Geelong Manufacturing Council
Best Practice Guide

SUCCESSION AND EXIT PLANNING

Executive Summary

An increasing number of businesses require succession and/or exit planning. This is supported by ABS data4 that highlights that the average age of a business owner is 55 and many consider their business to be their largest retirement asset. Failure to appropriately address succession and exit planning is a common and avoidable mistake, and often leads to increased stress and loss of good will within SMEs. The key barriers to successful succession/exit planning include (a) lack of knowledge and experience around the 'exit process'; (b) limited internal capacity for learning and implementation of good succession/exit planning, (c) the imperatives of operational execution often take precedence over long term initiatives (like succession/exit planning); and (d) businesses owners are unwilling or unable to access appropriate external assistance. This white paper is designed to highlight the key steps around good succession/exit planning, and the primary focus around (i) setting an exit date (min of 3-5yrs away); (ii) setting clear sale/exit goals; (iii) creating organisational strategies capable of achieving the desired 3-5yrs sale/exit goals; and (iv) continuously measuring progress-to-target.

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Introduction

Family Businesses represent a considerable portion of small-to-medium enterprise across Australia. ABS Data[4] shows that 96% of all Australian Businesses employ less than 20 staff, and this is underpinned by a large cross-section of family-owned enterprises that account for 70% of all businesses in Australia[1].

However, survey data from KPMG[1] indicates that a large cross-section of family-owned Australian businesses do not have the requisite succession/exit strategies, processes, and initiatives (in place) capable of achieving a successful 3-5yr sale/exit outcome.

Defining the Program

There is a paradigm shift taking place in the family business sector. Around 48% of family businesses expect the leadership of their company to change hands within the next five years, and 81% expect a leadership change within the next ten years[2].

About 30% of companies surveyed have a leader (MD, GM, CEO) who is older than 60 (where the *average age* is 55). Only ~10% are younger than 40, and ~10% are older than 70[3]. Around 90% of survey respondents[2] believe the same family will control the business in +5 years. However, this is not supported by succession statistics which indicate that: (i) ~30% of family businesses survive into the 2nd generation; (ii) ~12% into the 3rd generation; and only ~3% of family businesses operate into the 4th generation.

There is a significant disconnect between family-business optimism and *commercial realism* (in relation to expectations and outcomes around succession / exit planning).

The Solution

With approx. $4.3 trillion dollars of assets held by Australian family businesses[2] and given that 81% of owners intend to retire in the next 10 years, this will trigger a wealth transfer of approx. $3.5 trillion[2].

The key issue (and solution) revolves around the saying that "*failing to plan often means planning to fail*". This statement is considered to be a truism in the field of best-practice succession/exit planning, primarily because the complexity, methodology, and importance of succession planning requires a business to invest significant time/resources in planning and execution.

Good planning, looking out over a minimum 3-5yr horizon is critical in order to facilitate a seamless ownership transfer to the next generation and/or to a willing external buyer.

The key enablers of success here are: (a) creating internal capacity for owners/staff to attend workshops and learning events in order to better understand the methodologies around good succession/exit planning; (b) establishing a project team comprising both internal and external subject-matter-experts who will be provided time/resources to put together a long range 3-5yr operational succession plan; (c) releasing key staff from their deep operational roles to (re)focus on succession planning in regular structured intervals; and (d) investing in external (legal, accounting, strategic) advice to support the succession planning and execution process.

A long-range operational succession plan ultimately requires: (i) an agreed succession / exit / divestment date (minimum of 3-5yrs away); (ii) crisp and clear sale/exit goals; (iii) well-crafted organisational strategies capable of achieving the desired 3-5yrs sale/exit goal(s); and (iv) regular structured planning sessions to check progress against target(s).

Conclusion

The absence of appropriate succession and exit planning can often lead to disharmony between and within families, shareholders, and employees, which in turn can lead to a deterioration in financial position and performance, and the unnecessary increase in business risk to employees and stakeholders across the business.

Succession and Exit planning needs a minimum 3-5 year horizon to ensure appropriate strategic and operational initiatives are fully-deployed and successfully implemented in order to capture and codify all business knowledge (into business systems and processes) and to maximize business good will.

By understanding the importance of the early design and implementation of a structured approach to succession and exit planning, a business will maximise the chance of achieving minimal disruption to the businesses throughout the process of succession, will enhance saleable good will, and will ensure the ongoing survival and success of the business for the benefit of all future stakeholders.

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Resources

1. KPMG and Family Business Australia Survey of Family Businesses 2009 (in conjunction with Bond University)

2. The MGI Australian Family and Private Business Survey 2010 (in conjunction with RMIT University).

3. KPMG and Family Business Australia Survey of the Next Generation of Family Business (in conjunction with Bond University)

4. ABS Data (2017)

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