

Succession Planning

A guide for family business.



Family business succession

It is predicted that in the next decade, approximately half of all businesses will change ownership and/or management. Among the founders of these businesses, a large percentage will be considering passing the company from one generation to the next. This generational change is fraught with emotional and financial issues, which require a well developed framework to ensure a smooth transition.

Succession planning is a process of systematically and deliberately preparing for future changes of leadership in key positions. The process may identify potential replacements and provide strategies for developing and/or hiring individuals to meet future needs.

Less than **40%** of Australian businesses have a structured succession plan in place.

Succession planning is essentially a road map built to sustain high performance and direction at the senior executive level before, during and after a transition period. In the context of a family business, succession planning is commonly focused on the issue of the Managing Director, but it often also involves issues that go well and truly beyond management to those that impact the rest of the business.

Succession planning is not just about the planned retirement of the Managing Director. It also helps reduce the risks in the event of death or an unplanned absence by the Managing Director.

A succession plan is also warranted where there are two or more owners of a business.



Ensuring future success

A proactive, rather than reactive, planning approach will ensure your own success and that of your business.

An effective succession plan:

- Creates opportunities for next-generation management
- Minimises conflict and misunderstanding
- Ensures leadership continuity
- Improves knowledge sharing
- Reduces time and costs in recruitment and induction of critical staff members
- Creates a positive effect on staff morale
- Creates a reputation built on forward-thinking and resilience
- Reduces impacts of restructuring
- Forces businesses to evaluate and continuously improve

Despite the powerful benefits of a succession plan, too many family businesses are ill prepared for the inevitable planned or unplanned retirement of its founder.

Reasons why people procrastinate succession planning:

- Reluctance to let go
- Fear of the unknown
- Too busy with day to day issues
- Conflict between family members and/or significant stakeholders
- Accurate and up-to-date financial records and a clean balance sheet
- A good reason for selling
- Unsure of how to go about planning or where to start

Consequences of insufficient planning:

- No ready successor to operate the business
- An undesired need to sell the business at a low value - or worse, go in to liquidation
- Job losses
- A sense of vulnerability and lack of direction amongst staff and management
- Conflict and chaos

Who and what is at stake

Many family business operators struggle to separate between what is best for themselves, their families, their financial position, and what is best for the business. It is only when these four key areas are separated that an effective plan can be developed and the areas of potential conflict addressed.

You, the individual

What does succession and retirement look like for you? At Endeavour Capital we've seen many reasons why business owners fail to plan for succession, and a common barrier is the fear and uncertainty around what to do after retirement.

Understandably, a big part of a business owner's identity is often tied up in their role as Managing Director, so it's important they have goals and purpose for the future to minimise any personal difficulties involved in letting go of the business.

Your family

Succession planning must consider the particular circumstances of your family. Factors to be considered include age, health, relationships between spouse and children, and whether any children work in the business and their skills and desires.

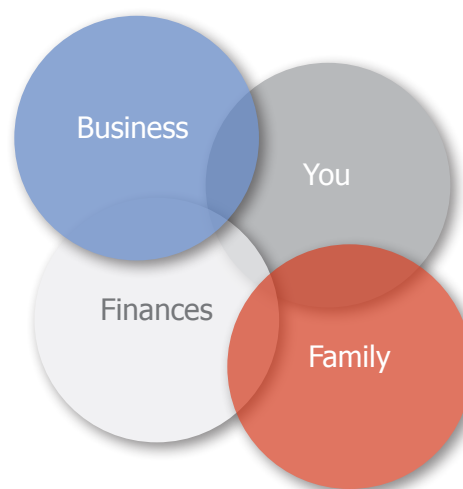
Your finances

The third key area is your personal financial situation and how it fits into the succession plan. Factors such as superannuation and the proportion of your net worth that might be invested in the business are areas that require evaluation and expert advice.

The business

It is recommended that business owners obtain external advice when assessing what is best for the business during succession planning, due to the many conflicting issues that tend to arise.

Who should run the business and who should own the business? What state is your business in? How are changes in your industry's dynamics affecting the business today and in the future? Is the business set up for a successful generational change or should the business be sold?



Don't simply retire from something, have something to retire to.

- Harry Fosdick

Management V's Ownership

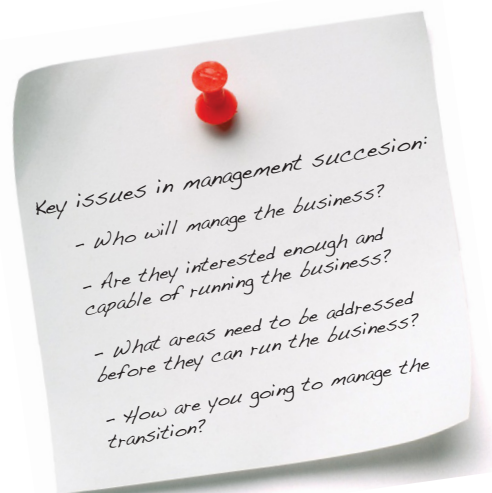
There are two main types of family business succession planning, which are ultimately decided upon, by the business owner; Management Succession and Ownership Succession. The founder may choose to exit from the daily running of the business (a Management Succession) and/or to sell all or some of the business (an Ownership Succession.)

Management succession

The objectives under this strategy are to ensure that the appropriate management, procedures and processes are in place to ensure the value of the owners ongoing investment is protected and enhanced.

Selecting a successor can be a difficult decision within a family business. Endeavour Capital can assist with the independent assessment of candidates, training and a transition plan.

It is naturally imperative to choose the best candidate, taking into consideration whether or not it is their desire to take on the responsibility. Genetics does not guarantee a successor will want to follow in their parent's footsteps, nor does it guarantee they will operate the same way if they chose to. Succession is about evaluating, not about cloning.



Ownership Succession

Ownership succession

The succession planning process may determine that the best outcome is for all or part of the business be sold. It may be that the business is fully or partially transferred to the business owner's children or sold to a third party. If sold to a third party, the objective is usually to maximise the after tax proceeds from the sale.

Key issues in changing ownership:

- Preparing for sale of the business
- Taxation consequences
- Business valuation
- Full or partial sale
- Selection of an adviser

Selling a business is a complex process. Endeavour Capital can provide sound advice on how to prepare for sale, compiling an information memorandum and indicative values, identifying and negotiating with potential acquirers and liaising with your legal and accounting advisers. We project manage the sale process to minimise disruption to your business and enhance its sale value.

Endeavour Capital is more than purely a business broker. We have the biggest impact when we are engaged well before a sale process commences. Our objective is to maximise the businesses value, not just simply sell the business. We do this through preparing and positioning businesses to achieve a better result and to manage any barriers that may delay a successful outcome.

It may be feasible to undertake a full or partial buy-out of the business. If so, Endeavour Capital can assist with facilitating the introduction of external investors.



The succession planning process

Family business succession planning is not an event, it is a process that involves commitment from all relevant stakeholders including the founder, spouse, children and the senior management team.

The first stage is to collectively set the succession objectives for the family and then the actual business. Unless the family objectives are consistent with the business objectives, there will be conflict and ultimately a less than desirable outcome.

It is usual for a number of external professional advisers to have input into aspects of the plan including legal, taxation and financial planning issues. Endeavour Capital is experienced in working with and coordinating these groups.

Endeavour Capital are experts at assisting you to determine and meet your succession objectives. Whilst many of the broad issues in succession planning are common, the specific issues are different for each business and situation. We have tools and techniques

which can be modified to suit your situation. Endeavour Capital often acts as a project manager to ensure the plan is developed and executed in an effective way, and that it is properly documented to meet legal, taxation and financial planning adherences.



How Endeavour Capital can help

Established in 1998, Endeavour Capital is an independent advisory company specialising in small and mid-sized companies typically valued between \$1-\$50 million. Our role is to assist our clients in achieving their objectives through providing independent, sound, creative and experienced counsel. Endeavour Capital's activities include: acquisitions, business sales, capital raisings, directorships, succession planning and valuations.

We have over 25 years of experience advising companies across a wide range of industries including distribution, financial services, healthcare, information technology, manufacturing and retail.

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