



Is The Business Bigger Than The Man?



By Steven Crea

In many small businesses in Australia it is not uncommon to find one person is the owner/operator and has been the front man of the business for a long time.

When it comes time for him to move on (which may be planned or unplanned), will the business survive? Do you have a succession plan in place which will return a value to the retiring owner and ensure the business prosperity long into the future?

Firstly, there are some things you can do to prepare your business for life after you're gone and thereby maximise the value of the business.

Avoid having a heavy reliance on the knowledge base of one person in the operation of the business and in the customer relations. Even with a small business, make sure the know-how is spread across the management team. Delegate responsibility freely but wisely. Involve trusted individuals in your operations closely while you are active in the business. They will learn by observing you especially well if you take time to explain the objectives. They will not have the years of built up experience you have but they may bring fresh ideas you were not expecting.

Introduce customers to the idea of dealing with other people and assign responsibility of customer relationships to individuals who show interest and enthusiasm in this area. Some people will easily develop a good rapport with customers and for others this will not come so naturally. Some personality types will respond better to different people so there may be an opportunity to match employees to customers or groups of customers depending on their character traits and orientation.

The options for a succession plan typically include the following:

Family

You may have immediate or extended family members who work in the business and are looking to make a step up into management and/or ownership. This provides an ideal pathway for the family member and a logical exit strategy for a retiring owner. One issue to watch with this is that the family members don't have a sense of entitlement because this will

be noticed by other employees and can be very unsavoury. Wise business owners make sure there is a level playing field with sons and daughters being treated exactly the same as everyone else. Promotion should be seen to be on the basis of merit and your children will thank you for it later because the skills they build up working their way through the ranks will be invaluable if they one day do take over.

Sale of business

As you approach retirement age, you might start thinking about how much your business is worth and who would be potential buyers if a sale of the whole operation to a third party is the desired outcome. There is something to be said for making a clean break and there is always interest in good businesses. If this is the preference, remember that the financial statements for the preceding few years will be analysed carefully by any interested party so the better they look the better the value and the greater the prospects of sale. A business in decline will always be a concern so aim to establish an attractive upwards curve of revenue and profitability for a sustained period prior to sale.

Merger

Rather than an outright sale, a merger with a similar business might be the preference. This can bring about a host of advantages from increase in scale, expanded customer base, knowledge transfer and of course removal of a competitor from the market. It might become a multi-location business if the partner already has a premises with established goodwill. Think about how the partnership would work and make sure everyone is clear on rights and obligations. As with any partnership, it is best to have the discussions up and everyone can form clear expectations. Involve your lawyer early and have a good partnership agreement or shareholder's agreement documented. Be wary of taking on someone else's company with a trading history because there could be baggage you are not aware of and potential unforeseen liability associated with that.

Transfer of equity to employees

The plan may be to sell the business to current employees. Often the employees will have high interest levels because they know the business (so the risk to them is less daunting) but they will not

have sufficient resources to acquire the business. They may be able to raise finance from family, friends or through borrowing from banks and you might explore the option of a staged approach. The same importance of documenting shareholders agreements applies and the agreement should be revised as circumstances change.

Semi-retirement

The option of a reduced role in the business may provide a win for all involved. It can provide the retiring owner with a nice wind down period and minimise the psychological impact that sudden retirement often has on someone who has been busy working for most of their life. The people taking over can also benefit greatly from access to the many years of build-up knowledge of the retiring owner which would otherwise just walk out the door.

Franchised business

If your business is franchised, remember that the franchisor will have a strong say in successors. They may have rights to buy the business back through a right of first refusal and will certainly have a right to approve any proposed transferee whether the whole or only part of the business. Your franchisor will appreciate being involved as soon as possible and will be encouraged by the fact that you are doing succession planning because your exit is also a risk for them.

Premises

If a premises is integral to the operation of the business, whether you own or lease the site is important. If owned, will the land be sold with the business? Does it make sense to retain the freehold and lease the site to the business? If leased, the length of tenure and rights to assign or transfer are vitally important.

For further advice on your business succession planning please contact Steven Crea on 0411 777 695 or steven@crealegal.com.au.

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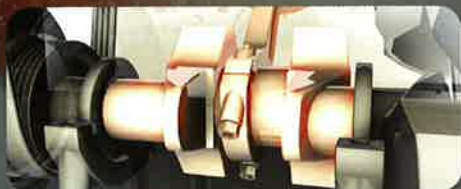
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