




Planning for success

Getting your exit strategy in place could be the most important thing you do this year – regardless of whether you're thinking of selling on your business or not. By Nina Hendy



There's a lot to consider when putting an insurance business on the market. With some careful thought around the succession planning process, both the buyer and seller can enjoy a smooth transition.

But it's a process so many businesses bypass. Research undertaken by Melbourne's Cameron Research Group in 2010 found that of those companies that intend to sell up in the next five

years, 32% had given no thought to a succession plan and just 12% had a documented succession plan in place.

The figures concern industry experts.

Succession consultant Andy Gowers says the industry should remember that people leave a business either voluntarily (retirement, dispute, breach of shareholders' agreement etc), or involuntarily (death, disablement, trauma, etc). He says all brokers need to

consider how the business would carry on if management left.

"Succession planning defuses the time bomb ticking in your business. Everybody leaves at some point; it is just a matter of why."

Gowers says the succession planning process should ideally involve dedicated, experienced advisers. He recommends a core team consisting of a project manager, financial planner, a legal eagle



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a taxation expert and a valuation expert. Melbourne-based

Leigh Riley is the author of the first Australian-focused succession planning case study collection, *Your Business Succession*.

She says that too many business owners mistakenly believe they will hang out the ‘For Sale’ sign and miraculously the right buyer will come along with the right amount of money to purchase. “Unfortunately that method is the least successful way to yield the best outcome for the owner. This is because financial institutions aren’t lending the way they used to for business acquisitions, so willing buyers can’t find the funding, which forces business owners to compromise on price.”

Plan in advance

Riley recommends a lead time of at least five years for the succession planning process.

“When you sell a house, you present it in the best way you can to attract buyers and the maximum price. Selling your business is the same,” she says.

“Planning for succession provides the best opportunity for financial success and business continuity for existing owners and the next generation.”

Peter Conquest is the head of insurance broking at Macquarie Relationship Banking, which is currently guiding around 40 Australian insurance brokers through the succession planning process.

Conquest says a lot of principals sat on their hands during the GFC, but that the number of transactions between insurance brokers had picked up in the past nine months. He expects this trend to continue into 2011.

He says the key is to plan early. “Have a think about what the right buyer looks like and start making small changes to your business that will make it more attractive to that end buyer.

“You can do this by reducing your reliance on key clients and being sure you

don’t enter into an extended lease on a business premises.”

Conquest says the sale price for most broking businesses falls into the \$3 million price bracket. “The rule of thumb is double commissions and fees, and we’ve certainly seen that met by external buyers. But internal buyers often don’t pay that much as it doesn’t always make sense from a Return on Investment perspective to make an assessment of value based on top line revenue. Likewise, there is often a discount for loyalty.”

Adrian Kitchin, Director of Operations at Insurance Advisernet Australia, says settling on the final strike price can be the major challenge in the process. There have been some recent “disasters” around setting a fair price, he says.

“I’ve seen some unrealistic expectations as far as what the seller felt was fair for his business.”

Brokers considering a sale need to get their business in order first, he says. For example, a book that doesn’t include many long-term clients is viewed less favourably – as is a book with several large clients. “If one client leaves, then the buyer has done their dough all in one fell swoop.”


A broker looks far more appealing to

a buyer if it has a good mix of clients, he says. “And you’ve always got to make sure you build a rise and fall price into the proposition in case a major client falls out of the portfolio before the succession is complete.”

Keep customers informed

The other thing to consider is when to tell clients about the change of ownership of a broker. Transparency is advised by Kitchin. “Clients should be advised as soon as the deal is struck.”

While a letter advising of the ownership change is necessary, that letter could be hand-delivered by both the seller and buyer in the first 12 months that the new owners have taken on the business, he says.



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“That gives both parties a chance to explain to clients that they will receive the same level of service.”

Gowers adds that once you have your succession plan in place, remember that it is a fluid document. Like a business plan, things will change and you need to keep it up-to-date to reflect any changes to your business.

He says too many business operators bury their head in the sand on this issue. “Don’t pretend you don’t have time to resolve this critical area of your business. And don’t ‘almost finish’ your succession plan. An unsigned agreement is as useless as no agreement. A succession plan is a will for your business, and it will be needed at some point.”