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Business Succession Planning

The significant number of baby boomers heading for retirement is putting pressure on businesses to develop succession plans. In the next five to ten years there is going to be a **massive change of ownership of privately held businesses** as they are either passed on to the next generation or sold to key employees or external parties.

It is estimated that up to 75% of businesses do not have succession plans in place.

The major issue is that the owners of most small-to-medium businesses are so consumed by the day-to-day operations of the business that they do not make the time to step back and assess their business environment. This could be creating missed opportunities. In order to obtain the optimal result you need time and planning. In an ideal situation, succession planning would begin with a review of the business to identify its strengths, weaknesses and value. Then a timeline would be devised for a sale or merger.

It's never too early to start succession planning, however a window of three to five years is good. This then allows the business owner to tailor / massage the business into a well-run machine prior to when the succession event is going to take place.

However it is important to note that whilst succession can be a planned event eg retirement, there are some circumstances when the **succession event is unplanned and uncontrollable** (eg an accident causing death, permanent disability or illness to one of the owners of the business).

The aim of a succession plan is to ensure that there can be an orderly transition of a business's management and ownership so that the value of the business is retained.

Without a succession plan, the business may deteriorate if something happens to the owner. Other partners or employees could be left without income, the business might be unsaleable or frozen for a lengthy period of time, or members of the owner's family may want to take their equity in cash, leaving the business with a cash deficiency.

Succession planning is all about structuring funding mechanisms and agreements for the future. Without such mechanisms in place, a business hit by a disruptive event may find itself in a very difficult position.

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Consider if you or one of your business partners died or became disabled:

- Could the remaining partners work with the partner's nominated beneficiaries?
- Would the remaining partners have the funds to purchase the deceased's interests in the business?
- Could the surviving partners take on a new partner? And would they want to?
- Would the value of the business stay the same?

If your answer to any of these questions is "no", you should consider succession planning for the security of your business.

Business owners should take a fresh approach to their business operations and the need for a succession plan to ensure the continuity of the business following "an event".

At Marsh Tincknell we provide services and advice regarding business succession. A succession plan will tackle issues such as business value, debt elimination, loss of goodwill and surety of fund distributions.

Should you wish to discuss the above issues in further detail, please do not hesitate to contact Marsh Tincknell on 07 3422 8000 or info@mtaccountants.com.au