

Article:

Succession Planning – Passing the Baton

What is Succession Planning?

Succession refers to the transfer of the ownership and/or management of a business. Ownership succession focuses on who will own the business, when and how that will happen. Management succession focuses on who will run the business, what changes will occur and when the new manager will be accountable for results.

Does your succession plan address the following?

- How the way you do business is changing and the events you need to control
- How the best time to start planning for your succession is when you buy or start your business
- How realising your optimum business value will become more difficult with many businesses for sale and less qualified, willing buyers
- How to realise future business value by ensuring a future buyer

If your business is your major source of income and wealth, you must do all that you can to protect its current and future value. Make sure you are in a position to control your succession. Succession planning tends not to become a priority until it is too late. Don't wait for something to happen - for example, ill health, a partnership dispute, relationship breakdown, major clients or staff leaving the firm.

Preparing a business succession plan requires you to write down your strategies, goals and objectives so they are not just thoughts.

Did you realise that there are 20 fundamental components that need to be considered when planning your succession?

Three major factors you will need to consider are:

1. Control;

Control

Effective Succession Planning allows you to self-assess your attitude to control. Your attitude to control strongly influences the outcomes of your business succession plan. For example, if you are not prepared to consider a change in ownership, selling will be your primary exit option. Effective Succession Planning also allows you to identify strategic events that you can and can't control. Strategic events can be divided into owner strategic events and other strategic events.

- Are you prepared to share financial information with key staff?
- Are you willing to appoint a board of advice?

Strategies to manage these events can be included in your succession plan.

Some examples of owner strategic events and strategies to manage them are included in the table below.

Owner Strategic Events	Succession Planning strategy
Change in ownership	A part sale to key staff
Change in lifestyle	Hire a personal trainer

Other strategic events are those events which you have no control over. For example, changes in government legislation or specific changes to your industry. Even though you have no control over such events, they can still directly affect your business succession.

Other Strategic Events	ESP Strategy
Loss of key staff	Introduce a staff incentive scheme with deferred bonuses
Change in lifestyle	Diversify business operations

Prevention is better than cure. Make sure your business succession plan includes ways to control or manage owner and other strategic events.



For more information Contact:-

Accountants and Financial Advisors
Advantage One (SA) Pty Ltd
ABN 37 055 284 494



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▶ Level 2, 276 Flinders St.
Adelaide SA 5000
▶ PO Box 55
Kent Town SA 5071
T. 08 8203 4800
F. 08 8203 4899
W. advantageone.com.au

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Financial Life Planning

Financial Life Planning is another integral component of Effective Succession Planning.

A financial life plan determines what your business is worth today and what it needs to be worth at retirement.

A financial life plan is particularly important when you are relying on the sale of your business to fund your retirement. A shortfall in business value at retirement will greatly affect your desired standard of living. The worst case scenario would be that you may not be able to afford to retire.

You can calculate your Business Value Gap by working through the following steps:

- Step 1: Determine Retirement Income
- Step 2: Determine Retirement Assets
- Step 3: Calculate Business Sale Price
- Step 4: Calculate Business Value Gap

Case Study

Tom has estimated that he will need a retirement income of \$65,000 to provide his current standard of living in retirement. To produce this level of retirement income, Tom calculated that he will need Income Earning Retirement Assets of \$1,083,000.

As at today's date, his personal and investment assets total \$350,000 and his business is valued at \$395,000. His business value gap is therefore \$338,000.

Tom's business succession plan includes strategies to grow his business prior to selling.

You may need to grow your business before you go. By maximising the value of your business, you will be in a far better position to choose among the many different exit options.

Effective Succession Planning also allows you to be in a position to make an informed choice about your exit, not having that choice imposed on you. Choosing the right exit option for your business is a crucial part of the succession planning process.

Exit Options

Can you list all of the different exit strategies available for you to exit your business?

When determining your exit strategy it is important to consider your life balance goals as your life balance position will influence your choice of exit option.

Current Life Balance Position	→	Business Exit Option
Enjoying life while running your business	→	No immediate sale
Want to do other things but retain control	→	Part sale to family/staff
High business dissatisfaction, stressed	→	Sale of business

Ensure that you are aware of all alternatives and the benefits available from each before deciding on your exit strategy. Succession does not just mean selling your business.

By assessing all options you will know that the decision you make is the right one for you and your business.

The best thing to do NOW is start planning your succession. To get you started, consider if the following are important to you and your succession.

1. Owner – evolve your business with greater control over future events
2. Transition – understanding that growth may be required to meet sale price expectations and that customers and staff strongly influence succession outcomes
3. Succession – managing risk events and maximising succession opportunities
4. Selling – realising optimal business value with many buyers

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