Successful succession: planning for the future

Everyone leaves their business one day. The earlier you start thinking about your succession planning strategy, the more successful this transition will be.

Why succession planning?

It’s never too early to start planning for the day when you want to step back from your business. Putting it off will make the transition harder, and may reduce the value of your business to a new owner.

Recent research from Xero indicates that three out of four New Zealand business owners are expecting to sell their businesses in order to fund their retirements, yet 30% don’t believe their business would survive without them, and 47% don’t have an exit plan in place.

According to Xero’s New Zealand Country Manager Craig Hudson, that number is higher for baby boomers, with 90 percent of business owners in that cohort looking to retire seeking to fund their retirement through the sale of their business.

“The lack of planning and forward-thinking by small business owners about the succession of their business is concerning, as many Kiwis will be impacted when these business owners decide to sell-up or exit the company.

“Any business owner who has put in the time, money, blood, sweat and tears to build their company would want to keep it thriving, and any owner looking to retire needs to find someone competent to take over. The best way to make sure of that is to develop a succession plan”, says Hudson.

Get help with planning

Your plan for succession will depend on your business and goals.
It is a good idea to put these down on paper and discuss with someone you trust. For example, if you have a business advisor or a board of directors they can help with planning how the business will operate when you step back.

Other ways you might get help with planning is using a mentor or advisor who can help you with making decisions about how to transfer the business to the next generation.

They can help you decide if you still want to remain working in the business, just keep shares in the business, or exit entirely.

[Retirement planning for small businesses (/news/retirement-planning-small-businesses-sole-traders/)]

Case study

Getting help with planning

Scarlett Hydraulics founder Paul Bowman worked with his board to create a plan for the next phase of the business.

“I was thinking about how the business would operate without me years before Shane became CEO”, says Paul. “A board was really useful to check our thinking when it came to long-term strategy and growth”.

Paul still works in the business, but sold shares to long-time employee Shane Brookland, who had demonstrated talent for running the business.

“Thanks to the effective succession plan that Paul put in place, the business has gone from strength to strength,” says Shane.

Get organised

Succession planning isn’t a quick or cheap process, and if it involves family it can get complicated. It pays to take advice, plan well ahead, and get organised.

Think about:

- your timeframe for getting your plan in place and starting to implement it
- getting your books in order as prospective buyers want to see how your business is performing
- having a clear picture of your assets and liabilities as these will help to value your business
- seeking professional advice from business advisors, mentors, your board of directors, and independent business valuation specialists
- if your succession plan involves family members, getting them involved as early as you can
Gradually transition out of your business

One succession planning strategy is to gradually pass ownership to a new owner, perhaps a suitable younger employee or family member. This approach has many benefits, including preserving the value of your know-how and customer relationships, and giving you the chance to stay involved in the business – perhaps while reducing the number of hours you work.

Negotiating for key staff to buy into your business can also be a good way to retain them and incentivise them. If they take over running parts of the business at the same time it can allow you to step back and focus on growth or perhaps spend more time with your family. Finally, it may also help make your business more attractive to other investors or buyers, as the business will be less dependent on you personally.

Sell your business

According to Craig Hudson, Xero’s research found that 55% of small business owners expect that someone outside their family and professional networks will buy their business, and yet 56% of them are unaware of their business’ current value.

Value isn’t the only thing you need to think about when considering selling your business.

Here are some more things to ask yourself when you’re looking to sell your business:

- What is my business worth?
- Who will buy my business?
- Are my business’ finances in shape?
- Do I have a business plan?
- Are my systems and processes documented?
- What are my assets and liabilities?
- Are there any outstanding legal issues?
- Do I want to retain shares in the business?
- Will there be any tax implications from selling my business or shares?

Selling your business (how-to-grow/planning-to-exit/selling-your-business/)

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