



# BUSINESS SUCCESSION PLANNING

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# The Brief:

## Succession Planning For Small Business

- Succession planning options,
- Profitability & business improvement,
- Business structure & efficiency,
- Valuing your valuation business,
- Planning your business for sustainable growth and / or sale.

# Presentation Outline

- Business valuation
- Observations from professional service firms
- Succession options
- Recent examples
- Finding the right person
- Goodwill?
- Advice for a seamless succession
- Financial hygiene
- Profitability and business improvement

# Business Valuation in general

- The value of a business is equal to its future cashflows discounted to the net present value at a rate which reflects the risk inherent in the business

**But...**

- that value can not be less than the net realisable value of the individual asset values of the business



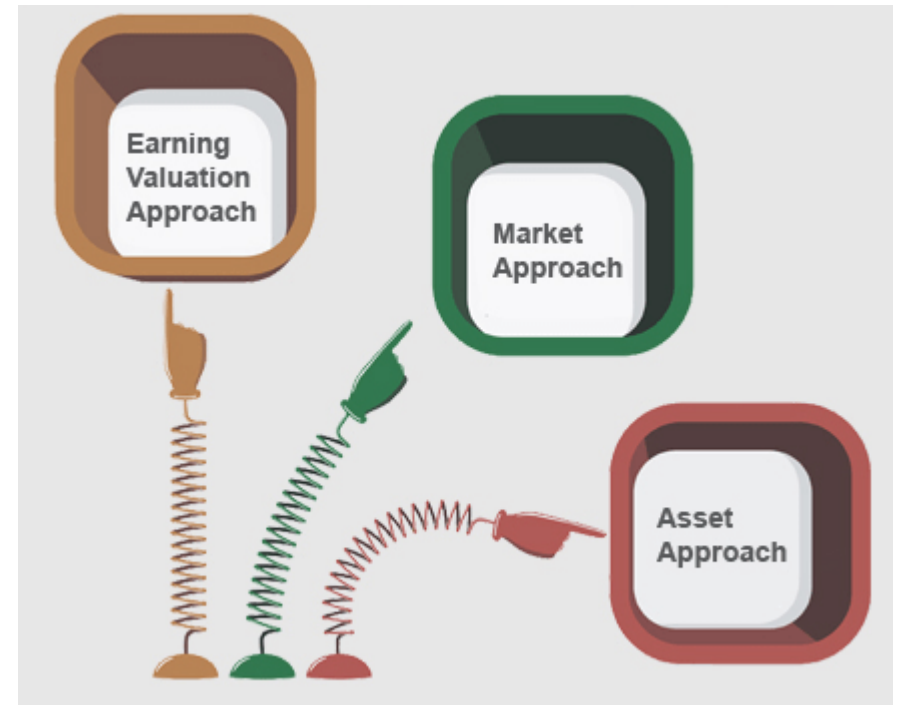
# Business Valuation continued

- **Attempts to assess the value that a willing seller and willing buyer are willing to transact**
- Is different depending on whether it is the entire business being valued, or the shares of the business that are being valued.
- An in-depth understanding of the business is required to undertake the valuation, including:
  - Historic financial information
  - Market environment
  - Competitors, suppliers and customers
  - Technological changes
  - Macroeconomic climate
  - Legislative framework and potential changes
  - Key person reliance

**Business valuation has been described as both an art and a science**

# Possible Valuation Approaches

- Earnings based methodologies:
  - Discounted Cash Flows (“DCF”)
  - Capitalisation of Dividends
  - Capitalisation of Earnings
- Asset based methodologies:
  - Value of net tangible Assets (on a going concern basis)
  - Notional realisation of assets
  - Liquidation basis
- Industry Rules of Thumb



# Take-away's from Valuation Theory

- Value is in the future cash flows generated from income
- Business is risky, so people want a return to compensate for the risk
- People will not pay for personal goodwill
- The value is determined by what a buyer and seller can agree on



# Valuation specifics for Professional Service Firms

- Goodwill is more “personal goodwill” than “firm goodwill”
- An aging pool of owners
- The “millennial factor”
  - 23 - 38 year olds have a different mindset
  - Getting good staff is hard
  - Less people looking to buy in (supply/demand imbalance)
- Risk is changing
  - Directors duties are taken more seriously by the courts
  - Health and Safety Act 2015
  - Increase in litigious nature of business
- Technology is changing business models
- Consolidation of businesses seems to be a continuing trend with less small businesses (driven somewhat by compliance costs)



# Succession Arrangements for Professional Service Firms

Different methods for achieving a transition of ownership include:

- Internal successor
- External successor
- Merger with another firm for short-term or long-term buy out
- Selling to another firm and stepping back to an employee role



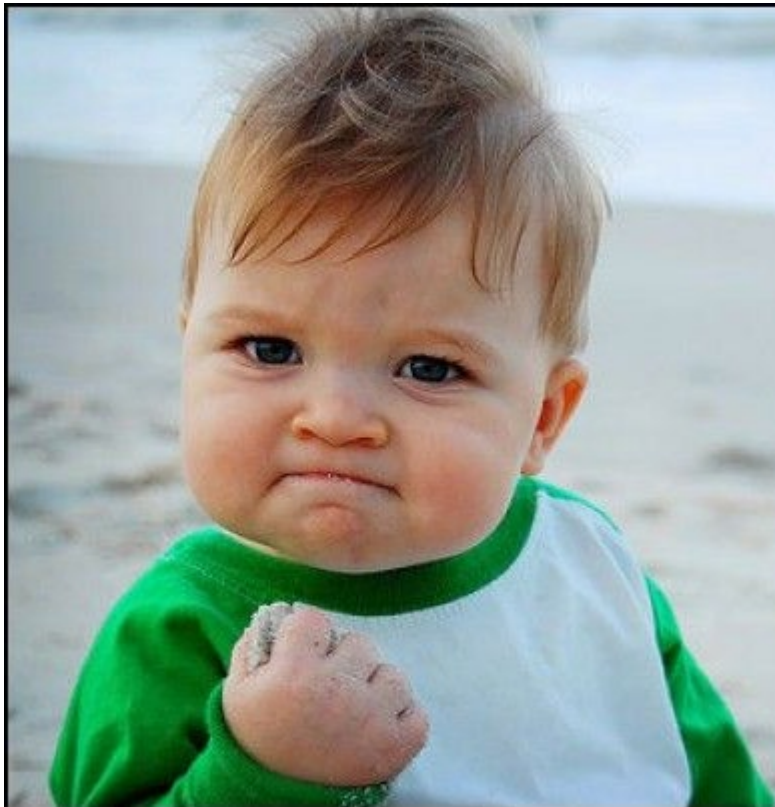
OR



- Gradual step down without replacement
- Solvent and managed wind down of business

# Recent Examples

- Successes



- Failures?  
(Less than ideal outcomes)



# Finding the Right Person is Key

- Technical competency - a given
- Harmonious working relationship - especially for continuing shareholders
- Age profile of the owners - consider
- ‘Business case’ to support their buy-in - must have
- “Firm-first” mentality - need



# Attributes of the Right Person

- Ambition to become an owner
- Professionalism and integrity
- Positive Personality - friendly, confident and outgoing
- Leadership qualities
- Motivation and ambition to succeed
- Accepts responsibility
- Ability to fit in and be a “team player”
- Ability to attract new work
- Adds to the practice
- Has technical expertise
- Sound business judgement
- Someone who lives the “values”
- Someone who can develop and grow a team
- Overall fit within the owner group



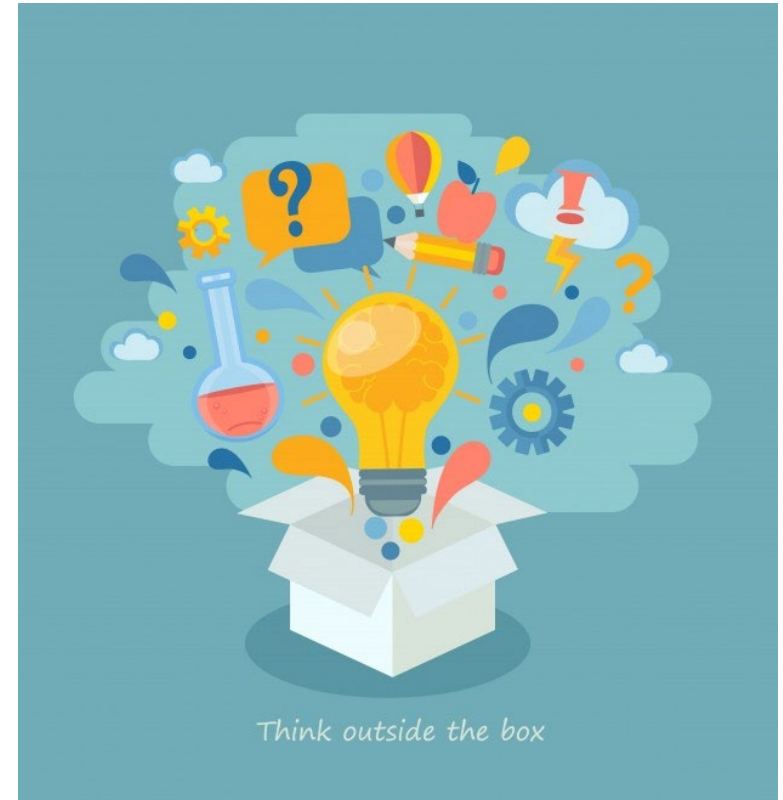
## Attributes of the Right Person (cont.)

- Honest
- Follows industry guidelines
- Meets personal KPIs - billing, recoverability
- Achieves goals set in development plan
- Contributes to management of practice
- Gains and maintains internal and external respect



# Think Out Side The Box

- Part-time owners?
- Diversity of community?
  - reflected in the firm
- Embrace and invest in technology and technological change?
- Consider the need for a physical office?
  - rent is a big expense
- How can you make it more attractive for employees who show potential?



# Goodwill?

Is there goodwill in professional service firms?

Is there goodwill in valuation businesses?



# Advice for a Seamless Succession

- All decision-making should be based on the Strategy of the business
- Identify potential business owners - mentor their IQ, EQ, CQ and AQ
- Don't assume that the ideal successor will have attributes similar to you
- Think of needs four or five years in advance
- A robust business case is required for new owners
- Make use of salaried partner-type positions
- Consider lock-step type mechanisms - for equity ownership
- Regularly review and update the founding documents
- Have a prescriptive valuation methodology
  - do not use “fair value” clauses
- Any entry or exit arrangement needs to be “fit, fair and feasible”





# STRATEGIC PLAN 2019-2024

WHAT	VISION	VISION						
		OUR BRAND PROMISE (“TO BE THE BEST VALAUTION FIRM”)						
WHERE	GROWTH PILLARS <i>Growth drivers to reach our vision</i>	OUR BIG ACHIEVEABLE GOAL - REVENUE OF \$[X] IN FY2024						
		LEAD THE MID MARKET IN CANTERBURY	REALISE SIGNIFICANT GROWTH THROUGH TARGETED APPROACH TO “INFLUENCERS” IN OUR MARKET	LEVERAGE BETTER GROWTH FROM EXISTING CLIENTS THROUGH OUR COLLABORATIVE APPROACH	INVEST IN SYSTEMS AND PROCESSES	xxxxxxxx		
HOW	STRATEGIC ENABLERS	EXCEPTIONAL CLIENT SERVICE						
		OUTSTANDING & EXCELLENT QUALITY						
		FULLY ENGAGED PEOPLE & TEAM						
		EFFICIENT INFRASTRUCTURE (INTEGRATED SYSTEMS & PROCESSES)						
FOUNDATION	OUR CORE VALUES	WE DEMONSTRATE LEADERSHIP	WE FULLY ENGAGES WITH STAFF	WE PROMOTES MUTUAL SUPPORT	WE ARE PROFESSIONAL	WE FOSTERS STRONG RELATIONSHIPS	WE ENCOURAGES SOCIAL RESPONSIBILITY	WE DELIVERS EXCELLENCE

# STRATEGIC PLAN 2016-2021

Key Actions Identified / Focus Areas	Accountabilities and Measurement					
	Timeframe	Responsibility	Key Performance Indicators (KPI's)	Priority	Progress	Comments / Status
<b>Staff Investment</b> a) X b) X c) x						
<b>The Property Imperative</b> a) Move building b) X c) X						
<b>Network Infrastructure &amp; Enhancements</b> a) X b) X c) x						
<b>Succession Plan</b>						

**KEY:**



Service Line Priorities



Staff Investment / Network relationships



Infrastructure & Property

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# Financial Hygiene

- **Goodwill:** consider removing from the balance sheet - Amortise over 5 years
- **“Fit-out” depreciation:** match to the length of the lease
- **Loan repayments:** structure so that they match the depreciation cost
- **Working capital funding:** aim for “dollar for dollar” - based on proportional shareholding (shareholder capital accounts)
- **Shareholder Capital Accounts:** pay market rate interest
- **“Buy-In”:** aim for self-funding
- **Exiting Shareholder Capital Account:** pay out over 3-5 years after owner leaves
- **Accounts Receivables:** ensure well managed
- **Annual budget:** Set before the start of each year
- **Profit Distributions:** aim to pay out quarterly



# Profitability and Business Improvement

- To increase your profit:
  - Have a strategy
  - Prepare an annual budget
  - Prepare management accounts and report against budget
  - Hold people to account for revenue and expenses
  - Benchmark
  - Invest



# The “I’ve been checking my emails...” slide:

## Succession:

- Do not plan on getting goodwill on the way out
- The value of your business is what a willing buyer will pay
- Don’t wait too long
- Have realistic expectations

## Other:

- Ensure you have good financial hygiene
- Structure and manage the business for success
- Prepare budgets
- Benchmark



# QUESTIONS?



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