

One Brand, Three Generations

The Shared History of McDonald's and the Katz Family

By Michael Katz and Laurie Cooke



Michael Katz

My father, Albert, was the very first franchisee McDonald's of Canada ever had. Raised in Germany, he spent much of his adult life in the United States, before moving to Canada in 1970. While my father struggled to learn the quick-service business in a new country, I grew to know, then love, that business and the McDonald's brand itself. Eventually, I became McDonald's of Canada's first second-generation franchisee. I took my father's example, improved it where I could and passed my knowledge to my own children. My eldest, Laurie, is now McDonald's of Canada's first third-generation restaurant owner. We're proud of our family's legacy with one of the world's most successful brands, but like anything involving family, there were tough times along the way.



Photos courtesy Michael Katz

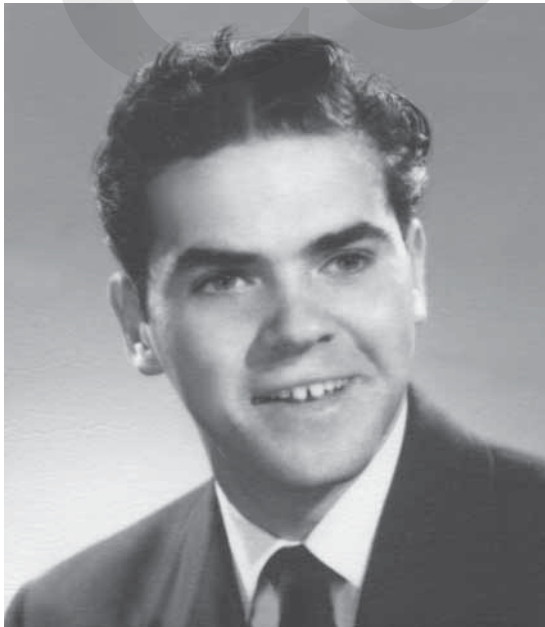
From left: Laurie Cooke, Michael, Jana and Matthew Katz.

My grandparents (top) left Germany for New York City shortly before the outbreak of the Second World War. My father and mother (Albert and Pearl Katz) are pictured with them here.



Albert Katz

My father was of Polish stock, born in Hamburg, Germany, in 1920. His family of Jewish tailors fled Germany in 1939, narrowly escaping the terrible events to come. Fortunately, the Katz's had several cousins living in New York City, so my father and his parents found safe harbour. During the Second World War, my Dad worked as an interpreter and interrogator of German prisoners for U.S. Army intelligence, due to his fluency in the language.



My uncle, Ed Garber, has been one of the major influences in my life.

In post-war America, my dad found work as a clerk in a retail clothing store. He eventually moved his way up to assistant buyer for womens' wear, then buyer for the now-defunct Charles Store chain. In 1942, he married my mother, Pearl, and together they produced two sons: my brother, Steven in 1949, then me, in 1952. My father eventually moved to Macy's, first as an assistant buyer and later a department head at a Long Island, N.Y., location.

Things can get stormy when parents and children do not share the same values—such was the case with my dad and I. My father always placed family first: he put in his time between nine and five, but when the day was done he came home to his wife and children. While he had a great marriage, I've always believed he missed out on a better balance between work and personal life. My dad sacrificed his career for his wife and children and no matter how admirable that sounds, his family struggled materially because of it. Finding that balance is tricky—I haven't always managed to do it myself, I'll admit—but if you have real ambition, you'll give it a try.

Uncle Ed

In business, my first true role model was my uncle, Ed Garber; my mother's brother. Uncle Ed was 10 years younger than my mom and I think he really idolized my dad when he was very young. He and Dad first met when he was 10-years old and my father was 21. Like my father, he ended up in the retail clothing business, eventually becoming an executive for Bloomingdale's. However, Uncle Ed could achieve the work-life balance my father lacked. He was a workaholic who put 100 per cent of his attention toward his job while he was doing it. He came home when the job (not just the day) was done, and once there, he devoted 100 per cent of his time to his wife, Pauli, and their children. Through Uncle Ed I saw that really hard work is the only means to great success.

Whenever they saw one another, Uncle Ed and my father spoke of starting a business partnership. It was their dream for years. Though their philosophies toward work were different, both men believed that working together was worthwhile, because wherever they ended up, our families would be in closer proximity. As a teenager, I thought it was a great idea, too; now I know it's not so simple.

Meanwhile, McDonald's moves north

There were principally three men involved in bringing the McDonald's brand to Ontario, but

George Cohon was the driving force. His company, McDonald's of Ontario, Ltd., was effectively a franchisee of the U.S.-based McDonald's Corp., with George as the face of the business and the chief representative of his company's interests to McDonald's. His partner was a brother-in-law of Uncle Ed's: Ted Tannebaum. Uncle Ed, in turn, was a partner of Ted's in the McDonald's of Ontario business venture. This is where my family's connection to McDonald's really began.

In 1968, McDonald's of Ontario opened its first Canadian location in London, Ont. There were 13 more by 1971. Even by the high standards McDonald's already had, these Ontario locations quickly distinguished themselves with their high levels of operational excellence and strong organization, well designed to ensure continued growth. That reputation continues to this day. Uncle Ed retired in 1999 as president and CEO for Eastern Canada.

McDonald's Canada is born

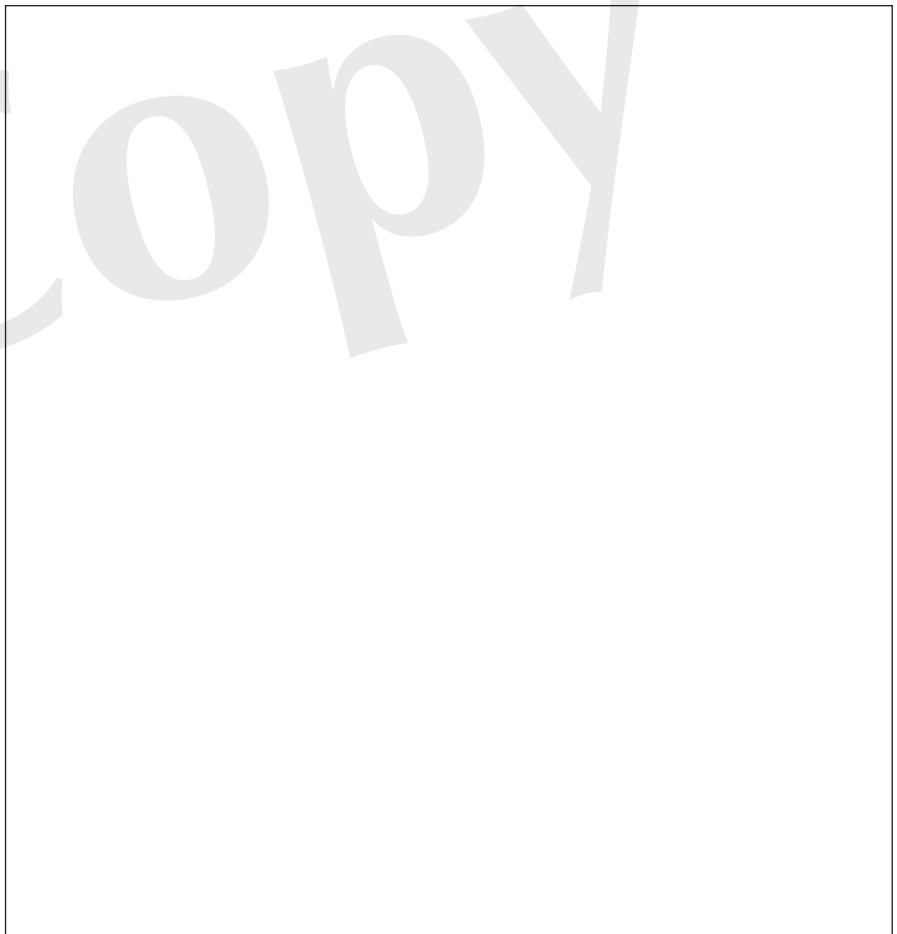
In April 1971, McDonald's of Ontario became McDonald's Restaurants of Canada, Ltd. (McDonald's of Canada), a wholly owned subsidiary of its U.S. parent, with George Cohon serving as president and Ed Garber as his executive vice-president of operations. Despite the common brand, McDonald's of Canada was quite autonomous, allowing it to be uniquely Canadian with its menu, human resource (HR) practices and its means of integrating into Canadian society. Now, George, Uncle Ed and their partners had become franchisors.

I was seeing much of this first-hand. In 1970, George and Uncle Ed looked at how fast McDonald's was growing in the Canadian market and decided they needed extra manpower. They chose my father to become McDonald's of Ontario's first purchasing director, which was great for both dad and me, because I'd already enrolled at Toronto's York University, with political science courses beginning in September of that year. Dad started working in Toronto in April 1970 and his family joined him in



The long view's important—and not just in business. Here I am with my mother, father and older brother, Steven.

June. I soon found a job in our new 'family business' in Toronto, on July 4, 1970. By March, I was swing manager at another location—it was here I met future McDonald's of Canada vice-president, Sam Joseph, who was instrumental in my development.



The shift from McDonald's of Ontario to McDonald's of Canada had meant many changes and among them was a change in my father's career. Beginning on April 1, 1971, Dad became the first McDonald's franchisee in Canada, basing his operation in St. Catharines, Ont. Naturally, my parents needed to move there to run their restaurant, so I moved in with Uncle Ed and Aunt Pauli in Toronto, continuing my degree. I commuted to St. Catharines on weekends to work as a swing manager in my father's restaurant.

Onward and upward

Things moved quickly for me from then on. I met my wife, Jana, in September 1972; we were married the following February and moved to Thornhill, Ont. A month later, I was promoted to first assistant at the Keele St. McDonald's. A month after that, the restaurant manager quit and I replaced him. At 21, I was the youngest restaurant manager McDonald's of Canada ever had.

By mid-1975, Jana was pregnant. I wanted to be closer to home, but also knew that I was on my way to earning a supervisor's position, which at that time entailed a lot of travel. The best compromise seemed



My family, clowning it up with the boss (I'm at far right).

to be working for a franchisee nearby. This was how I met Richmond Chandler, owner of the Georgetown, Ont., location. He was a great guy and a talented businessman who taught me a great deal. I started working for him on a Monday in February 1976 and by Friday, I was a father. Richmond presented me with a note that said: "Congratulations on the birth of the Georgetown location's new hostess!" There was more truth to that than he realized.

Generations collide

While things were really going my way, duty called. In July 1977, I reluctantly made my return to my father's franchise in St. Catharines, after being alerted to potential market growth problems at his location. Dad had run his store for six years and he and I had not worked together directly in five. Since then, another McDonald's location had opened in the city and a third was due that winter. Neither restaurant was run by him. Meanwhile, I'd continued to move up the ladder; Richmond Chandler was training me to become a supervisor when his next location opened in Milton, Ont. I was proving my ability to run effective McDonald's restaurants and my confidence in the McDonald's system continued to grow. I don't think that sat well with Dad and certainly, our conflicts both in personality and management philosophy remained unresolved.

I agreed to return to St. Catharines on the understanding that Dad would retire in two years; he stayed on for nine. In 1982, I spent my 30th birthday still running his location and getting a feel for how things were run from a franchisee's perspective. It seemed like a good way to make a living and I could see an excellent future for myself in that role. With a wife, daughter, and now two-year old son, there were many responsibilities to consider.

In 1986, my mother's declining health convinced my father it was time to go. After years of discussing this possibility (and with the approval of the franchisor), he finally sold his McDonald's location to me on September 30, 1986, making me McDonald's of Canada's first second-generation franchisee. However, I only owned one of the three McDonald's locations in my city, making it difficult to grow my market share and develop as an owner/operator.

Paperwork always kept me busy...



Deluxe franchising

For the next five years, I worked hard to make my McDonald's location the best in St. Catharines. In fact, part of me wanted to be a multi-unit franchisee almost from the start, but that's not how things worked back then. One of the reasons McDonald's has been so successful in the franchise business is that it gives franchisees a chance to prove themselves. The corporate office knew that the hardest 'jump' any franchisee makes is from one restaurant to two. As such, they made sure only franchisees who have run one location successfully for some time will be given the chance to grow. In 1991, it was my turn.

I'll admit, my second McDonald's location wasn't quite what I'd had in mind. The company had decided to place a McDonald's in the food court of St. Catharines' new Fairview Mall and offered me the chance to own it. Food courts were a fairly new concept for McDonald's at the time, and I'd certainly never worked in one before. Obviously I accepted, but I wasn't sure how things would go. Unlike a freestanding building, a food court is not a destination in its own right. Your traffic is a share of the mall's traffic and will be subject to the mall's hours, policies and staffing. As a food court franchisee, you don't control the bathrooms or garbage cans, so if things are unclean, all you can do is notify the mall's management. The menu is more limited, because you have one-third the normal amount of space in which to work. You can't receive any deliveries to the restaurant's rear entrance because it doesn't have one. Despite all these challenges, we made the food court location work. I operated it for 12 years.



...but finding that work-life balance was equally crucial to my success.

McDonald's assisted me where needed and watched me prove myself as a multi-unit operator. I worked just these two locations successfully until April 1998, when I finally got the opportunity to grow again. I began by purchasing two franchised locations in Niagara Falls, Ont. The following fall, I opened another location in that city, this time inside a Wal-Mart. My food court experience certainly helped me there. One year later, I opened my sixth location in another Wal-Mart in St. Catharines.



There's three McDonald's franchisees in this shot. Two of them just don't know it yet!

My next restaurant caused me a bit of trouble. This was a site in Niagara-On-The-Lake, Ont.; a tourist community noted for its beauty and the strictness of bylaws designed to keep commercial properties sympathetic to the city's particular look. The problems were overcome when McDonald's allowed the city to determine the materials with which the restaurant would be built and its ultimate design. Today, it is a beautiful little restaurant that is endearing itself to the local community the same way all McDonald's do—by becoming part of the community while giving back as often as possible.

With this struggle resolved, I was able to open another, free-standing McDonald's in St. Catharines—

this time in front of the Wal-Mart that housed my other restaurant. My expansion was complete in December 2002, when I bought one last Niagara Falls location in the south end of town.

Going lean

As people like Ed Garber, George Cohon, Sam Joseph and Richmond Chandler taught me, there's no substitute for hard work. However, those men would also point out that the end-product is all the customer has to judge you by. As 2003 approached, I was forced to consider if I had the means to maintain my own standards of excellence in every one of my stores. The problem wasn't work ethic—I was not burned out. My management and staff were top-notch, too. However, running a business structure that crosses three communities is very complex. No matter how hard I worked, I always worried that something would start to slip.

On January 13, 2003, I sold my four St. Catharines locations and the Niagara-On-The-Lake location back to McDonald's of Canada. I still run three locations today. If you think my math is slightly off, that's because I sold a sixth location—one of the Niagara Falls units—to my daughter in 2006. Laurie is McDonald's of Canada's first third-generation franchisee; continuing a proud tradition of franchisee innovation the Katz family has come to represent.



More than 20 years later, we're ready to serve.

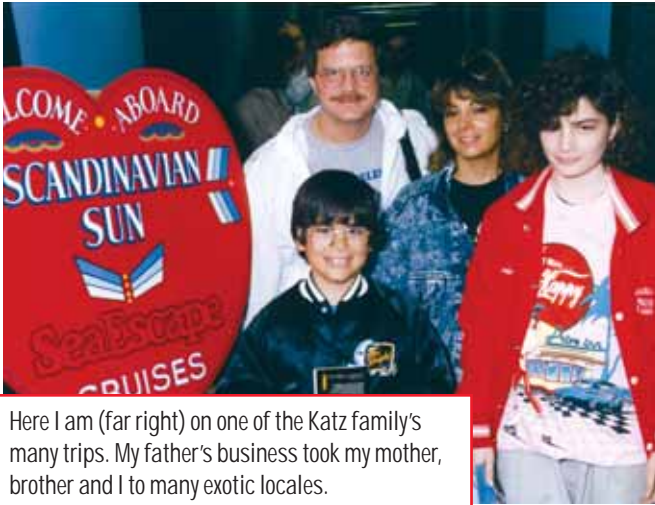


Laurie Cooke

November 2, 2007: Success means responsibility—isn't that what Dad always said? Here I am, in front of an audience of 1,500 people, at Toronto's National Women's

Show. I'm about to deliver a short introduction for the featured speaker: McDonald's spokesperson for healthy eating, Bob Greene. Now, I've always liked being the centre of attention, but how did I get into this?

It's simple: McDonald's of Canada needed an introduction from someone who represented their history, their support of female entrepreneurs and their success going forward. I was their choice, and I don't intend to let the company down.



Here I am (far right) on one of the Katz family's many trips. My father's business took my mother, brother and I to many exotic locales.

Lucky this thing's scripted.



My dad told me what it was like to run a franchised restaurant. Anything he didn't tell me I could see for myself: growing up in the world of McDonald's, attending franchisee conventions, eating there, working there, even helping with their marketing campaigns. Yet, the feeling of actually becoming a business owner was still hard to prepare for.

I remember feeling euphoric the day I officially took over. There was also fear—for the first time, I was spending my own money, not my father's. Now it was my responsibility, my name out in the community instead of Mike Katz's. This shift in attitude was the biggest change for me. Some days, I still can't believe I've done it. At age 31, some other people don't believe it, either.

Living the business

My parents took my brother, Matthew, and I to every biannual Worldwide McDonald's Franchisee Convention from 1980 on. These events were usually in Orlando or Las Vegas—places with good weather and a lot of nightlife. Franchisees from every McDonald's country in the world gathered with suppliers and corporate officers to talk shop, observe new equipment and procedures in action and when necessary, raise concerns. Fortunately for me, the franchisees' entire families were welcome to attend. While my father took care of business, Matthew and I would hang out by the pool with the other children. When we got tired of lying around, we could wander the convention floor with our loot bags and get all the freebies various booth operators were giving away. It was a bit like Halloween. You could meet a lot of celebrities at these events, too—anyone with a sponsorship agreement or a link to Ronald McDonald House Charities would usually be there. We met Wayne Gretzky, Drew Carey, Lance Armstrong, Serena Williams, Sara Ferguson and Yao Ming this way. In the evenings, the

family would meet up for dinner and get to know even more people.

McDonald's is familiar to everyone, I suppose, but for me the feeling is more intimate. I know the franchise not simply as a brand and its products, but as a group of very real people, many of them friends and now, colleagues.

Growing up

I began working at my father's first McDonald's location in St. Catharines in various roles from the age of 15 onward. Even after leaving for Wilfrid Laurier University in 1994, I continued to work there part-time, if only for spending money. I knew from the start that running my own restaurant was a likely career path. However, this was the only business I'd ever been part of, so it seemed worthwhile to try something new. In the end, I think this attitude impressed my future franchisor. When I graduated in 1998, my first job was in marketing—with the Toronto agency Vickers & Benson Advertising.

As an account co-ordinator, my role was to liase between the agency's creative team and



Who says quick-service can't be glamorous? Wayne Gretzky is one of the many celebrities I've met in my career.



the particular needs of a franchisee—basically, franchisees would call to let us know what local marketing programs they needed. I'd convey this information to the creative team and together, we'd develop an effective local advertising campaign.

My hiatus from McDonald's didn't last too long. Due to my years of experience in restaurant operations, I was quickly placed on the Ontario McDonald's account. The same year I began working at Vickers & Benson, my father was elected by his fellow franchisees to the vice-presidency, and later presidency, of the McDonald's Ontario Advertising Co-op. As president, he represented Ontario's McDonald's franchisees in their dealings with the franchisor's head office in Toronto. This often included advertising campaigns, though thankfully for him, he only focused on province-wide initiatives, leaving the local work to agencies like us. Part of my job was to sit in on

those meetings, taking the minutes and recording any changes in advertising strategy our client required. I can't say I enjoyed being a secretary, but watching my dad at work, advocating for the franchisee side of things, was instructive.

Home again

By the beginning of 2000, I was ready to leave Vickers & Benson behind. Two years in the advertising world had rekindled my passion for McDonald's. Undoubtedly, I was born with 'ketchup in my veins'—my destiny was to do what it took to become an owner/operator and carry on the Katz family tradition.

There were other motivations. I was homesick for Niagara Falls; I missed my family, my friends and my boyfriend (now my husband, Ty). Besides, two years of life in Toronto, with its rock concerts, theatres, restaurants, bars and shopping had left me with a lot of debt.

In April 2000, with my parents' help, I bought a house in Niagara Falls and moved home. There was a job waiting for me, too: a full-time position as second assistant manager for my father's Ontario St. McDonald's location.

Dad didn't want me to have any special treatment. In fact, when Matthew and I have worked at McDonald's locations we've often kept our last names to ourselves. Dad knew we couldn't be successful in the business unless we could work our way up and truly understand things from the employee's perspective. I think it worked.

By February 2002, I was restaurant manager for the Thorold Stone Rd. location (still in Niagara Falls). It felt good to be in charge, but of course, a little scary, too. I knew this was my chance to prove myself and really begin directing my future career.

Here I am with the Toronto Blue Jays' legendary catcher, Ernie Whitt. Great athlete, great guy.



The final steps to franchising

In 2004, I was promoted to supervisor, overseeing all of my father's locations in Niagara Falls. I'll admit that made me nervous; my father and I had clashed in the past. I'd always said I'd do things differently from him once I was a supervisor, but lo and behold, I ended up taking the same approach. With responsibilities of my own, I finally understood why he reacted to certain situations the way he did. I appreciated his frustration when managers made mistakes, because now I too felt a personal stake in the quality of the restaurants I worked in. Like my father, I conquered my fear of confrontation, and learned how to hold people accountable for their actions.

The supervisory role can lead to ownership, as my father had proven. When I became a supervisor, I immediately submitted my application to become a franchisee. This may seem premature, but the process of becoming a McDonald's franchisee can take years. In the meantime, I had much to prove. Especially as a Katz.

McDonald's encourages second-generation franchisees, especially if they've grown up around the franchise system like I have. However, any candidate must have the necessary exposure to and experience in financial management, human resources (HR) and marketing.

How it's done

When the candidate and his or her parents decide it is time to pursue franchise ownership, they must inform a McDonald's field service manager. The candidate then completes an application and returns it to a franchising manager, who follows this with an interview. The candidate's information is kept on file from then on. As many children of current franchisees lack business experience, the franchising manager must evaluate each candidate's role and effectiveness in the parent's organization.

For the next two years, I spent my time managing various locations and



The guest list is always the toughest part of a wedding to plan. Ty and I just couldn't leave out our favourite purple mascot.

boosted my credentials with coursework through McDonald's own training curriculum. The biggest thing I needed to learn was the profit-side. Yes, I knew what we had to do to make money, but I had no experience actually producing a budget and analyzing an old one to find improvements.



My location in Niagara Falls, Ont. This location has a bright future and so do I.

The year wasn't all business for me, anyway. In November 2005, I married Ty Cooke, now an investment advisor with Wellington West Capital, an investment management company in Oakville, Ont.

Surprise!

My life would change completely on March 3, 2006, though I had no idea when I rose in the morning. Ty and I had been invited to dinner that evening with my parents and a couple of McDonald's executives, which was not unusual. We had a pleasant meal with Mom and Dad, Ontario regional vice-president, Barry Descloude, and director of field service, Jeff Bradley.

Things wound down as we lingered over coffee—and it was then that Barry and Jeff announced me as McDonald's of Canada's newest franchisee. My family was stunned. We'd all expected this to be a regular business dinner. I'd anticipated a panel interview with McDonald's executives, just like any other registered applicant. Barry and Jeff assured me that none was necessary—I'd proven my skills over the last two years, and really, all my life. It was time to get started.

Following the dinner announcement, Dad and I sat down and worked out a few details. I was to purchase his McLeod Rd. restaurant in Niagara Falls. We both believe in this location's potential for growth, because the city itself is growing in that direction. Besides, as a highway location, this McDonald's is perfectly positioned for tourist traffic. To prepare, I spent most of the next three months working at McLeod Rd. By June, I was used to the place and the people—staff and customers alike. My first day was like any other, aside from the nerves.

Things have been running smoothly ever since. My business continues to grow, just as my father's once did. Plus, I've learned from my family's mistakes and found a means of separating work and home life. While Ty's certainly a 'money guy' and understands my business situation, he's not interested in the operations side, nor do I force it on him.

Quick-service has been good to our family, and we're far from finished. As I write this, my younger brother is pursuing his own candidacy as a McDonald's franchisee. Who knows? Either myself or Matthew may provide McDonald's of Canada with its first fourth-generation franchisee one day. In the meantime, we're ready to take your order.

Now, back to my speech... **cbf**



"This is Michael again: Shortly before this issue went to print, I received news that my son, Matthew, has been accepted as a McDonald's franchisee. Our family saga continues!"

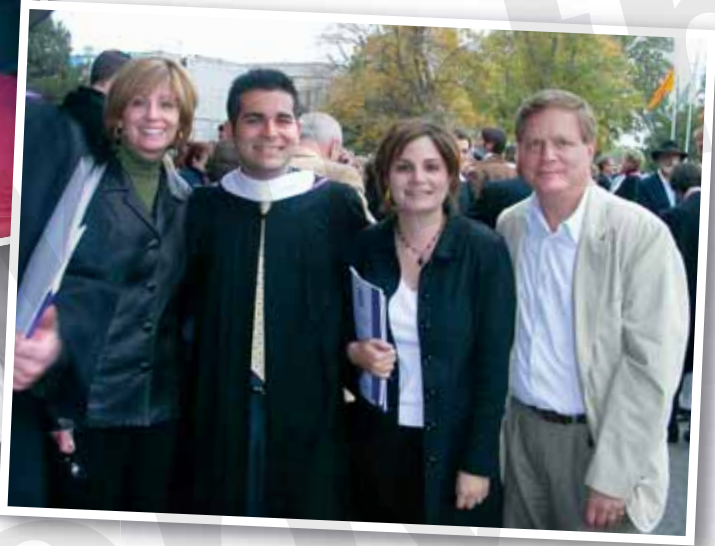


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The Katz's Did It Right

Successful Family Succession Planning

Photos courtesy Michael Katz



By Peter Merrick

I've known McDonald's franchisee, Michael Katz, for four years—ever since his advisor, David Spiegelman, introduced us. David, the senior partner at Spiegelman Fingold Chartered Accountants in Toronto, wanted me to implement some tax minimization solutions for Mike, focusing on executive compensation and pension planning. Mike is a multi-unit franchisee with plenty of business sense, but everyone can benefit from outside advice.

In 2006, I learned that Mike's tax strategies had helped him achieve yet another goal: transferring one of his franchised restaurants to his daughter, Laurie. This was only the latest development in the Katz family's long history with McDonald's of Canada. Mike's father, Albert, was the first McDonald's franchisee to operate in Canada, opening in St. Catharines, Ont., in 1971. Mike took over that restaurant in 1986, making him the first second-generation McDonald's Canada franchisee. Almost 20 years after that, Laurie became the first third-generation owner/operator.

I've always been fascinated by the Katz's story. I've read many studies about the desire of entrepreneurs to transfer their businesses to other family members—typically their children—when the time comes to retire.

However, most of those businesses end up sold to third parties. This is usually because younger family members lack the money to buy their older relatives out—or simply have no interest in running the business. For franchisees, there is a third hurdle: the relative must also be approved for ownership by the franchisor.

With David's help, Mike Katz avoided these pitfalls and made possible another generation of franchise success. That story dates back to 1994.

The long view

When asked to reflect on Laurie's achievements since 2006, Mike will tell you they owe much to sound financial preparation, supported by the McDonald's franchise system and its willingness to work with his family. Equally vital was the professional help they sought, especially from David, who has been the family's public accountant for all three generations of Katz's spanning more than 25 years.

Mike had always believed in a flexible business strategy that looks ahead five, even 10 years. Laurie first expressed an interest in joining her family's franchised business as a young teenager in 1989, when she needed a part-time job. Though she would take other career paths as the



Franchisee Mike Katz and his wife, Jana, balanced hard work with smart planning.



It never hurts to have a good relationship with your franchisor.

years went on, Mike's planning prepared him for the day when Laurie was finally ready to start her life as a franchisee.

(Mike and his wife Jana's willingness to communicate with Laurie and her younger brother, Matthew, should not be overlooked. They have always told their children that if they wished to join the family business, they would do everything in their power to make it possible. In turn, this openness has allowed their children to do long-term planning of their own.)

Part of being a mature franchisee is considering your succession and exit strategy with every business decision you make—in other words, taking the 'long view.' In 1994, the Katz's told David Spiegelman of their desire to someday sell Mike's McDonald's franchises to their children. As their family accountant, David's role was to provide guidance and help them develop a business model and tax plan to facilitate this still far-off goal.

Setting up a trust

David recommended the Katz's reorganize to allow for an estate freeze on the future value of their business. An estate freeze limits the growth of capital property you hold during your lifetime; any future growth in the capital property is transferred to your heirs. Under this new arrangement, one of McDonald's Canada's requirements was that Mike have 100 per cent of the voting shares and Jana and their children be recognized as nonvoting shareholders. Mike and Jana shared ownership of the operating company with their children through a 'family trust.' The children would be the trust's beneficiaries.

Remember: a trust is not a separate legal entity from the group or individuals who set it up. It is a device for holding

property or assets for the benefit of a specific person, group or organization, known as the beneficiary (in this case, Laurie and Matthew). The person creating a trust (Mike) is called the grantor, donor or settlor. When a trust is established, an individual or corporate entity is designated to oversee or manage the assets in the trust. This individual or entity is called a trustee (again, Mike).

The Katz's new business format, in operation by the mid-90s, allowed their business' future profits and assets to accumulate in the family trust, with dividends to be paid through it to the children. This helped Laurie and Matthew to accumulate funds in the most tax advantageous way, (a) because they were in a lower tax bracket than Mike, and (b) because he could maintain control of the assets and split the income with his children. The future trust also allowed Laurie to accumulate her own funds in her own name, providing her the equity with which to buy a location from her father.

The individual pension plan

David also made two recommendations that helped guarantee Mike and Jana's own position once retirement approached. First, he recommended Mike create an individual pension plan (IPP). Individual pension plans have become very popular with Canadian business owners because contributions made to them can legally exceed the maximum allowable contributions into a registered retirement savings plan (RRSP). Money placed in an IPP is deductible by the operating company and is a non-taxable benefit for the individual. Increases in the total value of the assets held in an IPP are tax-deferred until withdrawn. This means a business owner can save a great deal more money for his or her retirement in a tax-efficient way.

Universal life insurance

David's second suggestion was for Mike to purchase (through his new corporate structure) a corporate-owned universal life insurance (UL) policy. Universal life insurance allows for tax-sheltered growth within the policy. A corporate-owned

life insurance contract can tax shelter much of your retained earnings in the cash-value portion of the policy, provided the premiums are not deducted. You can access these funds for personal business use throughout your life by collateralizing the policy through loans from the policy or your bank. For example, as a retired business owner, you might borrow funds annually to increase your retirement cash flow.

When Mike and Jana put this tax minimizing structure in place, they made sure to provide the appropriate documentation and guarantee fees so as not to incur a personal benefit (which could have forced their family to pay a lot of unnecessary personal tax). Any related bank or policy loans will be repaid automatically upon Mike and Jana's deaths from a portion of the policy proceeds. A credit to the corporate capital dividend account (CDA) would be simultaneously created, equal to the full policy proceeds. Should Mike or Jana ever become disabled or critically ill, the corporate-owned UL insurance policy entitles them to the entire cash value without any requirement to repay the policy. Thus, a corporate-owned UL policy can provide the following benefits for a franchise owner who chooses to adopt it:

- Deductible corporate deposits;
- All personal deposits can be deductible over time;
- Large annual deductions provided each year against income for the rest of your life;
- Tax-free retirement (even tax-free death), with savings protected from your creditors; and
- The corporation or personal deduction creates an annual cash-on-cash return of approximately 60 per cent, in a plan on which taxes will never be paid.

The next generation

With Mike's future secured, he turned his attention to the succession challenge itself.

McDonald's Canada has more than 1,400 restaurants, 65 per cent of which are run by franchisees. Of that number, 15 per cent are next-generation owner/operators. According to Ash Vasdani, McDonald's national director of franchising, "The challenge for McDonald's Canada, like all businesses today, is finding candidates who will bring value to the brand we have worked so very hard to create and maintain over the last four decades. Our experience has demonstrated that today's and tomorrow's McDonald's franchisee must be competent in business management, marketing, relationship management and resource management."

To protect its brand, McDonald's holds the final say over who will be granted franchise rights. "Not everyone who wants to become a franchisee is allowed to become a franchisee," Vasdani explains. "It does not matter whether the candidate is family of a current franchisee or not." McDonald's fully supports family members of its franchisees becoming involved in the business. However, the franchisor must simply ensure a proper fit between the next generation and the McDonald's family. To this end, it has created a set of step-by-step guidelines for current franchisees and their successors, as follows:

1. All parties (in this case, Mike as parent, Laurie as would-be next-generation franchisee and McDonald's as franchisor) must be involved in all steps of the succession planning and transfer-of-ownership process.
2. The new family member must show an interest in and commitment to owning the business and have already worked in the business in a senior management position. The child must demonstrate his or her capability to work successfully in the business. McDonald's will help by establishing a training program for the next generation franchisee candidate.
3. McDonald's will still hold final approval for any transfer of ownership. The next-generation candidate must complete an application (like any other franchisee applicant). He or she must also have the financing in place to purchase the franchise. Once the applicant's training program is complete, the franchisor usually invites him or her to a panel interview, to be attended by McDonald's regional vice-president, the director of field services, the regional controller, national director of franchising and often, the department heads. The panel determines the child's suitability to take over the reins.

With her parent's foresight, the help of McDonald's training program and the Katz's trusted financial advisors, Laurie became the first third-generation McDonald's Canada franchisee. As one senior executive recounted, "Mike did everything right in preparing his business and his daughter to take over his franchise."

Of course, the value of this long-term planning is not limited to the quick-service industry. Franchisees of all stripes must consider the future and prepare for the day when their life's work must be passed along. If you see your children taking over in five, 10 or even 20 years, the time to start planning is now. **cbi**



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