SMALL BUSINESS UNDER-PREPARED FOR RETIREMENT

A recent survey by CPA Australia reveals that only 38% of small businesses have a succession plan in place.

Given that over 50% of the small business community are within 10 years of their retirement age, that's a large number who do not have a viable solution for their own succession.

With many business owners relying on their business to fund their retirement, many appear to be leaving their retirement to chance.

A succession plan is not just about handing your business over to your kids. It's about understanding how to maximise the potential of the investment you have made in your business and knowing how to extract that value when you are ready.

An important thing to remember is that you should be planning on how to exit your business now, not when you need to sell it or pass it on.

For some business owners' exiting their business is not because of retirement, it has simply become time to realise the capital value and move on. Many business owners move through a life cycle with their business. It is not uncommon for a small business person to own and manage a number of businesses throughout their lifetime and sometimes transition will occur simply because they have progressed through the life cycle of the particular business they are in.

Either way, your succession strategy should allow 3 to 5 years to maximise your position.

Many business operators make the mistake of trying to extract themselves from their business when they have simply had enough, or are too ill to work. But you wouldn't sell your house without looking at how to get the maximum for it, so why would you leave your business this way?

There are a number of succession options available to you:

- Sale of business;
- Generational succession;

WHAT IS "OBM"?

In its purest form, OBM is providing all information to all team members. In some situations this is not practical, or the business is not ready for an OBM system.

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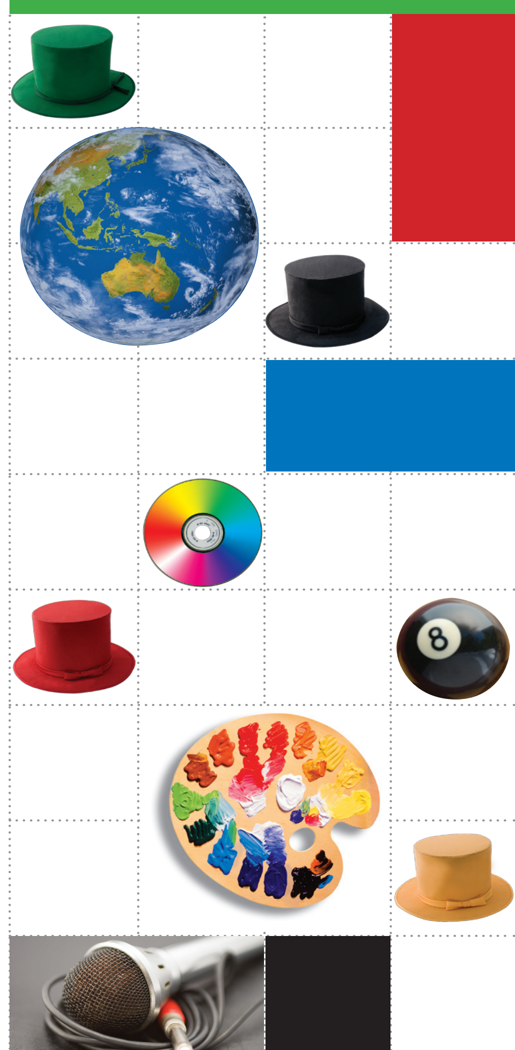

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- Management/employee buy-out;
- Structured liquidation; and
- Public listing.

If it is unlikely that you will hand the business across to your kids, then a sale of some discretion is the most likely, even if this is an ‘internal sale’ to your staff.

Succession planning has a number of stages:

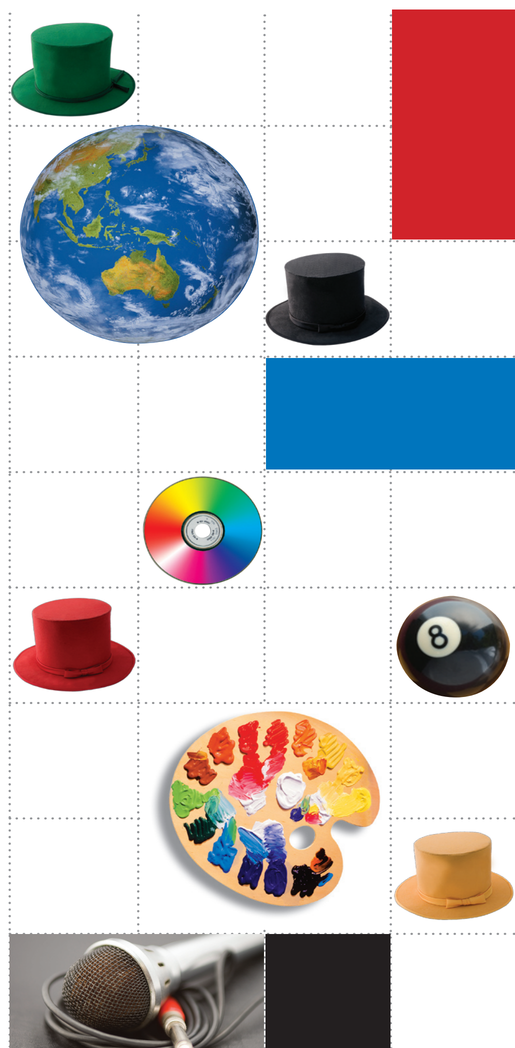
- Identifying your timeline and strategy
- Completing an initial valuation
- Undertaking a pre-succession review. The review is a strategic work through of the succession process, identifying any problem areas that might be an impediment as well as identifying areas that can be enhanced.
- Review of the tax and structural arrangements

In general, purchasers will find these characteristics appealing:

- Continuous business plan
- Clear and workable business structure
- Operate on systemized and efficient processes in all areas
- Defined organizational structure that is understood and works
- Employ the “right” people in the “right” jobs
- Market saleable products with planned and definable life cycles
- Produce consistent levels of high profitability
- Low levels of reliance on owners input and presence

If you need assistance with any of the issues raised in this article, talk to us today.

The above is an extract from the publication “Your Knowledge” a newsletter service we have subscribed to as an additional resource.



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