

Owner - Understanding

Planning for Succession

Key Points

- All business owners should have a plan in place for their business succession
- Insure your business value
- Optimise your business value and bridge the possible value gap that may exist at exit

You've grown your business gradually and now your mind turns to collecting your reward for your investment of capital, know-how, and years of effort. Achieving the most money for your business requires the same diligence it took to grow it. So how can you ensure you receive a return for your efforts? Effective Succession Planning is the key to growing and realising the value of your business as it is a strategic process that allows you to smoothly transition the ownership and/or management of your business.

Research shows that business value can be impacted by a number of issues, including:

1. Complacency of business owners in addressing succession;
2. Business owners often being unaware of all their succession options;
3. Generation Y lacking the aspiration to be a business owner;
4. Increased house prices restricting the funding options for successors.

All of the above can be addressed during the succession planning process, to maximise your business value.

Why is Succession Planning a key issue now?

Do you remember what you paid for petrol when you started in business? Maybe 38 cents a litre? Times change, markets change, and so does the business environment. Not long ago, business entry costs and competitive forces were lower. Business growth could be funded by borrowing against increasing house prices. Business success demands focus by you on the operation, but ultimately, issues of succession and retirement will creep up. By then, getting the price you need could be elusive.

The next generation of business owners, Generation Y, face a completely different business environment. Start-up and acquisition costs are higher, regulatory barriers are higher, and competition has increased. Rewards offered by international corporations seduce talented family successors resulting in reluctance to take over family businesses.

Business funding opportunities are also more limited in comparison. Bank are cautious when lending solely against a business, and when combined with increased home ownership costs seeing potential successors heavily mortgaged, funding options are limited. You're a business owner and you understand the driving forces behind competition, supply and demand. So when

- More businesses are for sale - lower prices result
- With fewer qualified buyers – it becomes a buyers' market
- In a buyers market – they can be selective and value driven

Thus it is important for you to insure you business value.

Who should plan for succession?

All business owners should have a plan in place for their Business Succession to assist in insuring business value. It is particularly important for:

- Business owners relying on a sale to fund retirement
- People for whom the business is their major source of income and wealth
- Family business with potential generational successors
- Business owners looking to sell on the open market

By planning for succession you are protecting the future value of your business. Smart operators plan years in advance to transition their business. The best time to start succession planning is when you buy your business but if you are already in business, the best time to start is now!



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The Effective Succession Planning solution!

Nothing succeeds like success, and success in Succession Planning is the key to maximising your business value. Steps involved in the Succession Planning process which can help you insure your business value include:

1. Identifying and eliminating the "Business Value Gap"
2. Enhancing workforce stability, staff commitment and productivity
3. Attracting buyers to a business with systems, processes, plans and records in place
4. Assess all transition options available

Do you know what your "Business Value Gap" is?

A "Business Value Gap" is the difference between the value of your business today and what you need it to be at retirement. A shortfall can have a significant impact and reassessment of your desired standard of living in retirement. Worst case - it can mean you can't afford to retire.

Retirement should be the best years of your life – the time for you to reap the rewards of your labour.

But do you know how many years it is until you can afford to retire? How about how long before you achieve the profit needed at retirement? You can calculate these by completing a Business Value Gap Survey. The steps in determining your "Business Value Gap" are:

1. Establish your planned years to retirement
2. Calculate the retirement asset you require
3. Determine the Gross Business Value that forms part of your retirement assets
4. Compare this to your current Gross Business Value
5. Realise your "Business Value Gap"

When you have established your "Business Value Gap" and know the number of years to retirement, you can work towards the achievement of the Business Sale Price you need.

The steps in achieving your sale price are:

1. Optimising your business value
2. Attracting a buyer
3. Selling on your terms

An example of how you can optimise your business value comes from understanding key drivers of value, profiled by a business that:

- Is not overly reliant on the owner
- Has loyal customers
- Incorporates innovative processes
- Meets and exceeds industry benchmarks
- Has effective, documented systems
- Has loyal and committed staff
- Has an effective succession plan in place

The above issues should be considered and included in the development of your Effective Succession Plan.

Where do I start?

The Effective Succession Planning process should involve:

1. existing business owners and likely successors
2. the business owner's family
3. employees such as managers and key staff
4. professional advisers.

Contact your Davidsons manager, or call Davidsons on (03) 5221 6399



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