



Succession plan sketchbook

Personal planning

1. Describe what you need to achieve from a succession plan?

2. Design your optimum deal structure

The deal structure has seven principle elements as follows: -

1. Fit - your motivation for the sale and the buyer's motivation for the purchase. This often determines the most suitable buyer and culture and ethics will be balanced against the required capital and desired terms.
2. Price – there are a number of ways to undertake a valuation and they should all be done, with the resulting range used as a starting point. A high valuation often comes with trade off's in other areas, so keep that in mind.
3. Terms – how a valuation becomes an offer, including: -
 - a. Tax – selling shares can attract Entrepreneurs Relief (subject to all other conditions being met), whereas selling assets will result in a tax charge inside the business in the year of disposal. The company can then be wound up and Entrepreneurs Relief claimed. Selling assets typically results in a higher tax charge, than selling shares, so be clear on what the desired transaction structure is. If it's assets, the valuation (and possibly other aspects of the deal) might need to be improved.
 - b. Initial consideration – how much will you receive when the transaction completes and how much of the initial consideration will be in cash vs any other security.
 - c. Deferred consideration – how many years will it be paid over, how frequent will payments be, and will it be contingent on factors outside the sellers' control and if so, how will the deferred consideration be adjusted.
4. Role – your post-transaction situation – will you stay in the business post sale, to do what and how will you be compensated?
5. Risk - what level of warranty and indemnity liabilities will you accept and for how long?

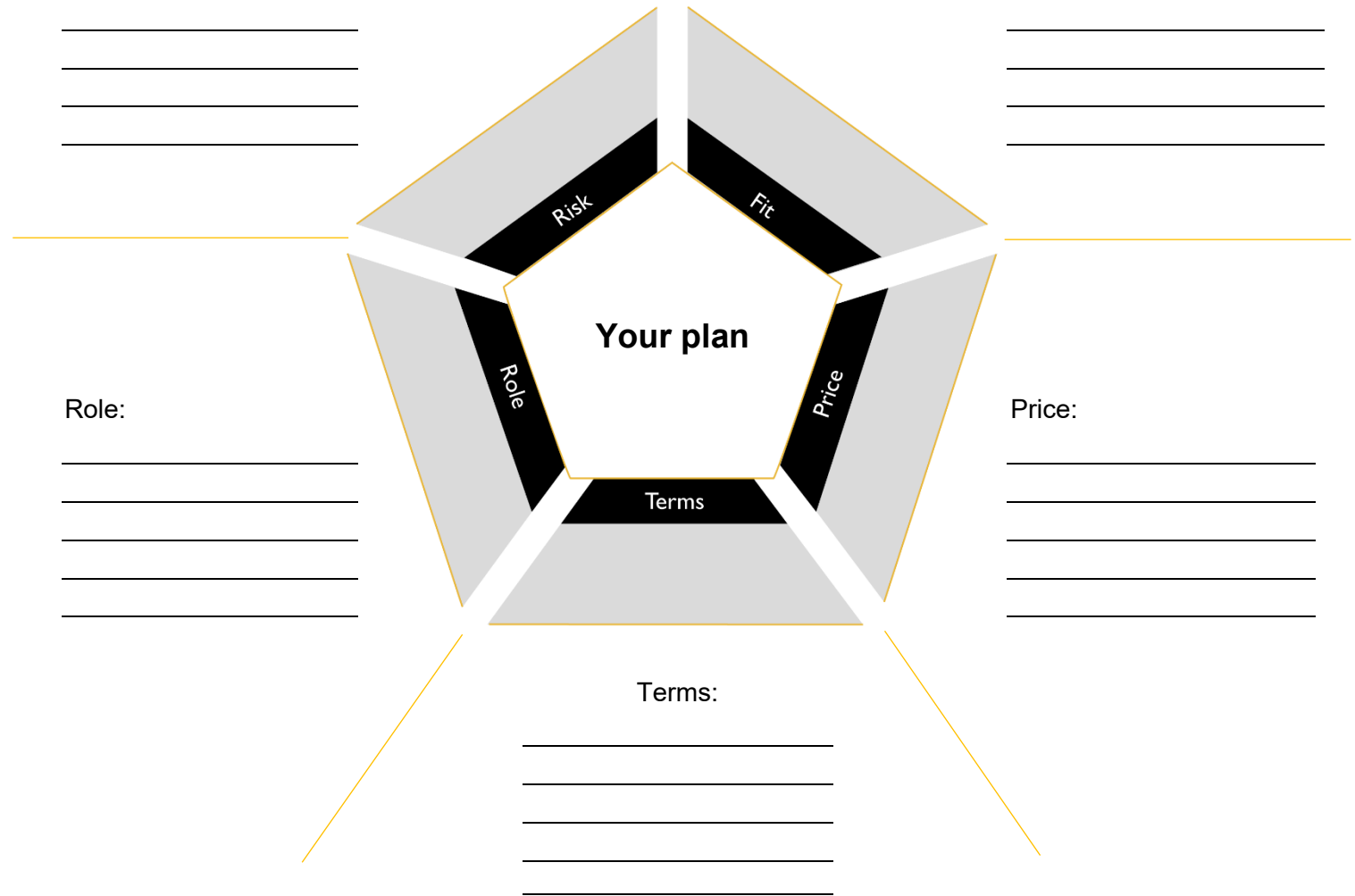
In order to identify your key criteria and any red lines you might have in negotiations, you should use the diagram over the page, to set out your thoughts on each of these areas. It might help to add a percentage weighting to each of the seven elements, based on the relative importance of each element. It can also be useful to identify which elements might change, as negotiations unfold.

Personal planning - continued

Element	% importance
Fit	
Price	
Terms	
Role	
Risk	
Total	100%

Risk:

Fit:



Your optimum deal design layout

	At completion	End of year 1	End of year 2	End of year 3	End of year 4	End of year 5
Initial consideration						
Deferred consideration						
Interest						
Sub-total						
Tax						
Earnings						
Tax						
Grand total						

Notes

Preparing the business for a sale

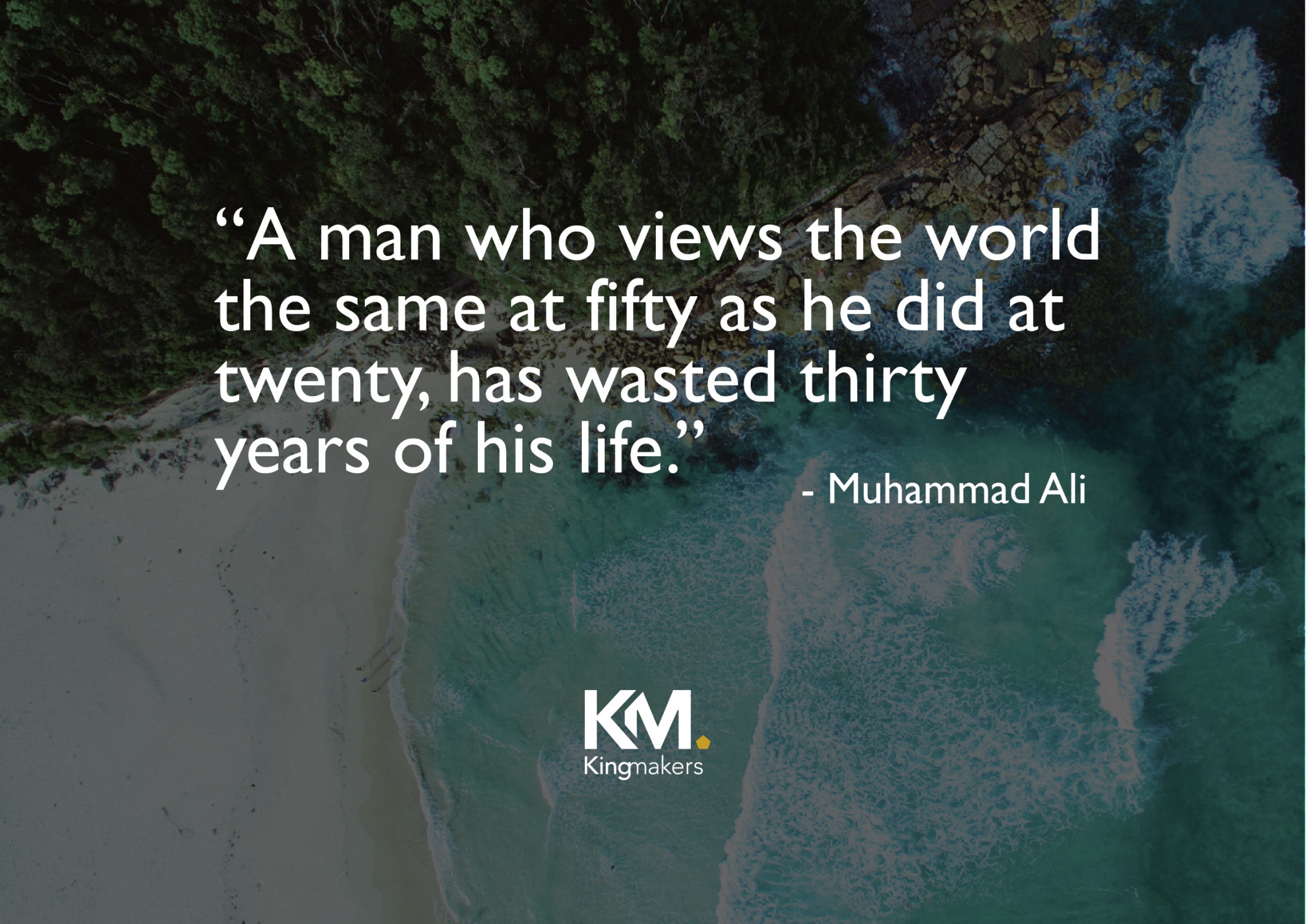
Here's some notes on typical challenges and what can be done to tidy the firm, so it can be presented in its best possible light.

Area of the business	What it's like now	What needs to be done	What it needs to be like
Leadership	No business plan Differences of opinion amongst owners No functional or project plans	Engage in planning & document Reach consensus Maintain business as usual Avoid strategic projects (ROI)	Clear business plan in place Owners incentives aligned Able to demonstrate plans & progress for business as usual
Marketing	Ongoing tinkering of proposition Multiple marketing ideas not followed through Clients told no external sale No documentation for introducers	No changes to proposition No changes to marketing activity Manage client comms carefully Keep introducers happy	Proposition documented Marketing activity recorded MI backs up consistent activity Introducer agreements in place
Organisation	Recruiting & making promises that can't be delivered on HR files a mess Lots of rumours	Take care with any recruitment Check all HR docs & tidy Manage team comms carefully	No new recruits in last 12 months Full HR records for everyone Calm team
Operations	Lack of documented processes Contemplating a change of CRM Over-reliance on external compliance Data a mess	Tidy processes Avoid IT projects Consider a risk assessment Check data & test extraction	Processes documented & evidence of teams' adherence Risk assessment on file & any easy fixes completed All data tested & available asap
Finance	MI difficult to obtain MI difficult to interpret Overdrawn DLAs/Members Accts & lack of provision for CT etc	Tidy MI and be ready to distribute Pay down DLAs or Members Accounts Check CT accruals etc	MI pack ready for data requests Discrepancies between data, bookkeeping & accounts identified & explained
Misc.			

Maximising your firm's value

Select the areas to focus on, detail what it should be like, what it's like now, what needs to be done to bridge the gap.

Area of the business	What it's like now	What needs to be done	What it needs to be like
Leadership			
Marketing			
Organisation			
Operations			
Finance			
Misc.			



“A man who views the world
the same at fifty as he did at
twenty, has wasted thirty
years of his life.”

- Muhammad Ali