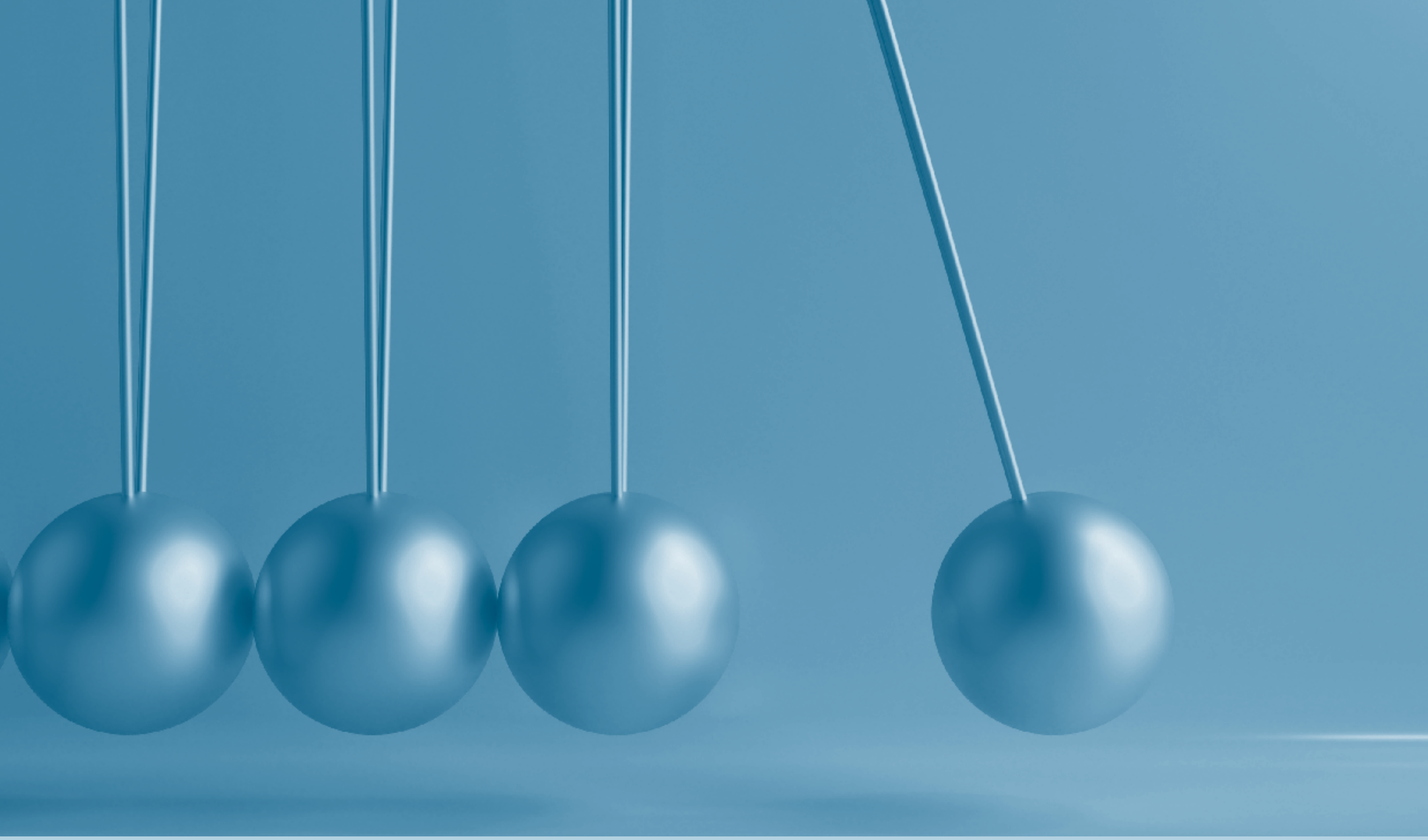

SUCCESSION PLANNING:

The Four-Step Process

Plotting the transfer of ownership of your firm – something you should start right now.

BY CHRIS CRUGER AND JARED TANKE

Without a documented project plan, critical steps can get pushed and delayed, throwing off the cadence and potentially altering the outcome.

In 2023, NFDA conducted a succession-planning study that provided valuable insights into how funeral home owners plan to exit the profession. One of the notable findings was that 55% of respondents said they would prefer to sell or transfer their business to a family member or key employee.

This reflects how deeply rooted many funeral homes are in their communities. Unlike many other businesses, funeral homes often are tied to the identity of the owner and their values and service legacy. Maintaining continuity through trusted family or team members is a natural choice, but it's a complex one, too.

Succession planning isn't just about naming a successor and stepping aside. It's about ensuring the long-term stability of your business, preserving your reputation and giving the next generation the tools and clarity they need to succeed. If you're among the 55% that would like a family member or key employee to be your successor, here's a deeper look at the four critical steps to take.

1. GAUGE INTEREST

This first step is easy to overlook but arguably the most important, and it's about communication. You can't begin crafting a meaningful succession plan without knowing who is open to the opportunity and why.

Whether you're considering passing the business to your child, niece, nephew or long-time employee, open and honest dialogue is essential. Sit down in a setting that invites honest discussion – this isn't a quick hallway conversation. A few questions to ask the potential successor are:

- Do you see yourself owning a funeral home in the next five years?
- Are you prepared for the personal, emotional and financial responsibilities?
- What are your long-term goals, and how does ownership fit into them?

You might be surprised. Your child who shadowed you as a teenager now might want to march down a different career path. A key employee might be more interested in operations than ownership. Another might be interested but overwhelmed by the thought of taking over.

Approach the conversation with curiosity and flexibility, not expectation. And be prepared for the answer to be no. In that case, you can adjust your plan accordingly, either by identifying another successor or preparing to sell to an external buyer.

2. ESTABLISH A TIMELINE

Once interest is confirmed, the next step is setting a realistic, agreed-upon timeline. Without a documented project plan, critical steps can get pushed and delayed, throwing off the cadence and potentially altering the outcome. A succession timeline should:

- Define your desired exit point (i.e., full retirement, reduced role or consultant)
- Set a clear period for mentoring and training
- Create benchmarks to evaluate progress regarding business and personal readiness

Every timeline will look different. Some owners plan to exit within a year or two and want to begin handing off responsibilities immediately. Others take a longer approach that sees a gradual transfer of ownership. These timelines typically last between two and four years.

The timeline should also account for the succes-

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sor's development. Do they need more training in financial management? Have they had enough exposure to client families or the firm's community involvement efforts? Consider looking at this portion of the succession plan in phases:

- **Phase 1:** Teaching via shadowing
- **Phase 2:** Co-managing and transferring responsibility
- **Phase 3:** Finalizing the financial and legal transition
- **Phase 4:** Stepping back and providing oversight as needed

A gradual approach not only reduces risk but also builds confidence on both sides. It ensures that your successor steps into the role fully prepared and that the business won't experience disruptions during the transition.

3. ASSESS VALUE

Before anyone can buy or inherit a business, they need to understand its worth. This determination goes beyond pulling a number out of thin air; it requires a professional business valuation, which considers:

- Tangible assets (real estate, vehicles and equipment)
- Intangible assets (goodwill value and brand recognition)
- Financial performance (revenue, EBITDA, cash flow and debt)
- Market factors (local competition, trends in the area and future growth potential)

Having an accurate valuation benefits both parties. For the seller, it ensures fair compensation for decades of hard work. For the buyer, it makes known what they're getting, especially if they'll need financing.

If your goal is to make the transition easier for a family member, you might offer seller financing, in which the buyer pays you over time, or a partial ownership transfer over a period of years. This can help alleviate financial pressure while still honoring the business's full value.

In other circumstances, you might offer your key employee a discounted value to grant them better financing terms and the ability to start operations with more savings in the bank. Every situation is different, but these are the key questions you need to answer when it comes to the agreed-upon value of the business.

4. EXECUTE THE PLAN

With the successor chosen, timeline set and valuation understood, it's time to move forward with formalizing and executing the plan. This is the point at which professionals become critical. Lawyers, accountants and other advisors will help you turn a complex reality into a smooth transfer of ownership. Here's what you should have in place:

- **Buy-sell agreement:** This legally defines how the business will transfer hands, including terms, price, payment structure and contingencies (e.g., what happens if the buyer backs out).
- **Other agreements:** If you plan to remain involved with the firm in any capacity, there might be a consulting or employment agreement in conjunction with the buy-sell agreement.

Give yourself and your successor the space to process the transition and try to stay grounded in the long-term vision.

- **Tax and estate planning:** Transferring a business can impact your estate and retirement planning. Between your CPA and your financial planner, you should be able to formulate a clear plan of what's been allocated from a capital gains tax standpoint, as well as where the rest of the funds will go.
- **Internal/external communication strategy:** When and how will you tell your staff and your community? Transparency builds trust, especially with long-time employees who might feel uncertain during times of change. One of the biggest draws of selling to a key employee or family member is continuity of business, so it's a great time to further bring the new generation into the spotlight.

The execution phase can be emotionally challenging. Letting go of control, even slowly, can stir up a range of feelings such as pride, anxiety, nostalgia or fear. Give yourself and your successor the space to process the transition and try to stay grounded in the long-term vision.

BONUS: INVEST IN THE SUCCESSOR

One of the best things you can do to secure your legacy is support your successor's development long before they become the owner. Some ideas include:

- Paying for relevant leadership courses, business classes or seminars
- Sending them to local and national conventions
- Introducing them to your professional network and encouraging industry involvement

- Giving them a seat at the table for high-level decisions
- Encouraging innovation and new ideas

Remember, you're not just passing along a business. You're passing along a reputation, relationship with the community and deeply personal tradition of service. Equip your successor with the skills to lead in their own way, while honoring the values you've built.

START SOONER THAN YOU THINK

Too many funeral home owners put off succession planning because it feels far away or even uncomfortable. But the truth of the matter is that the earlier you begin, the better the outcome.

Planning early gives you time to find the right person, mentor them, assess options and avoid rushed decisions. It allows for thoughtful conversations, smooth transitions and, ultimately, a more secure future for everyone involved.

Whether you're ready to retire or just starting to think about what comes next, don't wait. Start the conversation. Write the plan. Maintain constant communication. Protect the legacy you've built to serve families long after you're gone. ≣

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