

# SUCCESSION PLANNING

Fact Sheet

## DON'T WAIT FOR 'WHEN THE TIME COMES'


Many business owners are so focused on running the business that is their passion, that they tend to side-line succession planning, assuming that they'll deal with it **'when the time comes'** or that a path will logically unfold.

The only path that will logically unfold is the one that you as business owner/s plan for.

**In the context of family businesses, and perhaps even more so with family farming businesses, the main drivers in a succession plan are:**

- how to fund an older generation's retirement
- how to continue the business as a family concern
- how should family receive their equitable share

**ONCE FAMILY MEMBERS START DISCUSSING THESE QUESTIONS, A HOST OF OTHER QUESTIONS FLY IN....**

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- What does everyone want from the business?
  - What does the business need and how do we match to family members' abilities and aspirations?
  - How do we make sure it's fair?
  - How do we NOT lose the knowledge and experience of the older generation?
  - An interest the business even if they don't work in the business?
  - Who takes an active role in the day to day business?
  - Who has a say in the direction of the business?
  - Do older family members still want to be involved, without a day to day load?
  - How do we train people into the business?
  - How do we make sure family members are not just there because they're family?
  - What if we want to bring outside people into the business?
  - How do we talk about it?
  - How do we bring younger family members and their partners into the business?

# 'WHEN THE TIME COMES' IS NOW

Succession planning should be part of your overall business strategy. Don't separate it out for 'when the time comes'.

For a succession plan to work, you need to set some things up in the business to be working alongside all the other things you're doing to make the business successful.

You Need...	Because...	So...
<b>Profit</b>	<p>The business must be able to:</p> <ul style="list-style-type: none"> <li>• provide for the founding generation's retirement</li> <li>• sustain the upcoming generations</li> <li>• continue to grow the business</li> <li>• meet ongoing obligations of the business and its owners</li> </ul>	<p>You need to:</p> <ul style="list-style-type: none"> <li>• evaluate where the business is now</li> <li>• work out where it needs to be</li> <li>• put a plan in place</li> </ul>
<b>Communication</b>	<p>If you can't talk about it, you can't make it happen.</p>	<p>The family needs to be able to:</p> <ul style="list-style-type: none"> <li>• work out a shared vision for the business</li> <li>• clarify the roles family members will have in the business</li> </ul>
<b>A Plan</b>	<p>A written plan sets out goals and ways to achieve them. It's a basis for continuing discussion with family and advisors to achieve succession.</p>	<p>You need to set out:</p> <ul style="list-style-type: none"> <li>• goals for the business</li> <li>• how you measure the progress towards them</li> </ul>
<b>Clear Roles</b>	<p>Ownership, governance, and management roles are often blurred because business owners wear all these hats at the same time.</p> <p>Separate the roles to lay a path for: founding owners to pull back from day-to-day management while still owning an interest in the business and having a say in how it's run newcomers to develop skills and roles in the business before they're given management responsibility or a say in how the business is run.</p>	<p>You need to set out:</p> <ul style="list-style-type: none"> <li>• who's involved in how the business is managed and run</li> <li>• who has an interest in the business and what that is</li> <li>• how to stage transitions as the younger ones come into the business and the older ones become less hands-on</li> </ul>

# THE ROLE OF ADVISORS

The conversations you need to have as a family to work out the family’s shared vision for the business and what everyone wants to happen as individuals can be confronting. A facilitator can help you have the hard conversations.

Involving professional advisors to give specialist advice on different aspects of the business can also be a wonderful resource to help you be clear about how the business is performing.

They can help you see other options to take the business in different directions or just to improve current performance. And they can point out where there’s a gap that needs to be sorted out.

# ROLES IN BUSINESS

The roles in business model can help you look at succession. In terms of growing profitability in a business – which is important for succession – it’s fair to say that where upcoming family members can usually make a real difference and add value is at the management and the strategic levels.

Yet if they start off at a management level, they may miss out on essential understanding of the business and be perceived to have been promoted just because they’re family.

## A staged succession plan might look something like this:

Stage 1	Take a step back from the day to day running of the business, while still keeping a close eye on the monthly reports, continuing to play a strong hand in the strategic direction of the business and retaining ownership. Younger family members or people from outside the family can be gaining insight and experience in the business, working towards being able to take on a managerial role.
Stage 2	Leave capital in the business, as a shareholder and member of the family advisory board. Family members are involved at the operational and management levels and have a say as members of the advisory board. Other family members may have outside careers and little or no involvement in the day to day business, but retain an interest and a say on the board.
Stage 3	Based on performance targets and experience in the business, family members and others can buy into ownership of the business in stages. Those coming into the business don’t have so much pressure to buy into the business and buy other family out all at once. The board brings in outside advisors with specialist expertise as necessary.
Stage 4	The board structure and staged introduction to operational, management, strategic and ownership levels of the business allows for the grandchildren to become involved with the business.

# SUCCESSION PLANNING CHECKLIST

This checklist helps you determine where you should start and what you may require in the way of resources. It can be found on the DairyNZ website.

It is recommended spouses and partners of your children are involved as they play an important role in the lives and decision making of your family.

	NOTES	RESOURCES	COMPLETE BY
<b>Retirement Plan</b>	<p>What is your total current expenditure?</p> <p>How much income do you need to support your desired lifestyle?</p> <p>When and over what timeframe do you plan to distance yourself from the business?</p>	<input type="checkbox"/> Historical budgets <input type="checkbox"/> Statement of current expenditure and what it includes <input type="checkbox"/> Lifestyle wish list	
<b>Assess &amp; Identify a Successor/s</b>	<p>Have you identified a successor/s?</p> <p>Has he/she agreed to be so?</p> <p>Do they have the right skills, knowledge and attitude?</p> <p>Can they learn?</p>	<input type="checkbox"/> Vision for the business <input type="checkbox"/> Skills and knowledge for business growth <input type="checkbox"/> Position description <input type="checkbox"/> Skills and training assessments	
<b>Assess Viability</b>	<p>Is the business viable or can it be?</p> <p>Can it support the income required by the successor in addition to the owners?</p>	<input type="checkbox"/> Financial accounts <input type="checkbox"/> Equity position <input type="checkbox"/> Asset valuation Roi/Roc	
<b>Documents</b>	<p>Are all the business and personal documents in a known safe place?</p> <p>Are they up to date and will they achieve the desired outcomes?</p>	<input type="checkbox"/> Wills <input type="checkbox"/> Power of attorney/ enduring care <input type="checkbox"/> Loan documents Insurance documents <input type="checkbox"/> Company/partnership agreements <input type="checkbox"/> Guardianship Other legal	
<b>Stakeholders</b>	<ul style="list-style-type: none"> <li>• Family</li> <li>• Professional</li> <li>• Key management</li> </ul>	<input type="checkbox"/> Business meeting skills <input type="checkbox"/> Role identification <input type="checkbox"/> Communication and conflict resolution <input type="checkbox"/> Decision making process	
<b>Contingency</b>	<p>Are you prepared for:</p> <ul style="list-style-type: none"> <li>• Death</li> <li>• Divorce</li> <li>• Disability</li> <li>• Disaster</li> <li>• Dispersal of assets</li> </ul>		

# OUR RECOMMENDATION

Look at a succession plan as something that will let you continue the success of the business, whatever you define that success to be.

We would be happy to work through the issues with you and help you put together a succession plan. If you would like to discuss this further with us, please let us know.

# WHY WORK WITH US?

Succession planning is an important part of our business. As an accountancy practice in Rural, NZ, we work with a number of family-owned businesses be it small business or farming enterprises.

Our team are experienced advisors and facilitators with the technical skills required to ensure the best tax outcomes for your business.

We take a value add approach as part of a wider team, working alongside your other advisors to provide the information you need to make informed decisions about the business you have worked so hard in.

We believe in the power of cloud technology and digitising businesses to enable time-saving decision making and on-time reporting.

**Give us a call to arrange a meeting with one of our experienced team:**

06 377 5085

Or email [info@lala.co.nz](mailto:info@lala.co.nz)

