

GOOD LIVING: FINANCIAL PLANNING FOR THE HEALTHY, WEALTHY AND WISE.

# Family synergy can build big business

Prudent planning helps guards against risk, disruption

**D**onato and David Carlone grew up with more in common than just their parents: they shared a passion for building; and when it was time for university, they both chose degrees in finance.

Donato Carlone, elder by six years, says, "For some reason, each time we saw an excavator or backhoe digging something, it excited us." And while building and finance may not seem to be closely linked, the Carlone brothers were about to change that.

After working in commercial lending for a number of years, Donato made David – who was graduating from university – a proposition he couldn't refuse. "We started with an old home right down the street, demolishing it to build our first multi-unit housing complex."

With commercial lending and finance acumen, the Carlones were able to create accurate cash flow analysis and sales projections, but they were to find they had other talents as well. "This is not a typical construction operation," says Donato. "At first, I sometimes wondered how I could be in construction without knowing how to pick up a hammer and nail things together. But we've found that it is actually worth much more to be able to find the best carpenters, brick layers and window installers than to be able to do that work ourselves."

Their first sale, in 1984, was \$150,000. Today, their company, Quebec-based Construction Citral and its subsidiaries average \$8 million to \$12 million in revenues annually.

From the beginning, the Carlones' partnership has been well-defined and synergistic. "I'm in the office, coordinating the plans and estimates; my brother is in the field, ensuring the quality of execution. We run a very tight operation. We have only two other employees on a permanent basis; everything else is sub-contracted," says Donato.

Entrepreneurialism is a Carlone family trait – Donato and David's father, Giuseppe Carlone, ran a small landscaping operation, and their first cousin owns a national chain of women's clothing stores.

"The thing I like about (being an entrepreneur)," says Donato, "is waking up in the morning knowing I'm the master of my own destiny. As a banker, I found I was choked by the corporate decision-making layers. Here, our decision-making process sometimes takes five minutes. If you're just a little bit creative, you can solve any problem. We've never looked back, not since 1984, and so far – knock on wood – we've



PHOTO: CHRISTINNE MUSCHI

**In 1984, brothers Donato and David Carlone of Montreal combined commercial lending, finance, project management and analytical skills to create Construction Citral. With a focus on quality first, the brothers have built a highly successful, multimillion-dollar operation that makes the most of their unique talents and the skills of talented subcontractors they hire to execute Construction Citral projects.**

never had an annual loss."

Successful entrepreneurialism, says Donato, begins with analyzing your personal strengths and passions. "A lot of people go into business to make money, so their first question is, 'What kind of business makes money?' That was our third or fourth consideration – our first concern was, 'How can we build something really great?'"

The difference between a great and a shoddy product, he notes, might be just a few hours of effort. The motivation required for those extra hours is the product of working within one's unique strengths. "It isn't just a matter of selling cars because you like cars – it has to be about more than superficial desires," he says. "Each and every one of us has the capacity to succeed if we tap into our inner strengths."

With children just reaching their teens, the Carlones are becoming ever more aware of another element of business success – succession and risk management. The essential question, says Brad Amlin, financial advisor and principal of Marlatt, a financial and estate planning firm in Oakville, is "What would happen in the event one of the business owners is unable to continue to earn an income?"

A wide range of products and strategies exist to ensure that a small business can continue or be sold for full value whatever the circumstances. "Life insurance can be owned and paid for by the business, ensuring that the heirs can maintain their current lifestyle and not be left with creditors knocking at the door," says Amlin. "What happens too often is that word gets out on

the street that a business is being put out for sale because of the death of the owner – so potential acquirers come in looking to pay a lesser value for the business."

The risk of being disabled by illness or accident is even

greater than of an untimely death. To ensure that the business or at least the owner's lifestyle can be maintained, says Amlin, "Small business owners can utilize a combination of disability insurance and critical illness

insurance. Disability insurance is particularly useful to replace income in a long-term situation, and critical illness insurance is a lump sum income replacement tool that is paid out on the diagnosis of a critical illness." ■

## Step 1: the buy-sell agreement

For family businesses or other partnerships, says financial advisor Brad Amlin, succession planning generally begins with a buy-sell agreement.

"Typically, in its simplest form, the agreement is written up so that if one partner predeceases the other, the surviving partner has first right of refusal to buy the shares of the deceased partner. If two brothers own a business, for example, in the event of the passing of one of the brothers, what often happens is that the shares automatically become the property of the spouse. She may not want to be in business – often, the spouse just wants to get fair value for their shares."

With a buy-sell agreement, life insurance is used to fund the purchase of the surviving spouse's shares. "Joe Smith owns insurance on Tim Smith, for example, and in the event that Joe dies, Tim Smith received the insurance benefit – and uses it to acquire the shares now owned by Joe's spouse."

## Know regulations in other provinces

For small business owners, variances in provincial jurisdictions can be challenging, says Catherine Swift, CEO of the Canadian Federation of Independent Business. "Things like employment standards, labour relations laws, tax regimes and provincial building standards are quite different from province to province."

Alberta and B.C. have successfully introduced the Trade, Investment and Labour Mobility Agreement, and the rest of the provinces are aiming for similar agreements to be enacted in 2009. "When Canada was negotiating trade agreements with the U.S. and Mexico, we found that there were often fewer barriers between other countries than between other provinces. This trend toward harmonization is very good for the independent business owner," says Swift.

Regulatory administration requirements also vary from province to province, she says. "The comment I hear most often from business owners is 'I knew I'd have to pay some taxes I wouldn't be happy about, but the thing that surprised me the most was how much time I spent filling out paper for government.'"

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