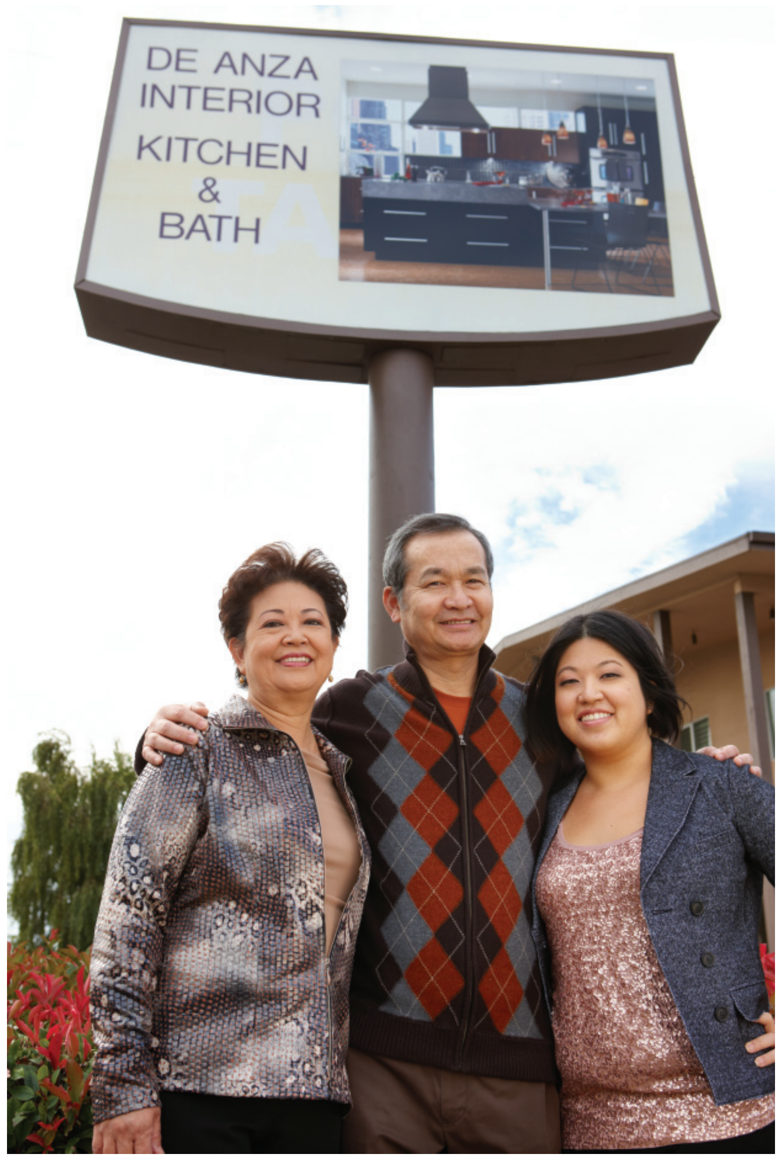
Whether you're planning for retirement, an emergency or just your next adventure, ***SUCCESSION PLANNING CAN HELP YOU*** transition your dealer business to secure both its future and yours.

BY MATT ALDERTON • PHOTOS BY DAVID KINGSBURY

Plan TOMORROW'S EXIT Today

Stephen Ho, Jennifer Ho, CKD, CBD, and Teresa Ho of De Anza Interior Inc.

Like a family can outgrow its home, kitchen and bath dealers eventually can outgrow their business. Maybe it's gotten too large, and you're ready to downsize. Maybe you're ready for retirement. Or maybe you just want to try something new. Whatever the reason, sooner or later, it will be time to start a new life chapter.



Ready for semi-retirement, kitchen and bath dealers Teresa and Stephen Ho found that out firsthand in 2006, when they decided to begin transferring ownership of their business, De Anza Interior Inc. of San Jose, Calif., to their daughter Jennifer.

"The plan is to give me partial ownership of the business as part of my benefits package," says Jennifer, CKD, CBD, who began working in the family business as a teenager. Back then, her parents—Taiwanese immigrants—asked her to help by using her fluency in English to answer phones and translate mail. "I will be given a certain piece year by year until I own 50 percent, at which point we will decide whether or not we keep going until I own 100 percent."

Unfortunately, the Hos' retirement plan took a turn in 2007, when a fire burned their dealer business to the ground. "Back in 2005, my parents had purchased a ranch close to the beach. They had planned to retire there and potentially start a bed and breakfast or a health retreat center," Jennifer says. "But due to what went on with the fire, they had to make the difficult choice of abandoning that dream." Because their dealer business was underinsured, they had to reassess their retirement plans and delay transfer of ownership.

Still, because they had a succession plan in place, which allowed them to forecast their financial needs, the Hos were able to continue more easily in their business for the sake of rebuilding it.

Not all kitchen and bath dealers are as lucky or prepared. In a 2007 study of family-owned businesses, Seattle-based wealth management firm Laird Norton Tyee found that only 29 percent have a written succession plan and just 41 percent have identified a CEO successor. As a result, less than half of family-owned businesses last beyond one generation.

"Members of the extremely entrepreneurial baby boom generation, who launched family enterprises with gusto, are rapidly approaching retirement," according to the study. "Nearly 60 percent of majority shareholders in family businesses are 55 or older. Nearly 30 percent are 65 or older. Succession of leadership will be a pivotal point in these companies' futures."

Whether they are one, five, 10 or 20 years from retirement, K&B dealers who want their businesses to last should answer the question: What's next?

Exit Planning Explained

Simply put, a succession plan, or exit plan, is a roadmap for the future. On it, dealers mark their current situation, where they're going and what route they're going to take to get there. Like a will, it's a document that clearly explains what's supposed to happen to the business once the dealer is gone, including how assets will be divided and among whom.

Unlike in estate planning, however, "gone" can mean any number of things in succession planning. Death is only one of many scenarios, says John Reddish, president of Advent Management International, a succession-planning consultancy based in Drexel Hill, Pa. A dealer might, for instance, get injured, get sick, retire or just be ready for a change.

"Anything could happen, and if you don't have a plan in place for what happens when it does, you'll be left to the whims of fate," Reddish says.

Equal part retirement planning and risk management, a succession plan can help dealers provide for themselves financially and emotionally, no matter what happens or when, Reddish says.

He describes the three "Ls" of succession planning:

1. ***Legacy:*** How dealers want to be remembered
2. ***Liquidity:*** How dealers provide for themselves financially and maintain their standard of living
3. ***Letting go:*** Accepting that it's time to move on, often the toughest part

"The goal is to protect the asset, grow the asset and transition the asset," Reddish says.

Making Your Plan

The best way to start the succession-planning process is with goal setting, says John Martinka, vice president of "Partner" On-Call Network, a Bellevue, Wash.-based network of business consultants that helps clients buy and sell businesses. "Whether it's retirement or just their next great adventure in life, I always encourage people to start this process with a financial planner

10 STEPS TO A SUCCESSFUL SUCCESSION

1. **SET EXIT GOALS:** Decide when you want to retire, as well as how much money you need to live comfortably.
2. **CHOOSE A SUCCESSOR:** Decide whether you want to transition your business to a family member or employee, or sell it to an outside buyer.
3. **ASSESS YOUR VALUE:** Conduct a business valuation so you know what it's worth, and work to fill the gap if it's not enough.
4. **CREATE VALUE:** Add value to your business by keeping accurate financial records and detailed documentation of all processes and procedures.
5. **ASSEMBLE A TEAM OF ADVISERS:** Consult an accountant, an attorney, a business broker and a succession-planning consultant. You can locate a broker near you via the American Business Brokers Association (www.americanbusinessbrokers.org) or the International Business Brokers Association (www.ibba.org).
6. **IDENTIFY POTENTIAL BUYERS:** Make a list of potential buyers in the marketplace, targeting complementary businesses.
7. **APPROACH LIKELY BUYERS:** Send potential buyers a short business profile consisting of basic information about your market, sales and services—offering more detailed information only to those who sign a confidentiality agreement.
8. **NEGOTIATE:** With help from a business broker, field multiple offers and leverage competition among buyers to get the best possible price.
9. **ASSIST WITH THE TRANSITION:** Be prepared to continue working in the business for a limited period as it's transitioned to the new owner.
10. **SAY GOODBYE:** Prepare to let go and decide what you want to do when you're no longer working in the business.

Because dealers have business-critical knowledge and relationships, they can create value by volunteering to stay involved in the business after it's sold.

WHAT YOU'RE WORTH

Before dealers can transition the business, they should determine what it's worth by conducting a business valuation.

There are two kinds of value, says David Karnofel of BCMS Corporate. Market value, or true value, is based on what a buyer is willing to pay. It's influenced by the motive of the purchaser and impossible to determine until you actually have a potential buyer.

On the other hand, financial value is purely numbers-based—a simple accounting function that can provide a starting point from which to plan your exit, Karnofel says. "It's derived based on the profitability of the business, the risk associated with the business and the expected return on investment for a potential buyer," he says. "A financial value should only be used for things like estate planning, divorces and partner buyouts."

For a do-it-yourself option, valuation software can help approximate the value of a business through formulas based on past and projected financials. For a more accurate appraisal, the National Association of Certified Valuation Analysts, which offers a free online service at www.nacva.com, can help dealers find business valuation experts in their area.

who will say, 'Here's what you've got and here's how much you need if you want to maintain your lifestyle,'" he says.

Financial goals will help dealers determine both when to transition their business—Reddish recommends allowing at least three to five years to prepare it for sale—and also to whom. Leaving the business to children isn't a dealer's only option, says David Karnofel, New York-based director of North American business development for BCMS Corporate, an international investment banking firm that helps entrepreneurs sell their businesses.

"If your family doesn't have the interest or ability to continue growing the business, you'd better seek an outside buyer or the business will inevitably begin to decline," he says.

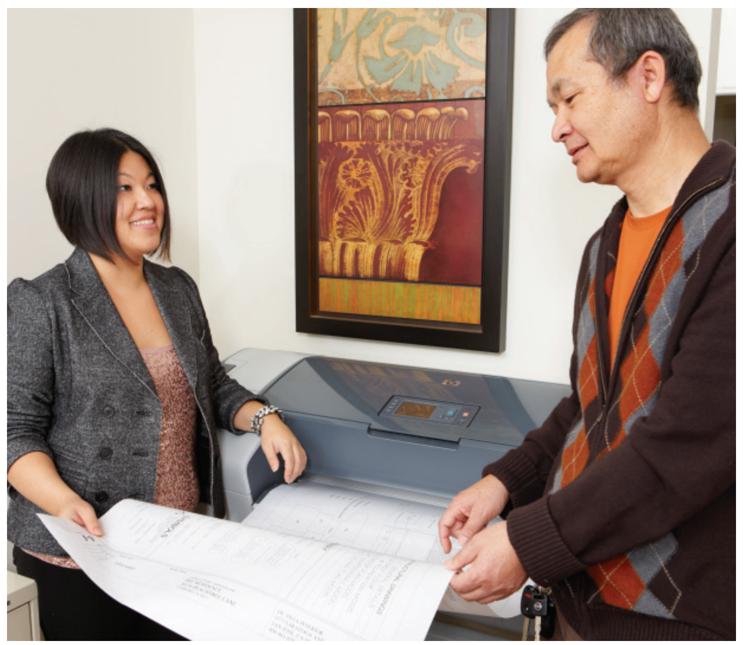
An "outside" buyer can be internal or external:

- **Internal:** A senior employee or partner who wishes to buy the business
- **External:** A direct competitor who wants market share, an indirect competitor who wants to expand into a dealer's geographic market, a complementary business that wants to expand its product line, or an investor whose hobby is buying and running small companies

"If you choose an outside buyer, put together a list of viable candidates," Karnofel says. "Then begin the arduous task of making contact with everyone on it."

Because word spreads quickly, and can easily create conflict with employees, clients and competitors, selling a dealer business requires discretion, Karnofel says. He recommends dealers put together two separate documents for potential buyers.

The first, a business profile, should be short and ambiguous, exclude the business name, and feature only basic information like what the business does, and past and projected profits. Business owners should call or email



potential buyers—without revealing their business' name—to explain the business opportunity, and offer the business profile and a confidentiality agreement to them.

Interested buyers can return the confidentiality agreement in exchange for a second, more thorough document that discloses the company's identity and includes detailed information about legal structure, key people, organizational structure, clients, operations and growth strategies.

Once an offer is accepted, dealers can benefit from consulting an accountant to deal with tax implications, an attorney to deal with contracts, a business broker to help sell the business and a consultant to quarterback the entire process, Martinka says. "It costs money, but it comes back to you many times over," he says.

What Buyers Want

The most important element of succession planning is making the dealer business attractive to buyers. "Buyers want to know that you've already hired the right people and implemented the right systems, processes and procedures," Karnofel says. "They typically don't want to buy your business and spend a year cleaning house before they can run it. They want to buy it and hit the ground running."

K&B dealers can create business value in several ways. "There needs to be solid financial systems and accurate financial statements; attention to the non-financial factors of the business, such as employees, management, clients, vendors and marketing; and systems in place to allow for a smooth transition," Martinka says.

The key to a successful succession is creating a foolproof guide to running the business so a potential buyer can step in quickly and easily. "Reduce the dependency the business has on any key people, especially the owner," Martinka says. "Too often, the owner is the business. This can create serious problems for a transition or transaction. An owner who shares information, lets others take responsibility and spends more time working 'on' versus 'in' the business is creating real value."

Still, because dealers have business-critical knowledge and relationships, they also can create value by volunteering to stay involved in the business after it's sold. "You can determine if you want to stay on for six months full-time or six months part-time, as a consultant for two years or for five years as a permanent member of the new company's management team," Karnofel says. "But most buyers will expect some period for transition."

Indeed, because they're so valuable, Jennifer Ho hopes her parents will stay involved in their dealer business even after they've retired. "I've always made it clear that they are welcome to remain a part of the business," she says. "There are things that they are more well-versed in than I am."

Of course, the decision to stay involved isn't just strategic. It's also sentimental. "The business means everything to [my parents], and not being involved would be a huge change in their lifestyle," Jennifer says. "I want to make sure that retiring is something they really want to do and that they have a vision of what to do with their time." WP

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