ASK ALAN I BY ALAN FRIEDMAN

Succession Planning, Pt 3

This is the last of a three-part series addressing the importance of taking proactive steps to successfully transition your business, allowing you to pursue your lifelong dream of rock stardom at the senior center. With no disrespect to the organ-playing market, when I retire my Marshall amp is going to 11 mostly because I can't hear it on eight. But no matter what your retirement dreams look like, let this final article shed some light on how to successfully get there. As Part 1 addressed the harsh realities of closely held business transition, and Part 2 highlighted the common transition problems and pitfalls, Part 3 will provide some solutions and time-tested advice to effect a successful transition of your music retailing business.

Successfully transition to your new life as a retired rocker

THE VALUE OF MY BUSINESS

While there's many different approaches to starting the succession planning process, sometimes the best way to start is by getting an idea of what your store is worth. After all, if your business holds little or no value, why worry about dumping it on a family member or trusted employee? Just have a liquidation sale when you've had enough. Frankly, if I had a nickel for every music retailer who thought their business was worth double, triple or more of its true financial worth, I'd have enough money to retire now.

Trying to determine the value of any business is highly subjective and anything but easy — especially music stores. Why? First, you can't use comparable market values (like valuing a house) because there's virtually no market data published on the purchase or sale of music stores and no music store is exactly comparable to any other in the same marketplace and sold for the same reasons. Second, music retailing is somewhat unique from other retailing businesses. Yes, music stores sell stuff, but they also generate rental, repair, teaching, delivery and other income that are critical components of both the income and cash flow of the business, requiring specialized knowledge by the valuator of that business and the buying and selling of music stores. Also, because of the large capital requirement to run a music store, many music retailers can't demonstrate a high value based on their net income because it's so low compared to the amount invested.

Suffice it to say, most music stores are generally bought and sold based on a multiple of annual documented cash flow. Or in simple terms, tell me how much cash I can expect to annually pocket if I buy your business, and I'll tell you how much I'm willing to pay. Sometimes music stores (especially piano dealers with large amounts of inventory) are worth more by an orderly GOB (Going Out-of-Business sale) or "asset approach valuation" than by trying to value and sell the business based on the income it produces.

The topic of business valuation is a commonly misunderstood, yet critically important, concept to the succession of all music stores. For a greater understanding of this important topic, check out the two-part "Think Tank" segment on business valuation in *Music Inc.*'s July and August 2000 issues (also found on our website at fkco.com), as well as NAMM's upcoming Retail Training Summit at the 2018 summer and 2019 winter shows.

THE GOSPEL TRUTH

Keeping a business going from one generation to the next requires developing a succession plan early in a business owner's career. Successfully grooming someone to take over a business can easily take five to 10 years. Some of you are quickly approaching retirement with no such plan in place and might be thinking it's too late, but consider this Chinese proverb: "The best time to grow a tree was 20 years ago; the second best time is today." Consider your options and don't assume that an heir is apparent. Ask yourself, "If I die tomorrow, who would best be able to manage my business?" Perhaps it's an employee, not a son or daughter.

Developing a succession plan gives everyone, including heirs, employees, customers, suppliers, bankers and other trusted advisors, time to offer their advice and thoughts. With that in mind, here are some specific tips to take into account while formulating your succession plan:

Don't deny your own mortality. No one said it's easy to talk about death, but by doing so you are protecting your family and employees and their ability to financially survive.

Avoid The King Solomon Pitfall. Although I like to see heirs treated equally, blindly dividing a business equally among heirs is asking for trouble. If one heir is clearly better at management, consider leaving nonbusiness assets, such as cash, jewelry, real estate and your '57 gold-top to other heirs to create a sense of equality.

Consider outside management. If heirs are too young or inexperienced, think about bringing in professional interim managers to train these new managers.

Coordinate legal documents. Make sure your will, bylaws, buy-sell agreements and other documents are in place, up to date and address issues like personal guarantees on business loans, offering ownership to other family members, and other issues that will arise upon an owner's death.

Be realistic. When you talk about the future of your business, be careful in making the promise "someday this will be all yours." Life-altering events you never anticipated (new kids, divorce, second marriages, gambling habits, personal bankruptcy, etc.) can make you sorry you ever made that promise.

SOME FINAL THOUGHTS

Like many other aspects of running your business, don't be afraid to seek help from a team of qualified succession professionals, including an attorney, CPA, insurance agent, business valuator and maybe even a family counselor.

You may not be able to escape death and taxes, but you can at least take comfort now in knowing you adequately protected your family and business legacy as you rock out in your next life. **MI**

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