

SPECIAL REPORT

SUCCESSION PLANNING

Keeping biz in the family? Start planning now

Only 30 per cent of family businesses are successfully transferred to a second generation, according to specialist Jennifer East

By IAN ROSS
Northern Ontario Business

Canada's baby boomers are set to retire at an alarming rate over the next decade. It's no different among the silver-haired owners of Northern Ontario's family-run tourist resort operators and outfitters.

Jennifer East, a tourism consultant specializing in succession planning, says there's no time like the present for business owners to start giving serious thought to whom to eventually hand the keys.

East says between 80 and 90 per cent of Canadian businesses are family-run with a vast majority of these business leaders planning to retire within the next five to 10 years. Yet only about seven per cent have formalized succession plans in place.

Statistics from the Canadian Association for Family Enterprise (CASE) indicate only three in 10 family businesses survive into the second generation of ownership.

East says those businesses that survive start succession planning early and formalize a document that involves consulting with everyone in the family.

A succession plan, she says, not only serves to "pass the torch" to the next gen-

eration, but acts as a contingency plan should a life-altering event occur. It also could present a comprehensive strategy to transfer the business to a management group or to sell to an outside third party.

East, who works as family business facilitator, spoke about succession planning to resort owners at the Northern Ontario Tourism Outfitters Association (NOTO) annual conference in Sault Ste. Marie Nov. 4. In scanning the NOTO membership attending her session, she noticed only a handful of resort operators within the 20 to 40 age group.

"It's a very significant issue not only for NOTO membership, but for the tourism sector in general."

East speaks of succession planning from personal experience. Her family business is Killarney Mountain Lodge, a resort her aging parents have operated for more than 40 years.



JENNIFER EAST

"In a way, we are in a succession planning process ourselves," says East. She handles the lodge's marketing along with running her own tourism-related consulting business.

In her younger years, East held no interest in carrying on the family legacy.

But over time as her involvement in the business and the larger tourism industry grew, she became more committed while also pursuing her own interests.

East says many outfitters feel overwhelmed by the magnitude of the challenge. The cost of a succession plan can widely vary when lawyers and accountants get involved.

But she says the cost of not formalizing a plan can pose huge financial implications when capital gains tax is involved. The next generation can be required to pay taxes based on half the value of the business.

"It's an enormous cost that would force the family to sell the business."

East says there are key points to consider when getting started on a succession plan.

Most important is to consider the objectives of the founder and whole family.

"What do I want to do with my life and what do my children want to do?"

There are also issues of transfer of ownership and management, which involve share transfers and hand-over plans in the event no child is interested in the business.

East says if the founder decides to maintain ownership but transfers management, it's a different matter than if the business is sold outright to the children.

Sometimes, the parents are semi-retired but still keep a hand in the operation.

"Try to formalize that structure. How will the passing of the torch be managed over time?"

As well, the parents' retirement income may depend upon the second generation to run the business successfully. The resort may still be their pension plan.

When devising a succession plan, the fi-

nancial stability of the business and of the family members is a vital element.

Since many tourism operators run seasonal businesses, upkeep can be expensive. A sudden downturn in the tourism industry, affected by matters like SARS, can cause unexpected hardship.

Are the founders financially independent, or are they reliant on the salary they might generate from the business?

"Things like retained earnings probably have been poured back into the business over the years rather than the owner-operators developing independence from other assets," East says.

Above all, East says, remember succession planning is an ongoing process, "not an event." The sooner you start, the better the plan will be with more contingencies in place.

Grooming and selecting a successor can be an agonizing decision. "It's often where the business and family spheres clash."

East suggests selecting a board of advisers, some independent-minded people whom you trust, including professional colleagues or friends in business, who can give you an informed opinion on a potential successor.

Maintaining family harmony can be a balancing act through the whole process. What's best for the business is not necessarily best for the family.

"Keep in mind, harmony is important," she says. "The business may not always be a part of your life."

Conducting a formal business transfer amongst family members can be a sticky issue that can create animosity amongst parents and siblings. "It depends on the family situation, on the family dynamic and how they interact. The business comes second."

East says the most complicated aspect of succession planning by far is dealing with the human element.

"In my experience, it's not the legal, financial (or) tangible things that stand in the way, it's the human dynamic."

That stems from a lack of communication and "assumptions people make where everyone's left feeling hurt."

For more information, phone Jennifer East Consulting at 705-287-1083 or e-mail jennifer@jennifereast.com.

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