



7 Steps to Business Succession Strategies

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The Ripoll and Bowen Reports have outlined recommendations to move to a fee for service model.

What follows is an updated “Introduction to the Seven Step – Process of Business Succession Planning” in light of the Government Reports.

Business Succession enables a Principal (or their family as the case may be) of a Business or Professional Practice to either Keep, Sell or Liquidate the Business or Practice in the event of their Retirement, Illness or Death.

In the past Business Succession has been an extremely complex, time consuming and an inefficient process for both Clients and Advisers and all other stakeholders. However by following a seven step process Advisers can easily, efficiently and effectively source, engage, discover, analyse, present and implement Business Succession Strategies to enable a Principal or their family to either Keep, Sell or Liquidate the Business in the event of either Retirement, Illness or Death.

1 Client

Identify the Client correctly.

Implication: Unless all the Clients and Stakeholders to the Business Succession Strategy can be correctly identified it may be difficult to understand the Principal’s particular circumstances to the proposed transaction let alone provide the appropriate solution utilising the correct resources.

Action Required: Correctly identify the Client to the transaction to provide the appropriate Business Succession Solution.

2 Understand the Business Entity

Key essential items of the Business Entity are needed to effectively plan a Business Succession Strategy.

Implication: Ascertain an understanding of the particular circumstances of the Business Entity to understand the needs and objectives of the Principal. Otherwise confusion and complexity in the delivery of a financial succession strategy occur when items such as the controller,



asset and liabilities and ultimate recipients of the income or capital of the Business are not identified correctly or efficiently.

Action Required: Capture the particular circumstances of the Business or Practice utilising the CAB Rule that is the controllers, assets and liabilities and the benefit recipients of the Business efficiently and systematically.

3 Correctly Determine Business Value

Most Principals believe their Business or Practice is worth considerably more than the actual or real value of the Business.

Implication: Determining the true value of the Business or Practice in the event of Retirement, Illness or Death will enable the appropriate funding solutions to be implemented to overcome any shortfall in the event of the Retirement, Illness or Death of the Principal.

Action Required: Correctly assess the true value of the Principal's Business or Practice utilising the appropriate valuation methodology and fund accordingly.

4 Exit Events

Business Succession Planning involves three exit events and three possible outcomes.

Implication: Unless the three exit events of Retirement, Illness or Death and the three possible outcomes of either Keeping,

Selling or Liquidating the Business are clearly understood and agreed upon by the Client, any potential Business Succession Strategy may not be correctly funded or executed.

Action Required: In any Business Succession Strategy correctly ascertain the Principal's needs and objective to either Keep, Sell or Liquidate the Business or Practice in the event of Retirement, Illness or Death.

5 Funding Solution

Funding solutions need to be applied to the appropriate exit event and objectives of the Principal.

Implication: Unless all Business Succession Exit Events such as Retirement, Illness or Death are funded an inevitable funding shortfall will occur.

Action Required: Understand the Principal's objective and advise the Principal how to fund for their Retirement from the Business or provide funds in the event of their Illness or Death.

6 Agreement

Business Succession should be effected with certainty and clarity.

Implication: Unless the needs and objectives of a Principal's Business Succession Strategy is documented and funded



accordingly by identifying the Parties, the Business Entity, the Business Value, Exit Events and Funding Solutions, the strategy may be under funded or not effected correctly resulting in hardship or disputes between parties.

Action Required: Document and correctly execute agreements with all parties.

7 Other Factors

Consider all related factors to the Business Succession Strategy

Implication: There are special important ancillary factors of the Business Succession Strategy including taxation, release of personal guarantees and shareholder repayments as

well as personal financial planning that unless considered may lead to inappropriate or incomplete funding solutions.

Action Required: Identify all ancillary factors to the Business Succession Strategy.

With the right tools and processes Business Succession Planning Strategies can be implemented efficiently and appropriately for both the client and you. For more information about ili and ili Business Succession Strategies please visit www.ili.com.au.

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