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CT's aging business owners step up succession planning efforts

By Michelle Tuccitto Sullo

Business owners spend years building up their company and brand, but eventually must prepare for a time when someone else will take over.

That day may come when you want to retire or switch careers. Perhaps you'll decide to leave the business to your children or sell it. Either way, you'll need to take steps to ensure the business you worked so hard on — your legacy — continues and thrives under new ownership.

However, nearly 60% of business owners lack a transition plan, according to the financial services firm Wilmington Trust.

Chris Snider, president and CEO of the Exit Planning Institute, compared exit planning to the three legs of a stool.

Business owners have to prepare personally, and think about what they'll do next. They need to evaluate their finances, and whether they'll have enough money to maintain their lifestyle. Third, they need to evaluate if their business is ready for the transition, Snider said.

"If one of those legs is missing, that stool won't stand," Snider said.

Brian Kerrigan, an advisory partner with Hartford-based accounting firm Whittlesey, said succession planning is a “weak spot,” for business owners, with people often not giving enough thought to their eventual exit plan or an emergency plan if they were to pass away or become disabled.

Business owners look to move on for a variety of reasons, according to Kerrigan.

“Being a business owner can be difficult and stressful,” Kerrigan said. “People may get to the point where they want to retire. Their biggest asset may be their business, and they want to be able to enjoy retirement. If a new generation is taking over, they want to make sure the next generation will be successful.”

Building a plan

Frank Ferrucci, vice president of F+F Mechanical Enterprises Inc. of North Haven, just went through the process.

His father, Mario, the company’s founder, transferred shares to Frank and his two brothers, John and Joseph. Mario is now semi-retired, with his children handling the business’ daily operations. The company is a commercial mechanical contracting firm that provides HVAC, plumbing and sheet metal installation and services. The family hired accounting firm Marcum LLP to help it through the process.

“This business is my father’s fourth child,” Frank Ferrucci said. “For a family business to transfer from one generation to the next is very difficult. It is psychological — you are handing over your brainchild to the next generation and wondering if they are ready.”

Their accountant and an attorney walked them through the process.

“The tax code and implications are constantly changing and for a lay person to keep up is challenging,” Ferrucci said. “We were able to see the benefits of transferring sooner rather than later, because there are tax and estate implications.”

Joe Granato knows first-hand what it is like to decide to sell a business.

Granato is the former owner and operator of the Marco Polo restaurant in East Hartford. Now, he is principal broker with commercial real estate firm ABC4 Restaurants, which specializes in selling Connecticut restaurants. Granato is still a partner in restaurants, including in Farmington and a soon-to-open eatery in Rocky Hill.

“I was in it for 27 years, and I wanted a family — the hours were so demanding, and I was working all the time,” Granato says of his decision to sell Marco Polo years ago. “I wanted a different life for myself.”

There are a variety of reasons why people choose to move on from their business ventures, according to Granato, who has helped clients sell over 80 restaurants.

“Retirement is the number one reason,” Granato said. “Oftentimes, kids don’t want to go into the same business.”

Matt Bailey, who owns Olives and Oil restaurants in New Haven and Seymour, and Elm City Social in New Haven, is also a broker with ABC4 Restaurants and Granato’s business partner.

With multiple business enterprises, Bailey has made sure to have a succession plan in place.

“We never want to think about the end,” Bailey said. “Over the past year, with COVID, it has made us think twice about what is next for us. We do have a succession plan for our restaurants, and it gets modified periodically.”

Expert advice

Barry Fischman, a partner with Marcum LLP in the firm's New Haven office, advises business owners to think about their succession plan immediately, and revise plans periodically.

"The worst type of plan is where you do nothing," Fischman said.

Just as new parents need to consider who would raise their baby if they were to pass away unexpectedly, business owners need to ponder this grim possibility too.

Planning can avoid bad outcomes, such as business interruptions or having to liquidate a company to pay taxes, Fischman notes.

"You need to figure out — if I am not here anymore, how does the company continue and who steps in?" Fischman said.

For any business, one of the first steps is to have honest conversations with family members about their level of interest in running the company, said Fischman.

Business owners may find a younger person in the family who is excited about taking over. If multiple children will be involved, it is best to have early discussions about their interest, skills and future duties, he said.

With next-generation planning, business owners can potentially lower tax exposure.

"I talk a lot about trusts to protect the company and protect the next generation," Fischman said. "You can do better planning for your children than they could ever do themselves."

It also may take several years of training and preparing before the next generation would be ready to take over and run a business successfully. Communication with family members can also help avoid hard feelings down the road, according to Wilmington Trust.

“If they don’t line up, you need time to train so people have the skills to run the company,” Kerrigan said.

Businesses also need to plan for the transfer of not only power, but relationships — with customers, suppliers and Employees.

Looking outside

Fischman also sees companies that are sought after, with other businesses seeking to acquire them. They may have never had any intention of selling, but the offer comes in high and it makes sense to sell, according to Fischman.

Business owners can explore a third-party sale with new owners and management, or investigate having current employees take over, Fischman noted. He frequently hears from business owners that they want to ensure their employees are taken care of following their departure.

An option to consider, which firms are also seeing, are employee stock ownership plans, or ESOPs.

“You can set up a program where the owners transition a company to the employees through a retirement plan,” Fischman said. “That keeps the company intact, and gives employees the opportunity to have ownership over time.”

This provides a vehicle for current owners to retire and monetize the value of their holdings without having to seek out a third-party buyer, he said.

Business owners need to know exactly what their company is worth if they are considering selling someday.

Kerrigan suggests companies looking to sell begin preparing five to seven years beforehand, which gives them time to determine the value of their business and take steps to increase this value.

Business owners also need to consider cash flow planning and what income they'll have after retirement. They could consider not cashing out completely, and retaining a partial interest in the business.

Any succession plan should include a transition period, where an owner commits for a certain time frame to provide training and help out when needed, until the next generation or new ownership is ready to go it alone successfully, according to Fischman.