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# Planning the Future for a Family Business

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*Provides a framework around which a family owned retail food business can plan towards insuring it's future.*

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## INTRODUCTION

The independent family business is a vital part of the food retailing industry. With 169,400 stores and sales of \$49 billion in 1971, the independent family business accounted for 83 per cent of the stores and 52 per cent of food store sales (1). Even these data do not reflect the true importance of the family retail food business as many of the chains are really family businesses.

The future of the family business depends upon its ability to adjust to changing economic, social and political conditions. This report will be concerned with the future of the family retail food business. Specifically, the following topics will be discussed: Why is planning important and what is planning? Why is planning the family business so unique? and How to plan for a family business?

## WHY IS PLANNING IMPORTANT TO A FAMILY BUSINESS?

Perhaps a couple of examples will help to illustrate the importance of planning. Mr. Thomas Catt, "Top Cat," started his small grocery store in 1928. Although he almost perished in the depression, he managed to enjoy steady growth through World War II. After World War II, he started an expansion program that has lead to his current chain of 15 Top Catt Supers. Yesterday, at the age of 65, he suffered his first heart attack. Today is the first working day he has missed in nearly 44 years. The next quarter's advertising plan is due Friday; store No. 5 may be closed by strikers unless an agreement can be reached in the next day or so; the insurance company wants to cancel the insurance on store No. 1 because it was held-up again last night; and it is time to plan the annual company picnic and service awards program. However, none of the vice-presidents dare to act and, indeed, do not know how to act because Mr. Top Cat has always "ruled" his company and only he has the needed information to act on each of these company problems.

Consider another situation. Mr. Riley A. Hardworker and his wife, Ima, own and operate a grocery store in an

older section of town. Their weekly store sales average \$300 and they find that the cost price squeeze makes it increasingly difficult to eke out a living. They had one competitive advantage in that they offered credit and charged higher prices to absorb some of the cost; however, the spread of the food stamp program into their area has virtually eliminated this competitive advantage. Riley is 62 and Ima is 60. They have owned and operated their Quality Grocery Mart for forty years at the same location. Now they find that they are in an awkward age of life---that is, they are too old to start over and they are too young for social security.

This is not a pleasant picture to paint and, certainly, it does not give one much to look forward to; however, it is an unfortunate fact that many examples such as these exist throughout the United States today. Instead of enjoying the twilight years of one's life, many family businessmen find them to be the most degrading and miserable that they have ever known. How can this situation be avoided?

Although there are no guarantees to anything, it is certain that careful planning would have increased the probability that Top Cat and the Hardworkers could have spent their waning years in relative comfort with a minimum amount of worry, while watching their business prosper and support them. Planning is a basic and, hence, a very important function of management. It is a continuous process involving the development of workable policy as well as planning the daily operations. It is the first step in the management process and it will determine the effectiveness of management. As an owner-manager, you must recognize that planning leads to the decision as to what action to take, when to take action, where to take it, and how to go about taking such action.

## Planning the Family Business Is Unique

It is unique because the family is part of the business and the business is part of the family. Frequently this results in one's emotions clouding one's good judgment. Harsh reality will eventually set the issue straight, but it may be under extremely uncomfortable conditions.

The entire family must sacrifice, each in his own way, to help build the family business. This business can serve as a living memorial to those who worked so hard to establish and nurture it, or it can be their dying albatross. How about your family business? Do you want it to survive as a viable testimony to your efforts, or do

you simply want to bury it before it buries you?

## **ASSESS THE LEGAL, FINANCIAL AND MANAGERIAL STATUS OF YOUR FAMILY BUSINESS**

The owner-operator must plan for two major time periods of the business---the time period in which he will remain the owner-operator and the time period when his successor, if there is one, controls the business. If there is to be a smooth transition from the first stage to the second, they must be considered simultaneously. The remainder of this discussion will be concerned with planning during stage one to facilitate the transition to stage two.

### **Legal Status**

It is not the author's intent to engage in giving you legal advice. He is not qualified to do so. Furthermore, the laws vary so much from state to state that general statements can be misleading. For specific legal advice, it is recommended that you work closely with your local lawyer; he knows the laws of your state, your county and your city. However, in order to reduce the risk of transferring ownership, as well as the expense, several points will be raised for your consideration.

It behooves each of you to be sure that your current insurance protection is adequate to protect you in the event of some tragedy. Additionally, everyone should have a will that covers both one's business and personal assets and how they should be dispersed. Estate planning is extremely important to protect the ones you love---including your business.

Each businessman ought to carefully consider the advantages and disadvantages of alternative forms of business organization such as: private ownership, partnership, limited partnership, corporation, or tax free corporation. Again, the advantages and disadvantages will vary from state to state, and certainly the size of the business influences one's decisions also. However, the ease of transferring the ownership and the liability associated with each would be a minimum consideration in all cases. Since about three-fourths of all NARGUS firms have been incorporated, you may have already made this choice.

### **Financial Status**

Financial planning is, of course, a very important part of any business. Determining credit needs and sources for you as a current owner and for the future owner are vital to the growth of the business. Far too often, a family businessman looks at current profits and thinks that he does not need any additional information. However, it must be remembered that a business is very similar to a family in that it tends to run in a cycle from a beginning growth stage, through a peak stage, to a declining stage. Determining which stage your business is in is a very important part of planning for the future. It should also be remembered that eventually the business

will have to support not only you, but a new owner-manager. In addition, one should plan financial arrangements needed for the new owner to take over the business.

### **Managerial Status**

Who will provide the leadership in planning, organizing, directing, co-ordinating and controlling the activities of the business in the years to come?

Many family businessmen find themselves in one of the following situations. The first situation is perhaps the saddest. It is a situation in which no one has been trained to take over the business and, if the owner-manager dies suddenly, or is unable to work, he leaves only a widow or an overworked wife to take over. She probably is ill-equipped for this sudden managerial responsibility. In this case, the business will immediately lose market value because those willing to invest will realize that it will quickly lose value. Even if the individual does not die, he will be in a position where he cannot retire because the business will likely be in a declining stage which makes it difficult to sell. Thus, he may be locked into a subsistence living.

The second situation is that the owner has a son, daughter or other family member who might be able to take over the business, but has no interest in doing so. When the "Swartz and Sons" sign was placed over the store, they were too young to understand their father's dream. After watching him work 60 hours a week all of his life, they decide "not me!". Now, what do you do?

The third situation is a situation where there are several members of the family who are interested in the business, but the business is not large enough to support them all. Committee management is usually not very effective. Eventually, each individual's selfish interests prevail to the detriment of the business. This situation is likely to contribute to the demise of the business. How do you make an equitable settlement that is in the best interest of the business?

The fourth condition which is extremely difficult to deal with is when a son, daughter, or other family member is very much interested in the business, but unfortunately, does not have the ability to manage it adequately. In a situation such as this, if you really love your business as well as your family member, do not let him destroy the business and himself. The other employees will not be fooled and, if his own faulty management does not ruin the business, they may "help" him.

The fifth situation is to have someone, family member or not, who has been identified as having both the ability and the willingness to take over the business. This is not only an enviable situation, but one which is absolutely essential. Every owner-manager should have identified such an individual early enough in his career to involve him in the plans for the business, because Management Is The Key. This is not to say that legal and financial aspects of planning the family business are not important---only a fool would make such a suggestion. However, if there is no one to perform these managerial functions, legal and financial plans will be of little consequence.

## HOW TO DEVELOP A TOTAL MANAGEMENT PLAN FOR THE FAMILY BUSINESS

Assuming that you have found someone to eventually take over the business. How does this someone fit into your total management plan? Time does not permit a complete investigation of all of the ramifications of planning, but some of the major areas will be discussed in this section.

### Know Your Market and How You Fit-In

In order for the business to continue, it is important that you identify your competitive advantages and disadvantages and determine the long run prospects for your market area. Perhaps you should plan to sell now and start on a new location if the existing site lacks future. Ask yourself what are the opportunities for expansion? Will it be necessary to move to a new location within five years? What do our customers think of us?

Watkins has presented evidence to suggest that one's self perception of his customer image is, at best, misleading (13). Vastine's research supports these findings (11). Objective analysis of the situation is needed along with a plan to adapt to market needs rather than hoping the market will adapt to your needs.

### Develop a Mature Relationship with Your Wholesaler

It is important to achieve what Norwood has called "a mature" relationship with your wholesaler. To say mature relationship implies that both are mature. The undergirding strength of this relationship will depend on mutual trust, respect and confidence, as well as a common commitment to success for both parties. Future competitive pressures will make it difficult, if not impossible, for the independent businessman to be truly independent. The wholesaler and the retailer will have to work together. The fact that so many independents have affiliated themselves with a wholesaler is testimony that such a need exists. In 1971, unaffiliated independents still accounted for 51 per cent of all stores, but only 7.6 per cent of all sales. This compares to 61 per cent of the stores and 11.5 per cent of sales in 1961. (1) In contrast, affiliated independents accounted for 31 per cent of the stores and 44 per cent of sales in 1971.

The wholesalers' role will probably expand to include a broad mix of products and services. Services will probably include such things as: management analysis, supervision, help in site location, market analysis, building an advertising and promotion program and they may even play a major role in selecting your successor.

Of course, you should expect that his cost structure is competitive and that he is able to help you enjoy more profits. Additionally, you should expect to share in the rewards that the wholesaler enjoys as a result of your contribution to his business. With mutual enthusiasm, objectivity and a cooperative spirit, the strengths of both you and your wholesaler will multiply many fold. Additionally, since your success depends upon his perform-

ance, you may need to more actively monitor his performance in the future.

### Develop a Modern Management Psychic

Scientific management can and must be used by the family businessman just as it is used by the large corporate giants with whom he competes. The scientific management approach is as much an attitude as it is an operation. You have to believe in an orderly process of decision making because if you do not, you will frequently be treating symptoms rather than problems. This is as fallacious as recommending aspirin for someone who is suffering from a brain tumor. One should ask whether the current accounting system will be adequate not only for tax purposes, but also for financial management. Norwood has suggested that at least four basic measures of financial management should be employed in financial planning (6). The four measures are:

1. Existence of profits: that is, realistic depreciation of inventory should be used.
2. Sufficiency of profits: that is, to develop standards to evaluate based on alternative opportunities.
3. Profit mix: that is: what departments contribute to profits and how much they contribute.
4. Profit trends: that is, base plans on projections.

Sound financial management should permit you to know where you are, where you want to go, and how fast you are moving toward your objective, because you have determined in advance what indicators of progress to look for.

### Selecting and Training Your Successor

Select someone to run the business who is people oriented. Do not just look at doers; look at leaders. His job as manager will require him to spend most of his time dealing in customer-personnel relations and dealing with other humans who are serving your business in one capacity or another. At the same time, this individual must have the capacity to appreciate and utilize the modern management tools available to him.

Once you have found and selected such an individual, it will be very important that you establish definite learning objectives that are agreed on ahead of time so that his progress can be monitored. It will be important for you to relinquish responsibilities as quickly as the man can grow to accept them. How fast you want to do this will depend upon the time period between the time you hire him and the time you hope that he is able to take over.

### Train, Don't Initiate!

It is exceedingly important that you make sure you provide a man with five years experience rather than one year's experience five times. Although he may have to know how to do every job in the store, this should not be carried too far. The manager will not make his final

contribution to the future of your family business by being the fastest checker, the best meat cutter, the best floor sweeper, or the best display man, but rather what he can accomplish with and through people and how he deals with and understands his customers.

His training should equip him to evaluate the progress of the store and formulate objectives, rather than indoctrinating him into dutifully carrying out your orders. It should also be recognized that you are probably not in a position to provide all the training that he needs. He will just inherit all of your faults. Depend upon the experience of others for training information through formal and informal courses, seminars, workshops and training manuals. If you are willing to place the future of your business in this man's hands, you should be equally willing to invest a little money, time and energy in equipping him to serve the needs of that business. After all, your livelihood will depend on him too.

#### **Let Him Make a Few Mistakes, You Did and You Still Do**

It is only natural to make some errors. You should only be concerned when the same mistakes are continuously repeated. The management transition should be a process of planned evolution, rather than hazardous revolution. One cannot learn by only having responsibility; one must also have authority. He should be trained to formulate management objectives, develop performance criteria and make sure everyone involved understands them. This will reduce the number and seriousness of mistakes and will increase the learning potential of the decision-evaluation process.

#### **Trust Your Judgment**

Near the end of the transition process as you hope to phase out of the business in the formal management sense, it will be important to leave when you promised to leave. It may even help build confidence and morale if you put the relationship in writing. This makes everyone

more comfortable and reduces any problem that you might have in the future. Nothing is more disheartening than to have made all of your plans and then find that some petty quarrels result in the young man leaving you after you have spent so much money on him and invested so much faith in him. All of this can happen because you were unwilling to let go. Of course, it should be recognized that he has lost time, money and an opportunity also. Everyone loses!

It is also important to give the new man support even though deep down you may hope that he does not perform as effectively as you did. Never undermine his employees' confidence in him or the confidence of others with whom he serves. If he fails, you will have to accept part of the responsibility.

Finally, it is suggested that if your successor is not a member of the family, you should use extreme caution to protect him from them. Once again, a written agreement will certainly help this situation. It will also be helpful for everyone to fully understand why he is taking over, but more important---that he is taking over.

#### **CONCLUSIONS**

Your sons and daughters were spawned from your loins. Your business is your brain-child. You have the right to be proud of both of your offsprings, but eventually you reach the point when you find that it is necessary to cut the apron strings---even if that means admitting that you are not essential to their existence.

You will have to analyze your market, determine your legal, financial, and managerial status, and then develop a managerial plan that involves your wholesaler. By carefully selecting and training a successor, you will have successfully planned a business that will grow and support you. The future of your business depends upon your most important managerial decision. The decision to know when and how---"to love it and leave it."

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