

Succession Planning in the Family & Private Business

By Lucio E. Dana & Harry Kras

Family business owners work long and hard and deserve to enjoy the fruits of their labours. But when it comes time to retire or move on to something else, what have they got to show for it? In this article, succession planners Lucio Dana & Harry Kras explore how you can ensure you have a financially secure and enjoyable retirement.

Not if but when

Where will your business be in 5-10 years, or when you decide to spend your time doing something else? Exiting the business is not a question of if but when, and you can benefit from forward planning. Business owner-managers considering exiting their business have two options: transfer (continuity of the business) or termination (cessation of the business).

If you choose to transfer the business, you can:

- Transfer to co-owners or unrelated partners – a 'buy-sell agreement' makes it easier
- Transfer to related parties (usually family members) – succession planning is needed
- Transfer to staff (usually long term employees with the ability and financial resources) – consider the implications
- Transfer to third parties – making the business 'sale ready' is critical

Which of the above four options is most likely to apply to your business when the time comes for you to consider making an exit?

The main reason for exploring exit options and undertaking business continuity planning is maximising the realisable value of the business and providing business owners with some peace of mind. This applies whether the business is sold to third parties, partners or employees, or taken on by willing and able family members.

Main benefits of continuity and succession planning

- Increase the economic value of the business and provide owners with considered exit options and strategies.
- Safeguard the long term health of the business and revitalise strategy
- Identify, prepare and install successor(s) and map out other family members' roles
- Protect and reward loyal employees and perpetuate employment opportunities
- Provide financial security for founders and their spouses in retirement
- Make the most of family assets, preserve wealth, give opportunities to children by passing on rewards of ownership

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Pocket Summary



Planning for Succession

Do you have potential successors who are both willing and able?

To have a successful succession, you must ensure that there are willing and able successors to take over the business based on agreed timetables and conditions. Transferring the business to successors is about creating a shared vision for the future of the business and working co-operatively during the transition period to achieve results that meet the parties' expectations. Simply, it is about creating a 'win-win' strategy based on a genuine partnership.

What do I do?

Take a few minutes and write a page in answer to each of these questions:

- What do I want for myself?
- What do I want for my family? What does my family want?
- What do I want for my business?

- If selling the business is the main option, then there are several questions to consider:
 - Is your business your superannuation? Where will your financial security in retirement come from?
 - Do you know what your business is worth? Try 'buying' it and you'll find out.
 - What creates value in your business?
 - Who would buy it and would they pay a premium price?
 - What future value would they see in the business?
 - Do you know how to make your business 'sale ready' to maximise its value?
 - Would your business pass a due diligence process?
 - Do you propose to get professional advice?
 - Have you implemented risk management/contingency planning measures?
 - What will you do following the sale? What does your 'future diary' look like?

Transferring a business can be accomplished more effectively if you fully understand the process and have planned it well in advance. Planning the transition process not only maximises the sale price, but also increases the likelihood that you can make a timely and graceful exit. It enables you to feel in control because you have a clearer idea of where you are going and how you propose to get there.

For more information, speak to a professional adviser or visit the Family Business Resource Centre on www.fbrc.com.au.

**This article by Lucio Dana & Harry Kras is for general information only and should not be relied on as, or in substitution for, professional advice.*

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