ACCELERATE

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Interview with Rob Young, Managing Director, Platform 1

Succession Planning for Small Businesses

What are the biggest mistakes people make around succession planning?

From my experience, the biggest mistake is that succession planning doesn't start early enough. Generally, an owner will wake up after New Year's and say "I've had a gutsful of my business, I'm going to sell it," and they will ring a broker on the 3rd of January and expect to have the business sold by the middle of January! It just doesn't happen. First and foremost, planning needs to start a long way in advance, and I'm talking two to four, even five years out.

What are the key things that people need to think about and when should they be thinking about them?

Things they need to be thinking about are what options they've got for disposing of their business, and we think there are five different ways to do it.

1. Close the business down and sell the assets
2. Sell the business to a family member
3. Sell the business to an employee
4. Just a straight sale to an outside party
5. The Platform 1 model.

Those are the only ways you can sell a business apart from an IPO which isn't really an option for businesses under $20-$25 million.

How would you characterise the Platform 1 model?

Our model is a gradual buy-out. We call it an MBO – Management Buy Out and we go and find the Manager. This is over a gradual period of time, so we will sit down with an owner and figure out what kind of individual would be right to come into his/her business to run it. We go out and do a search to find that individual and develop a plan where that individual buys in gradually over a 3, 4, 5 or 6 year period. Generally, the first 25% of the purchase happens within the first 12-month period and then the rest of the business will be purchased by the incoming owner over a period of 3-6 years – depending on how long the business owner wants to stay in the process. The objective is to get the business owner out of the business physically as quickly as possible, that is, transferring relationships and processes to the new incoming person, so the owner becomes more of an investor rather than a manager in their business.

When thinking about the five options, obviously some are a little bit "I just want to get rid of this as fast as possible" – there is nothing strategic about that. Leaving aside those ones, whether someone goes down the MBO pathway or another pathway, what are the key principles that would drive good decision making?

Probably the most important thing that you need to do is to **get your house in order**. Just like selling your house, you have got to make sure that it's got a nice coat of paint and the inside is clean and tidy. It is the same with your business – getting your systems and processes in place so the business isn't reliant on the owner themselves, making sure that the business can run as a standalone entity. If the business owner is going to sell it to another owner, that owner is going to make sure that the business is running as smoothly as possible. That is the first consideration and you'd want to talk to your trusted advisors who would be able to help you with that – accountant, lawyer, etc.

Getting your business ready for sale takes a few years. Maximising your profit, making sure that you are not taking decisions that would typically be called tax decisions to maximise your tax liability – because what you're trying to do is create a profitable business that in turn will be able to turn into a multiple that is larger than it was prior to starting the process. So, getting all of those things in place and again talking to your trusted advisor who can help you with that.

In your experience, when thinking about small businesses in New Zealand, what is your sense of how well people manage succession planning right now?

"Not very well" would be the answer. It is something that people think about and think it's going to happen in the future so will put it off and put it off. I like to quote a statistic that says about 50% of businesses sell within 72 hours after the owner dies. That is a pretty terrible statistic. We have had a number of Platform 1 deals that haven't gone ahead because owner has had a health issue or they've had an accident, or something has happened to impede their smooth transition into retirement.

One of the things people don't think about enough is that retirement doesn't necessarily need to be doing nothing. If your business can run as an asset without your involvement, you don't have to sell it completely, so not selling down 100% of the business is a viable option for people nowadays – particularly as we don't work physically as hard in our businesses as the previous generations did. We sit in front of a computer, we have meetings with people, we don't physically work hard in our business – we work mentally hard and sometimes work long hours, but you can do that into your old age and you don't necessarily need to sell the whole business.

Do you think that is one of the reasons why people put off thinking about selling the business?

I think it's 100% the reason and that's why it's a good idea to think about this before you become semi-incapacitated or at the point at which you're just sick to death of the business. If you get your business ready for sale or transition when you're fit and active and you really enjoy the business, once you go through that process, you will find it's a lot happier to go through with a better outcome – rather than getting to the stage where you are either incapacitated or just had a gutsful of the business and all you want to do is just get rid of it, you're not maximising the value of your business.

I imagine there is no downside either – if you get your business in order in that way, whether you end up selling it or not, you've got a business that is running well.

Absolutely, and you've got choices. The most important thing that you want to do when you get to the stage where you want to maximise the value of the business is to have choices, and the last thing you want is to be having a lack of choices because you're tired, you're grumpy, you've had enough of the business or you just can't physically work in the business – you want to be able to have as many choices as you can, and the best way to do that is when you're fit and active and when the business is doing well.

Of those different options for selling your business, leaving aside those ones that are just desperation and closing it down, how would somebody go through the process of choosing which is the most appropriate option for them?

Always get advice through your trusted advisor, your accountant, lawyer, and so on, an Advisory Board Director, somebody who has a little bit of knowledge with you and your business and get their advice and talk to them about what you want to do in the future.

The most important thing that I find throughout any transition business is owners not necessarily knowing what they want to do in the future. They think they want to retire but they don't know what they're going to do when they retire. I've seen it so many times when an owner sells their business and then the first thing they think about is "what am I going to do now, why don't I buy another business", and my question to them is always "why did you sell the business in the first place?". Think about what you're going to do in whatever you call "retirement" and make sure it is a viable option for you rather than jumping to some sort of conclusion that you think might be the right option for you, but certainly talking to your advisors is the most important thing to do.

Rob, is there anything else you'd like to say about Platform 1 and how people can get in touch with you?

It is a different process than most people would think. It's probably one that people don't think about immediately, but it is an option and a way of transitioning out of your business in a process that takes between 3-5 years. But think of it more as a business owner going from a Manager to an Investor, so your business runs without you, you still get dividends and you're still in that financial transaction for that 3-5 year period but you're physically out of that business. So our approach is one option – it's not the only option and it might not be an option for everybody, but it is an option that people can think about in the future.