



FINANCIAL PLANNING

Why exit strategies should not be neglected

Small business owners need to consider succession at start-up, writes Richard Shrapnel

THE bubble of the baby boomer generation pushing towards retirement and exiting businesses will only continue. What is unclear is when the bottleneck will tighten to the extent that exit becomes problematic and business values decline.

Certainly those who leave the planning and execution of their exit strategy to the last moment may find themselves with nowhere to sit when the music stops.

For these reasons, succession planning continues to be a topical subject. According to the MGI Family and Private Business Survey 2006 from RMIT University, 97 per cent of all Australian businesses are classified as small business. The average age of the owners is 55 and 81 per cent intend to retire within the next 10 years; 75 per cent of these have no exit strategy.

But succession can be a deceptive term and can have many different meanings, often depending on the circumstances in which an individual finds themselves.

A better term may be business evolution, a process enabling the compounding of wealth from generation to generation while ensuring family unity, individual growth and a sense of contribution.

Having a clear definition of what succession means in your individual circumstances is important in achieving a successful outcome. If you don't know where you intend to go, then how do you expect to get there? Before you even start the succession planning process, you need to dig behind the motives driving succession, identify the final goals, then assess their varying levels of importance.

These may be maximising the capital of the business and the sum that is withdrawn on retirement, providing for the continuity of the

business to ensure ongoing employment of staff and servicing of clients or working out a plan for equitable distribution of wealth to ensure family unity.

A goal may be to provide sufficient income to fund your retirement or to enable your continuing involvement in the business post-retirement at a reduced level; many people find it extremely difficult to go cold turkey from a business they have built.

Your goal simply may be to cap off a successful career and lifetime contribution to your industry or initiate a lasting legacy through contribution to society, often in a way that is not publicly recognised.

Ideally your plan should crystallise individual wealth built through a lifetime of work and provide for the business transfer and continuing growth to succeeding generations or new owners.

Your individual starting point in the business evolution process is one of identifying and writing down what it means to you.

There are three questions you should answer: what are the goals you seek to achieve; why are they important to you; and what outcome or result must be achieved?

For example, the goal may be to sell your business at a fair value. The compelling reason may be to realise capital value and provide for staff and customers. The outcome sought may be a full business sale-transfer by 2011.

You may want to retire with a total wealth of \$2.5 million and an annual income of \$150,000. Why? To enjoy the retirement life you have always dreamed about and to provide for your family. How do you want to achieve this? By liquidating your assets and retiring all debt by 2012 with an income stream established.

The next step is to plan the evolution process.

You need to work out your goals and outcomes, and what you hope to achieve from the process.

If there are family members in the business, then careful consideration must be given to their place and role.

Many successful businesses fall apart because family issues were not thoughtfully managed.

Take stock of where the business wealth is held and by whom. Is there any realisable capital value in the business, how can it be maximised and how will continuity of the business be achieved? Many people also forget to take into account the importance of their legacy or the footprint they have had in their industry in particular and the community in general.

The succession problems encountered by businesses are accentuated in smaller businesses, particularly those that have been built by a single person or family. It can take three or more years to ready a business for transfer and, in reality, succession planning should begin the day the business is opened.

Carving up a family business to everyone's satisfaction is a common problem for many small businesses when the owners decide to retire. John and David, for example, had a small printing business that had supported both their families well and three out of their combined five children now work in it. Succession had been on their minds for a while.

Although it had taken them almost a year to work out what they wanted to do, they had developed a plan that was about to be finalised. During the past five years, they had sold off one part of the business that didn't really fit and purchased the business of one of their competitors.

Those moves proved the best decisions they had made.

They funded their retirement and worked out a split of the business that would see a further sale and the hiving off of another part of the business. The result was that two children would continue to run a manageable part of the business that they could build, and the other three children would receive an equitable sum that they could do with as they wished. Importantly, John, David and their spouses had more than sufficient capital to enjoy their retirement.

Finally, don't just assume your business is worth a particular

amount and that someone will be willing to pay it.

Capital value must be earned and will be assessed against market returns from alternative businesses and opportunities.

Value is not built overnight and, as with anything enduring and worthwhile, will grow only through the compounding benefit of continuous, focused effort. If you start today, you will benefit tomorrow.

Richard Shrapnel is the director of strategy and organisation at Pitcher Partners.

AT A GLANCE

THE bottleneck of retiring baby boomers will depress business values, making succession planning vital.

MOST small businesses don't have a succession plan.

IDENTIFY your goals and rank their importance.

MANY people forget to account for the value of their legacy in their industry and community.



Illustration: Igor Saktor