



SUCCESSION PLANNING

THERE'S NO SUCCESS(ION) WITHOUT A PLAN

EDITORIAL | JACK FOSTER

Woody Hayes, the former Ohio State football coach, often described his disdain for the forward pass. The crusty old coach maintained that only three things can happen when you pass — and two of them are bad. Best-case scenario, the pass would be complete. But that leaves the other two — the pass could either be intercepted or incomplete.

Similar refrains are sometimes heard when reps talk about their reasons for

avoiding succession planning. The reasoning is justified with comments like, “I don’t have time for that right now,” or, “I’m more intent on growing my agency than I am with thinking about who’s going to run it next.”

What both philosophies avoid, however, is the fact that **succession planning is as valuable to today’s rep firm as the forward pass to the New England Patriots or the New York Giants.**



JACK FOSTER

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Voicing his full support for a business strategy that includes a well-thought-out succession plan is **MANA President/CEO Bryan Shirley**, who has done his share of preaching on the matter as he's conducted MANA seminars and CPMR courses (not to mention his personal contact with MANA members).

According to Shirley, "I've encountered a solid consensus supporting the notion of succession planning from a number of perspectives. The general belief is:

- ✦ It's an integral ingredient of any agency business plan.
- ✦ It's critical for the owners of an agency if they plan on the firm operating successfully into the future.
- ✦ It's of prime importance for manufacturers that deal with the agency. Those principals want to know that the agency they're partnering with has a plan to professionally serve the territory and maintain customer relationships long after current ownership has left the business."

Shirley adds that once such a succession plan is firmly set in an agency's business map, "that plan should be communicated to principals, not to mention it should be revisited and updated continually. The temptation too often is to develop such a plan and put it on a shelf, never to be seen again. That's what I call *credenza wear*."

But even before creating a succession plan, the rep needs to have a starting point. And it's not too simplistic to say "there's no better place to start than the *beginning*."

Communicating With Peers

This beginning that Shirley envisions includes networking, meeting with, and otherwise communicating with fellow reps. It is important to learn what they are thinking and doing regarding the future of their respective agencies. "Here's the danger," Shirley maintains: "there's a certain

percentage of reps who, for a lack of proper planning, are not able to retire comfortably. Simply put, they didn't have realistic or workable plans in place. And a precursor to this scenario often is that, while they believe their agencies are worth something, they're not quite sure what. They think it's worth too much or too little. They underestimate the amount of income they'd need to pull out of the business in order to retire properly."

To address these failings, the MANA executive explains that there are any number of avenues a rep can follow. "As I already mentioned, check with fellow reps. Then, be aware that there have been plenty of articles in the pages of **Agency Sales** that address succession planning issues, especially those that cover the valuation and sale of agencies. Also, MANA has special reports on hand and senior management available to counsel association members." Shirley notes that, in addition, there are consultants available who can assist agency owners as they steer their course toward retirement, or otherwise exiting the agency. George Napoli, for example, has penned a few articles that have appeared in this publication (**ASM**, MAY 2007, P.29 AND JANUARY 2008, P.19).

Planning ahead and building your succession planning team are just half of the job. As the path for succession is followed, Shirley warns that some challenges or obstacles may present themselves. "One of the major problems occurs," Shirley says, "when the small or one-man operation reaches the point where the owner wakes up and decides 'I want to retire today.' At that point, it's not such an easy task to extract your value from the firm in order to enjoy your retirement.

"Here's how that decision can result in difficulty. Try calling your manufacturers today and informing them that you're retiring at the end of the year. Don't be surprised if your manufacturers terminate you in a hurry. After all, they've got to take care of themselves for the future.

"So what I'm talking about here are the difficulties that arise from not planning soon enough for your future. I'd advise someone to look ahead at least five years into the future, although 10 or 15 years would be the preference. Such a timeframe would allow for the orderly transition and transfer of assets."

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Working With a Succession Team

Another pitfall that Shirley often discusses with reps is the fact that the transition is often attempted without the proper legal, business and accounting advice, and “without really having a structure for your plan. Basically, whatever you’re trying to accomplish is kept firmly locked in your head, instead of having anything concrete written into a plan.”

Then there’s the question of *to whom* you are transitioning the business. “Is there an heir apparent or an agency employee in place that will continue the business after you leave?” Some articles that have appeared in **Agency Sales** have emphasized that succession plans involving handing off the business to a brother, sister, son or daughter may take longer and require more detailed planning than if the plan involves a key employee or even the sale of the firm to an outsider.

Shirley emphasizes that “when a family member is involved, it is important for everyone to be on the same page.” For instance, “Just recently,” he explains, “I had a conversation with a rep, and the plan was for the son to take over the business. But saying that they were reading from two different pages is an understatement. The difficulties came down to the fact that Mom and Dad were telling the son something like, ‘Here are the business numbers, and here’s what we want to take out of the business.’ Reaction from the son was, ‘Well that’s great; you showed me all that, but you never asked what my plans or concerns were.’”

As a character in the Paul Newman movie, **Hud**, often stated, “What we’ve got here is a failure to communicate.” And in this case, the failure to communicate was most likely the result of the father or mother having grown up in the business, and that’s the way it was handed off to them. The younger generation taking over in the rep profession has different concerns than their parents, and those concerns have to be addressed.

“If it’s not a family member that’s going to be continuing the business,” Shirley maintains, “we’ve got to get back to the importance of ensuring that the agency owner has carefully hired key employees for the firm. If the right people aren’t in place, that means two things — you’ve hired improperly in the past, and you’re going to have to hire new people in the future. And if your goal is to bring someone into the firm to whom you can hand off the business, allow yourself plenty of time — at least five years — if your plan is to sell to that person.”

Finally, Shirley stresses the importance of involving the agency’s manufacturer partners in the planning process. “Sharing your plans might be a difficult matter, since many manufacturers may not want to hear that you’re ultimately leaving the business. Failure to do so, however, will cause them to doubt your abilities as a professional businessperson. The important thing here is to have a well-thought-out plan in place. And once it’s done, don’t hesitate to share it with your principals. It might be wise, however, to share it with them one at a time. Gauge the reaction of the first one, before you move on to another.”



THREE MAGIC WORDS

If any words can provide guidance to the rep contemplating the future of his rep firm, they ought to be the following.

Patience — Take your time and get the succession plan put together on your schedule. Make sure it’s done to fulfill the potential of your agency.

Timing — “How far in advance” is a variable, and it all depends on the owner’s exit plan, and to whom the agency is being sold. Is there an heir apparent, or will the agency be sold to a key employee or an outside organization?

Teamwork — The team you put together to get the job done should be comprised of at least an attorney, CPA, banker, financial/investment planner, business broker and a valuation specialist.

MORE ON SUCCESSION

Although the two reps that follow weren't privy to the conversation Bryan Shirley had with **Agency Sales**, their experiences with succession planning echo a great deal of the same advice.

A couple of phrases immediately come to mind when discussing the subject of succession planning with **Dennis Tulimieri, Tulimieri Associates, Inc.**, Glastonbury, Connecticut: "Just Do It!" and "No one size fits all."

Considering "Just Do It!" and not offering any apologies to Nike, Tulimieri emphasizes the need to begin early and allow yourself plenty of time for the plan to develop. "We began planning more than 10 years ago, actually closer to 12 years, for the time when the company would move from my father and mother to me and my partners. By starting early and being patient, you allow for the plan to shake out and have any changes made that are necessary." He points to the fact that two of the original individuals who were to be involved in the transition are no longer with the agency and have been followed by others — yet the plan continues in place.

Speaking to the point that there isn't one plan that fits all situations, Tulimieri describes a teleconference he participated in with other rep firms that were anticipating eventual changes in ownership. "Consider, for instance, the move from a father to son such as is taking place with Tulimieri & Associates versus the change in ownership from the individual who started a company — the business builder — to an outside individual. With the former you have a plan involving family and plenty of emotions. With the latter, it can be a little like selling cars. Those are two entirely different situations. My point is that if you're talking with six different agencies, you could

very well have six different approaches for succession."

Tulimieri also points out that the existence of Tulimieri & Associates' succession plan is something that has been communicated to the agency's principals. "It's noteworthy that they expressed mild interest early on in the process. But as the execution of the plan has become imminent and the roles of my father and me have somewhat been exchanged, they're much more interested." He explains that when the plan began, he was more of an outside salesman and his father was sales manager. Those roles are being reversed.

Commenting on any challenges that may have presented themselves along the way, Tulimieri is quick to point to the economic downturn experienced by most companies in 2001 and 2002. "However, we've rebounded very well, even though the financial landscape has changed."

It's also important to note the fact that Tulimieri and his father worked with an attorney in their crafting of all succession plan documents. That's a point mentioned by Shirley and others when it comes to being able to put together workable succession plans.

Filling Large Boots

Another rep who successfully created and followed a path for succession in his agency is **Byron Brewer Jr., CPMR, Northeast Marketing Group**, Wallingford, Connecticut. According to Brewer,

in order to succeed his father, Byron Sr., in the management of the rep firm, planning began at least 10 years prior to plan execution. During the course of following the plan, he notes that no real challenges had to be met "aside from filling the extremely large boots my father filled, especially on a national scene." Byron Sr. has been very prominent over the years in the electrical industry beginning with his involvement as a founder of NEMRA and his continued work with that rep association.

The younger Brewer adds, however, that one important consideration during the succession was "having our old-line principals understand what we were planning in terms of succession and keeping them in the loop." In terms of communicating with principals concerning the succession plan, Brewer emphasizes his thinking that this was instrumental in the plan's success. "My feeling is if you wait too long to make your plan known to your important principals, then it's too late to do so successfully. And you want them to know what's going on for a couple of reasons. First, if you're the founder or builder of your agency, you want your legacy to continue with the business. Second, your best chance for a successful succession is achieved by letting your principals — especially major lines — know what you're doing. There have been instances where manufacturers haven't known or haven't understood what the plans are, and they've pulled their lines. That action eliminates anyone's legacy and severely limits the future success of the agency." 