

“We don’t compete,” Mike said. “In all aspects we operate as equal partners. The division allows us to dive into those different areas and yet lean on the support of the others.”

In addition, a CFO partners with the owners in running the five Traverse City-based dealerships and support businesses—all of which employ about 250 people and see annual revenues of about \$150 million.

Credit for the successful transition is saved for the founder and father, who waited for his sons to make career choices and then sought outside assistance to ensure his legacy would be reshaped in a way that would continue to grow.

“My father wasn’t just going to turn over the business if he didn’t feel we were fully prepared,” Mike said. “He was responsible for 200 employees.”

The transition took time, and six years later, the sons have weathered losing the Saturn franchise, grown the staff and continue to look for acquisition opportunities. Their father remains involved at whatever capacity he chooses without any of the responsibility.

“It takes a lot of discipline as the founder of the business to sell and step aside,” Mike said.

## **BROKER ASSISTS TRANSITION RETIREMENT OPENS DOOR FOR NATIVE TO PURSUE NORTHERN MICHIGAN DREAM**



CHUCK CADIE WAS LOOKING TO RETIRE FROM THE COMPANY HE FOUNDED. His succession plan involved selling Strata Design in Traverse City. Tyler Cerny was looking to buy a business, part of his plan to move back to his hometown. The two manufacturing managers met through Fulcrum Partners, a strategic business advisory firm out of Grand Rapids and Boyne City. It didn't take long for them to see their synchronizations for life and the future of the independent casework manufacturing company.

"Fulcrum helped bridge the gathering of data," Cerny said. "Once I found out about the business, met with Chuck and heard the story, I saw potential there."

From there, Cerny continued to research and make decisions. A key component to the sale extended beyond the balance sheets. The 38-year-old valued an ongoing relationship to help the company transition. He found that in Cadie, who remains a mentor, advisor and landlord. He also serves on the company's advisory board, bringing his strength in sales and general management to the table.

"When I need advice or counsel, he's the first person I call," Cerny said.

Purchasing the business sealed Cadie's plans to live in his hometown. He initially made the move by taking a job at Alken-Ziegler in Kalkaska. After three years, the company consolidated to southeast Michigan.

"I worked too hard to get back to Northern Michigan to transfer," he said, noting he began working as a lean manufacturing trainer at Northwestern Michigan College while continuing his search for a business.

Today, Cerny has grown the workforce from about 25 to 30 full-time and five to seven temporary employees. He's implemented lean practices to boost the bottom line and has grown the out-of-state business, on average, from 20 to 50 percent.

"I'm not alone in wanting to move back and live near family," Cerny said. "We all want to create a viable community here in Traverse City, and if we can help bring some young talent back—that's great."

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**NORTHERN MICHIGAN BUSINESS:** Who loses the most if a plan is not in place and the owners make a life change—whether planned or sudden?

**WOLF:** The risks associated with inadequate succession planning are real and varied and they are not limited to simple owner choices or life circumstances. The most common risk implications are:

- Business discontinuation.
- Significant success disruption.
- Business restructuring, relocation.
- Conflicts with business reorganization.

While some companies in transition sail through change and succession without much hassle or risk, most struggle without a formal plan.

**NORTHERN MICHIGAN BUSINESS:** Now that we've addressed the cultural aspects of planning, what are the social benefits of preparing a plan?

**WOLF:** The social benefits of succession planning can be defined relative to the people within the organization—the internal stakeholders and the people around the organization—the external stakeholders. For the insiders of succession planning, the benefits accrue from a serious, credible and thorough exploration of transition and succession issues. The net benefit for these insiders is a greater level of confidence in what will happen over the company's planning and succession horizon.

The net benefits for outsiders may include business and employment stability, growth, sustenance and engagement in matters such as:

- Regional tax base contribution: growth.
- Philanthropic support for regional programs.
- Opportunities for personal/career development.
- Opportunities for industry base development.
- Conversation of legacy and innovation assets.
- Integration of education assets and employment.
- Opportunities for public-private partnerships.
- Contribution of leadership talent to nonprofits.

**NORTHERN MICHIGAN BUSINESS:** Do you have any final words?

**WOLF:** Succession planning and management/owner transition practices are important for the principals and stakeholders of small and large companies alike. The process and disciplines that apply to succession planning can impact the creation and preservation of strategic and economic value for business owners, stakeholders—employees, suppliers, customers, investors and community—and other institutional parties of interest.

Yes, succession planning matters to more than the company owners. ■