

Parting with the family firm

Passing on a family business is best planned before events force your hand



JOHN BURNETT

FACING the issue of succession or continuation of one's business is like addressing the need for life insurance. Neither subject is addressed with much enthusiasm by the average person.

Yet all family-owned businesses will end in one of three ways: they will be transferred to another family member, sold to an outsider, or closed down.

Many business owners spend years planning how they will spend their retirement, yet they often don't have a written succession plan.

Many assume that their kids will carry on their good work. But due to poor planning, most such transfers are doomed to failure, spluttering to an end often within the second generation of family ownership.

Often more questions are posted in the planning stage than there are answers. For example: if there is more than one

child, are they all working in the business? If so, who will be the manager? Will they be equal owners? What if none of them are prepared to be the manager? What is the plan for management succession?

Other questions include how to calculate compensation for family and non-family management, and which children should guarantee loans and other business commitments.

What about the reluctant successors who may want cash and not a shareholding or operating management positions?

What about the pressure on kids to provide an ongoing retirement income to the parents? And when is the right time for a business transfer to take place?

The decision to sell a business involves a difficult balancing act between the personal motivations and financial reality of the individuals involved.

The majority of business owners decide to sell a family business in response to a real or imagined business or personal crisis.

Such thoughts are often sparked by a desire for a lifestyle change. While money is important, it is not the principal motivator.

Professional advisers with the best of intentions will often counsel on pricing and this can often prove harmful to the sale process.

An unrealistic price can raise the seller's expectation and delay the sale process,

often to the detriment of the business, its staff and trading prospects.

Owners need to fully understand the unique environment in which business are sold and therefore avoid the costly mistake of employing traditional sales methods.

New Zealand has enjoyed a relatively stable and prosperous trading period over the past five years, and as a result owners are often tempted to delay a sale.

However, my recommended course is to sell when you can demonstrate a strong profit performance with a degree of assurance that more of the same is to come.

Why wait for the inevitable downturn in the economy?

Buyers can also sense an owner who is under financial or personal pressure, and that may well be reflected in their offer price.

The time to sell is when the full potential of the business has not yet been reached. Leave something on the table for the buyer and if you are required to stay on in the business to help the new owner, your ongoing involvement will be a happy experience rather than an explanation as to why the projections as stated on the memorandum of information are not achievable.

Also, purchasers can sense your pride in ownership and will often pay a premium in order that they can secure your business.

By planning ahead, you won't be one of those owners where the notation in the promotional



material reads: "owner's ill health forces sale".

Today purchasers don't buy in to that notation and will sense an opportunity to drive a price down.

And don't forget that if you don't make the decision to sell or to select a successor, outside forces will eventually combine to determine the ultimate fate of your business. ■

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SELLING UP

- Sell when profits and prospects are solid.
- Buyers will sniff out a forced sale.
- The best deals leave something on the table for the buyer.