

Business Succession Planning: What are your options?

Martin Hawes

Business basics

Most businesses are not started by entrepreneurs – they are started by technicians. This statement includes people who sell professional services (e.g. vets) and means that the 'business' is a job rather than a proper business. This often means that technicians see business related matters (marketing, financial control, systems development etc) as interruptions to their 'real jobs' which they consider to be performing their trade or profession.

It does not have to be like this – other professional services providers can sell their businesses with substantial goodwill (e.g. accountants, some doctors and some vets). If you can do this, your business can become a wealth creating asset and so something which can be sold on retirement.

Anyone with a small business needs to consider how much of their income is generated by the business and how much by their own labour as a professional. To create a business of value you want as much as possible to be generated by the business assets (including staff) and not your own work.

- A business should give a return on your capital and a return on your time – most do not give both.
- Plan to have a business (not self-employment).
- Get the business out of your head (and onto paper).

What do you want?

This may determine what kind of business you try to develop and what you do. Some professionals do not want to develop a real business – they are happy with their self-employment. These people do need to use the income that they have to invest in other things (shares, property etc) to create wealth. This may depend on your dreams and goals:

- What's the dream?
- Think about the future that you want.
- Set your goal.
- Your goal should be SMARTI:
 - Specific
 - Measurable
 - Achievable
 - Relevant
 - Time-bound
 - In writing

Sale of the business could be a big part of your retirement plans

If you are happy with your business being self-employment, succession is reasonably easy – you find someone who will take over (they will not pay much, if anything). If, however, you are planning to sell the business with goodwill, you need to make some preparations.

You need to:

- Prepare staff.
- Prepare successors.
- Prepare customers.
- Prepare yourself.
 - Retirement is not the January holidays.
 - Transition is required.
 - At a time when change does not come easily.
- Start sooner rather than later.
- Do not leave to the last moment.

Options for exit

Some may simply stop practising and walk away. This is the least desirable outcome (although it happens frequently in several professions). If you have planned to sell a valuable business, however, these plans need to be in place well in advance. There is a high chance that you will want (or need) to work after sale or succession. Work has many advantages.

Options for the business:

- Close the business.
- Sell outright (remember there will be a 'work out').
- Sell part.
- Then sell more parts progressively.
- Put management in place.
 - You need to prepare successors.
 - You can transfer management without transferring ownership.
- In praise of work:
 - Income.
 - Focus.
 - Social centre.
 - Brain activity.
 - A definition of who you are.

Preparing for sale

You need to think about your business from a potential buyer's point of view – what would she or he be looking for in a business purchase? Run your business with a view to sale – do not over-capitalise the business, do not own the premises and make sure that you buy equipment only when it can pay for itself out of additional revenue that the equipment generates.

- May take several years
- Consider what buyers look for – a going concern with income from day one:
 - Income (as much as possible).
 - Low capital base.
 - Sustainable income (compare accountants with lawyers).
 - Growing income.
 - Barriers to entry.
 - Systems.

- Good support staff.
- Reputation/brand.
- Not dependent on individuals.
- Good premises.
- Beware over-capitalisation.
- Capital must work and make money.
- You do not have to own your premises.
 - Owning premises increases the price of the business, concentrates your wealth to just one area and there are better investments to be made.
 - You are not in the property business.

Communications

Your plans impact on others' plans and these others will not necessarily put their plans on hold while you make up your mind about what you are going to do. Nor will they wait while you get around to communicating your plans. Throughout your career (including during the difficulties of succession) you need to be trusted.

- Hold meetings.
- Manage expectations.
- Deal honestly with all stakeholders:
 - Customers.
 - Your spouse.
 - Your family.
 - Business partners.
 - Key staff.
- Trust is the sum of credibility, reliability and intimacy divided by perceived self-interest (David Maister).

Transitions

For some, both the process of succession and retirement itself is miserable. This could be about money, but it is often around poor adaption.

- You may have to work out a time period.
- You may have to get used to the idea of retirement.
- What will stop you?
 - Your work defines you.
 - Retirement ages you.
 - What will others think?
 - What will you do with your time?
 - How will you arrange your money?
- It is the soft areas that stop people more than the hard ones (e.g. lack of money is usually presented as an excuse not to retire, but there is usually some other factor).

Financial

Changing from an investment strategy aimed at building wealth to one where wealth is used to generate income is difficult. A focussed investment approach may work for building wealth but diversification is critical during retirement - investment returns are not reliable even at the very best of times and only diversification can smooth them out. There are plenty of people who have lost everything in retirement and your retirement finance is an area which needs good advice and careful planning.

- Your investment strategy will change on retirement (in fact, in the lead up to retirement).
- You will no longer develop wealth but use your wealth to live on.

- You need a whole new investment plan.
- Your investment plan will be aimed at giving income.
- Or at least more steady returns.
- In retirement, always hold some cash.
- Beware solely chasing cash yield.
- Diversify.
- Match your liabilities with your assets - e.g. if you are going to travel be sure to have offshore assets.