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Have a sound succession plan

Many business owners don't consider what will happen to their business when they exit, other than vague thoughts that they should plan for departure at some point. Yet it pays to start preparing now.

There are some common myths around succession planning. One is that it can typically be wrapped up in months. MBIE recommends anything from 2 to 5 years, depending on the type of succession and all it entails.

Another is assuming your family and employees will share your feelings and expectations around succession, but your

preferred outcomes may be different. There's no time like now to start planning and have key discussions.

Settling on a plan

First, consider your goals. Do you want your children to take over the business? Are you aiming for it to finance your retirement, or do you want a continuing business legacy?

Options include:

- transitioning to the next generation or other family members
- transitioning to an existing manager or team member
- hiring a new manager or employee who ultimately wants to buy the business
- selling it and leaving after a specified period



- selling your business and remaining as an employee
- closing it and selling the assets.

Once that's established, get feedback from family and team members, your intended successor if you have someone in mind, and business advisors such as your accountant, banker and lawyer.

Have direct and honest conversations, taking their thoughts and feelings into account. This could include:

- whether an intended successor genuinely wants to take over the business
- whether they can afford to buy into it or would need your assistance
- whether it's part of their inheritance and how you'll ensure parity if they have siblings
- your approach if someone wants to take over but isn't the right person for the job
- whether your plan will be good for the business
- how it might affect the employee dynamic
- your future needs – and those of your partner, if applicable – if you want to sell the business, taking into account your lifestyle intentions and the rising cost of living
- if a particular amount is needed, what will help you achieve that – an extension to your sale date, improvements to maximise business value or something else?

When the plan is established

Document your plan and share it with the key people. Ask your business advisor if you've taken everything important into account. Several aspects need considering.

Preparing your business

If you intend to sell your business, you'll need to make it an attractive purchase. That includes consideration of your organisational structure, a business valuation, documenting operational processes, tidying up your balance sheet, financial forecasting, tax planning, sale preparation and more. Also, don't forget to update your will and insurance.

Preparing your successor

Consider whether they need additional

experience or training and if you're the right person to provide that. For example, if you're grooming an existing employee for ownership, they might be great at their job but need external training in staff management or business acumen.

You should also consider whether they are the right fit for your customers and employees. That ties in to whether their values, communication and leadership style align with your business culture and practices.

Remember that the new leader will have their own management style and way of operating. Many business owners are accustomed to doing things a particular way and find it hard to let go, but it's important to step back and relinquish control.

If your succession plan won't come into being for some time and the owner-in-waiting is an employee or family member, you could offer a small equity share to help with engagement and lock them in to the long-term plan.

Ensuring continuity

A key thing in succession planning is mitigating the effects so that the handover and aftermath go as smoothly as possible for employees and clients or customers. For example, think about introducing customers to the new owner well before they take over so they get to know that person and are comfortable dealing with them.

A word to new owners

Sometimes, new owners want to change a lot of things. They go in with a lot of energy, which can be disruptive to customers and employees. If changes might have far-reaching effects, it's a good idea to first become familiar with the business and understand why things are done a particular way and make sure any changes are well thought out and will be accepted.

FOR MORE ▶ If you've been putting off your succession plan or need assistance, contact your business advisor or local Baker Tilly Staples Rodway office. ◀