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Passing the baton

Succession planning is a must to ensure continuity, but it's not always easy

By BERNADETTE STARZEE

The owners of Accu Data Payroll Services have a plan in place to pass their business on to the next owner. In this regard, the Hicksville firm is in the minority.

Only one-third of companies responding to PricewaterhouseCoopers' recent Private Company Trendsetter Barometer survey reported they have a formal, documented succession plan in place. Failure to plan for the eventual handoff of a company can threaten the continuity of the business.

"You don't want questions and concerns about whether a business is going to continue, because this may cause key employees to walk away or those that do business with you to consider doing business with others," said Paul Salerno, managing partner of PwC's Melville office.

No time like the present

The sooner a company plans for passing the reins, the better, as it will allow the owners more time to attract and groom the right candidate, said Robert Spielman, a partner in the tax and business services division in Marcum's Melville office.

"The company can get the right person on the team, and this individual can have the time to learn what the company does and gain experience working with the other members of the family or the management team," he said. "If a principal waits too long, he may become too old or too sick to pass on his knowledge appropriately to his children or third parties."

Ralph Accardo, Accu Data's president and co-founder, said it's time to think about a succession plan z"when you start to feel that you don't want to spend 60 hours a week at work anymore and you want to start fulfilling items on your bucket list, like traveling," he said.

Accardo and his wife, Connie, co-founder and director of operations, have already identified a suitable successor: their daughter, Susan, who grew up working in the family business and is now a one-third partner along with her parents.

"Susan worked here in high school and college and did all the rudimentary tasks, so by the time she graduated from college, she had a full grasp of payroll and customer service," Ralph Accardo said. "She went off to sell advertising space for a national magazine, and we started to realize, why should this outside company enjoy the fruits of her labor when we planted the tree, and we brought her in to fill a sales and marketing role?"

But not every family member is a good candidate to run the company.

"The first step is, the potential successor has to have a real interest in running the business and demonstrate a commitment to the basic tenets that brought the company success in the first place," Accardo said. For instance, he said, his company is highly focused on customer service.

"Susan knows that if she moves away from having a live person answer the phones, I will come out of my grave and haunt her," he said. "If someone has a payroll issue, they want it solved yesterday; they don't want an automated message saying 'we'll get to it when we get to it.'"

Additionally, would-be successors must be able to inspire confidence that they can lead the team, whether it be the existing team or one to be assembled, Accardo added.

"And the successor must be able to

offer unique business ideas and adapt to the present economy and legal and technical developments in the industry," he said.

Looking inward or outward

Sometimes, there isn't a family member that is interested in or capable of taking the reins. In those cases, companies can recruit from the outside or look for suitable candidates within their ranks.

Lee DeLorenzo, a certified financial planner and president of United Asset Strategies Inc. in Garden City, recalled a success story in which a Mineola-based client identified a successor from among his employees.

"The owner approached a key person in the business, who agreed to pay the premiums on a life insurance policy on the owner," said DeLorenzo, whose company is a registered investment advisory firm. Nine years later, when the owner passed away, the employee paid an agreed-upon amount to the owner's widow from the insurance proceeds and took the reins of the company.

But things rarely go that smoothly, DeLorenzo said, especially when there is family involved.

Another client was owned by two brothers, who had a "typical buy-sell agreement" in place in case one of them died, DeLorenzo said. But things became more complicated when the owners' sons grew up and expressed interest in getting into the family business.

The brothers decided to leave the existing partnership alone and set up a second company that would allow the sons to benefit from the future growth of the company.

"The company was growing, and in certain industries, it's easy to segment out a specific line of the business," DeLorenzo said. "The fathers still owned the first company, but the three sons owned the second company."

But matters became more complicated still when one of the original owners decided to retire, and one of the sons decided he didn't want to run the company after all.

"The family had to come to terms with regard to the value of the business and the payment streams, and the negotiations began," said DeLorenzo, who noted such discussions are easier when

LEE DELORENZO: Negotiations are particularly tricky when dealing with family.

"you're dealing with strangers than with family."

It's a subject DeLorenzo knows all too well.

At age 19, DeLorenzo began working with her father, who sold life insurance. In 1981, he founded United Financial Group and gave her 5 percent of the business.

"It was the smartest gift he ever gave me," she said. "The bone of ownership was very effective; I worked like a dog."

DeLorenzo's father, Michael, gifted additional stock to her over the years until she eventually owned 50 percent of the company. And in 1992, she and her father became 50/50 partners in a second company, United Asset Strategies Inc., which would become their flagship.

Her father entered semi-retirement in the 1990s, and the pair had a verbal agreement that the reins would eventually pass to Lee DeLorenzo, who would continue to pay her father in salary and profits. But then, in 1999, her father shocked her with the news that he wanted her to buy him out.

"I think, since I have three siblings, he figured it would be the fair thing to do," she said.

There was a contentious period of negotiations that lasted about nine months, during which DeLorenzo sought advice from a client who had gone through a similar scenario.

"A client advised me to pay my father what he wanted, because family is family," she said. And that is what she wound up doing.

"It was the best advice I ever got, and listened to," she said, noting that she and her father can now laugh about more tense times, and the business has thrived, with United Investment Strategies growing from about $100 million to $600 million in discretionary funds under management since she became the sole owner.

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Dealing with the what ifs

When creating a succession plan, companies should consider the "what ifs" and create contingencies accordingly, DeLorenzo said.

"Consider what will happen if a partner dies or becomes disabled," she said, noting that many companies take out life insurance and disability buyout insurance policies to cover these scenarios.

"The next piece is putting your intentions in writing, because once spouses or family members show up, whatever the partners talked about when they were alive will have no meaning."

As for her own succession plan, DeLorenzo has insurance policies in place and has left written instructions for an advisory board that would step up in the event of her death.

"I have employment contracts in place, and key employees would be paid a signing bonus to stay from the life insurance proceeds, to give the company stability," she said, noting that the board would choose the company's leader, taking her recommendations into consideration.

In addition, in 2010, DeLorenzo created an employee stock ownership plan, through which she has already transferred a percentage of ownership of Unites Asset Strategies to her 20 employees.

"I decided that this is a great group of employees to run the company, not only if I die but when I retire," she said.