

## Business Survival

***Whether you sell to a family member, key person, outside individual or large company, the decision should be made with personal self-interest in mind.***

Dear Dan,  
I am 64 years old and the fifth generation of my family to own this business. We go back more than 125 years of family ownership. I have three children and it's clear to me that none of them wants to continue the family ownership. One tried working in the business but did not like it. I myself, after a 20-year career outside of funeral service, came back into the business when my father got old. I am glad I did for many reasons. However, it disappoints me that this business may cease to be within my family. Frankly, I feel guilty and distraught. What last-ditch effort can I try to get my children to come into the business?  
Signed, Hail Mary

Dear Mary,  
Your concern and plight are interesting. And while I am not running a Dear Abby column, I understand what you feel as you pass the photos on the wall of the previous owners of your business, who also happen to be your parents, grandparents, great-grandparents and great-great grandparents. I am sure you imagine that the photos are calling you out as unworthy every time you walk by. However, unlike you, this new generation is not honor-bound to any job, let alone funeral service.

I tend to think of a funeral director's job as part minister, part caregiver, part surgeon and part politician. Just as the ministers of your community tell you about their "calling," so can you tell of your calling to this profession.

The biggest problem I have as a financial and management consultant is getting my clients to take certain actions that are in their personal best interest. I understand their reluctance to change, as most put the needs of the client above their own. Mary, I will give you some suggestions to attempt to convince one of

your kids to join the family business, but I would rather give them absolution for their choice to be their own person.

I remember meeting one client for the first time. Early in our meeting, I asked when he realized that funeral service was right for him. He told me it was midway through his senior year in high school. His father came to him and asked what he expected to do the next year. My client said, "I told Dad I was going to the state college. I wanted to be a banker!" The father said, "That is a noble profession, but if you go to mortuary school, I will buy you a brand-new Chevy Corvette Stingray!" My client laughed and said, "Yep, that convinced me funeral service was to be my career!" I asked him if he felt betrayed by his father. He replied that he did but that fathers often know best. In fact, his own son was a high school sophomore and he was getting ready to tease him with a Corvette in another year or two!

Several years ago, another client came to me with a similar request. He wanted me to talk his child into this business. I met with the child, who had just graduated from college. He informed me he wanted to be a doctor and not a funeral director. I asked him why he wanted a career in medicine. The child smiled and said, "Two reasons: I want to help people and I want to make a lot of money!" He was a bit embarrassed admitting the second part of that confession. When I asked him how much of a salary he expected to make after completing eight years of medical school and training, he said, "About \$200,000 a year." What Junior did not realize was that his father's business was a 500-call business, and Dad was making more than three times that amount. After explaining the "facts of life" to this young man, he started working in the funeral home. I can

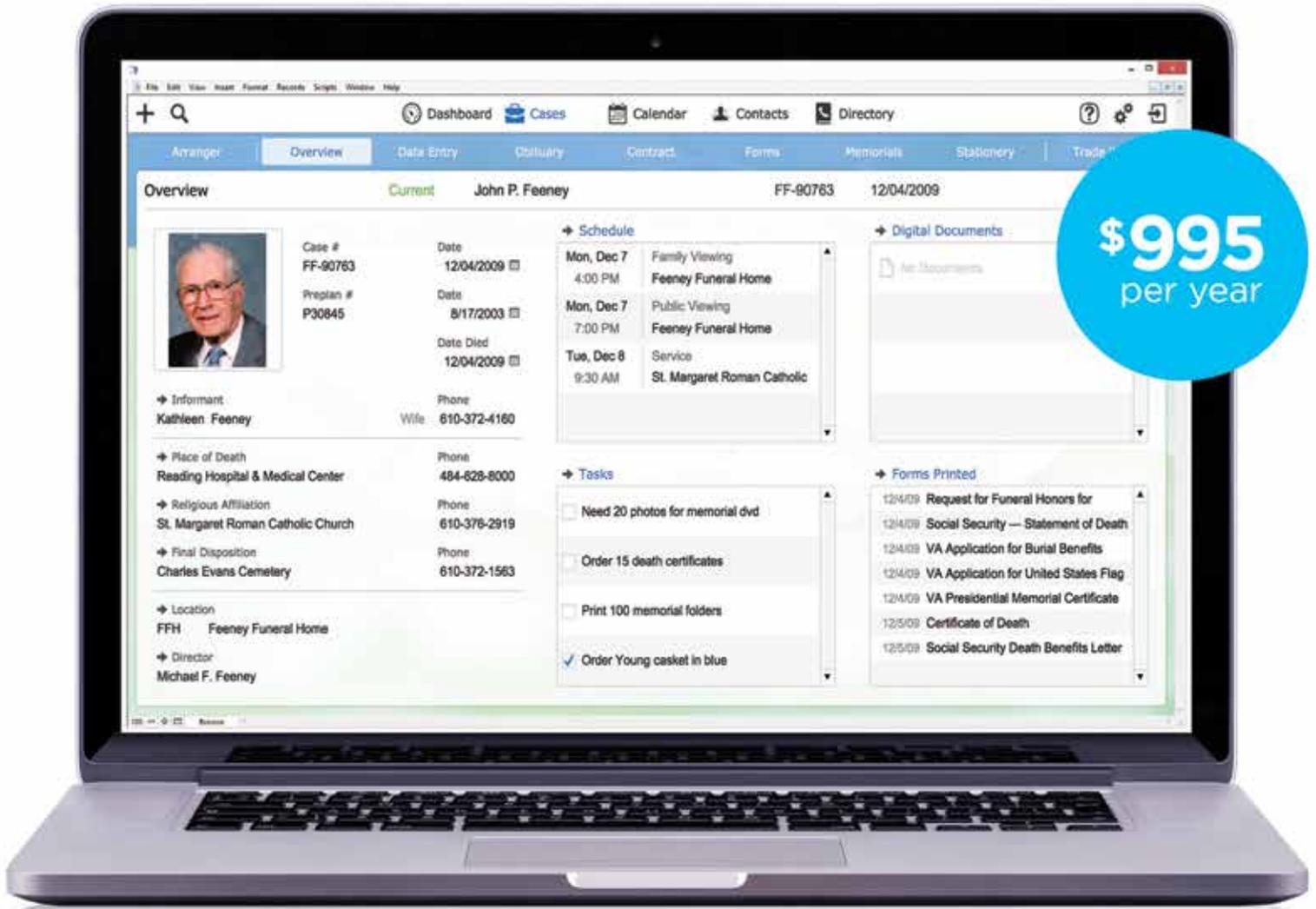
report that in the dozen years since our breakfast together, that young man has become a great asset to the family business and to funeral service.

Mary, just as I explained the facts of life to the young man mentioned above, let me outline them for you. The chance of a person starting any business and having that business survive successfully for 20 years is about 45 percent. The nature of the business or profession is immaterial; this is simply the mathematics of a business surviving. Imagine that 1,000 funeral homes started when your great-great grandfather began your business. Twenty years later, for him to transfer or sell to his child (your great-grandfather), the business would be one of only 450 that survived.

Subsequently, the chances of that business transferring from your great-grandfather to his child, your grandfather, is one out of three. So, of his 450 compatriots who took over their family businesses when he did, only 150 were still in business and transferring that business to their next generation. So the chances of a business surviving 60 years is about 15 percent! There is an 85 percent chance of failure or failure to have a family member who wants to be the successor.

Mary, as that business transferred from your grandparent to your parent, the odds again were about 33 percent. So now, of those 150 businesses that survived through three generations, just 50 will make it to the fourth generation. Those same odds apply to your willingness to take over the business. We are now looking at a 5 percent chance of a business surviving within a family to the fifth generation. Once again, the odds are 1 out of 3, so of those 50 peers you had 20 years ago, only 15 will be successful in getting their next generation to come into the business. That is a 1.5 per-

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cent chance of going back to the family founder! Another way to look at this reveals a 98.5 percent chance that the business will not continue to any of your children. You have a better chance of making arrangements with Sasquatch than you do having your business go to the next generation!

Mary, Mary, I am not trying to be contrary. I am trying to be realistic. You can't feel guilty. You've tried everything short of offering a free Corvette!

Now let me explain the freedom you have been given. You get to choose the next family that will be the owner of your business. That family can be a large company, a regional owner with multiple locations or an individual who will try to start the family transfer tradition anew. If you choose a large company or regional owner, the business will continue but will not be privately owned.

I had a recent client who wished to get his business succession planning started. He had no children in the business, but he had a key man who had been working for him for 15 years. We valued his business

and real estate. We set a price he should expect and the terms of payment if he selected an individual versus a national company. But he wanted the terms of the national company from a private individual. Well, Mary, after almost two years of arguing and fussing, he finally realized that unless the key person was stealing his preneed money, there was no way he could get those same terms.

In today's market, a key person can give you the same sale price as a national company. However, because an individual buyer needs a specialized lender, they will have financing restrictions as the lender will have its own terms of cash at closing to value and other restrictions. Analyze the options based on risk. Are you willing to take more risk selling the business to an individual? If so, that individual can be your future owner. If you don't want as much risk, then you need to consider a larger regional or non-private buyer.

I should remind you, Mary, that you should make these decisions during your lifetime. If not, your casket will be that

much heavier due to the goodwill that will be buried along with your bones. ✦

*Daniel Isard, MSFS, is president of The Foresight Companies LLC, a Phoenix-based business and management consulting firm specializing in mergers and acquisitions, valuations, accounting, financing and customer surveys. He is author of several books and host of The Dan Isard Show at [www.funeralradio.com](http://www.funeralradio.com). He can be reached at 800-426-0165 or [danisard@f4sight.com](mailto:danisard@f4sight.com). For copies of this article and other educational information, visit [www.f4sight.com](http://www.f4sight.com). Connect with Isard and The Foresight Companies by following them on Twitter at @f4sight or on Facebook.*

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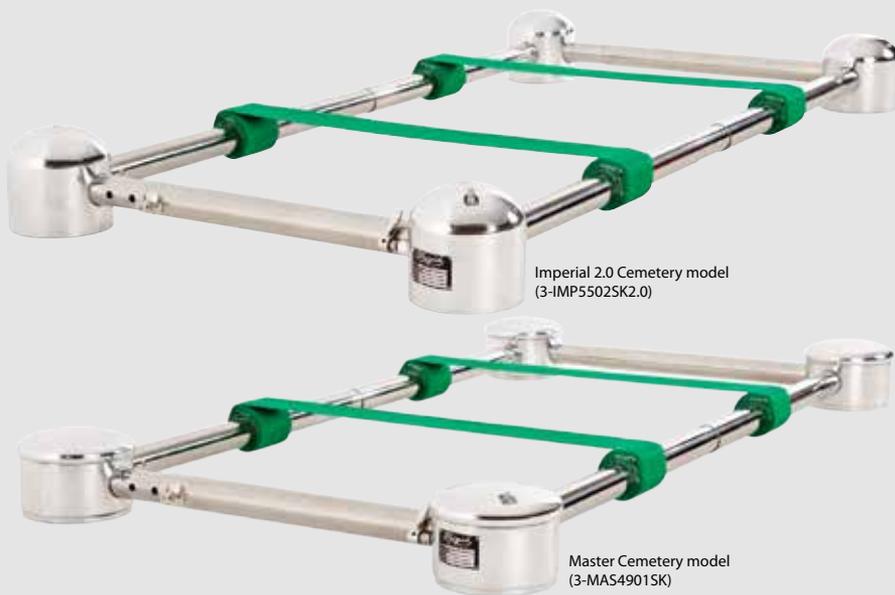
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