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Managing Family Businesses Through Generations

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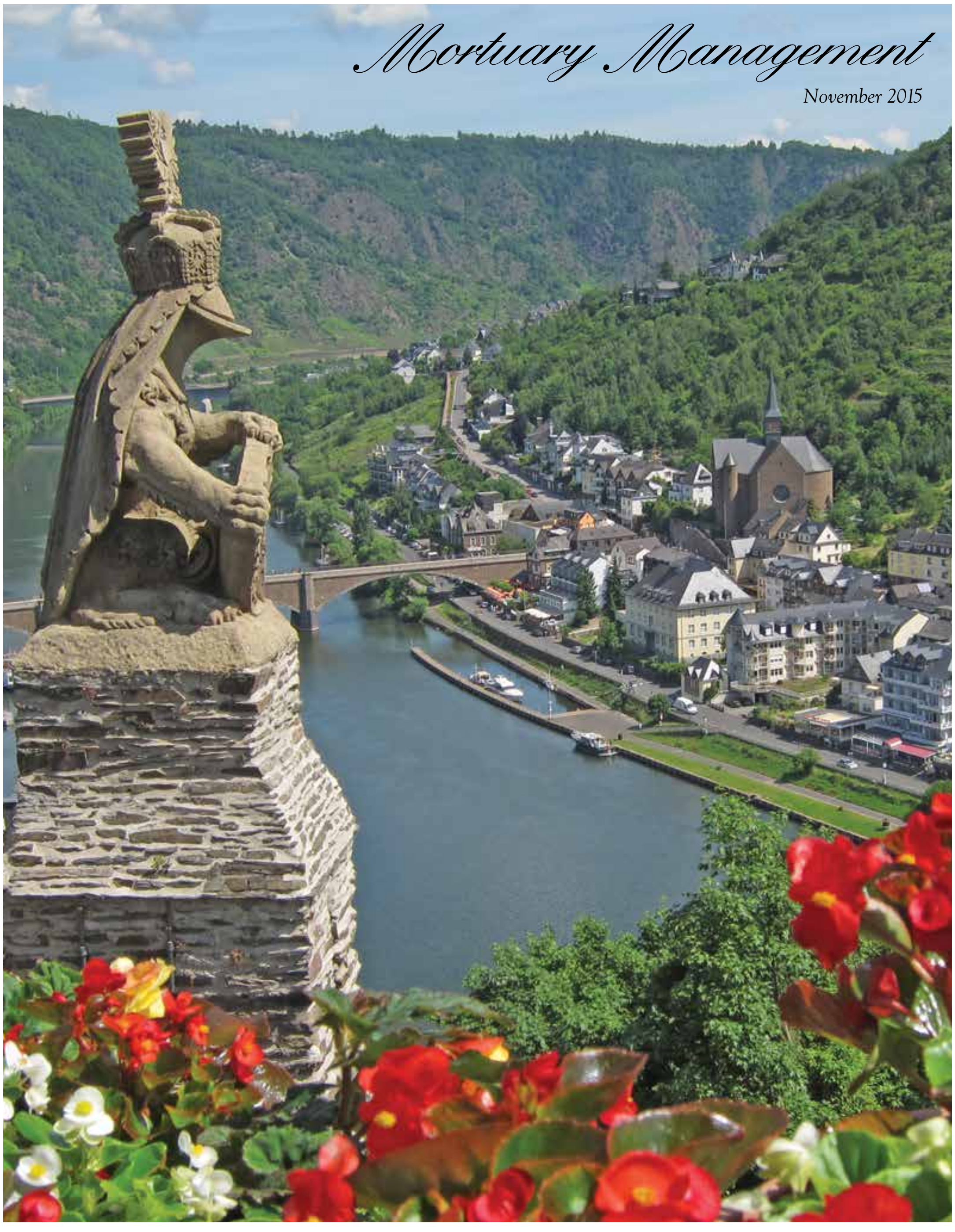

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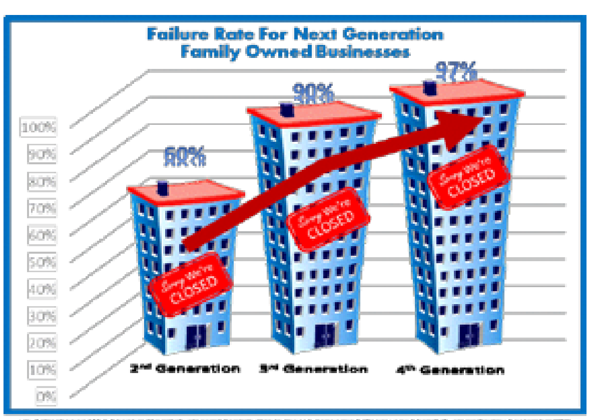
Managing Family Businesses Through Generations

By Todd D. Mannix

Many people in the business world are familiar with failure rate statistics of new companies in the 80-percent range. While there are new businesses popping up every day in this industry, it is more prevalent to have family-run businesses handed off from one generation to the next.

In a recent episode of CNBC's *The Profit*, the statistic was quoted that second-generation businesses have a 60-percent failure rate and third-generation businesses have a 90-percent failure rate. Further research seeking to confirm these numbers revealed that fourth-generation businesses' failure rate increases to 97 percent.* These numbers are shockingly high and are a reason to take a look at our industry to see if these general statistics hold water.



Funeral Industry May Have a Leg Up

One might argue that the funeral business is a little different from the standard business that might be more largely represented by these numbers. For starters, to take over a family business in the funeral industry, most next-generation owners actually go to mortuary school and learn the details of the trade, from taking proper and environmentally safe care of a decedent's body to understanding the legalities involved in the state in which they operate. Knowing the details of the business and getting a degree that specializes in that particular business probably tips the scales of success a little more in the favor of the funeral services industry.

However, while this is a great head start, this is no guarantee of future generations' success. In addition to knowing the details of the business and having a degree specific to the business, there is no getting around the value of understanding the financial health of your business. Small business owners with a passion for what they do have a great understanding of the product or service they provide and the need in the marketplace they serve. This passion is what drives their success. But the numbers above tell a story that should not be ignored.

First-generation Advantage

First and most obviously, it should be recognized that there is tremendous satisfaction for the first generation in creating something from nothing. The vision of the entrepreneur becomes an obsession with the first signs of potential success. Much like a poor golfer who hits that perfect shot once in a round, it's a sign they can do it and it keeps them coming back. First-generation business owners are laser-focused as every decision they make in the early days can make or break the business, and the results of such decisions are carefully followed to course-correct. The problem arises when they have done such a good job that the business becomes self-sustaining. The model has been perfected and the initial entrepreneur knows the *how's* and *why's* for every aspect of the business.

The next generation didn't build it from scratch. The next generation, while understanding the processes in place, did not experience the growing pains of perfecting the process. These lessons are essential to a business' success, because leadership decisions need to be made as markets change and situations arise that are outside

*J.H. Astrachan and M.C. Shanker, "Family Businesses' Contribution to the U.S. Economy: A Closer Look," *Family Business Review*, September 2003.

the norm. Anyone who has started a business, whether it succeeded or not, becomes armed with a perspective that only comes with experience. Future generations are given a packaged good that has been grown and perfected (or at least, much improved upon) over the years.

Serving Their Communities

Several factors lead to the successful handing over of a business to the next generation. While knowing the details of funeral service and possessing a degree absolutely give next-generation owners firm ground to stand on, how does one substitute for the hard work and passion that created the business in the first place? Taking over the family business is an awesome responsibility, and there's often much pressure (their parent's retirement, for example) for the next generation to succeed. It's unreasonable to expect the next generation to have the same passion for the business.

Again, I will tip my hat to the funeral services industry, because this business does have a unique pride and passion factor that can and often does translate across generations. In this industry, it's not only about building a business for the sake of creating something and providing a livelihood that affords the owner and their family a certain lifestyle, but in the funeral profession, its also about providing for those in the community they serve. I have heard funeral directors from across the country talk with pride about what they do, and this is another reason why future generations have a leg up on these success/failure statistics.

Three Keys to Ensuring Future Success over Generations

Nonetheless, there is still a business to run, and no matter what the industry, understanding the financials is critical to running an effective business. Generational handoffs come at many different stages. The previous generation may have run a very tight ship with solid financial understanding, but it's also possible that the previous generation became complacent in financial matters as the business became successful and the business eventually went on autopilot. There are thousands of scenarios as to how the business has been run over the years, but there is a common truth in understanding the health of any organization by looking at the numbers.

1. Revenues

The first place to go in order to understand a company's health and well-being is in examining the company's revenues. How has the company done year over year? The great thing about being a next-generation owner is the amount of data to review. Go back as far as you can and see if there is a trend in one direction or another. Be aware that even if the business wasn't growing in terms of volume of business, there should be some increase in revenue over time related to inflation (or perhaps this is an area that needs to be examined if you have not raised prices in a while and your competition has). Trends can be identified and understood as to how the business performed in recession years or boom years — how the business was impacted by legislation changes either at the state or federal level as it relates to Medicaid, for example. Revenue is the first key place to start to comprehend just how the business is doing from an income perspective, but be careful to understand that revenue does not equal profit.

2. Profit & Loss Statement

Once you have an understanding of revenues and the trends associated with sales, look at the current profit and loss statement. Looking back at previous year's P&Ls and year over year comparisons can also help you understand what has changed over the years. Sound financial management includes managing the costs as well as the revenues. One quick fix that is an easy first step for new owners to attack is in examining recurring payments. These are costs your company has to pay month in and month out. These are dollars that impact your bottom line greatly, because they are recurring costs and add up. Examples of these costs are telephone, heat, electricity, credit card processing vendor, cleaning service and landscaping, just to name a few.

Many business owners do a good job in getting these services set up in the first place, but sometimes vendors increase pricing with existing clients because there is a comfortable relationship. There may be a better deal out there or an opportunity to renegotiate with your existing vendor. Vendor relationships are important in your community as a way of potentially driving business, so it's not as easy as finding the lowest cost provider and making the change. By reexamining these contracts, it not only gives you a way of understanding some of the costs that affect your profit monthly, but it also gives you a great way to cut back on costs as every dollar you save monthly on one of these contracts equals 12 dollars annually. Believe it or not, these dollars can add up. Understanding the costs of the business and how they impact your profit is a great way to get an in-depth knowledge of how well the company is being managed and where there is opportunity to generate more profit without making an additional sale.

3. Understand your Balance Sheet

Understanding trends in revenues and where they are today, as well as the cost structure of the business and what things impact profitability the most, are a great way of understanding the current operational sustainability of the business — but it's not the whole story. A company balance sheet gives you an idea of everything relevant to evaluating the company in a snapshot. Its basic components are Assets, Liabilities and Owner's Equity:

- **Assets** are things the company owns or is entitled to. Property, equipment, cash, inventory and accounts receivable are all considered assets of the company.
- **Liabilities** are things the company owes to others that may include accounts payable, loans, mortgages, wages, taxes and other debt.
- **Owners' Equity** is sometimes referred to as net worth or net assets. It can be simplified as the difference between the company's assets less the liabilities. Assets = Liabilities + Owners' Equity.

While this is a rudimentary explanation of the balance sheet, all business owners should familiarize themselves with it. The items will be different from business to business (even within the same industry), but the story the balance sheet tells is critical to understanding the true health of the company. If you are unfamiliar with the balance sheet, it need not intimidate you. Spend time with your accountant (if you have one) or look up specific terms online. You will find it very easy to get up to speed on how to read and quickly interpret a balance sheet.

A great place to start is in understanding important key ratios that are standards for evaluating businesses. Some of these include Profit Margin (Income/Revenue), Current Ratio (Current Assets/Current Liabilities) and Debt Ratio (Total Liabilities/Total Assets). These are just the tip of the financial iceberg, but they should help

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Advertisers' Index

In Memory

Erwod C. Raysin, 90, died August 29. For over 60 years he was the owner and operator of the former Raysin Funeral Home in Davison, Michigan.

Amos E. Quesenberry, 94, died August 26. He worked in many West Virginia funeral homes before establishing the Rose and Quesenberry.

John L. Attilli, 60, died August 23. He worked at Rosedale Funeral Home in Martinsburg and Roselawn Funeral Home and Cemetery in Princeton. He was appointed by the governor to serve on the West Virginia State Board of Funeral Service Examiners board.

Halsey "Bud" H. Williams, 85, died August 19. He was the owner of the Crumely Funeral Home in Hillsboro, Indiana.

The Yin and Yang of Funeral Service *continued from page 9*

families and exerted during the process, often unknown to the practitioner. The electronic age and the emergence of social networking further complicate the process.

I have advised on several disputed matters regarding sharing of photography taken at or during a funeral service, especially inside a provider's place of business. I have previously written about this in this space, but I assure you, you haven't seen the last of this issue. There will be others.

The challenge — day to day and for the future — remains as it has always been, to provide a needed and appreciated service to the public. People who are technically proficient, intuitively suited and socially aware will thrive, as always — challenges notwithstanding. Those who aren't won't. MM

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Get the Best from Content Writer *continued from page 11*

And what does that mean? To guarantee success (whether it's measured by higher search engine rankings or longer page views by end-users), you've also got to give *your* best to the collaborative project. Why?

Author Bob Sullo said it best: "Collaboration is valuable because it helps us transcend our individual limits and create something greater than ourselves." MM

Kim Stacey is an independent content and copywriter specializing in creating fresh, engaging, optimized web content for funeral service professionals. She can be reached by email for comment or conversation at kim.stacey@sbcglobal.net, or by phone at (831) 246-4648.

Managing Family Businesses *continued from page 24*

you understand there are ways of looking into the numbers that can reveal a lot about the health of the company as well as highlight areas to improve. It is a good idea to monitor these ratios closely over time to make sure they stay within an acceptable range.

Overall, the funeral services industry may have an advantage over other industries when it comes to handing off the family business, but even if the circumstances highlighted above are true, there is an important distinction between knowing a business and managing a business. By focusing on the financials, one can really understand what impacts the long-term sustainability of the business and continue the legacy for generations to come. MM