Life sometimes doesn’t unfold as expected while at work or away, and Lee Pier knows this well. His work at the Nitty Gritty restaurant and bar in downtown Madison started with part-time bartending, before beginning medical school. Now he’s a co-owner of the business that Marshall “Marsh” Shapiro established in 1968.

The road between then and now had patches of good timing, surprises, twists and bumps. That combination is likely for other restaurant owners, too, but the drama lessens with thoughtful, early and solid planning. That route is crucial when deciding how to pass a business to relatives or longtime employees.

Coasting along or presuming can be costly, both financially and to relationships that are held dear.

“Without a formal—written—succession plan, the organization is vulnerable to unprepared/unskilled leadership, financial implications, chaos, confusion and potential loss of the business and legacy,” says Sherry Herwig, director of the Family Business Center at the University of Wisconsin School of Business, Madison.

A Nitty Gritty transition
Twenty years ago, Pier reconsidered medical school because Shapiro was “a fantastic boss, a people person who liked being at work every day,” and that attitude was contagious. The restaurant-bar is best known as a go-to place for celebrating birthdays.

Within months of Pier’s hiring in 1996, the Nitty Gritty closed for remodeling because of an anticipated surge of business that the new Kohl Center’s opening would bring in early 1998. The 17,230-seat college sports arena is merely two blocks away.

As the number of Nitty Gritty employees grew, so did Pier’s climb up to management. Before 1998 ended, he crossed paths with Ragen Shapiro, who returned home for a respite before starting law school. She was Shapiro’s oldest daughter and had no interest in taking over the family business.

“I knew Marsh and (wife) Susan had two daughters but didn’t think I’d be marrying one of them,” is how Pier prefaced what happened next. He and Ragen wed in 2002, the same year a Nitty Gritty opened in Middleton with four equal partners: Pier, his in-laws and Eric Suennicht (another trusted Nitty Gritty employee, hired in 1997).

“For the first time, Eric and I had some skin in the game, finding a new sense of responsibility as owners,” Pier explains. “And that’s when I’d say the
business succession plan began.” It was a part of his in-laws’ retirement plan and business exit strategy.

Ten years later, Marsh Shapiro died of cancer, and his self-written obituary included this: “Marsh said he would retire after he had turned 70, owned the Gritty for 40 years and had celebrated over 400,000 birthdays. He reached those three milestones in late 2009 and he retired and passed on ownership in January 2010 [to Pier and Suemniche].”

Awkward money discussions preceded the downtown property transaction. “They had a number [in mind] about how much the business was worth, and we had a number,” Pier recalls. “Those two numbers were pretty far off,” and so the downtown business went onto the real estate market. Family gatherings turned uncomfortable.

“Ninety percent of the time, Eric and I were treated fairly and as family, but this was about real dollars for all involved,” Pier notes. After three months on the market, with no serious buyers, their negotiations resumed and “we got it worked out.” Susan Shapiro, he notes, remains owner of the downtown Nitty Gritty building and serves as a business consultant.

“Family is more important than any business deal,” Pier says. “I’m
thankful we were able to move beyond” a strong difference in opinion about business value. Today a third location, in Sun Prairie, has seven owners: Pier, Suemnicht and five longtime Nitty Gritty managers.

It is not unusual for a restaurant owner to think their business is worth more than it is, says Jeffrey Ray of J. Ray Group, LLC, a business advisory firm in Oostburg. “There is so much emotion—it’s been their baby,” sometimes for decades.

Waiting until retirement is near to begin succession planning is a common mistake. “It’s the elephant in the room,” says Ann Lahde of SVA Certified Public Accountants. “In the back of their minds, they know it’s there. And one of the things that keep owners up at night is worrying about who would run the restaurant if something happened to them.”

Lack of time is a factor, she acknowledges: “When they are working so hard IN their business, it’s hard to pull away and devote the time necessary to work ON their business, which would position them for transition to the next generation.” Lahde recommends that owners find ways to begin planning now.

Much begins with understanding the financial health and challenges of the restaurant, says Edward Hastreiter of EWH Small Business Accounting, Waukesha. He notes that 90 percent of business owners can’t read or understand financial statements, so his company presents “Fundamentals of Financials” sessions periodically, “to help make sense of their numbers.”

If an owner doesn’t understand the impact of key performance indicators (such as wage and food costs), how can he explain the dynamics to prospective successors? How might financial stability of the business be improved, to realistically fund retirement without hamstringing the next generation?

Lahde says planning for and monitoring growth of the business is a key component of the succession plan. “The first generation’s goal is to fund his/her retirement, which impacts the cash flow of the business,” she explains. “The next-generation successor is looking for equity build-up to sustain the business going forward.”

These goals often are at odds: “Without growth, the business will struggle to provide the funds necessary for comfortable retirement of the owner, while still keeping enough equity in the business to keep it viable for the next generation.”

All in the family?

It is not unusual for family values and relationships to be business priorities. Consider Cousins Subs, which began in 1972 when cousins Bill Specht and Jim Sheppard opened their first sandwich shop in Milwaukee. “It [the company name] was perfect,” Specht reflected, in a news release. “It showed our focus on family, and it was easy to remember.” He remains chairman of the board, but in 2015 named daughter Christine Specht-Palmert CEO of the business, which has grown to 100-plus franchises in Wisconsin and Arizona. Son Bill Specht, Jr. is one of three partners who own and operate franchises in Germantown, Brown Deer and Milwaukee.

The new CEO worked in Cousins Subs as a teen, became the corporate human resources manager in 2001, then president and chief operating officer in 2008. “Her thoughts in treating people well are parallel to mine, and when you’re in the people business like we are, that’s paramount,” her father explained, in announcing the most recent transition. “She also believes in the quality of our product as much as I do.”

Deciding who does what to preserve and extend the family legacy can be a complicated and emotionally sensitive
process, Herwig says.

“Identify your values, vision and overall philosophy for both the family and the business,” she advises. “Identify potential leaders based on skills, knowledge and ability, not just family relationship. You’ll need to identify which family members are best qualified and most interested in taking over, and what you will do if there’s not a family member to run the company after you retire.”

Don’t ignore leadership skills, Hastreiter adds: “You could be a great cook, but that doesn’t mean you’ll be a good manager.” A relative’s involvement is “looked at in a whole different light” by employees, he observes. Realize that when a son or daughter gets a promotion, there is a tendency for others to see it as favoritism, regardless of how hard the offspring works. So prepare for that.

What else? Don’t let family love and sentiments interfere with your assessment about what’s best for a restaurant’s future. “Transferring a
business to the next generation is common but not always the best option,” says Ray, whose work sometimes turns him into a mediator. Involving an informed outsider early on might “provide alternate approaches to what may originally appear to be the most obvious option.”

He believes industry knowledge and passion are not something that can be transferred to a relative. So consider selling the business outright—openly or through reputable but confidential advertising sites online—because “upon a successful sale, proceeds may be used to offer equal opportunities” to beloved relatives “while maintaining a level of family equality.”

When a business sale goes well, restaurant longevity and funds for inheritance also can benefit.

Example: The longtime executive chef, office manager and general manager of Karl Ratzsch’s, Milwaukee, became owners of the century-old German restaurant in 2003. Josef Ratzsch, grandson of the original owner, was the seller.

“We did not have a formal succession plan, as we had already been actively managing the restaurant” since the 1970s, says co-owner Tom Andera, describing the transfer of ownership as “problem free” because of the involvement of an accountant and attorneys to represent the principals individually. The fourth generation of the Ratzsch family, he adds, “was too young to take over the business.”

“When grooming successors to take over, it is important that the team has a thorough knowledge of the individual restaurant,” Andera believes. “An outsider would not have the same feel for the customers, suppliers and—most importantly—the employees.”

He describes these relationships as vital and emphasizes that each restaurant’s situation is unique.

Plan, review, adjust, repeat
Much of how to proceed depends upon the type of restaurant operation, Hastreiter says. Operating one restaurant with 15 employees is a lot different than a company with 12 restaurants: “It’s a whole different skill set.”

Lahde says a formal succession plan is important because “it enables owners to clearly see the road ahead, outlines the steps needed to reach their goals, eliminates angst and worry over future uncertainties, puts all family members on the same page and brings the family together to work toward the same goals.”

It also “ensures that the wishes of the owner are carried out and that the business can continue uninterrupted after he or she is gone.” Lahde warns however, it should never be just a one-time event like many think it is. Succession planning needs to be an ongoing process.

She recommends “a simple, yet flexible plan that outlines the ongoing process of grooming the successor, responding to changing needs of the business, building financial value, putting the right estate plans in place, documenting the plan with appropriate legal documents and revising the plans along the way as needed.”

Making the transition
Most crucial may be learning to let go, so successors can conduct business in their own unique style. After a lifetime of “doing it your way,” that can be difficult.

“Parents may have spent their entire careers working in the restaurant and building its value, working long hours, six or seven days a week to be successful,” Lahde says. “The younger generation has different values and life goals. They may have young children, a working spouse or want more work/life balance than the parents did.”

That means strategizing how all the work gets done while financially supporting an owner who works less and at the same time keeping business profitable.

Ray recommends involving a business consultant four or five years before the desired ownership transition time because “that begins to position the business in case the unexpected happens.”

Being upfront, early, about intentions and hesitations “lets the kids have the chance to step up and show what they can do.” Keeping the conversation open and honest also gives the next generation time to reflect on life and career aspirations, which may not match your presumptions. WR