

A Succession Plan – do you have one?

By Bruce Auld, Director, Bentleys

What is Succession Planning?

Succession refers to the transfer of partnership and/or management of a business. There are two types of succession: *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.

Effective Succession Planning is the key to protecting, growing and realising the maximum value for your business. It is a strategic process that allows you to smoothly transition the ownership and/or management of your business.

The process involves:

- The transfer of managerial control
- The transfer of assets and ownership
- Transfer of occupation
- Grooming of children as potential successors
- Planning and managing the entry and exit of family members
- Wealth preservation and ensuring the continuity of the business

The succession process is more than drafting wills, preparing buy/sell agreements or being engaged in valuations and due diligence. The process may take up to several years to complete.

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 succession.

Succession planning tends not to become a priority until it is too late. Don't wait for something to happen – e.g. ill health, a partnership dispute, relationship breakdown, major clients or staff leaving the organisation – before you take the necessary steps.

Why is succession planning important?

Do you remember what you paid for petrol when you started your business? Maybe 39 cents a litre? Times change, markets change and so does the business environment. Not long ago, business entry costs and competitive forces were lower and business growth could be funded by borrowing against increasing house prices.

In today's competitive and rapidly changing environment however, it's not enough to rely on existing assets and know-how. Just to stay afloat, you will focus all your attention on the operation.

And while your “eye is on the ball”, issues of succession and retirement will creep up. By then, getting the price you need to transition out of your business could be elusive.

Consider also, that over half of the small business owners in Australia are expected to retire in the next decade. As these “baby boomers” move closer to retirement, an increasing number of businesses will be placed on the market. Although many of these businesses are family owned, there is declining interest in families of business owners to take on the enterprise. So, sale of the business will be the only option for many.



For those that do “pass the baton” to a family member, the next generation of business owners, Generation Y, face a completely different business environment. Start up and acquisition costs are higher, regulatory barriers are higher and competition has increased. Business funding opportunities are also more limited in comparison. Thought needs to be given now to the challenges ahead in the future.

As a business owner you understand the driving forces behind competition, supply and demand. So it is common sense that:

- When more businesses are for sale – lower sale prices are achieved;
- When there are fewer qualified buyers – it becomes a Buyer’s market; and
- In a Buyer’s market – they can be selective and value driven.

All of which are very good reasons to start your succession planning now.

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