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Taking control of your future – business succession planning

We all like to believe that the hard work we put into building a thriving business today will reward us with a prosperous future. Unfortunately, things don't always work out the way we would like. This is why business succession planning is so important.

This Nursery Paper provides a valuable introduction to succession planning for small and medium businesses. It explores what succession planning means, the benefits of looking ahead and the key to good succession planning. Most importantly, the paper explains why putting in place a detailed succession plan is the best way to ensure that you, your family, your staff and your business are equipped to deal with whatever life throws your way.



Taking control of your future – business succession planning

Unexpected developments can have a huge impact on your business. What happens if you suffer a heart attack and have to take six months off work? Would there be someone ready to step into your role? Even worse, what would happen if you died? Would your business be able to stand up to it financially or would your family be forced to sell up in order to survive? Or perhaps you hope that one day your children will take over the family business only to find they have other ideas. You get the picture - there's a huge range of things that can go wrong, so the more plans you have up your sleeve the better prepared you and your family will be when the unexpected happens.

Succession planning is about accepting the possibility of the unexpected or unwelcome and tackling it head-on. In a way, succession planning forces us to come to terms with our own mortality, which may partly explain why so many otherwise savvy business people simply don't do it. Putting in place a detailed succession plan for your business is the best way to take control of the future and ensure that you, your family, your staff and your business are equipped to deal with whatever life throws your way.



A detailed business succession plan helps ensure that you, your family, your staff and your business are equipped to deal with whatever life throws your way.

Succession planning in family businesses – not a pretty picture

A quick look at the statistics makes for some frightening reading. A recent survey found that even though 78.5% of family businesses thought that succession planning was important, only a small percentage have made plans. The survey also found that:

- The average age of a family business owner is 55
- 84% of business owners plan to retire over the next ten years and 54% in the next five years
- Over half do not believe they are exit or succession ready.
- Only 25% have a documented ownership succession plan (having a plan to sell the business)
- Just 20% have a documented management succession plan (finding a new manager but remaining the owner)
- 65.1% of family businesses have not agreed on the succession plan or who the next owner/manager will be.

While this may be a serious concern for individual businesses, it is potentially catastrophic for the Australian economy. Family businesses account for 67% of all Australian businesses and have an estimated combined wealth of \$4.3 trillion. When you consider that 84% of business owners are intending to retire within the next ten years, we find that control of a staggering \$3.5 trillion is going to change hands in this period. With such a large amount of money at stake, succession planning is becoming an urgently important issue for Australia.

NGIA president Geoff Richards believes the groundwork that individual businesses put into succession planning today will have a huge impact on the long term stability of the industry as a whole.

“The industry is undergoing a number of significant changes at the moment, which leaves a lot of uncertainty for businesses right across the industry,” he said.

“The more we prepare our plans today, the better our chances – as an industry – of thriving in the years to come.”



Good succession planning covers both the expected and the unexpected and allows you to exit your business on terms that suit both you and your staff.

The pitfalls of planning

The biggest pitfall when it comes to planning is leaving it until it's too late. Approach any business owner in the nursery and garden industry and they're likely to tell you that succession planning is important. The chances that they will have done something about it, however, are very slim. When it comes to actually making plans, succession planning is about as popular as occupational health and safety. However, the longer you leave it, the greater your business is exposed.

Other planning pitfalls include:

- Assuming your children will take over the business

- Waiting too long to give real authority to the successor - many owners wait until the last minute to hand over real control only to find the successor isn't up to the job
- Being secretive about your plans - many business owners keep their plans in their heads, which is of little use should they drop dead unexpectedly!
- Not thinking about retirement - if your business has been the centre of your life it can leave a huge gap when you retire. Furthermore, if the business remains in the family, you may be tempted to drift back in and meddle with how things are

being run, often to the detriment of the business and family relationships.

- Failure to plan for disability – if you get ill, who will run your business and would your present and future income be protected?
- Being entirely reliant on your business for your future financial stability - many owners plan on selling their business to fund their retirement yet fail to consider that they may not be able to sell the business when they need to. This often means settling on a significantly reduced price.

Prepare for the expected and the unexpected

Succession planning is about preparing your business as best as you can for any possible outcome. According to Grant Burgess, Partner in Strategic Growth Markets at Ernst & Young Australia, succession planning requires you, the business owner, to consider three major areas of risk:

1. You may not be able to leave when you want
2. You may not be able to realise the maximum value of your business when you do leave
3. The business may not be able to continue running without you.

Good succession planning covers both the expected and the unexpected. If it is done well, it will take care of you and your family no matter what hand life deals you. It also allows you to exit your business on terms that suit both you and your staff.

For David Matthews, owner of three-time award-winning business Proteaflora Nursery in Victoria, succession planning means freedom and peace of mind.

"It's all about keeping your options open by preparing for unforeseen events," said David. "There's nothing very magical about it. It's just good business planning.

For David and Proteaflora, succession planning has offered a means of professionalising the business by creating and developing efficient management systems. It has also focused on attracting the right staff to implement these systems, with the ultimate aim of making the business ready for sale at anytime.

One of the cornerstones of Proteaflora's strategy is recognising that the business is bigger than any individual who works there. This means that if any member of staff - from the Directors right through to the Potters - should no longer be able to work, the systems that have been put in place ensure that someone else will be able to fill the role with limited disruption to the business.

"It's important to recognise that in this industry, a lot of businesses are really small.

Most businesses employ less than five people, which means the principal owner is often the shareholder, director and staff.

"This simple fact makes having appropriate systems in place even more important."



David Mathews of multiple award-winning business Proteaflora Nursery in Victoria. Proteaflora's succession planning strategy recognises that the business is bigger than any individual that works there.

Widen your horizons

Proteaflora's succession plan gives the owners a wide range of options including:

- Continuing to work for the business
- Retiring and deriving an income from the business
- Selling the business or bringing new family members into it.

If the current owners choose to continue to work for the business, they have the option of winding their hours back or shifting their responsibilities by, for example, choosing to switch from everyday management to directing. Alternatively, the owners may decide to take yet another path and develop an entirely new business.

One of the advantages of having a highly systematised business is that it leaves

several options for family members to join the business, whether as a staff member, manager or even shareholder. As David points out, even though many people see succession as dealing primarily with handing the business on to the next generation, this is only one exit option. For Proteaflora, succession planning is first and foremost about the future of the business – family may play a role in that future or they may not. While good succession planning keeps the option of bringing family into the business open, it also acknowledges the fact that the business has to be an attractive enough proposition for family members to want to come in.

With the latest research indicating that family succession is becoming less and less common, having a business that is ready for sale has never been more important. It's also worth keeping in mind that in a small

business, a lot of goodwill sits with the owner, so the better the systems, the easier the transition will be.



Having efficient systems in place ensures that, if a staff member falls ill or leaves unexpectedly, someone will be able to fill the role with limited disruption to the business.

Recommendations for getting started

The owners of Proteaflora view succession planning as an ongoing exercise and have been actively working on it for several years. Based on his experience, these are David's top recommendations for good business succession planning:

1. Have a documented plan.

It is vital that the plan is articulated in some detail and doesn't just sit in your head. Unfortunately, too many smaller businesses tend to run as 'one-man bands' where all decisions remain solely with the owner. It is important that the owner share some management decisions and his/her ongoing vision with staff. That way, if the owner becomes incapacitated, other staff members can step in and help to keep implementing that vision.

2. Make sure you have the right staff and the staff have the necessary skills. Have detailed job descriptions. Should a staff member leave unexpectedly or fall sick, a detailed job description allows someone else to more easily step into the role or at least cover it until the person is ready to

come back. The ability to have someone step straight into a role is particularly important for smaller businesses that often rely heavily on a couple of key staff members.

3. Keep all your affairs in order and stored with the relevant professional. This means taking care of the little things, like making sure your succession plan is with your lawyer and that you have copies of all your banking transactions. This may seem like common sense, but many people still leave it until it is too late. At a time of crisis, having your paperwork in order can make all the difference.

4. Have a vision of where you want your business to go. For David, this is about looking into the future and deciding what you would like to see your business achieve. Once you have this vision you can begin to plan for it. Remember, your idea of what the future looks like should be fluid and evolve over time.

5. Make sure you're not financially dependent on your business for your retirement.

If you are planning on using the proceeds from the sale of your business to fund your retirement, think again. If you have to sell in a buyer's market you could end up getting far less than what you need to retire. This is why it is essential to plan for retirement with superannuation as well.

6. Seek appropriate training and advice. David sought out the services of succession planning experts.



Have a vision of where you want your business to go and begin to plan for it. Remember to keep your vision fluid and allow it to evolve over time.

Get free advice from reputable experts

Feeling daunted by all that you have to do to get your succession planning up to scratch? Don't know where to begin? Stress less - your industry association has you covered.

Between August and October 2007, Ernst & Young are running succession planning workshops for small and medium businesses. Designed with the input of Nursery & Garden Industry Australia (NGIA), these

workshops enable participants to:

- Diagnose their current position
- Set personal goals
- Develop business succession strategies, and
- Plan for retirement and exiting the business.

Aimed specifically at small, medium and family run businesses, these workshops are ideal for business

owners who recognise the importance of succession planning and would benefit from some professional guidance.

Best of all – these workshops are free. 45 workshops will be run around the country. To find out more or to register, contact your state association or keep an eye on the NGI website: www.ngia.com.au.

Acknowledgments

Statistics published in this Nursery Paper can be found in Smyrnios K. and Dana L. 2006, MGI Australian Family and Private Business Survey, RMIT University.