

Media Release

Time Running Out for Family Business SME Succession – Innovative Exit Planning Required to Maximize Value

Monday June 3, 2013. With over 80% of Australian SME business owners aged over 55 and effectively trapped in their businesses as retirement looms on the horizon, Succession Plus Pty Ltd Founder and CEO and President of the Australian Chapter of Exit Planning Institute, Craig West said immediate innovative thinking is required by the professional services sector to assist Baby Boomer vendors to maximize the value of their enterprises.

As Baby Boomers turn 65 between 2011 and 2030, for that entire 20 year span there are **between 4800 and 5600 boomers reaching age 65 every week** in Australia and many are business owners. This event and the subsequent transfer of their business (for many their largest asset) represents a key aspect of retirement planning / funding.

Recent surveys by major banks and accounting firms have identified succession planning as the number one issue among SME business owners as they approach the end of their careers and grapple with a myriad of complex issues required to provide them with a viable exit.

“Unfortunately, the stark reality for many owners will be that they are unable to find buyers willing to pay an acceptable price for the value they have created or family members prepared to take over the reins. More and more are facing the very real reality of simply turning of the lights and walking away,” said Craig West.

“Although initially the future may appear gloomy, time is still on the side of business owners and they have many options open to them – the trick is to work out which is the most suitable as there is no one size fits all solution.”

But in many cases, confronted with the perils of forced exit, owners simply can’t see the forest for the trees and miss an obvious option: selling the business to existing staff.

Recent surveys have found that 38% of owners were unaware of the employee buyout option and further 44% considered employee buyout as unlikely or very unlikely.

Commenting on the employee share ownership plan (ESOP) Craig West said there have been some very real success stories in recent years whereby a bit of innovative thinking via employee incentive plans in the form of profit share schemes have underpinned a mechanism for funding succession initiatives.

One such innovative thinker was Western Sydney based engineering plant C-Mac that bucked a growing SME trend to wind up on owner retirement when it introduced an ESOP to all the company’s employees.

C-Mac’s ESOP was designed by Succession Plus and is an excellent role model example of the outcomes that can be delivered by a creative approach.

The company’s founding family are still the principal shareholders but see the benefits of a gradual sale

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of shares to employees based on profit share as well as the increased involvement of key staff within the management team.

Margaret McMaster (widow of company founder Cliff who passed away in 2008), supported the plan as she saw it would benefit “long term and faithful employees as much as the family.”

The plan was a Peak Performance Trust designed by Succession Plus specifically for small to medium privately held businesses who are looking to attract, retain and motivate key staff by involving them in both the equity and control aspects of succession planning.

This succession strategy has been used successfully by a growing number of business owners throughout Australia looking for an innovative approach to their exit aspirations.

Craig West continued, “C-Mac’s owners didn’t wait until they reached 64 years and 9 months to take action and by adopting an early approach to the exit issue have delivered a long term sustainable and viable financial future for the business.”

C-Mac currently has two employees on the Board that were elected by the new group owners and the business benefits have increased immensely by all parties dedicating their efforts and energies in a win-win environment for all stakeholders.

The engagement of employees as owners has seen an 18% improvement in productivity at the plant.

Reflecting on the benefits of a Peak Performance Trust, Craig West lists the following key advantages –

- Key staff have an equity stake in a business with real ownership and a tangible value
- Over time, staff can increase their stake in the business via performance improvement, additional contributions, salary sacrifice, etc
- Business owners have a predetermined sales strategy with identified buyers and an agreed valuation formula to calculate the selling price
- Owners are also able to maximize the sales price as the business value increases with improvements in performance

Craig West concluded, “So the message that must be heeded by all SME owners is that the time to start planning an exit strategy is now in order to reap the rewards from an enterprise created over a lifetime of hard work and dedication.”

“Therefore, to get the best return, owners need to be adequately prepared over a 5 to 7 year period if they are to maximize the business sale price. Those businesses that are sold on a short timeframe generally do not achieve the best price.”

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