

## **THE FUTURE IS NOW: SUCCESSION PLANNING FOR YOUR OILHEAT BUSINESS**

*by*

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The retail fuel oil industry, perhaps more than any other, is dominated by family-owned businesses. The tradition of strong, independent business owners has remained unbroken in the oil business. As companies have grown and matured, many have passed on to second or even third generation owners. But will the future see this trend continue?

The path of business succession has grown increasingly rockier with the passage of time. The once simple transfer of ownership and control has become a tangled web of legal and financial complexities. For owners of oilheat companies who wish to “continue the line,” succession planning is no longer an option—it is a requirement. And the time to begin the process is right now. By following a logical process and being sensitive to the needs of all of the individuals involved, succession planning can become an opportunity, not only for a business to continue and flourish, but for a family to grow closer together.

There are four major steps to follow in planning for the next generation to assume the mantle of leadership at your company: *who, what, how* and *when*. The process is part practical, part emotional. But above all, proper planning at an early stage is far better than being forced to make quick and sometimes rash decisions at a time of crisis, such as the illness or death of a parent.

Before the succession process starts, the question to ask yourself is this: Are you ready to begin thinking about life after work? If not now, when will you be ready? (“The day I retire!” is not an acceptable answer.) Even a young, active oilheat dealer should begin the early stages of planning for the time when he or she is ready to move on.

“Who”

Once the decision has been made to start the process, the first step is to determine who should be involved. Obviously, the owner and his or her spouse will have a say, along with their potential successors, generally the child or children who are actively involved in the business. But should you also include siblings who may not be directly involved in the company? How about sons- and daughters-in-law? Are there cousins involved? Long time employees who are not family members?

The answers will vary with each business. But whether they are involved directly in the succession planning or not, you must consider the feelings of

and communicate with all members of the family. There is no quicker way to the courtroom than to try and make major changes behind someone's back.

You should also assemble a team of professionals to help you through the process. Your accountant, lawyer and insurance broker are three key individuals whose skills will be required. In our case, as a closely involved and trusted consultant, we often "quarterback" the planning process, acting as an advisor and coordinating the various elements both inside and outside the family as an objective third party.

"What"

Now comes the "what" phase. What does each family member want from the process? To honestly assess and determine this, family members involved in the succession must meet, and meet often. Begin by meeting separately with your advisor—Mom and Dad first, then the children. Each party should establish their concerns, wishes and worries. Then comes a joint meeting to uncover points of difference and agreement. Then separate meetings again to evaluate and revise. Then together again to work out differences.

If this seems to be a "back and forth" process, it is. There is simply too much involved and at stake to trust to a single, large meeting. Taking the time to bring out deeply rooted feelings and concerns at this stage will pave the way for a smoother transition at a later time.

We take pains during this evaluation phase to be sensitive to the feelings of each individual. A great deal of introspection is required, as well as total honesty—with yourself and with others. Most of our clients who go through this process with us have their eyes opened by the depth of emotions and feelings that emerge. For the most part, it is a remarkably healthy and positive experience.

Here, too, is where an outside advisor can be invaluable. In the many business successions that I have coordinated, my most important role has often been that of a "filter." Dad tells me privately that his son is a "lazy, good-for-nothing bum." I tell Junior that Dad thinks he might be able to put a little more effort into his work. A son thinks his father is a "crotchety, manipulative old bastard," who won't let go of control. I tell Dad that Junior feels stifled, and is ready to assume more responsibility. Controlling and calming the emotional, reactive side of the process is of vital importance.

What considerations must be addressed in the planning process? A comfortable future for Mom and Dad is a primary concern. But so is the future of the business. Both must be assured of adequate cash flow, the parents to assure an expected standard of living, the business to survive and grow without a crushing financial burden.

This is the point where too many families start to argue about details, without looking at the big picture. Both sides worry about the “how,” before agreeing on the “what.” More often than not, both parents and children are very close on what they expect and desire.

What child could deny his or her parent a secure, comfortable life in retirement? Mom and Dad will probably be earning a pretty good living by retirement time, and deserve to maintain their lifestyle. While the retiring owner will be handing over management of the business to the next generation, will there still be a place in the company for his or her counsel and experience? At what level? Mom also wants to make sure that all of her children are taken care of, and are happy with the outcome.

On the other side of the equation, what parent would impose a heavy debt load on a business they helped to create and build? A child assuming the mantle of leading the family business has a right to have a high level of control, free from second-guessing or meddling. He or she also expects to live comfortably, and to be able to continue to grow the business. There are ways to structure a buyout that will serve both parties equally well.

#### “How”

Once agreement is reached on a level of income for the parents, and a workable financial obligation for the company, it is time to address “how.” How will all this be accomplished?

The income source for Mom and Dad can be structured in many ways, and from many sources. A straight buyout, a buyout over time, rental income, Social Security, continuing salary, company-paid health insurance, investment earnings, retirement plans, deferred compensation—all are viable options for providing a cash flow to meet the needs of the parents.

For the company and the younger generation, there are an equal assortment of options for financing the succession. Structured properly, a buyout offers tax benefits in the form of deductions for many of the associated costs. Financing can even be worked out with the retiring parent. Don’t forget, upon Dad’s retirement, the company will also be saving what may be a substantial officer’s salary, perhaps in the range of \$100,000 or more annually.

#### “When”

The final and most difficult step in the succession planning process is the “when.” In many instances, a workable plan is prepared, but implementation is delayed again and again by a reluctant parent. Keep in mind that the only thing worse than “letting go” too early is “hanging on” too long. Your succession plan should include a provision for precisely when the transfer will take place. Then stick to it. You’ll find it is a moment of great relief and release—for both generations.

The future of your oilheat business is too important to leave to chance. If there exists the possibility that a younger generation will come into the business and eventually take over the company, it is necessary to plan carefully and thoroughly. In the end, such planning will result in a smoother, less stressful transfer from one generation to the next.

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