Passing the Torch
What every dealer should consider as they develop a succession plan

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You have worked for years to build your dealership. You may have a single store or multiple locations. Now, you're thinking about retiring or what will happen to the business after you pass. Very possibly, you have a family member or a trusted employee interested in taking on the business. But, will this work out? Can you help prepare him or her for the challenges? Or, do you need to consider other options?

The dealers, manufacturers and business management consultants featured here weigh in on what every dealer should consider as they develop a business succession plan.

First, if you don't already have a plan, start one. In the event of your accidental or sudden death, your family and employees could be put in a very tough spot if you did not have a plan. And if your family had to sell the dealership, they probably wouldn't get full value for it without a succession plan.

Second, seek advice. Management consultants, family business specialists, attorneys and accountants can help in a variety of ways—from improving communications between family members to structuring business plans to minimize tax liabilities.

The Hoober family, for example, enlisted the help of Delaware Valley Family Business, a family business consultancy. A Case IH dealership with five stores serving Pennsylvania, New Jersey, Maryland and Delaware, Hoober, Inc. is a third generation family business. Charles "Bud" Hoober established the dealership in 1941 and his son, Charlie, took over ownership in the mid 1970s. Charlie's sons, Chuck, president; and Scott, secretary-treasurer, will be taking the company into the future.

The family business consultant was especially helpful in facilitating communication and input between the second and third generations as well as the spouses of the owners, says Chuck. The consultant also helped Hoober, Inc. set up family employee policies.

Over the last several years, Charlie, the dealership's chairman of the board, has been gradually transferring more ownership to Chuck and Scott. When he retires, his sons will have the necessary capital to operate the business throughout the transition and beyond.

At the consultant's urging, the Hoober brothers are currently focused on strategies for the business rather than on its day-to-day activities. Hoober, Inc.'s capable store managers have allowed them time to do this, Chuck explains. The consultant also talked with these managers and other employees about the business, the owners and how they felt about the transition.

Being responsible for the livelihoods of the employees “is huge,” Chuck says, adding that the next generation in any business must work hard and set a good example to gain the confidence of both employees and manufacturers. “We work hard promoting the dealership’s culture, mission statement and values,” Chuck says. This is done through newsletters, recognition banquets and so on.

In addition to hiring the family business consultant, the Hoobers have participated in a 20 Group for several years now. This enables them to exchange ideas with other dealers, and learn about executive leadership issues. Chuck encourages other dealerships, especially those with next generation leaders, to participate in 20 Groups and other executive management programs as well as in manufacturer meetings. “We’ve been very involved with the executive leadership at Case IH for the last 10 years.”

Cultivate relationship with manufacturers
“Work hard at the relationship with local manufacturer’s reps and corporate managers. They need to know you,” Chuck advises. “If they know you, they’ll feel more comfortable with the dealership moving forward.”

While mainline manufacturers do not have the ultimate decision over who becomes a dealership’s next owner, they generally reserve the right to approve a contract. Case IH, for example, assigns a sales and service agreement based on a dealership selling, servicing and providing the proper parts for its line of products, submitting a business plan for approval, and maintaining high standards.

The Case IH contract requires that a dealership provide sufficient notice of a change in majority ownership to its dealership review board. CNH Capital also conducts due diligence to ensure that the equity level specified in the contract is maintained both pre- and post-transition.

Whether ownership is being transferred to an heir, another owner or a group of owners, Case IH is looking for dealers to focus on growing the brand, says says Tom Owen, director, Dealer Network Development, N.A. Case IH Agricultural Business. This includes commitment to the manufacturer’s new Pinnacle Program, which includes a number of best practice guidelines. The manufacturer has developed financial and operating models for dealers to follow to help them meet sales and performance goals. Dealers meeting the best practice guidelines are positioning their businesses for future growth, Owen says.

Owen is seeing more dealerships transitioning from family owners to executive boards, especially when a dealership is acquiring additional stores to remain competitive. These boards are generally made up of majority shareholders, operations managers and trusted third-party advisors like an attorney or CPA. Some dealerships are also establishing employee share ownership plans (ESOPs).

“Many dealers need to evaluate how they will be able to maintain a competitive business for the next generation,” Owen says, adding, “There is no better time to grow and transition out of the business than now and over the next couple of years.”

Greg Embury, vice president, sales and marketing, Kubota Tractor Corporation, says that Kubota’s sales and service agreement with dealers is not transferrable. “Each new majority owner must apply for an agreement,” he says. Kubota then assesses the new owner for his or her management expertise, level of capitalization and so on.

“Kubota treats dealers as independent business owners,” Embury says, adding that only rarely does it not approve a dealers (in the case of fraud or felony charges, for example). In compliance with privacy laws, Kubota would not share its findings with anyone.

Kubota also works with dealers on their business plans every year and encourages dealers to have succession plans.

Bill Schuneman, Schuneman Equipment Company, and his family have developed a succession plan, particularly in light of growing from one to four stores. This John Deere dealership has three stores in eastern South Dakota and a fourth in western Minnesota.

Schuneman entered the retail equipment business some 30 years ago when he went to work with Harold Slinden at Grant County Implement. They formed a partnership based on the plan that Bill would eventually purchase a second store. When a store became available in Milbank, S.D., in 1979, Bill became responsible for it. Then in 1991, he bought the company’s remaining shares from Slinden.

Fast forward to 2004 when Bill’s son, Tom, expressed interest in joining the business. Tom had previously worked for an accounting firm as well as a crop protection company. At that time, Bill agreed to bring Tom into the company, but told his son that he expected him to become a manager and then begin the process of buying ownership.

Realizing they had to expand to remain competitive, Bill sold Tom some stock and had him do some additional financing to purchase two stores in Brookings and Garretson, S.D. They finalized the purchases in 2008, at which time they renamed the dealership from Grant County Implement to Schuneman Equipment.

In June 2010, the Schunemans merged assets with Southwest Implement Company. Charles Swenson became a stockholder and is now serving as vice president of Schuneman Equipment.

Also working in the business is Bill’s younger son, Rob, who graduated with a degree in Business Management and has taken over the role of AMS specialist for the dealership’s four stores. Rob also has purchased stock in the company.

Having talked with other dealers in their 20 Group, the Schunemans clearly realized one of the most important advisors they could have was a tax planning specialist. “We talked with three or four attorneys before we found the one who was right for our needs. Tax planning is all he does,” Bill says.

Between this attorney and a CPA, the Schunemans developed an estate plan and a business succession plan. Together, they decided to change their business from a C corporation to an S corporation. “When we changed the corporate plan, Deere required us to submit our buy-sell plan as well as our business plan.”

John Deere requires notification of any significant change in ownership or key management by its dealer agreement. It defines key managers as individuals who hold a corporate operational or sales position, or an owner with more than a 10 percent stake.

“We recommend that a dealer look at business succession in two ways: ownership and management,” says Charles Studer, manager of U.S. Sales, Eastern Region, John Deere. As dealers have grown in size and sophistication, the management requirements are much greater and more complex.”

From a management standpoint, John Deere recommends that dealers ask themselves whether they would hire this individual and put the future of their business at risk with this person, regardless of whether they are an heir. Studer advises dealers to consider the experiences and strengths the individual brings to the table, their development needs and how the dealer can fulfill those needs.

From an ownership standpoint, dealers need to consider that this is a long-term transition regardless of the role that heirs may have in the business. “What level of control or involvement do you want them to have? What level of involvement or responsibility do *they* want to have?” Studer asks. “Are they better served as a stockholder, a member of the board of directors, a key manager, or an employee of the business? “

Other options

If heirs or unable or unwilling to assume ownership of the company, then a dealer might consider hiring a competent CEO or general manager, says Lance Formwalt, attorney, Seigfreid, Bingham, Levy, Selzer & Gee (SBLSG), Kansas City, Mo. SBLSG serves as NAEDA’s legal counsel.

However, if a dealership is not profitable enough to hire such a high level individual, the owner then may need to consider selling. Another option is to find a person who will buy the dealer’s stock while the dealer remains on board with the company. This would help the dealer continue to generate income as part of an estate planning program.

The key is to have a transition plan in place while the owner is still alive, says Mark Gilqus, also an attorney with SBLSG. The owner and his attorneys need to meet and look at the big picture, and determine tax implications. They also need to address fair distribution of assets to family members both inside and outside of the business.

For example, a dealer may transfer ownership of the business to heirs working in the business while leaving real estate to heirs outside of the business. In this case, there would be a long-term lease. If the sole asset of the dealer's estate is the dealership, however, family members outside of the business would not receive any benefit. In this case, the best option may be to sell the dealership.

Dealers considering a succession plan also would be well served by doing a business valuation. This is what Bob Frazee, Cazenovia Equipment, has done every year and it has given his sons, Mike and Jim, a good understanding about the value of their stock. The John Deere dealership has 10 stores throughout New York.

In 2002, Frazee offered both sons employment at Cazenovia Equipment for a minimum of two years. He did not push them into the business, but wanted to give them the opportunity to see if they would be interested in a career there. The two-year period also would expose his sons to different facets of the business and the opportunity to interact with other employees.

Most business owners are realistic in introducing their sons and daughter to the business from the ground up, says George Keen, senior consultant, Currie Management Consultants, Worcester, Mass. Exposing them to different departments will help them develop the skills they need to make reasonable decisions and gain respect from other employees.

However, not all prospective successors want to be in the business; or they like sales, but do not want to manage the company, for example, Keen says. Currie Management helps them broach these subjects with their parents. The consultancy also offers a two-year leadership training program where prospective successors learn such skills as personnel management, financial benchmarks, visionary thinking and so on. Currie Management's 20 Groups and participating dealers also provide valuable leadership training.

Frazee and his sons have participated in a 20 Group, and have taken back what they have learned to their dealership. With this kind of leadership training and their father's own two-year training program, Mike became a sales rep for one of the dealership's ag territories while Jim became a service manager at one of the smaller stores.

At the end of the two years, Cazenovia Equipment had acquired additional stores in Oneonta and South New Berlin, NY, and the sons moved into management positions. "They were fairly young for these roles, but I mentored them and they received help from their management teams."

As the sons have assumed more responsibilities, they have built a relationship with the John Deere territory sales manager. “Over time, Deere gained confidence in Mike and Jim,” their father says.

“Taking it away”

When is it time to pass the torch? When your son, daughter or other individual(s) are ready to “take the business away” from the owner, says John Spader, president, Spader Business Management, Sioux Falls, S.D. Spader himself succeeded his father Duane as president of his family business. If they are not ready to “take it away,” a dealer’s successors are probably not yet ready for the leadership/ownership role, Spader says.

Spader’s 20 Groups help dealers and their potential successors determine the skills they need for a successful transition. Spader also has developed a set of assessments that dealers can use to evaluate whether the successor is a good culture fit, a good performance fit and a good satisfaction fit.

While attorneys and accountants can help dealers with tax and other financial issues, Spader cautions dealers not to rely too much on them if they do not really understand the retail equipment business or the dealership in general. A dealership’s executive board will likely be more helpful in determining the business’s next steps.

Letting go is never easy, as most business owners would attest. Nor would many successors agree that carrying the torch is a cakewalk. There is a lot riding on a business transition--and manufacturers, employees and customers are watching. Fortunately, dealers and their successors have a broad range of resources available to help them through their transitions. The key is developing a plan to protect all involved before it is too late.