360°

UNDER DISCUSSION: Why are succession plans and exit strategies important?

Martin Checketts

In my experience, from an intellectual perspective, most business owners absolutely understand the benefit of exit planning and the need to take steps now to maximise value on sale. The logic behind this is obvious.

However, the problem with business succession planning is that it is a bit like writing a will. Everyone knows that they need to do it, but it can be difficult and painful to confront what the future may hold. Combine this with the fact that there is always something more immediate and pressing to do, and the path of least resistance is simply to plough on with day-to-day business issues.

The failure to implement a business succession plan is therefore often emotionally, not logically, driven.

It requires an upfront investment of time and money for a return that only comes later down the track (and in some cases, many years down the track).

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It is therefore no wonder that many business owners make the right noises about succession planning but then change their mind or procrastinate.

The challenge to all business owners is to put together a good exit strategy and then make sure they are kept accountable to implement it – an external consultant can often help with the 'accountability' factor.

Martin Checketts is a partner at Mills Oakley Lawyers.

Michael McDonald

Succession plans and exit strategies are undervalued for a variety of reasons, most of which reflect a fundamental misconception of the process.

One of the main problems is that people often focus on involuntary succession planning – such as the death of a partner – inadvertently overlooking the more common business succession that occurs with the development, growth or sale of a business.

"Importantly, succession plans are also likely to increase the value of the business upon sale."

One of the primary benefits of an articulated succession plan is that it puts into place mechanisms for resolving disputes that can arise during the exit of a person from a business. This might include, for example:

- a means of valuing shares;
- clear expectations around payment timeframes;
- controls around third-party involvement (eg right to sell shares to non-shareholders); and
- processes in cases of involuntary succession.

Importantly, succession plans are also likely to increase the value of the business upon sale. A practical succession plan ensures that a business remains sustainable even upon the departure of key personnel, making it much more attractive to potential investors.

Michael McDonald is the managing partner at mdp McDonald Partners.

Andrew Graham

Business owners are generally more concerned about the day-to-day running of their business rather than planning for the future. Particularly in an uncertain economic environment, owners are more focused on things like cash flow – otherwise there may *be* no long term.

During the wealth creation stage of a business, other priorities dominate and retirement seems a long way off. However, business owners should be transitioning to the next phase of the business life cycle earlier. This involves preparing for retirement, making appropriate superannuation contributions and planning for the business sale or succession early enough.

"The impact of poor succession and exit planning can be substantial in terms of tax, administrative costs, relationships and stress."

One of the most important reasons business owners need to have succession and exit plans is to maximise the sale value of their business and income for retirement. They often have limited time to accumulate sufficient funds for retirement during their working career because so much capital is reinvested in the business.

The impact of poor succession and exit planning can be substantial in terms of tax, administrative costs, relationships and stress. Business owners who opt for a well-planned succession and exit enjoy greater financial and personal benefits.

Andrew Graham is national head of business solutions at RSM Bird Cameron International.

Phil D'Rozario

Succession plans and exit strategies are vastly undervalued, often due to the shape that the business is in prior to an exit strategy being contemplated and also because there hasn't been a long-term plan implemented that prepares the business for this change.

"A succession plan should prepare the business, staff and stakeholders and allow plenty of time to encourage a positive transition."

When presenting a business to a prospective buyer, there are a number of things to consider. Does the business have proper infrastructure and foundations? Is it compatible or complementary to interested parties' existing business, skills and expertise? How important is it for the exiting key person to remain while the transition occurs? How do you reassure staff and clients that this is a positive change?

When considering risk management, such things as run-off cover insurance when selling an accounting practice, for example, are critical to ensure you are not exposed personally post the sale of the practice. Buy/sell agreements should clearly demonstrate what is being bought in terms of the assets and liabilities, and proper insurances arranged where required to avoid any exposure or gaps in cover.

A succession plan should prepare the business, staff and stakeholders and allow plenty of time to encourage a positive transition.

Phil D'Rozario is the managing director at AXS Insurance.

Ron Dolan

Many organisation leaders underestimate the importance of both strategies in building and/or retaining the confidence and trust of the organisation's various stakeholders, including investors and employees. In times of transition, maintaining the confidence and trust of stakeholders is a key factor in reducing the organisation's vulnerability.

Vulnerability in either of these circumstances could create challenging trading conditions, potentially resulting in the risk of a reduced share or exit price.

Reducing this risk can be effectively managed by developing and regularly reviewing the succession/exit strategies and making timely adjustments as required. Just as annual budgets and forecasts are reviewed regularly, succession and/or exit planning reviews could be subjected to a similar process to reduce potential future risk.

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In family-owned businesses, effective succession planning can minimise the potential risk of business, tax and estate-related issues. Similarly, an effective exit strategy can potentially increase the number of buyers/investors, allow the timely development of a successor/s, optimise the sale price and allow the timing of the exit.

Ron Dolan is CEO and founder of Pendulum Pathways.

Andrew Griffiths

The sad reality here is that we don't always get the chance to decide exactly when we will leave our business.

Sometimes, through no fault of our own, such as sickness or the end of a relationship, we can find ourselves realising that the time has come to move on. If we don't have a good plan in place, we have to make one up on the fly. Or even worse, someone else may end up making the decisions for you.

"Just as it is extremely foolish to go through life without a will and power of attorney, it is equally foolish not having a succession plan or exit strategy."

One big consideration regarding exiting the business is working out how whoever is left behind will pay for your share. If the business will be sold to family, you may need to finance them, and this needs to be factored into your retirement plans.

Likewise, deciding that it is time to sell the business doesn't mean that it will sell immediately or that you will get the price you are asking. So while we need a plan, we need to be realistic about the outcomes.

Just as it is extremely foolish to go through life without a will and power of attorney, it is equally foolish not having a succession plan or exit strategy.

A business that has been built over a lifetime can fall apart in a matter of weeks if there is no succession plan or exit strategy for the key people involved.

Andrew Griffiths is a best-selling author, adviser and presenter on small business and entrepreneurialism.