WHAT COMES NEXT?

There comes a time when every contractor wants to pull up stumps and retire. Laser Group's **Steve Keil** outlines the seven dos and don'ts of effective succession planning.

In the Autumn 2018 edition of *Electrical Connection*, I discussed ways that business owners could reignite the fire for running their businesses. But since that was published, I've had several questions on exit and succession planning.

At Laser Electrical, we've successfully assisted electrical contracting business owners to either sell or transition from the day-to-day operation of their business, so allow me to pass on some of the advice that I've shared with many others over the years.

Business textbooks suggest you shouldn't start a business without an exit strategy in place. In reality, successfully getting out of business is seldom on the mind of the contractor who's excited about kicking off their new venture. If you haven't given this subject much thought, don't worry, it's not too late. Now is the time to think about how to hand your business over to someone else. Even if you're not intending to exit for several years, now is the time to plan for your business' succession.

Fortunately, succession or continuity planning does not have to be too much of a hassle, especially if you adhere to some key guidelines, get expert advice and take a change management approach to handle the transition smoothly.

DOS

1) Ask the right questions

"If I sold or transitioned out of the business, what would I do?"

Crack the code on this question and you'll have clear direction for your business and your life. The thought of sitting on a beach somewhere is enticing for a while, but what next?

Some other questions you should ask yourself include, 'What does succession planning look like for me? Does it include selling the business? Does it include buying a business?' (Ironically, acquiring a complimentary business may bring scale, people, contracts, energy, expertise and the right person to take on full ownership in the future.) 'Will a sale secure my financial future?' 'How do I increase the current value of the business, and sell it for the best possible return?' 'What will be the best exit option?' 'Why do I want to get out of the business?'

These are all questions that will provide some valuable insight, in terms of planning next steps.

2) Determine your current and future requirements

Are the financial results of the business sustainable despite you being out of business? Determine this beforehand, as it will help you plan any changes to the structure of the business prior to selling. If the answer is yes, you may wish to hold the business as a passive asset. The best structured businesses give the owners choices. And choices allow you to maximise your return from the business.

Another aspect to consider is the financial well-being of the employees within the business, since some employees may be expendable to the buying party, and others may even have their monetary situation linked to the business itself.

3) Address succession-related issues as they arise

When a business changes hands, there are a plethora of issues that could arise, from logistical to HR-related. For example, if a number of employees are dissatisfied with the transition, seek to address their qualms and settle their requirements early. It's all about the people after all, so keep them engaged and informed.

4) Sell or hold

You don't necessarily need to sell. You may wish to employ a manager, which will allow you to continue being the owner, while physically being out of the day to day running of the business. Usually the business will have to be of a certain scale to allow for the cost of a manager and a return for a passive owner. Alternatively, you could sell to family members, employee, or someone close that you can trust and rely on. If however, the purchaser is to be an arm's length one, you'll want to ensure your due diligence on them satisfies your requirements for the future of the business and all stakeholders, including its people, customers and even suppliers.

DON'TS

1) Succession doesn't mean a personnel and management overhaul

Don't make change just for the sake of it. Take careful consideration of your team, since employees; in particular the experienced ones, make for the infrastructure of the business, and are a vital part of the framework. Quite often a change of ownership or management can be a shot in the arm for the team. That is it can freshen them up. Ensure they are informed and their needs are tended to, including reassuring them of ongoing career and development opportunities, if any.

2) Don't sell just for momentary financial benefit

Yes, it may have some immediate benefit to sell the business, especially if you are getting an above-market price for it, however, it shouldn't be the only impetus behind the selling decision. Consider the myriad of factors which go into an effective succession and/or sale, and make a selling decision based on that.

You may even consider a partial sale, so that you can scale down your involvement but still have a running stake in the business. This type of business sale can fit well with bringing an existing employee or family member into the ownership structure. Particularly if the person has complimentary skills to you. It's pointless bringing in a partner if they have the same skills as you. Otherwise one of you is redundant. If you are considering this option, get clear on who will do what in the business.

3) Don't sell without a succession plan

You certainly need a succession plan, for now or for the future. What do you want to do in the future and what role will this business play, if any? A full sale may free your time up, but for what? You may wish to start a new venture, but it's unlikely to be one similar to the business you've just sold. You're certain to have 'restraint of trade' clauses in the sale agreement.

Take time out to craft a plan of action, before conducting all the market and bidder research. And when your ready for the next steps seek expert advise, including legal, accounting and possibly engaging a business broker in the case of a full sale to assist you to attract an arm's length buyer.

BONUS: TIPS FOR EFFECTIVE ACQUISITION

The purchaser has just as much consideration on their plate as the seller. If you're thinking of buying a business make sure you've considered some of the following points.

- Determine how the seller settled on the sale price. Perhaps the sale price is a multiple of the present business income, profit or EBITDA? Or was it a guestimate based on the sellers personal requirements, which are probably unrelated to the actual value of the business. Conduct your own market research and get to know whether the price is realistic.
- How is the sale to be funded? Do they want a lump sum, or gradual pay-outs. Is there an opportunity for vendor finance?
- Determine what's included in the sale. For example, does it cover the equipment and other business assets, maybe even real estate, or are you buying a customer list and employment contracts of the team in the business.
- Take time to understand the 'normalisations' of the financials presented. Are they realistic? Financial normalisation is standard practice in 'information memorandums' or IM's prepared by business brokers. Remember, the broker works for the seller to maximise the sale price, not for you.
- Uncover the financial history of the business. Has it brought in a consistent profit, or has it had issues?
- Review the nature of the customer base. Is there a consistent flow of business from multiple sources, or are their lumps from a select few?
- Are the customers tied in to fulfilment from a well systemised business, or is it due to the relationship with the owner? Are there contracts with those customers? What is the value of the current work in progress?
- Is the business structured to scale, or is it and its team stretched to achieve a good looking P&L to make the business present better for a sale?
- Are there weaknesses in the business that are your strengths, which may enable quick positive change?
- Think about the future of the business and the industry. Where will both be in a decade's time? Is this business set to disrupt or will it be disrupted?

CONCLUSION

The discussion points are included as thought provokers, rather than an exhaustive list. Whether you are the owner of the electrical contracting business or a buyer looking to expand into the industry, it is important to have all the necessary details, as well as considerable market research, in order to achieve the best result for yourself. Remember, it is better to know as much as possible about the second party, no matter on which side of the transaction you are. I believe we are in exciting times in a dynamic industry, bringing opportunities for both sellers and buyers. ■

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