

Illawarra Small Business Assistance

HELPFUL HINT – BUSINESS SUCCESSION PLANNING

Succession planning involves transfer of management and/or control of a business. It quite clearly involves the process of ownership succession and management succession.

Inevitably, the small business owner is responsible for all the fundamental aspects of managing the business. This includes:

- Significant involvement in sales and sales promotion and development
- Innovation and design as well as product and service development
- Pricing, margins, profitability and cash flow
- Customer service standards and relationship development
- Ultimately responsible for administration, accounting and control of finances
- Hiring (and firing) and motivation of employees and dealing with all employee problems and issues

In order to step back from the business, the owner needs to be able to reduce involvement. The tasks associated with each of the abovementioned responsibilities need to be prioritised and a clear decision made as to which can most beneficially be taken over by others and by when.

A well developed succession strategy allows for the continuity and future success of the business. It enables some specific measures and controls to be taken over the future course and conduct of the business. It should enable the owner to exit the business easily and with an appropriate level of capital such that it will not weaken the capacity of the business to provide for future needs. This is important regardless of whether it is decided to sell the business outright or, or to retain some equity and continue to receive a proportionate share of profits after withdrawing from a position of control and influence.

A succession process that is simply allowed to grow haphazardly without focus and clear intent is far less likely to succeed than one that is planned well in advance. Planning for life after business or for any major change in lifestyle always involves some risk taking (because it involves uncertainty) but a well thought through succession strategy should identify and mitigate most risks and provide confidence for the future.

What are some of the benefits of planning for succession?

- Enable the owner to plan for a build-up of equity interest in the business
- Assist the owner to attract and retain quality staff who are committed to the future success of the business
- Enable authority, decision making and accountability to be clarified
- Underpin the health and viability of the business
- Develop a healthy internal climate that breeds goodwill with clients
- Build a structure that can manage effectively without dependence on the owner
- Ensure a smooth transition with a low probability of risk

What needs to be done to prepare for a good succession plan?

The reality is that many small businesses will never be sold to another owner. They are just too small and have low revenue and profits. In many cases they are also too dependent on the current owner for their continuation.

However, with an understanding of what the business is currently worth and with a clear insight into what needs to be done matched with capacity to develop the business in terms of people and profits it can be possible to grow equity and profitability to a level that will ultimately justify a premium.

First and foremost there must be a strong and robust business model underpinned by a clear vision and mission.

The business plan must be well researched and realistically based. It needs to clearly reflect the viability of the business and demonstrate that it will be sustainable in the face of competition and market volatility.

The business model should also be capable of being strengthened so as to enable profit and equity to be built-up during the transition phase

What are some of the basic essentials in planning for succession?

Determine:

- *The owner's time horizon for exit from the business*
- *The process that identifies who will own the business*
- *When and how that process will take place*
- *Who will manage the business during and after*
- *What changes need to occur to make it happen*
- *Who will be accountable for the process*
- *How will the process and the results be monitored and measured*

What and Who should the Succession Plan focus on?

- How to gradually make yourself redundant. Plan for continuity. This will necessitate delegation of adequate authority to allow other to make decisions.
- Identify those with skills and capacity for succession – those with a commitment and who are ready and capable to make the transition.
- Determine who will be involved in the determination of your planning whether it be a short list of one or two or indeed a group of executives.
- If recruitment from outside is deemed appropriate ensure the person is well integrated into the culture of the business and in the process gains the trust and confidence of the team.
- Good internal succession outcomes start with well thought out recruiting strategies. Identify the talent and invest well in those people. Making sure that there is an adequate training period built in to the succession process is vital.
- Don't focus your efforts on building another you – look closely at the skills, attributes and capacity needed for the future. However, your successor should share a commitment to the values and ideals that clients have come to expect.
- Negotiation of an acceptable package of rewards and incentives – one that gets the balance just right - will be one of the most challenging components of the planning process.
- Ensure that business relationships and alliances are nurtured and strengthened with a gradual introduction and “bleeding” of your successor.

What about a fallback strategy?

As with any planning, it is essential to have a contingency plan in place in case things don't work out and your intended successor declines to follow through for whatever reason. Similarly, you also need to be conscious that difficulties and conflict may occur particularly if jealousy raises its ugly head amongst key team members. All such staff issues and any other potential barriers need to be well thought through and planned for.

What about the bigger financial picture?

Planning your departure from the business needs to be well constructed financially particularly if you see the sale of the business as a major funding component of your retirement. Careful consideration of personal financial issues including taxation and estate planning will require the early involvement of your accountant and/or licensed financial adviser. You may also benefit from the counsel of a recognised practitioner in succession management.

DISCLAIMER

This information is provided on the understanding that it is intended as a guide only and on the basis that the recipient will seek the advice and counsel of an appropriately qualified accountant and/or licensed financial adviser to address and meet the specific needs and situations that apply to the recipient.

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