



Grant Thornton

An instinct for growth™

# Succession planning: assessing your current state



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# When do I need a succession plan?

When it comes to a business strategy that's as important as succession planning, you can't afford to leave things to chance.

A business is an investment capable of delivering significant benefits. A solid succession plan can increase the value of the business, and help owners become agile enough to contemplate a sale or a smooth exit on the best possible terms any time an opportunity arises. It can also provide for the best interests of other shareholders or family members in a responsible way.

Many private business owners are reluctant to invest in a succession plan they feel they won't need for many years; conversely, succession plans provide the business with a greater likelihood of survival and ensure a better financial return for the owner. Without an effective plan, the future of the business may be put in jeopardy, or the owner may suffer adverse tax consequences.

## **It's simply good business practice.**

Having an effective succession plan in place can:

- help maximise the value of the company
- improve profitability and the sale price
- help you analyse strengths, weaknesses and threats
- help you plan for unexpected events and adjust to changing circumstances
- enable you to transition the business on your terms not someone else's
- provide a strong blueprint comprising clear options and choices

Although succession planning can be simply defined as the process of transferring the control and ownership of a business, developing and executing a succession plan is not nearly so simple. As a business owner, you need to answer some hard questions ...



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# What are the most important issues affecting your business?

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Here are some questions to consider. Take a few moments to write down your answers.

1

What would happen if your personal circumstances changed and you wanted to (or needed to) exit your business?

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2

What would happen to your business if you passed away suddenly?

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3

How much continuing involvement do you want in the business, and for how long?

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4

How do you want to leave the business, and how do you want it to continue? Is continuing a particular legacy important to you?

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5

Do you see any family members taking an equity interest in the business in the future and are they capable of taking over?

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6

If you were to consider selling, who do you see as a potential buyer for the business? Is there someone in your management team who can buy you out?

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7

Would you consider outside investment to enable you to take a step back from the business and/or free up some of your time and capital?

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8

What do you think is the real worth of your business? Would you pay this price if you were buying the business?

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9

What planning processes do you have in the business and who is involved in these?

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10

What personal values will impact your succession choices?

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# Your succession status: are you on track?

To give you some insight into where you are in terms of your own succession planning journey, we have developed the following questionnaire; it should take approximately 10 minutes to complete.

Add the corresponding points to yes, no or don't know answers next to each question. Refer to p8 to see how your grand total score currently rates.

The likely suitors		Yes (2 points)	No (1 point)	Don't know (0 points)
1	Have you identified likely purchasers of your business?			
2	Are you building relationships with likely purchasers of your business?			
3	Do those purchasers need assistance with funding?			
4	If you sold the business to family members, employees, or other close relationships, would it affect those relationships?			
Total				

Exploring your industry		Yes (2 points)	No (1 point)	Don't know (0 points)
1	Is your industry subject to potential dramatic change in the next five years?			
2	Are changes in population mix and impending regulation changes likely to affect your business?			
3	Are you expecting your key customers and/or suppliers to experience their own business succession in the short term?			
4	Are there larger businesses buying up and consolidating businesses of your type at present, or, is this happening in your industry overseas?			
Total				

The big picture		Yes (2 points)	No (1 point)	Don't know (0 points)
1	Have you considered your succession completion date (ie, the date you will be out of your business with it transferred to new ownership)?			
2	Do you have a written succession plan?			
3	Do you know what succession options are available to you?			
4	Have you ranked these in order of likelihood?			
5	Do you know the processes involved in transferring your business to new ownership?			
6	Have you dared to dream what your ideal post-business scenario would be? Have you written this down?			
7	Is the continuity of the business important to you?			
8	Do you have another business partner(s) who needs to be involved in your succession plan?			
9	If need be, would you be prepared to continue working in the business post sale?			
10	Are your current business advisors in tune with the business succession process?			
Total				



All about the dollars		Yes (2 points)	No (1 point)	Don't know (0 points)
1	Do you have a current indicative valuation of your business?			
2	Do you believe that the business goodwill has any value, if you are not working in the business on a daily basis?			
3	Do you know what your goodwill consists of (ie, reputation, branding, existing contracts)?			
4	Do you fully understand the value drivers of your business?			
5	Are your personal financial affairs and assets separate from your business?			
6	Is your remuneration from the business totally transparent, or is it received in various forms including non cash benefits?			
7	Have you reviewed your wealth management, trust and estate planning needs in the last 12 months?			
8	Is your business currently funded by personal or external debt?			
9	Are other family members' current income streams dependent on the business?			
10	Are you primarily dependent on the maximisation of value from your business to fund your post succession lifestyle?			
11	Do you understand the various taxation outcomes that might arise on sale of your business?			
12	Are your banking arrangements efficient and cost effective?			
Total				





Getting your house in order		Yes (2 points)	No (1 point)	Don't know (0 points)
1	Are you taking regular holidays from your work?			
2	Can you completely leave your business and have it run without you, resulting in no worse financial position for two months, four months, six months?			
3	Are you satisfied with the current performance of your business?			
4	Are your business's regulatory requirements fully up-to-date?			
5	Are there any warranties, contingencies or commitments currently outstanding in your business?			
6	Are leases and major supplier/customer contracts assignable?			
7	Is your business adequately protected with shareholder, key man and other insurance policies?			
8	Do you have detailed systems in place to operate your business, instead of this information being held mainly by the people in your business?			
9	Are all your customer, supplier and contacts databases up-to-date?			
10	If you are not in the business tomorrow, would certain skills be missing?			
11	Are there weaknesses in the organisational structure of your business or in the roles of each employee?			
12	Do you have commitments to your employees regarding the future of your business?			
13	Do you have annual financial statements for your business, prepared in accordance with generally accepted accounting practice, for the past five years?			
14	Are business plans, strategic plans, financial budgets, cash flow forecasts, breakeven analysis and asset replacement plans readily available to showcase your business?			
15	Do you expect to see an increase in business succession within your industry in the short term?			
Total				



## How did you score?

**73 - 94**

### Succession savvy

You appear to be well aware of the topic and the issues, and familiar with the process in setting succession planning goals. You will most likely have developed a preferred blueprint and the structures in place for going forward. If you continue to be proactive and engage your advisors where needed, you are likely to achieve a successful succession result.

Always be sure to regularly review your plans as your personal and business circumstances change.

**48 - 72**

### Succession aware

You appear to have started thinking about the succession issue and about your long term goals. The earlier you articulate your strategic vision the better it is for your business value. You could benefit from a more formalised process to align your personal and business objectives.

**0 - 47**

### Succession challenged

When it comes to something as important as succession planning, you can't afford to leave this to chance. You need to start investing time in thinking about succession now so that you are in a position to transition on your terms.

Remember this is a guide only. We recommend that you complete this in consultation with a trusted and experienced business advisor. When it comes to something as important as succession planning, you can't afford to leave things to chance.

# How do I start my succession plan?

To get a handle on the complexities associated with succession planning, it helps to start by taking one step at a time.

## 1 Personal agenda

By completing the questionnaire in the ‘Your succession status’ section of this workbook (p4), you’ve already taken a step in the right direction. Few business owners allow themselves this luxury, but it’s critical to establish a personal agenda and identify catalysts for change. You need to honestly consider things like:

- your personal ambitions
- how long you would like to stay active in your business
- if your personal aspirations are aligned with the objectives of your business
- your appetite for risk and how it’s aligned with your company’s strategic direction
- the underlying challenges your business faces and if these challenges require capital
- if your management team is capable of operating and growing the company.

## 2 Collect and analyse information

This step involves you and/or your advisors conducting a series of confidential interviews with business owners, key management and/or family members to uncover both your immediate and long-term objectives.

From an operational perspective, this allows you to identify potential obstacles to your intended succession plan and put processes in place to resolve them. From a personal perspective, it ensures that current wills, shareholder agreements and financial resources reflect your aims. This phase also affords you the opportunity to uncover the factors that truly underpin your business philosophy, family relationships and personal concerns.

## 3 Assess strategic and wealth enhancement opportunities

This involves brainstorming a range of potential solutions with your advisors which will address your succession planning goals. Through strategic planning sessions with your key personnel and/or the creation of a family council, you can solicit input from all your stakeholders to ensure your plans take everyone’s varying needs into account.

You can also consider opportunities to improve the value of the business over the short, medium and long terms by identifying the actions you can take to improve cash flow and reduce perceived or actual business risk.

## 4 Design, develop and implement your plan

Here is where process becomes invaluable. Many strategic plans, business models and succession plans never make it from concept to reality.

Once you have considered the various options, you should have the information you need to begin plotting your succession strategy or building a “blueprint” of the plan you are going to implement. At this stage, the steps you take will depend on the structure you’ve selected for your succession.

For example, if a **family owned business** plans to pass the business on to a family member, this is the time to identify your successor and help them develop the expertise they need to assume control.

For **owners or investors** who plan to sell the business, this is the time to put processes in place to maximise the business’s value – from benchmarking against your peers, rationalising business lines and identifying service gaps to shoring up your balance sheets, extracting personal assets from the business, generating competing bids and, if selling internally to management or other family members, arranging for the financing required to effect a successful transfer.

If you’ve given yourself a long enough runway, you also can enhance the odds of reaching your succession planning goals by developing **parallel succession plans** – one that can be implemented immediately in the event of an unforeseen emergency; a second that you can implement in the mid-term (within one year) to begin closing any identified gaps; and a third that lays out your long-term intentions (five to 10 years) and contemplates a variety of financial models that account for different contingencies or scenarios.

## 5 Review and monitor

Once your plan is in place, there is still more for you to do. As the business and/or family dynamics change over time, your succession plan must change with them. Be sure to schedule regular reviews of your plan to ensure it remains current and continues to reflect your evolving wishes. Be sure, too, to communicate any change of plans to your key stakeholders so no one is blindsided when the time for a business transition arrives.

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# Tips for succeeding at succession planning

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The following actions can help the business survive and thrive into the future.

## **Start early**

Privately held businesses should start planning for succession several years in advance. Don't wait for a year of super profits, or a year of weak performance to plan an exit. Start early, so you can transition on your own terms, while you are in control.

Succession planning isn't a one-time event, it's a process that should begin long before the owners plan to exit the business. Starting early also ensures you can select from the widest range of options available to you.

## **Commit your time**

You will know better than anyone that getting your business to its current level took time and commitment. A succession plan needs the same attention.

## **Identify your business value drivers**

By understanding which parts of the business will be most valuable to a purchaser or other potential successor, you can maximise the value of those assets in advance.

## **Articulate your core values**

One way to ensure the business maintains its focus and follows the path you envision is by clearly articulating your core values and instilling them among all your staff.

## **Rely on decision-making frameworks**

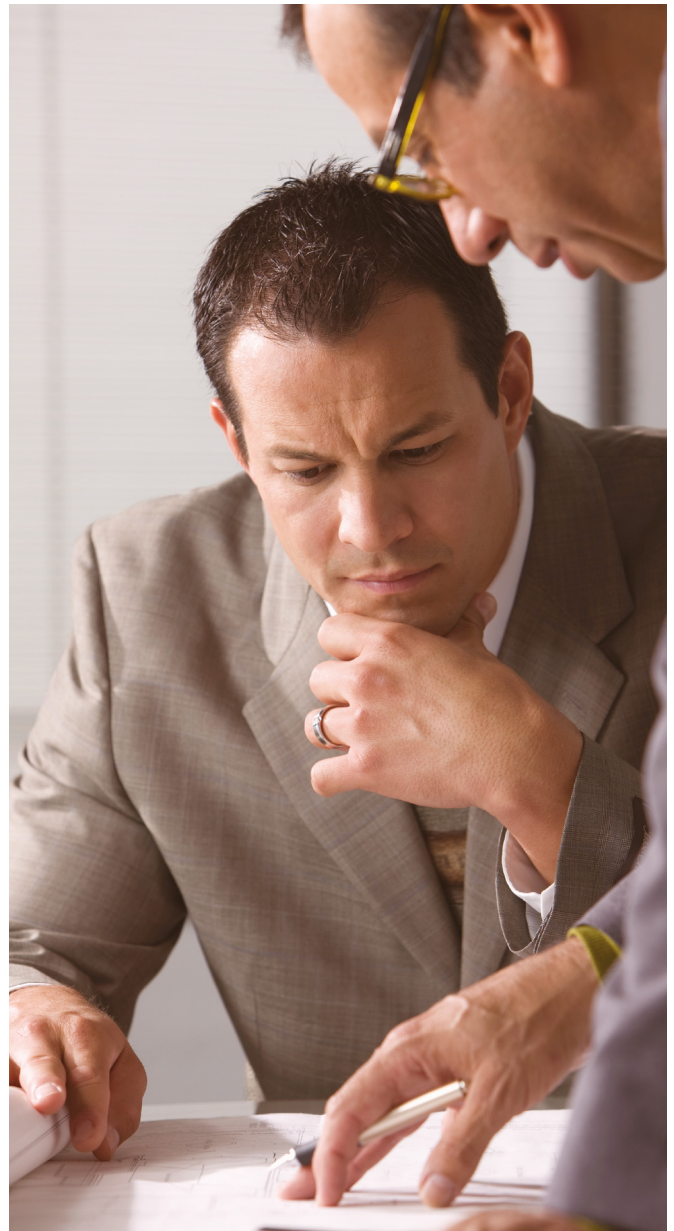
These can help strip the emotion out of your decisions and provide a roadmap for your successors to follow.

## **Involve your successors in your planning**

When key employees, family members and potential investors understand your intentions, they are more likely to support your decisions.

## **Separate your business and family assets**

This involves more than adopting internal control processes and performance management practices. It may also mean introducing more formal operating processes – from the establishment of shareholder agreements and employment agreements for family members, to holding regular board meetings.



# Next steps

Although planning for succession can be complex and daunting, working with the right advisors can make all the difference. With our proven track record, integrated suite of services and in-depth knowledge of the private business sector, Grant Thornton is uniquely positioned to help you reach your goals.

Beyond offering you solutions that range from estate and tax planning to business advisory and wealth management, as well as looking after all aspects of the sale of your business, our practitioners truly act as your trusted guides to help you navigate the succession planning process.

By developing personal relationships, we gain an intimate understanding of the psychological factors and emotional hurdles that come into play during this challenging time, and can help you resolve them in a way that accommodates all of your stakeholders' needs.

Our extensive succession planning experience also means we have the know-how to propose a huge range of options that can deliver creative solutions to the most intractable problems. We are also experienced in working closely with other trusted advisors (your banker, your lawyer, your accountant, wealth advisor) involved in the succession process.

## Contact one of our trusted advisors today:



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