Succession Planning

Dunkley's
Chartered Accountants
& Statutory Auditors

The 1970's musical Seesaw says 'It's not where you start, it's where you finish' – words to remember if you want to be a successful business.

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When the issue of succession is raised, the first question is: when is the most appropriate time to begin planning for succession? All too often business owners wait until the last minute – reducing their options. There are generally seven stages of business succession:

1) Survival - Once the business has survived the start-up stage, you should begin giving consideration to succession, regardless of your age.

2) Commitment - You must commit to the concept that the business has to continue in order to create opportunity for future employees. This commitment must be communicated extensively and often.

3) Recruitment - The organisation cannot survive unless it is staffed with the best people. Recruiting good people will always pay dividends and is a key item in succession planning.

4) Development - Investing time in developing your management team and allowing them to exercise authority and control is key to a successful transition. Your transition plan may be one or a combination of:

a. Passing on to family

b. Selling to management

c. Selling to the trade

d. Merger with an earn out

e. Selling to private equity investors

f. A public floatation

Each option has a different level of risk and return.

You must also consider plan B. Adaptability is a must, without it you risk becoming trapped into a low profit route.

5) Selection - After developing successful transition plans and recruiting the right people, selecting a successor or successors becomes easier. By empowering a broad range of key people, the selection process is simplified and options are enhanced.

6) Value - Valuing a business is as much an art as a science. There is no precise formula that applies to all businesses in all sectors, nor even to all businesses within a sector. Valuation will depend on consideration of a number of factors, these include:

- The size of the business - larger firms tend to be viewed as less risky and so attract a higher price, even if they are less efficient than smaller competitors
- The prospects for future growth - buyers sometimes pay more for businesses with high growth rates because they repay the investment more quickly. You might consider selling before turnover and profits level out
- Diversification - if you have a wide 'business mix' it can affect the sale price, since buyers may only be interested in one area or market
- Customer base - the size of your customer base is important, but so is the quality of your customers and the cross-selling opportunities
- Profitability - although generally the higher the profits, the higher the value, some buyers might prefer a business with areas in which large efficiency savings can be made
- Cashflow and financial management - the size and certainty of cashflow, the strength of the balance sheet and financial management are all vital factors

Having come this far, it is time for you to announce your future plans. This gives key management people and/or family successors a clear path to the future and a definite goal.

7) Implementation - You must be ready to step aside and allow the successors to take over. You need to be prepared to take on new challenges in retirement or your next project.

Dunkley's can help with all stages of this process and the various complexities that surround it, whilst also making sure minimum tax is paid. It's not where you start it's where you finish. Dunkley's can help you finish on top!!

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