



Transition Planning

Avoiding a Retirement Crisis and Maximising the Sale Value of Your Business

By

Wayne Moloney

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Transition Planning – You Can’t Afford To Ignore It

Now this might be a scary thought if you don’t have a transition plan in place –

According to Australian Government forecasts, over 80% of business owners plan to retire from their businesses in the next 10 years!

This will create an oversupply of businesses on the market and you need to be prepared if you want to get the best return for your years of effort. The worst case scenario being forecast by the Government and business commentators, only 20% of those exiting their business are expected to be able to sell or pas on their asset. The rest will simply close the doors.

In which category do you want to be?

Harmonious transition doesn’t happen by accident: They are carefully planned and executed. Business owners who don’t start planning this well in advance of retirement or selling their business are leaving themselves open to stress and chaos for themselves, their family and their staff. In addition, any neglect of the situation might well also damage the business.

An Evolving Plan

A long term plan is necessary for the family and the owner alike to achieve their lifestyle, financial and business aims. A plan should be in place years before the owner wishes to exit, reduce their workload or dispose of the business.

The following needs to be considered when developing any successful transition plan.

- When do I want to retire or exit?
- Why am I standing down from the business? (Potential purchasers will want a good answer to this question)
- Will I want an ongoing managerial role or board position/control?
- Will I want a regular attendance in the business or ongoing role with customers?
- What is my financial position?

Family-run Business

If family members are involved in the business and understand the owner’s aims, it is much more likely the momentum will be maintained. Any plan must involve all members of the family, not just those involved in the running of the business. The following needs to be considered in any transition planning:

- Expected exit timeframe
- Why standing down?

- Timing of funding for retirement – ie full upfront payment or ongoing “remuneration” over an extended period? Will the principal be looking to take money from the business to fund retirement? Will the family be able to finance this?
- Timing of transition from seller – buyer
- Is the family represented in the management of the business?
- Are the family members capable or do they need development, training and/or assistance?
- What about the entitlements of family members not actively involved in the business?
- Do management positions need to be strengthened?
- Are there key employees who may be upset/unsettled by the change?

Getting Ready

Business owners must ask if the business can function without them.

- Is there a plan for ongoing success of the business?
- Is there a measure of business performance?
- What could be done to improve the business value prior to sale?
- What state will business be in when owner looks to realise value?
- What kind of buyer does best suit the business?
- Minimum sale price to meet personal goals?

Management and Ownership Transition

Selecting and grooming the successor – options include family members, committee of family members, promoting a key/loyal employee of long-standing, recruiting and external executive to manage the family business. From a practical perspective, a single successor usually minimises conflict and confusion.

The following check list will help you determine if you are ready for transition, or whether you should start to work on a transition plan. Remember, the best time to start planning your exit from the business is when you start the business itself. The second best time is RIGHT NOW.

Even if exiting your business seems a long way off and even though some things are going to change, the fact that transition planning revolves around taking steps to improve the value of your business there will inevitably be some immediate benefits from starting the process:

- More profit
- Higher efficiency
- Greater peace of mind
- Clearer focus



At InForm Consulting, we can assist with maximising the resale value of your business, capital raising for potential buyers, brokering the business sale, training and developing staff, managing the transition and facilitating negotiations.

The InForm Consulting Group work with our clients to ensure all aspects of transition planning are considered and addressed to ensure our clients get the best return for their years on time and money invested.

To access other business e.sheets or attend an InForm business webinar go to www.informgroup.com.au.

Transition Planning Check List

Stage	Consideration	Status	Action	Who	When
	Business "Health Check"		Undertake complete Business Diagnosis including Financial Report to determine true "health" of business. This will assist in determining business value and readiness for sale or other migration. Last 3 years financials should be considered and any "grey areas" identified.		Annually
	Review existing business		What is ongoing? What is under threat? What is dependent on current relationships?		
	Is there a Business Plan in place?		Develop or review and maintain a Business Plan that reflects the business direction and necessary actions to meet objectives. Potential purchasers will want to see how you have performed against plan.		
	Determine expected transition timeframe		This need not be definitive, but having a date in mind will start to focus necessary activities.		
	What do the owners want from the business immediately and on-going?		If business is sold, what sale model is under consideration? Full and final price, or part payment and on-going percentage of profits? If passed to family members, will there be any up front payments?		

Stage	Consideration	Status	Action	Who	When
	Financing. If a transition to a family member, how will this be financed?		Review with Accountant, Financial Planner and Tax Adviser		
	If a family transition, are other family members in agreement?		Depending of stage of transition. Initially determine what are the expectations of family members. Will there be acceptance of planned transition? Will there be a need for non-executive family members to be represented in the business?		
	Meeting of all current and proposed stakeholders		What do they want? What do they expect? Will successor have autonomy or be guided by a committee? Division of assets and ongoing profits among "non active" family members		
	Are non-executive family members fairly compensated in transition?				
	On-going representation in company management?		Consider what involvement you want, if any, in the future business. This will help identify the exit strategy.		
	Are wills in place for key stakeholders?		Review with family members. In consultation with Financial Planner and Legal representative.		

Stage	Consideration	Status	Action	Who	When
	Are key stakeholders and family insured? Life, Trauma, Income Protection?		Review position with trusted Business Advisor and Insurance Broker. Determine appropriate levels of cover and purchase suitable policies. Discuss most efficient way to purchase with Accountant and/or Financial Planner.		
	How will profits or on-going revenues be dispersed among stakeholders and family members?				
	Has post-ownership financial planning been considered?		Review with trusted Financial Planner. Develop individual Financial Plans to deliver required lifestyle.		