All in the Family

Preparing for the generational transfer of a dealership

by: Chip Miceli, Pulse Technology

Many owners of private businesses, in planning their eventual exits from their companies, might consider passing their businesses along to someone in the next generation of their families — sons, daughters, or even nieces or nephews.

Statistics suggest, however, that less than 30% of privately held businesses make it successfully into that second generation. There are a few caveats here. For example, that statistic specifically mentions "under the same name," and it is not uncommon for a business to rebrand but still remain the same entity. By the time a business gets to a third generation, the statistics are even more daunting; many businesses, after several generational transfers, either merge, get acquired or close their doors.

There are a number of very good reasons why a business in our industry — or any industry, for that matter — might want to transfer ownership within the family. For those considering doing so, there are ways that you, as a business owner, can "beat the statistical odds" and execute a successful transfer. First, let's look at our industry and its challenges.

"You Want Me to Sell What!?"

A few years ago, I was on a panel at a Business Technology Association (BTA) event in Chicago, Illinois, that turned out to be more of a discussion with the attendees. Many in the audience were sons and daughters of dealers I know. I asked them about challenges they saw in the industry that might make them less likely to want to take over their family businesses. One recurring comment was that it is difficult to hire young people in this industry. I asked why they felt that way. "It's not sexy to sell copiers [MFPs]," was a common answer.

Younger people are more interested in selling technology-driven products and services: A/V and video walls, security cameras, etc. — things they find exciting. In some ways, people think selling IT is like selling insurance — you know you probably need it, but it is intangible. So, it can be difficult to convince younger people to sell copier/MFPs and related services.

Anecdotally, I have heard people seeking employees in the pharmaceutical industry say they place higher value on someone who has successfully sold MFPs, believing that if someone can sell them, they can sell anything. And to a degree, that is true. Selling MFPs is good training for sales in other areas. If one of the challenges of "keeping it in the family" with a business transfer is the ability to attract and retain salespeople, one point to consider is the way we train sales team members.

Yes, we are selling MFPs and printers, but training should emphasize the bigger picture, which is to say that we should view a customer's lease or purchase of an MFP as more than just a transaction — the customer is buying into the idea that the equipment will solve a problem it has, will reduce its costs overall and improve efficiencies.

So, before getting to some key steps that you might take to make a dealership seem more appealing for an interfamily transfer, let's remember that we can "keep our houses in order" by making sure that our businesses are as appealing to the next generation (both families and employees) as possible.

- Emphasize selling solutions, not equipment.
- Invest in your employees through training, recognition and valuing their input.
- Do not be afraid to get creative in recruiting new talent. Sometimes you may find candidates in places you would not think of — a waiter/waitress, someone who sells clothing at a big box store or even a coffee shop where the barista tries to sell you (in a polite way, of course) more than just the $5 coffee that you ordered. Listen, watch and have conversations.

Like the Boy Scouts, Be Prepared!

As a former Boy Scout leader, I am a fan of the Scout motto, "Be prepared." It is sound advice for anyone looking to prepare to exit a business, whether selling to a family member or an outside buyer. A study from 2019 by the Exit Planning Institute revealed that 83% of owners surveyed either had no transition plan or one that was undocumented and not communicated. Similarly, 40% of those surveyed had no plan to cover a forced exit due to the owner's illness or death. A survey from 2023 showed that nearly 70% of owners spent minimal time on exit planning because they were too busy or believed that it was too early.

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Business owners may not have an advisory team (made up of a business coach, banker, accountant, attorney and potentially business broker) to plan for the exit. So, be prepared if you are thinking about a transfer:

- Have a plan in place. Begin with forming an advisory team if you do not have one already.
- Strike the phrase "It's too early to begin planning" from your vocabulary. Most business brokers and other advisers will tell you to plan five years in advance.
- During this preparation time, assess and evaluate your business operating practices. If there are areas of weakness, this is a good time to improve those so your company is in the strongest position it can be.
- One study revealed that owners who rush their exit planning can lose 20% to 50% of their business's potential value.

The power and importance of planning can also help in the event of one of the "five Ds": death, disability, divorce, distress and disagreement, which account for about half of all business transitions. Without a plan, these events can force a rushed, and often unfavorable, exit.

Keeping It All in the Family

I have firsthand experience in generational transfers. My father launched my company 70 years ago under the name Des Plaines Office Equipment out of the garage at our family's home. I joined the company in its early stages, largely in sales. However, by the time my father decided it was the right time for him to retire, he had already had me doing much of the day-to-day work of the business, so I felt ready to step in.

However, there were two brothers in the succession and I learned a valuable lesson that it is important to share: When the business is passed on to the next generation, if more than one family member is involved, my advice is to avoid 50-50 ownership. One person should have a majority interest in the company, even if it is only 51% to 49%.

Fifty-fifty ownership can stall action on important items of the running of the business — from purchase of inventory to finance to the expansion of the business. Sometimes it will be written into an agreement that in the event of a deadlock there is a third-party mediator who will break the tie. It is easier to avoid potential conflict by having someone in a majority ownership position.

How do you decide who should be the majority owner? Evaluate who will play the predominant role in the business. Who has the vision to lead the company forward? Once you have determined that, act accordingly.

In family transitions, both sides need to listen to each other. No son or daughter will view how to run the business the same as the father or mother does. So, it is important for both sides to have open, frank discussions about the direction of the company. The next-generation owner should listen to and benefit from the experience of the older generation, just as the selling family member needs to understand that it is OK to "let go" and allow the next-generation owner to make his (or her) imprint on the family business.

Planning for the Next Owner

When you are considering an intergenerational transfer of ownership, begin early with a few guidelines:

- Identify your successor(s).
- This may sound obvious, but ensure the successor(s) is really invested in taking over. There is a big difference between owning a business and working in one.
- Spend time discussing the roles they will fulfill within the business in detail. Ensure the next-generation leader(s) possesses the necessary technical and leadership skills.
- Decide — and be sure to get buy-in from the next generation — what role, if any, you plan to have within the business under new ownership. Will you be a chairman? An informal advisor? Or do you plan to step away and into the next chapter of your life, whatever that may be?
- Have frank discussions about what the future of the business should be.
- You should always be training someone to do your job — even if you have no immediate plans to transition ownership.

What If No Family Member Wants to Take Over?

If there is no one in your family interested in carrying the business forward, you have other options, including a merger or sale. Much of the advice about preparing your business still applies. Or there is always the employee stock ownership plan (ESOP), where employees buy in and take over the company. Whatever your succession plan is — particularly when bringing in the next generation — be deliberate, be strategic and be prepared. ■

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