



Succession Planning

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Introduction

Succession planning is a critical process for any business founder or owner.

However, many owners consider the process only when they are *ready to exit* their business. Leaving succession planning to the last minute can heavily impact the valuation of your business, costing you millions of dollars.

A much better place to start will consider where the business is positioned in its *lifecycle*, as well as the financial and personal needs of the owner(s).

Good succession planning asks, *"How can I prepare the business for an orderly succession, at some point in time?"*

This involves preparing for the eventual transfer of leadership and ownership of your business to ensure its continued success in the future. Whether you plan to retire, sell your business, or pass it on to the next generation, effective succession planning is essential for a smooth transition.

This guide is designed to help business owners understand the nature of succession planning, key questions to consider, and steps involved in the process.

Succession Planning

Succession planning is more than just identifying a successor; it is a strategic process that ensures the long-term sustainability of your business.

It involves:

1. **Identifying Key Roles & Responsibilities** - Determining which positions are critical for the success of your business and who is best suited to fill them.
2. **Developing Talent** - Investing in the development of potential successors, providing them with the skills and experience they need to take on leadership roles.
3. **Creating a Transition Plan** - Developing a detailed plan for transferring ownership and leadership, including timelines, responsibilities, and contingencies.
4. **Maintaining Business Continuity** - Ensuring that the business can continue to operate smoothly during the transition period, minimizing disruptions to employees, customers, and other stakeholders.

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Key Questions to Consider

Before embarking on the succession planning process, consider the following:

- Do you wish to continue owning the business, in full or part? Are you ready to retire?
- Is the business dependent on one key person and how can this be managed?
- Is there sufficient depth of management to continue growing the business?
- Is the business your main income-producing asset and how can this be unlocked?
- What are your long-term goals for the business? For yourself?
- Determine whether you want to keep the business in the family, sell it to a third party, or pursue other options?
- Do you understand the current value of the business and how it's derived?
- How could you unlock substantially more value?
- What do you hope the business will look like in the future?
- What are your expectations on sale?
- Are there any impediments to achieving these expectations?
- How will the transition impact stakeholders?

Phases of Succession Planning

Succession planning typically involves the following four phases:

1. Assessment and Preparation

Phase one involves assessing the current state of the business and identifying potential successors.

Your company should have robust business plans that provide clarity of mission, vision and values, specify realistic growth and profitability targets, and set out key strategic actions and responsibilities.

Your succession plan leverages the business plans to identify what success looks like post-succession.

Succession planning may require identifying key successor roles and responsibilities for one or more of the following positions to build leadership depth:

- CEO – Responsible for realising business plans and reliably achieving revenue and profit targets and forecasts
- COO – Managing day to day operations, ensuring weekly functional planning and performance reviews and corrective actions
- Sales & Marketing Director – Driving sales, client relationships & marketing activity
- CFO – Overseeing financial health, budgeting & reporting
- HR Director – Managing talent development, employee retention and organisational culture.

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2. Selection and Development

Phase two hinges on selecting potential successors based on their specific skills, experience, and potential for growth.

It also typically involves building a talent development plan to groom future leaders, building leadership depth throughout your firm.

The first step in selecting successors is founded on understanding the key competencies of relevant leadership positions and players.

Assessing potential successors is best based on well specified skill, experience and personality criteria.

Clear criteria will help you identify potential successors within or outside your company who have the potential to lead the business in the future, based on the qualities required for successor leadership.

Your successor talent development plan will spell out how you will provide your chosen successor(s) with the opportunities they need to build the requisite experience and develop their capabilities.

These leadership competencies may be cultivated through a combination of mentoring, training and development through on-the-job experiences. They may also be developed through cross-functional experiences to broaden successors' perspectives and skills.

3. Transition Planning

Phase three involves detailed transition planning that underpins the transfer of ownership and leadership responsibilities, either prior to, or in connection with a business sale process.

It will establish a timeline for the transition process, considering factors such as your retirement plans and the readiness of potential successors.

Transition will necessitate communicating succession plans to stakeholders. It should address any concerns or questions they may have.

You should also have contingency plans to address unforeseen challenges or changes in circumstances.

4. Execution and Monitoring

Phase four involves implementing the transition plan according to the established timeline.

During this phase it will be vital to provide continuous support and guidance to successors as they assume their new roles.

You will have to monitor progress of the transition and adjust as needed.

It may be appropriate to consider employee share ownership options for one or more key successors to ensure strategic alignment, buy-in and commitment to achieving near or longer-term revenue and profitability plans.

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Conclusion

Succession planning is a vital process for ensuring the long-term success and sustainability of your business. By identifying and developing future leaders, creating a detailed transition plan, and executing the plan effectively, you can ensure a smooth transition of ownership and leadership. Start planning for the future of your business today to secure its continued success.

Like some help?

We can help you with:

Succession Planning

We can help you consider, develop and realise succession plans.

Building and realising Greater Business Value

We can help you identify actions to improve and grow your equity using our Value Driver Framework. This includes the 8 Value Drivers introduced above and 80 specific underlying factors designed to help you grow sales, profitability, de-risk and improve and other key aspects of your business that are fundamental to how buyers use multiples and value your business. Valuations of 7 to 10 x EBIT is a realistic expectation for a well-prepared firm, matched with a motivated buyer.

Strategy Development

We can assist with the development of new strategic plans designed to elevate your business to a new level.

Business Improvement

We can help you identify and implement business improvement plans that drive revenue and profitability. This may involve process improvement, automation or other approaches.

CFT

CFT Consulting is focused on helping CEOs, Business Owners and Executives realise their goals. CFT is run by Greg Clarke.



CFT Principal Advisor

Greg is an experienced Chair, Director, CEO, Management Consultant & Chartered Accountant with over 30 years Professional Advisory service to both private and public sector clients.

He is the Founder and Chair of Decision Inc. Australia, an Information Management Consulting Firm focused on Digital Transformation, FP&A, Data Analytics, Process Automation, AI, Application Development and Systems Integration. As CEO he grew the business at 26% p.a. delivering 15% EBIT.

Greg is experienced in Strategy Development, Business Management, the facilitation of Acquisitions, Mergers & Divestments (M&A) and implementing Change Initiatives.

Greg provides M&A and growth advice to owners of SME sized businesses focused on providing professional, consulting, technical or other services to businesses or consumers. He helps SME owners to grow profits, equity value and successfully sell their firms. and investors find and acquire their ideal company. Greg can be contacted on 0418614620 or by email at greg@cft.ai