Best Investment in Your Family Business? A Strong Succession Plan!

Quick! Think of an excellent reason for a business to grow! Did your mind go to 'family ties'? We didn't think so. Yet successful family-owned businesses show impressive rates of growth.

A 2013 University of Toronto study found that family-owned businesses averaged a compound annual growth rate of 7.7% over the course of 15 years, while the S&P/TSX composite index came in at only 6.1%.[1] That's a 26% higher growth rate!

The biggest challenge to family businesses may be in the handoff to the next generation; only 30% of family businesses survive that leap. The second handoff is increasingly problematic – there's only a 10-15% chance the family business you start will exist by the time your grandkids come along.[2]

However, with enough planning and due diligence, you may be able to measurably increase the odds of your company being successfully handed down to the next generation. Fortunately, planning often comes naturally to family businesses – some experts think the tendency of family businesses to outperform comes from a longer-term outlook.

"Family-run businesses reinvest in the business for the long-term," says Paul MacDonald, executive director of the Canadian Association of Family Enterprise in Oakville, Ontario. "They have that sense of legacy and passing the business along to the next generation – they see it as an asset that needs to be nurtured."

Here are a few ideas to help make the transition of a family-run business seamless and successful:

Start early. If you want your children to take over someday, they need to see the business as engaging and interesting. That will only happen if they have the opportunity to get inside the business, rather than view it from a distance. Bring them to employee functions. Allow them to take on small, interesting responsibilities as they mature. Need someone to help out with social media? Your kids are probably experts already.

Communication is key. Any close relationship takes work, and that goes double for a business that shares a boardroom and a living room. As your children mature, MacDonald recommends frequent family business meetings, with formal guidelines about what will be discussed. Formalizing the process helps to maintain the tone of a business meeting. Plus, you'll be modeling the type of efficient meeting that you want your children to be running, when they're in charge.

Get it in writing. Create a written succession plan. Not only does it help all family members to understand what their roles will be, the process of creating it will reveal gaps in experience, leadership ability or even interest. By making decisions about who will take over, and how and when, you force yourself and your children to take preparatory action sooner. Think about what might best prepare (and interest) each child, and then try to find the work experience, education, mentoring, or coaching that could help your child get there.

Take stock. Sit down and think through exactly what a successor needs to ensure long-term viability. Exceptional communication and people skills? A leader who can galvanize employees, but still has analytic ability? A finance wiz with a big picture view?

Few people can be all of these things, so don't be afraid to divide up the jobs and create positions for more than one child.

Encourage them to work in other industries or companies. Many family business owners insist that their children gain experience elsewhere before coming back into the family fold, says MacDonald. There is much to be gained, in terms of both perspective and skills, from learning the ropes in another industry or company.

Prepare employees and clients. When you hire, be upfront with outside employees that the top management rungs are reserved for family, says MacDonald. It eliminates frustration later. To make the actual handover as seamless as possible, for both employees and clients, introduce your successor to clients three or even five years before you leave. During this time, aim to have your successor participate in and/or take over as much of the leadership role as possible.

Take advantage of outside help. It's difficult – maybe impossible – for a parent to view their child objectively. This means it can be easy to miss areas for growth or to set unreasonable expectations. MacDonald suggests hiring an outside advisor, or making use of current resources such as your accountant or investment expert, to give you an outside perspective on succession goals, challenges and opportunities. This can help you set your children on the right path to success, whether that's advising them to upgrade skills, or find positions with a good fit.

Succession planning is critical to the success of family businesses, and it's never too early to start. If you have a family business, it's a good idea to add this topic to the agenda at your next meeting – simply raising the subject often helps to get the wheels turning. As always, if you have any questions about your accounts or any of the information contained in this article, please contact us.

1 https://www.rotman.utoronto.ca/-/media/Files/Programs-and-Areas/CCBE/FamilyFirmPerformanceReport1993-2012-Sep2013update.pdf. Page 8

2 KPMG, "Family Business Succession: Managing the all-important family component," https://www.kpmg.com/ca/en/services/kpmg-enterprise/centre-for-family-business/documents/3468_succession.pdf, 2011

Follow these tips to get an excellent return on the money you invest in your home, pre-sale.

A home is a unique possession; it's highly personal as well as a major financial asset. When it comes time to list, we can be tempted to invest considerably in upgrades in order to win the highest possible asking price. Yet not all these investments pay off at sale time.

Renovating before listing may bump up your asking price. Yet studies show that only a few of the most popular renovation projects consistently offer a good financial return on investment.[1] To help you choose projects that could boost value, and to avoid those that may not, here are a few recommendations from the Appraisal Institute of Canada (AIC).

Rethinking sleek kitchens and stunning bathrooms

Home buyers may gush over custom cabinetry, stone-slab backsplashes and quartz countertops – but do these high-end add-ons pay back when you sell? The data says: almost never. Remodeling magazine's *2016 Cost vs. Value report* indicates that the average homeowner, when they sell, gets back only

56% of the money they invested to add a bathroom. And that disruptive, time-consuming kitchen overhaul? Its value at sale time will be just 65% of its cost.[2]

The tendency to see these investments as worthwhile comes at least partly from the importance of timing. It's true, a beautiful new bathroom or kitchen can recoup a considerable portion of its cost on sale. If you're staying in the home several years, that investment can be excellent; you enjoy your beautiful new kitchen or bathroom and recover more than half of the money you invested in the upgrade when you sell.

If you are selling relatively soon, the investments you want to make are those likely to provide a minimum 100% return, in terms of increased sale price – anything that delivers less is money down the drain. AIC recommends that when renovating to sell, avoid major remodelling projects in favour of smaller updates. Simple changes, such as resurfacing kitchen cabinets, changing lampshades throughout, or even replacing the grass on your front lawn can breathe life (and perceived value) into a dated home without an enormous cost.

Repairs and replacements can earn an excellent return on investment

Doing repairs and replacements is not as exciting as, say, building a home theatre room, but home maintenance adds real value. If just one part of your home needs significant repair or replacement, it can drag down the perceived value of the entire property. Before you decide not to fix cracks in the plaster, a door that sticks, or an uneven floor, get an estimate on what the repair would cost.

AIC adds that smart buyers will also consider the operating cost of a home. So when making repairs or replacing old fixtures, look for options that improve operating efficiency.

Cosmetic touches and increasing curb appeal

Don't underestimate the power of lower-cost cosmetic changes. Small updates can deliver big returns, particularly if tastes and trends have evolved since your home's last remodelling. AIC suggests a fresh coat of paint, new lighting fixtures and doorknobs, new switch plates throughout and strategic light landscaping.

When preparing to sell, be conscious of the return on each investment you make. In particular, make sure to take advantage of the almost certain high return on cosmetic touches and simple repairs. Visit a few homes for sale in your neighbourhood and see if you can spot any small changes they have made that make a noticeable difference. Every home is unique – your real estate agent can provide additional advice on which updates are likely to deliver the highest return for your home, in your neighbourhood.

1 *http://business.financialpost.com/personal-finance/mortgages-real-estate/what-drives-our-passion-to-own-a-home*

2 *http://www.remodeling.hw.net/cost-vs-value/2016/*