

THE IMPORTANCE OF BUSINESS SUCCESSION PLANNING

We published an article on Business Succession Planning back in June this year and with Christmas and the New Year break on the horizon, we thought it an apt time to revisit the topic.

Firstly, let's revisit the concept of Business Succession Planning. It can be summarised as:

- Events caused by a relationship breakdown between the owner or owners.
- The retirement of a business partner.
- An involuntary retirement or event due to illness, sickness or death.

The reality is that business succession planning affects all businesses. It is not confined to those with two or more unrelated directors, owners or partners. It can also affect family businesses with spousal or family partnerships.

Common concerns around business succession planning

There are a number of concerns that business owners have in regard to business succession planning including:

- Retaining family assets in the bloodline.
- Continuing in business with their business partner's spouse should anything untoward happen to their business partner.
- Having personal assets at risk for business debt.
- Avoiding family disputes.
- Extracting full value from their 'considerable personal investment' including money, time and intellectual capital.

In order to appease the above concerns, we fall back on these two relevant philosophies:

1. Steve Covey (American educator, author and successful businessman and management expert), **"Start with the End in Mind."**
2. Then, our very own Syd Chesson, Director of AustAsia abides by, **"Plan for the worst, and work for the best."**

Where to start with your planning

A number of our business clients have told us that they want to embark on their business succession planning but are unsure where to start. So, we flip it to the reverse.

1. Establish what the end is going to be.
2. Plan for this as worst-case scenario.
3. Put together a plan or agreements which consider issues and concerns.

Some of the issues and concerns to consider in your plan are:

- Multiple marriages and stepchildren.
- When one business partner is married and one is not.
- Worrying about a child who cannot manage assets due to drug/alcohol addiction, disability, immaturity etc.
- If a divorce ensues and there are concerns of the son-in-law or daughter-in-law running away with assets.
- When one child is involved in the business and another has an independent career. How to balance the ledger.
- When the business is passed to the children, what to do in regard to an income and saving for retirement.

Official business succession documentation

There are two different documents that should be prepared in your planning which can be categorised as follows:

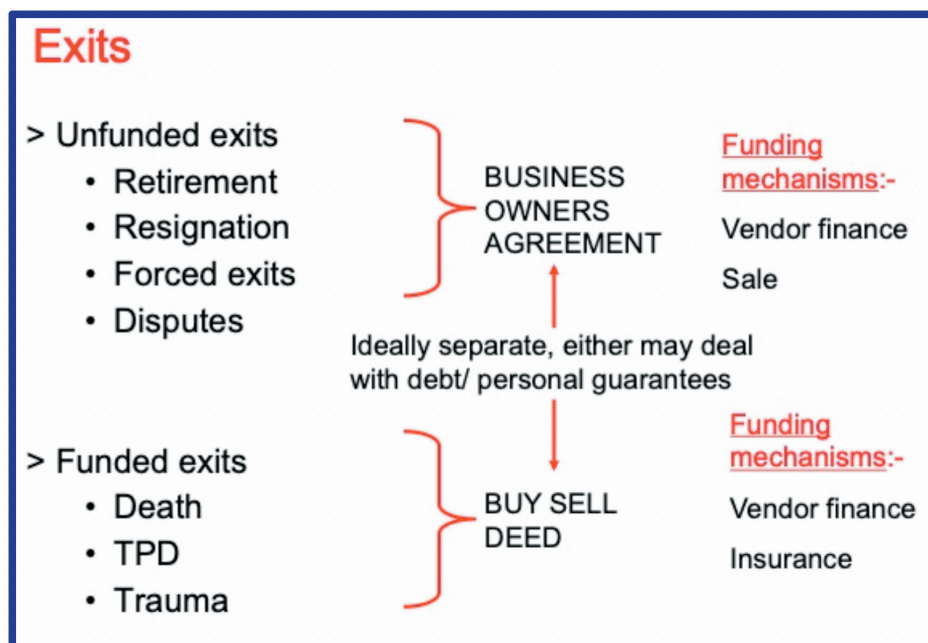
1. Business Owners Agreement

- such as a Partnership Agreement, Shareholder Agreement, Unitholder Agreement
- Business Owner Agreements deal with how you operate the business day to day and what happens in the event of a dispute or if one person wants to exit the business.

2. Buy / Sell Agreement or Deed

- deals with specific events such as Death, Total & Permanent Disablement (TPD) or Trauma (which covers specific medical events or conditions such as cancer, stroke, multiple sclerosis, MND or other conditions).

These documents are summarised as below.



We liken these documents to Wills and Enduring Power of Attorney for the end of a business relationship.

- An Enduring Power of Attorney operates for when someone is not in a position to make decisions on their own; (Business Owners Agreement)
- Wills are in place to deal with assets upon someone's death (Buy/Sell Deed)

Take a proactive approach

In business, it is common to get so caught up in the day-to-day operations that you think this will never happen to you. Business owners have the intent to draw up these agreements, even get the insurance in place, yet never get around to doing it. When the time comes, the agreements are not in place and chaos can ensue.

We understand this can be a difficult and delicate conversation to have with your fellow business owner/s. So, we have developed our 'Questions to Consider for Business Succession Planning' to try to assist business owners to talk to each other and broach the subject.

If you would like more information about Business Succession Planning please contact the AAG Team today on (08) 9227 6300 or email us at clientservices@austasiagroup.com.

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