

# Exit Options & Strategies



## The Final Test of Greatness

Family business is the most common business structure in Australia and most economies around the world. This style of business operation is often thought of as small business but, as discussed in early booklets, working with family adds a range of complexity not faced in the broader business community. This is because of the overlap of two very different value systems.

One of the flashpoints that arise in the family business occurs at the time of transition. Though periods of change are difficult for all businesses, in a family business there are some particularly sensitive issues to be dealt with –

- Is the current business leader ready for the next stage in life?
- Does the current business leader want to realise the wealth locked in the business through the sale of the business? or
- Transfer the business within the family, which results in a wealth transfer to the next generation?
- Is the next generation ready, willing and able to take over the running of the family business?
- If there is more than one potential successor, how will the successor be selected?
- Does resigning as head of the family business mean that there will also be a change in the role as 'head of the family'?
- What other barriers exist to a successful transition from one generation to the next?

## You are in Good Company

Like all western economies, Australia is about to face a huge demographic change as the baby boomer generation reaches the end of its working life. The 2008 KPMG Family Business Australia Survey of Family Businesses has found that –

- 33% of CEOs are aged 56 to 65
- An additional 10% are over 65
- 68% of all CEOs surveyed are likely to step down within the next 10 years
- However 83% do not have a succession plan in place for the CEO
- Even though 29% recognise that succession planning is a major concern

So if you are yet to start dealing with the issue of planning for sale or the transfer of your business you are in good company. The vast majority of family and owner managed businesses are with you.

## The Advantages of Planned Transitions

Transitions are a fact of life. They happen to us at a personal level as we transit from infancy, to childhood, to adolescence, from adulthood to middle and subsequently old age. In a business sense, a business transitions from start-up, to professionalisation, to maturity. These life stages are inevitable. What's more - they will happen whether we plan for them or not.

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Planning for a transition provides the opportunity for the current business leader –

- To influence the direction of the family business into the future.
- To use the power and status of their position within both the family and the business to ease the process
- To continue the business and create a legacy for future generations
- The opportunity to build the business and thereby maximise its value on sale or for the benefit of future generations
- to take pride in seeing their creation flourish under the guidance of their successors
- to avoid the turmoil that could result from an unplanned transition

## Exit Options

Broadly speaking there are two primary business continuity options –

1. **Sale** of the business, which allows for a realisation of the wealth that the family has locked into the business
2. **Succession** – which involves a transfer of the business to the next generation, and effectively transfers control of the family wealth from one generation to the next?

## Sale of the Family Business

Sale of the business can occur in a number of different forms –

1. Sale to third party – often by way of a trade sale within the industry
2. Sale to a partner or co-owner
3. Sale to an employee, or a management buyout (MBO)
4. Public listing (IPO)
5. Liquidation – either formal, in the case of a distressed business, or as a considered choice whereby the owner arranges for an orderly realisation of the assets of the business

The choice will depend on the size and strength of your business and individual circumstances. But whichever form it takes, the planning for sale and implementing your strategy is a process that can take some time if your objective is to maximise the value of your business.

The danger though, is that given the number of businesses that will change hands in the next 10 years, there will be more sellers than buyers. This means that if you want your business to command a premium price, it will have to be an exceptional business.

## Maximising Business Value

Do you know what your business is worth? Whether your exit strategy is sale or succession, it is essential that you identify how you will maximise its value. Preparation is vital and this takes planning and time.

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Establishing the value of your business is the first step. Though most of us have a pretty good idea what our homes are worth, very few people know the current value of their business.

So the first step is to speak to someone who has experience selling a business of your size and obtain a valuation. As well as a dollar figure it's important to establish what creates value for a business of your type in the market place.

With this knowledge you now have the starting point for a plan to increase your business value. Your task is to ensure that each and every day you are doing those things that improve these value drivers.

Though there are a number of ways valuing a business, in general terms there are two key components to value –

- Maintainable profit (or cash flow)
- A multiple of EBIT or cash flow

## The Two Dimensions of Succession

Succession happens at two levels –

- Management
- Ownership

**Management succession** involves identifying a successor who is ready, willing and capable of running the business. The current CEO has to be confident that all three conditions exist.

**Transfer of ownership** results in a transfer of control of the family wealth that is locked in the business. It will often mean that the control moves from one person (or husband and wife) to a partnership of siblings or cousins. This move from sole control (a dictatorship), to multiple control (a democracy), creates a completely different dynamic. The power and influence that was exercised by the current business leader will need to be managed in a completely different way by the new leader.

## Succession - transfer within the family

Family succession has an impact on two generations –

- The current business leader and
- The successor

They each approach succession from a different perspective –

Current business leader Generation	Successor Generation
Enjoys current role, involvement and status	Keen to demonstrate that they are ready for control
Has control but is often reluctant to address the issue of succession	Lacks the power to take action
Will often have much of their personal wealth locked into the business	Often unable to fund the acquisition of the business and reliant on family support

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Current business leader Generation	Successor Generation
Are reluctant to retire – there is an unfounded fear that retirement = death	Find it difficult to start the conversation
Do not have a personal plan that extends beyond involvement in the business	May need to prove that they have the capabilities required
May be faced with choosing between a number of children/successors	Could have difficulty leading siblings who also work in the business
Wants to be fair to all children whether they work inside or outside the business	May have to share ownership with family members who do not work in the business
Reluctant to change	Keen for transition to take place, but lacks the power to make it happen

These and a range of other factors, make family succession a difficult subject for all parties to deal with. That's why it's often easier to ignore it and hope that it will go away. Unfortunately it won't. It's an inevitable fact of life and the question is whether you want to plan for it, or just wait and let it happen to you?

Getting involved with an organization such as Family Business Australia will often help to get the conversation started.

## The Bottom Line

Business transitions are a fact of life. Your choice is whether you want to take control of the process and impact on the way that it proceeds, or leave it to chance and the likelihood that it will result in difficult times for your family.

Like any change this is not an easy path, but there is help available. Many other business families have gone this way before you. Family Business Australia can provide information and put you in touch with other family businesses and professional accredited advisers who can help.

## Other Booklets in this Series

- So you Work with your Family in Business
- Navigating the Pitfall of Working with Family
- Structuring the Family Business for Success
- Exit Options & Strategies for the Family or Owner Managed Business

*This article is for general information only and should not be relied on as, or in substitution for, professional advice. It was written by Harry Kras, Director of the family Business Resource Centre [www.fbr.com.au](http://www.fbr.com.au) for Family Business Australia [www.fambiz.org.au](http://www.fambiz.org.au). Harry is an FBA Accredited Adviser and can be contacted at 03 9018 9800 for further information.*

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