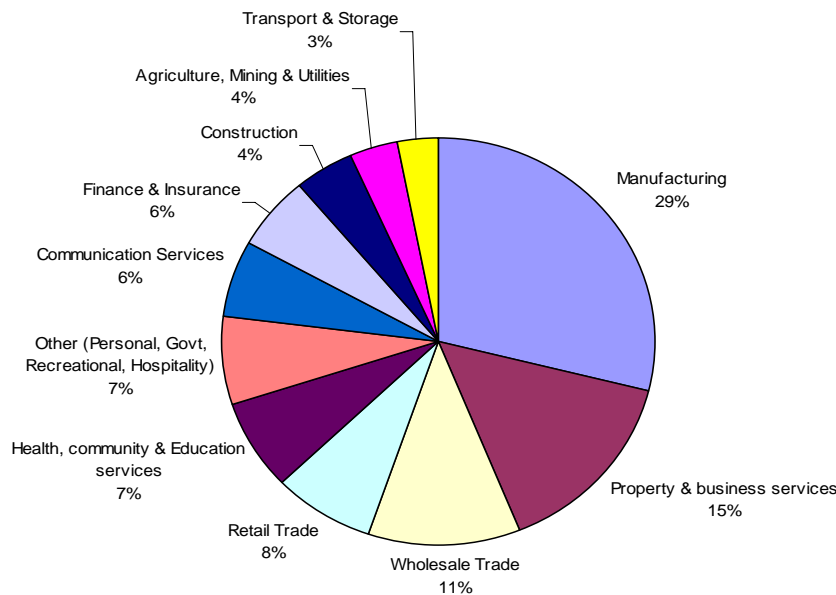


Passing the Baton in Small-to-Medium Enterprises – What the Research Says about Owners' Preparedness for their Exit and Succession

Our proprietary research over the past four years - and other industry association research we have completed in the in the last 12 months - provides some interesting observations.

Sample size

Over the past four years we have surveyed 1736 private and family businesses and professional partnerships. These have been NSW-based, though not limited to NSW operations. They are multi-sector in their representation



Over 15% are turning over less than \$1m, whilst 26% are turning over between \$1m and \$3m. Significantly, few micro-businesses have responded to the broader surveys.

Linchpin's proprietary survey is a part of a longitudinal study which takes place in November each year. The aggregated results are now providing a rich vein of understanding of what is driving the thinking and behaviour of the owners of these businesses.

research findings

Plans

- 52% do not have current, formal, strategic plans although 67% report having operational business plans
- Less than 30% of strategic plans are aligned to shareholder satisfaction, market share, internal processes, and employee engagement and motivation
- 38% have clear, measurable, and accountable KPI's (beyond 'sales' or financials)



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- 12% have a documented succession plan dealing with future ownership and management whilst only 6% are actively implementing their succession plan
- Of those actively implementing their succession plan, <34% are satisfied with the implementation

Timing and Successors

- 58% of respondents note that they have no identified successor, whilst 37% report that they have no obvious successor
- 51% of these businesses note that the next CEO will not be a family member or internal appointee
- 37% of respondents plan to exit their business in the next 1 – 5 years
- 60% of current CEOs are planning to retire in the next 8 years
- 74% of entrepreneurial founders of 1st generation businesses believe that very few people would be capable of successfully succeeding them

Advice

- 27% of Australian family and private business owners have sought external advice concerning the succession process; just under 50% of these have a documented plan
- 10% (of the total) have consulted their accountant; 5% (of the total) have consulted their lawyer
- 65% are prepared to pay a premium for high quality up-front and ongoing advice which takes them towards a successful succession and exit
- 78% are unaware that their accountant or lawyer could assist over the longer term

Options

- 66% report that the only option they have seriously considered in relation to their exit is a trade sale
- 87% claim that their current key staff have neither the interest nor the ability to successfully achieve an MBO

Current Business Strategies and Plans

- 76% report a significant failure rate for business strategy and initiatives undertaken over the previous three years (range: 65%-85%)
- 71% believe that they have not articulated their strategic plans well enough to their key people and other employees
- 28% regularly review their product/service portfolio in relation to market share and potential for market growth
- 18% are committed to a regular review of their business model



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Issues and Complexities

- 86% feel less than adequate in managing internal relationships (family/shareholder/key staff, etc) around succession
- 67% believe that dysfunctional relationships within the business and/or stakeholders will provide significant barriers to successful succession
- 15% have a framework in place for dealing with conflict amongst shareholders/stakeholders
- 84% admit to a gap between the realisable value of their business and their 'aspirational' value
- 64% are concerned that they do not have the 'right people' in key positions to enable a successful sale
- 78% are committed to allocating time and resources (people and financial) in order to achieve a successful succession
- 33% will commence their succession planning in the next 12 months
- 52% can clearly articulate a positioning statement for their business
- 55% are confident that their growth plans are clearly defined and sustainable
- 78% acknowledge that as 'principals' they are their business

Conclusions

Owners' succession and their eventual exit from their business is becoming increasingly important for many business owners in Australia.

However, more than 80% of owners are unprepared for what for many will be the most significant business event in their working lives. This lack of preparation is illustrated by the following:

- confusion about the real options available to them
- the extent to which their businesses are 'under-done' in relation to direction, disciplines, and state of readiness which should be in place to ensure the owners' smooth and comfortable exit
- a lack of clarity and certainty about where and from whom succession and exit advice should be sought

These conditions exist – and seem to be allowed to continue to exist – even though more than 80% of owners recognize that there is a significant gap between the 'aspirational' value of their business and today's realizable value.

Many of these owners appear to be content to delay their start on their succession and exit strategy. Yet, the narrowing of the gap between the realizable and the 'aspirational' cannot be achieved without effort and time.



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Nor can a truly satisfactory outcome be achieved if all of the emphasis is on crafting the transaction – as the personal, emotional, relationship, and intellectual agendas need to be just as well crafted and dealt with contemporaneously or they can become potential 'icebergs' on which the entire exit and succession could founder.

The real tragedy is that this reflects a preparedness of business owners to neglect what might well be one of their most significant financial assets, and will see them disappointed by the capital value they will take from their business upon their exit.

Bill Hovey
CEO
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