

Plan Now to Hand Over the Reins

Whether you're new to business or you've been operating for some time, odds are you put a lot of time into setting up your business. Probably the last thing on your mind was thinking how you were going to sell your business, or pass it on to the next generation, in the future.

In fact the best time to start succession planning, or planning to sell, is at the very beginning of the life of the business.

You need to plan for selling or succession with the same attention and thought that you put into your business, marketing and financial planning. It's critical to the ongoing success of your business.

Yet it is estimated the vast majority of family-owned businesses do not have a formal succession plan in place. Losing a key person in the business with no obvious successor can do serious damage to the value of the business. As well, there will be financial arrangements and rearrangements to be made in the event of the death, disablement or retirement of a family member which, unless planned for, can have drastic consequences.

In the worse case scenario the business itself could collapse and the family would be left with immense problems.

Sadly, the vast majority of New Zealand businesses do not reach the second or third generation, in most cases because of improper planning. Evidence indicates that only businesses that have nurtured and developed the obvious successors within their business, both family and non-family, are likely to defy the statistics and continue to succeed.

It's the same rationale for non-family businesses. One day you will need to sell your business, and, however distant that may be, you still need a succession plan in place right from the beginning. Your business needs to stand alone, without being too reliant on you. You need to create that culture at the start and continue to make it a part of your business.

Start planning while you're still at the helm

Planning for succession in a family business is a long term process so it's important to start while you're still running the business. You need to think about whether:

- There is a suitable family member who can take over the leadership
- You need to employ someone as a coach or mentor for younger family members
- External management should be hired as an interim measure until a potential leader in the family emerges.

Succession planning in a family business is not always easy. Quite apart from the breadth of issues to take into account, succession planning can and does result in family disagreements. Most families find it helpful to get assistance from their accountant who is skilled in the logical planning of family succession issues. Your accountant, or other skilled person, can also help facilitate family meetings.



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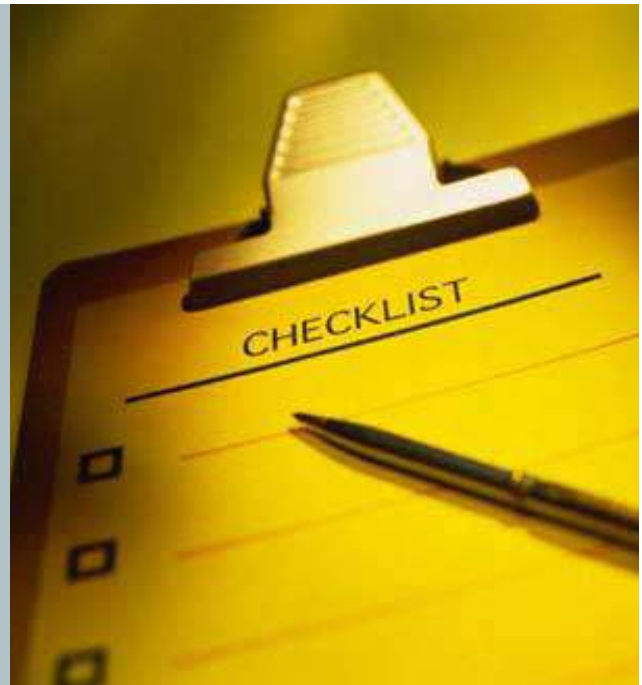
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Next Steps - Check the Succession Plan Checklist

Keep in mind the key points to succession planning listed below. But before you embark on your plan make sure you discuss with your accountant what issues the family needs to agree on, what needs to be included in the succession plan, and the best way to implement it.

- Start succession planning early in the life of the business not when the key person - founder or CEO - is within sight of retirement.
- Encourage family involvement and debate.
- Review the operations of the business at regular family meetings.
- Document the agreed management succession process and training programs and continue to check that all aspects of the plan are being implemented.
- Set a retirement date for the founder and work towards it.
- Implement a properly funded superannuation scheme to enable the founder or current CEO to retire with dignity.
- Select a successor as early as possible to allow time for training and development.
- Get family acceptance of the person selected as the leader for the next generation.



List all the business's secrets and proprietary knowledge, including intellectual property, trade secrets, comments on competitors, agreements with suppliers, agreements with key staff etc.

What would happen if ...?

Have you ever stopped to ponder what the family business would do if something suddenly happened to the key person?

- What would happen if the key person was unable to perform his or her normal duties?
- What would happen if that person was run over by the "proverbial bus"?
- Who would take over the business?
- Who knows the secrets of the business?
- Who knows the secret formulas, recipes or deals that have been done with suppliers?
- How would the bills be paid?
- Would the bank call up the loan?
- How would the principal's family survive?

Key questions to be answered include:

- Has the principal written out a set of instructions on what should happen to the business if something should happen to him or her?
- Has this list been given to a solicitor or placed somewhere safe where it will be found if something happens to the principal?
- Has adequate insurance been effected on the life of the principal and on the life of any partners in the business?
- If a partnership or a company with outside shareholders, has a formal "Buy/Sell Agreement" been entered into?

Have the secrets of the business been written down, so that they are available in the event of the demise of the principal?

Build your business with the intention of selling it from the first day."
500 Award-Winning Small Business Secrets, Geoff Grist



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Create a Customer Database

You probably know who your customers are, or recognize them when they come in. But do you know how to contact them? Do you have the details to be able to keep communicating with your customers?

Successful businesses communicate with their customers at least six times per annum.

Can you write directly to your customers to tell them about forthcoming promotions? or new products that are going to be launched? or new products that may be of particular interest to them?

Direct marketing is an excellent way of keeping in touch with your customers, but to do it you'll need a customer database. Many businesses miss out on ideal opportunities to create customer databases by not collecting the names and addresses and other pertinent information from their customers.

You need to take every opportunity to do this. For example, information can be collected from a number of sources including:

- Detailed invoices in which the customer's name and address are included
- Customer questionnaire forms
- Weekly lucky draws - customers are asked to complete an information sheet so that they can enter
- Other similar promotions.

You want to find out general data, such as the name, address and demographic group to which they belong, as well as their interests and hobbies and sales information which records details of the products they have purchased in the last twelve months or longer.

Tell your customers why you want the information - that you're creating a mailing list so you can send them newsletters and various information on products and services being offered by your business. Bear in mind, however, that some people do not want their personal details listed on a company database.

Questionnaires are a great way to get customer information as well as vital customer feedback. By offering a weekly or monthly draw with an appropriate prize you are likely to encourage customers to fill in all parts of the questionnaire.



“The statistics for small business failure are horrific. Often the business is sound, but the owners have overextended themselves financially or simply been caught out because they hung on for too long without a succession plan.”

500 Award-Winning Small Business Secrets, Geoff Grist

Be sure to read each article with the mindset “How this could apply to our business”. Thinking of it that way will guarantee that you get value. Also make copies for each team member. To really make sure something positive happens, work with your business development specialists to talk your team through ideas.

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Meeting the Applicant Face to Face

You know the applicant has the skills and experience to do the job, but what about their attitude? The interview process should be able to fill in some of the gaps about personality that the written application couldn't tell you.

What you're trying to find is someone with empathy for the position, sufficient drive to deliver in the position and the staying power to keep bouncing back from potential disappointments.

But remember it's not a court case, so don't cross-examine the applicant. It's a two-way communication in which the interviewer will get information about the applicant and the applicant will be working out whether he or she wishes to work for your organisation.

It's important to conduct the interview in a business like manner using the same questionnaire for each interviewee as well as any additional questions that arose from reading the applicant's resume. You need to record their answers as it's difficult to remember later what was said, and write a brief assessment at the end of the interview.



What to cover during the interview?

Delve into the applicant's past behaviour

People don't suddenly change; they evolve work behavioural patterns over a long period of time and normally they keep on repeating those patterns. Ask about past behaviour both in work experience, patterns of work and activities away from work.

What has the applicant achieved?

What people have done in the past is a very useful indicator as to how they will probably react in the future. Find out what the applicant has achieved, both in the work environment and the non-work environment.

What outside interests does the applicant have?

This can tell you a lot about personality, about whether the applicant likes to be around other people and enjoys the stimulation of being involved in groups. The person may also have gained useful experience and skills which would help in the position you're hoping to fill.

Is the applicant confident?

Does the applicant appear confident within themselves or nervous and cautious? This is a good indication as to how they may react when faced with problems or crises.

Is the applicant motivated?

Find out what motivates the person. Is there a history of the applicant being self-motivated and prepared to get things done? If not, will this affect the applicant's ability to perform in this position?

Does the applicant have the right attitude and empathy?

An outstandingly qualified applicant is virtually of no use to most small businesses unless he or she exhibits empathy to all aspects of the position. Will the applicant bring an enthusiastic and positive attitude to your team? Will the person understand the customer's requirements, the concept of marketing and the need for ongoing life training, as well as the ability to work in a team?

Trust your gut feeling

At the end of the day, trust your gut feeling. If everything else appears well and good but your gut feeling says that you don't think the person would fit into your team, then go with it. There are a lot of problems involved in replacing employees that don't fit and it costs a lot of money. It's better to continue to interview and find the right person.

An important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.