

Business succession planning

Are you prepared for the future?

Some of you would have already noticed that our letterhead and business cards promote the area of business succession amongst the other related areas. Some have also asked and wondered, 'what does an insolvency firm know about business succession?'

Unfortunately, we see too many businesses reach a premature end to their commercial life. They come to us to close the business down (wind-up) whether voluntarily or under adverse circumstances. If we had encountered these businesses earlier in their business development and planning phase, they could have been saved. We may have been able to ensure the survival and growth of the business or a transfer of ownership that would have left both the incumbent and successor both winners, and to that matter other stakeholders like creditors and employees also benefit.

de Vries Tayeh is concerned about the scale of the issue surrounding small businesses and succession planning currently and in the future. We constantly see the results of poor succession planning or poorly managed succession planning.

Business succession is an international phenomenon and what the rest of the western world is experiencing is mirrored within Australia. As we move from the generation of baby boomers to the X and then Y generations the Australian economy is mirroring the (developed) world wide phenomenon of small businesses facing the transfer-of-ownership (succession planning) issue. Business founders are attempting to resolve what to do with their businesses, and for that matter themselves. Some of the options available to be considered are:

- Retain family ownership and management control; or
- Retain ownership but hire outside management; or
- Sell to an external party or employee; or
- Close the business down.

de Vries Tayeh endeavours to assist small businesses through their valued and trusted advisers to not only survive the succession planning phase but grow and prosper. They usually emerge stronger and intact or alternatively realize the wealth that has been the life-blood of a family and the life of its incumbent patriarch/matriarch.

From our experience Business Succession Planning is the single most important aspect of a business which goes unattended. This results in a less than optimal outcome for a business. The reasons for this are many and varied. However, the following reasons are ones that we have gleaned from our past experiences and from the surveys undertaken across a number of areas, industries and in particular professionals and businesses.

Generally, family businesses that survive the transfer of ownership phase require a sound understanding of their business and a good understanding of their family. There are a number of reasons why businesses fail to transfer the business successfully from one generation to another or from exiting the business. They are usually one or more of the following:

1. There is a genuine lack of viability of the business;
2. There is little or lack of planning of the business and of succession planning;
3. There is little desire on the owner's part to transfer the business;
4. There is a reluctance of the next generation to join the family business;

5. The owner has been reluctant to come to terms with their own mortality;
6. The owner has not seen the value nor the importance of business succession plan and as a consequence have neither devoted precious time nor funds to business succession plan;
7. The owner's advisors have not been an effective catalyst for the business's succession plan.
8. The business is poorly structured and may heavily rely on the owner for its continued viability.

Of the reasons above, invariably one reason, 'the lack of planning', is a common thread woven through every example that we have observed or surveyed.

From our survey results and experience we believe that independent professionals MUST collaborate effectively in order to deliver SUPERIOR results to clients. We call this a MULTIDISCIPLINARY approach rather than a ONE STOP shopping model offered by many professional firms. This approach acknowledges and fosters awareness of the sensitivities that exist in this area in respect to:

1. the prospective clients; and
2. the prospective client's professional advisors.

This approach is cognisant of the important relationships that exist between the client and the client's professional advisor(s).

A variety of skill sets is necessary to design a comprehensive and integrated business succession plan. We believe that NO single professional advisor has all the expertise required, and business succession is a multidisciplinary endeavour. The best succession plans are developed by a team that may include a combination of the following depending on the needs and complexities of the particular matter:

- a solicitor with commercial experience (mergers and acquisitions experience);
- a financial planner;
- a tax specialist with experience in and up-to-date knowledge in personal and business tax issues;
- an insurance professional;
- a business consultant
- an investment banking firm or access to equity funding
- a family counselor/psychologist;
- a 'life' coach;
- real estate agent/broker

Just when one should commence a business succession plan is a vexed issue. One school of thought believes it is when the business has passed the development phase and is in the consolidation phase. Others stress the importance that it should be at the forefront of any business plan, especially when the owners are looking at moving on in five years time. But what is essential is that significant thought, attention and guidance is given and sought earlier rather than later. A well structured exit strategy will assist you and your business to move on to your respective prosperous futures. Finding the time, finding the inclination and admitting to oneself that there is a finite time for your life is critical for the commencement of such a plan. Remember succession planning takes time to implement.

Given the serious and widespread nature of a maturing population, de Vries Tayeh is here to assist you and your clients on this very important journey. Raise the issue today and avoid the trap of putting it off till next week, as we all know that next week will be as busy this week. Let us know if you would like any further information on this unavoidable topic.

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