

The Art of Business Succession

who will fill your shoes?

Craig Holland

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Deloitte's Growth Solutions practice

Deloitte.

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Foreword

As the majority of baby boomers retire over the next five to 10 years, business succession planning will be vital for the long-term survival of many family-run businesses. Australia is about to see a huge transfer of wealth from the baby boomer generation, yet many family-owned businesses appear to struggle to ensure a smooth transition of business management and ownership.

A number of studies have shown that fewer than 30 per cent of private businesses have an achievable succession plan in place. Most business owners do nothing or they choose to focus on one area in the succession-planning process such as tax, while ignoring many of the other key issues that need to be dealt with.

For companies that are family owned, the ramifications may be even more sweeping. The personal issues they face, compounding other day-to-day business concerns, range from planning for income taxes to maintaining interpersonal relationships with family members.

Succession planning is more complex than ever with many different business, financial and personal issues coming into play. A good succession plan will look at a range of issues such as people and talent, family dynamics, corporate structure, estate planning, insurance and share transfer to name just a few.

Despite solid professionalism and enviable profits, many small or family-owned businesses fail to complete an orderly transition to the

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next generation. While some boast sophisticated and knowledgeable professionals at the top, they nonetheless get caught in a web of complication.

Deloitte has found that the opportunities and benefits are great when succession planning is undertaken in a disciplined way. We have produced this book to help anybody in business who wants to have a change, retire or simply sell their business.

The book is designed to guide business owners through a comprehensive and strategic approach to the business succession process. I hope you find it valuable and that it assists you in preparing you for the transition of your business.

David Murray

Lead Partner

Deloitte Growth Solutions

About the authors

Craig Holland is a partner at professional services firm Deloitte. He has almost 20 years' experience in servicing the tax needs of high net worth individuals, families, private businesses and small-cap listed companies, typically with revenues between \$10 million and \$400 million.

Craig's clients come from numerous industries including retail and consumer business, property development and investment, manufacturing and professional services. His major focus is providing tax consulting advice to private businesses. His clients are predominantly large families with a diversity of investments that centre around the operation of successful and growing enterprises.

Craig is a regular presenter at seminars on tax matters and has published numerous articles. He also provides media commentary on tax issues and is often quoted as an authority on family and private business tax issues.

Prior to joining Deloitte, Craig was an auditor for the Australian Taxation Office's Large and Small Income Groups where he served for seven years. He is also on the ATO Small to Medium Enterprise Subcommittee. Craig's professional and academic qualifications include:

- Bachelor of Economics (Monash University)
- Master in Taxation (University of NSW)
- Fellow of the Taxation Institute of Australia
- Certified Practising Accountant.

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Thomas Plaut is a Tax Partner in the Cincinnati office of Deloitte Tax LLP. He has over 24 years' experience serving clients in the manufacturing, distribution, and consumer business industries. He has extensive experience in tax planning for corporations and executives.

Tom is the US National Leader of Deloitte's Succession Planning Service Line. He has significant background and experience in succession planning and advising owners of closely held businesses on effecting an orderly transition of both ownership and management. He has been featured in several national and local publications and has appeared on a nationally televised cable business program in the US. Tom's professional and academic qualifications include:

- BS, Accountancy, Miami University
- Member of the American Institute of Certified Public Accountants
- Member of the Ohio Society of Certified Public Accountants.

Deloitte is one of Australia's leading professional services firms and provides audit, tax, consulting and financial advisory services through over 4000 people across the country. Deloitte focuses on the creation of value and growth for its clients and is known as an employer of choice for innovative human resources programs. Deloitte is dedicated to helping its clients and people excel. 'Deloitte' refers to the Australian partnership of Deloitte Touche Tohmatsu and its subsidiaries.

Deloitte has a strong commitment to Australia's fast growing middle market and focuses on high-growth companies, high net worth individuals, government and listed small caps.

Globally, Deloitte is part of a \$20 billion global network of associated firms operating in nearly 150 countries with over 140 000 people.

Introduction

Transferring the management or ownership of a business of any size is a complex process. In all cases, there are financial, business and tax issues to consider, but for a family-owned business, there is the added complication of maintaining personal relationships with family members involved both directly and indirectly in the process.

While this book has been designed primarily for owners of small- to medium-sized businesses, it will be equally useful for owners of larger businesses who want to gain a broad understanding of succession planning. It will also assist other key people involved in private businesses to understand and contribute to the strategic planning process alongside the business owner. Whether you're preparing to hand over the business reins to family members or sell it off to a third party, this book will make that process a little less daunting.

With many baby boomers set to retire in the short term, substantial wealth transfers are anticipated over the next five to 15 years. The key to long-term survival for companies affected by these transfers will be a clear and early focus on the importance of strategic succession planning.

Despite having had the acumen to run a profitable business for a number of years, many owners of small and family-owned businesses (known also as 'closely held businesses') fail to complete a smooth transition to the next generation, if at all. This is understandable given the complexity of some of the issues associated with this process.

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Although many owner-managers have an ultimate vision to retire and sell their businesses, plenty have not adequately considered the steps needed to make that vision a reality. Even those who plan never to retire will need to plan to ensure that the intrinsic value of their business is retained to benefit their heirs. Unless the owner is prepared to let the business expire, a long-term program to identify and groom future company executives must be undertaken.

Succession planning is a complex area involving many business disciplines. This book does not attempt to cover every facet of the process in detail, rather it outlines a wide-ranging and tactical approach to help business owners manage an orderly transition of their company.

How to use this book

This book has been primarily designed to be read through in its entirety, with one section logically following on to the next. I would recommend reading it in this way, rather than dipping in and out of sections—you can always come back at the end and review parts that particularly interest you.

I have chosen two case studies and used them throughout the book. In this way, you can get to know these two very different businesses well, identify with their journeys and hopefully identify with what they are trying to achieve.

At the end of each chapter I have listed a number of actions to get you moving. I hope these will help motivate you to follow the steps outlined in this book and take some decisive action toward planning for the handover of your business.

Where to start

Does your business already have a succession plan in place? If so, you can identify the effectiveness of your current plan by answering the following questions. If not, these questions and the following parts of this book will help you establish a framework for approaching the process.

Introduction

A negative response to one or more of these questions is a good indication that there are opportunities and benefits to be gained from undertaking a more disciplined strategic planning process.

- 1 Have you defined your personal goals and vision for the transfer of ownership and management?
- 2 Is your successor identified and in place? Does he or she need any skill development?
- 3 Have you considered the importance of family involvement in leadership and ownership of the company?
- 4 Are you currently using techniques to legally minimise your taxes?
- 5 Do you have enough liquidity to avoid the forced sale of your business?
- 6 Do you have a shareholder or 'buy-sell' agreement in place?
- 7 Do you have a contingency plan should you become disabled?
- 8 Have you considered alternative corporate structures or share-transfer techniques to help you achieve your succession goals?
- 9 Are you dependent upon your business to meet your retirement cash flow needs?
- 10 Have you had your business valued recently?
- 11 Will you completely end your involvement in the business or look at a 'creative' retirement structure?

These questions and many more will be posed throughout this book, all designed to get you thinking about what you need to do as a business owner to ensure an efficient transition to the business's next owner or manager—be it family or someone else. But more than just getting you thinking, this book will hopefully propel you into action. After all, the sooner you start, the easier it will be when the time finally comes to let go.



The art is in the planning

In this chapter:

By the end of chapter 1, you will have an understanding of:

- the critical elements of succession planning
- the particular considerations for closely held businesses
- how to take the first steps to succession planning, including:
 - » articulating goals and communicating with stakeholders
 - » the goal-setting process
 - » understanding the critical issues.

Effective business succession planning requires a multifaceted or ‘multidisciplinary’ process. The process presents business owners with a considered approach to transitioning the management and ownership of their business, and the opportunity to incorporate meaningful personal goals.

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Some of the benefits to business owners who plan properly are:

- survival and growth of the business
- preserving family harmony (in the case of a family-owned business)
- minimising tax
- facilitating 'creative' retirement.

A multi-pronged approach

A multidisciplinary approach is a powerful methodology for business owners to achieve and implement a broad-based and widely accepted succession plan. Business owners who are seriously considering how to formulate (never mind implement) such a plan will no doubt be daunted by the task.

You may not have the depth of relevant experience to draw on as this is likely to be the first time that this has been attempted.

A multidisciplinary approach allows the business owner to draw on the experiences and expertise of several advisers who will work together as a team to assist you and other interested parties in defining and meeting your strategic goals.

Figure 1.1 outlines the key components of the multidisciplinary approach to succession planning, and is followed by a summary of each component.

Figure 1.1: key components of effective succession planning

| | | |
|--------------------------------------|--------------------------------|------------------------------|
| Goal articulation | Shareholder agreement | Business strategy assessment |
| Disability and contingency planning | Management talent association | Corporate structuring |
| Family information and communication | 'Creative' retirement planning | Corporate finance |
| Current business valuation | Estate planning | Compensation planning |
| Life insurance analysis | Share transfer techniques | Investment strategies |

The art is in the planning

Considering all these components ensures business owners cover every aspect of successful business succession planning.

The components of effective succession planning are:

- *Goal articulation*—includes business goals such as how large you would like the business to grow, whether the owner will sell the business or keep it within the family and who will lead the business.

Personal goals also need to be articulated such as when to finally step down from running the business and lifestyle considerations during retirement. Goal articulation is described in more detail later in this chapter.

- *Business strategy assessment*—ensuring a sound and clear business strategy is in place and a business plan, which is current and relevant, is developed. Business strategy is covered in more detail in chapter 3.

- *Management talent association*—identifying the current talent within the management ranks of the business to make an assessment as to the suitability of that talent to succeed the business owner, to identify the perceived strengths and development areas in the management talent pool and to articulate a strategy around talent development and/or recruitment. This is discussed further in chapter 4.

A multidisciplinary approach is a powerful methodology for business owners to achieve and implement a broad-based and widely accepted succession plan.

- *Family information and communication*—the dissemination of relevant information to family members to keep them fully informed in relation to the business. More on this in chapter 5.
- *Corporate finance*—the assessment of working capital and financing requirements of the organisation including the