

OILHEAT ADVISOR

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A Newsletter for the Oilheat Industry from Gray, Gray & Gray Certified Public Accountants

New Year's Resolutions 2002

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Although the start of the new year falls in the middle of the heating season, it is still a good time to take a look at what you are doing right - and wrong - in managing your oilheat business. Here are five resolutions you could make for 2002.

1. IMPROVE DELIVERY EFFICIENCY. One of the most interesting questions in our annual oilheat industry survey concerns the cost per delivery for each stop your trucks make. Taking all factors into consideration, the typical dealer spends about \$20 to make a delivery. Considering your drivers make anywhere from 15,000 to 50,000 stops per year, any savings you can realize in your delivery cost will mean a significant increase in your bottom line.

2. TIGHTEN INVENTORY CONTROLS. A major cost for many oilheat dealers is the inventory of parts and equipment they must carry to fulfill installation and service requests. This inventory can also be a scene of "leakage" that can quickly erase a portion of your annual profits. Poor inventory management practices (including loose control of access to inventory storage areas), non-reporting of parts usage, not accounting for defective parts, supplier shortages and employee theft all contribute to inventory losses. The sooner you put in place and enforce tighter controls, the quicker you can stop the bleeding.

3. ACCEPT CREDIT CARDS. If you are not already accepting credit cards for payment from you customers, what's keeping you? Credit card payment is convenient for customers, and the few percentage points you give up are more than made up for in improved cash flow. No more waiting for late payments. Make the move to plastic this year.

4. REFRESH YOUR SUCCESSION PLAN. Things change from year to year, and your business succession plan should be adjusted accordingly. An annual review and update of your plan is a must. Be sure to include all parties involved - your spouse, children, key employees. Of course, if you do not have a succession plan or exit strategy, do not wait another year to put one in place.

5. COMMUNICATE WITH YOUR CUSTOMERS. It is easy to be lulled into complacency when oil supplies are plentiful, prices are comfortable and customers are calm. But when the next crisis happens - prices spike, supplies tighten, a spill occurs - will your customers be willing to listen to your explanations? The time to open the channels of communication is now, before a problem occurs. If you want to be viewed as a trustworthy resource, act like one. Talk to your customers through a newsletter, e-mails, letters, statement stuffers or postcards. Keep them informed and they are much more likely to be tolerant when times get tough.



The 7 Deadly Sins of Business Succession

Here is an amazing fact: 95% of all businesses in America are family-owned. Family businesses are responsible for over 40% of our gross national product. This is even more surprising when you realize that the average life span of a family business is a mere 24 years. Less than one in three family-owned businesses survive to be passed on to a second generation. Only 13% are passed on to a third generation.

Why such a low succession rate? There are several factors that contribute to the “dying on the vine” of family businesses. Foremost is lack of communication. In many cases, a parent simply is not aware of a child’s interest in the business, or is unable to convey his or her hopes for the business to the children.

Another factor that contributes to the death of a family business is failure to adequately plan, or failure to implement a succession plan that may be in place. Nobody is immortal, yet few business owners want to give up the control they have developed over the years. It is very difficult to “let go” and allow the next generation to take over.

Here are the “seven deadly sins” of succession planning, along with ways to avoid them.

Deadly Sin #1 - Delaying succession planning.

Many owners of family businesses avoid the issue of succession planning until it is too late. Waiting until an owner is on the brink of retirement or a health crisis (or death) occurs puts an undue amount of pressure on the succession. Better to put a plan in place early and then make adjustments over the years as necessary. You should be able to “flip a switch” and put your succession plan into action.

Deadly Sin #2 - Excluding children from strategic planning.

Your children may be involved in the family business in one capacity or another. Some may even have important positions. But do they actively participate in making decisions that will affect the future of the company? Or are they forced to defer to your wisdom and experience? Don’t forget, they have a bigger stake in the future of the business than you do. Bring them into the planning process.

Deadly Sin #3 - Withholding responsibility.

If all power in your company is centralized with you, your children will never learn the leadership and decision making skills they will need to manage the business. Make sure each child assumes a level of responsibility appropriate to their

experience, and that this accountability grows as their career progresses.

Deadly Sin #4 - Playing favorites.

One or more of your children may exhibit desire and aptitude that exceeds their siblings. Avoid making the assumption that your other children are not interested in the business. They may expect an equal say - and an equal share - in running the company.

Deadly Sin #5 - Overlooking your spouse.

Much of the focus of a succession plan necessarily rests on the next generation. However, there are many instances where, upon the death or disability of a business owner, his or her spouse steps up and takes command. This option is an important one to consider. Thus it is also critical that a wife or husband be ready to assume such responsibility by preparing for it in advance.

Deadly Sin #6 - Neglecting non-family members.

Few family businesses can succeed without the participation of non-family managers. Many times, the owner’s “strong right arm” is a non-related peer who shares years of experience and seasoning. Such an important team member may feel threatened by the assumption of power of the younger generation. Make sure key non-family employees are involved in the succession planning process, and that they clearly understand the roles they will play when the next generation takes over.

Deadly Sin #7 - Hanging on too long or leaving too early.

This is among the most difficult issues to address, as it is entirely subjective. We have all heard horror stories about business owners who stubbornly cling to power, even though their skills and interest may have waned. This can cripple the effectiveness of the company. A less frequent - but just as damaging - problem occurs when an owner leaves the business too soon, before the children are adequately prepared to assume the leadership role. The timing of the transfer is critical.

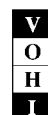
The process of having a business successfully transferred from one generation to the next can be at times difficult, contentious and frustrating. But it can also be a remarkably enriching experience that bonds family members in new ways. The secret is thorough and comprehensive planning, while avoiding the “seven deadly sins.”



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