



# Succession plan sketchbook

## Personal planning

1. Describe what you need to achieve from a succession plan (ie for yourself both financially and professionally and for others)?

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2. Design your optimum deal structure

The deal structure has five 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 corporation 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 they be contingent on factors outside the sellers' control. If there is a contingent element, 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 – to what extent will you provide warranties and/or indemnities 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:

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Fit:

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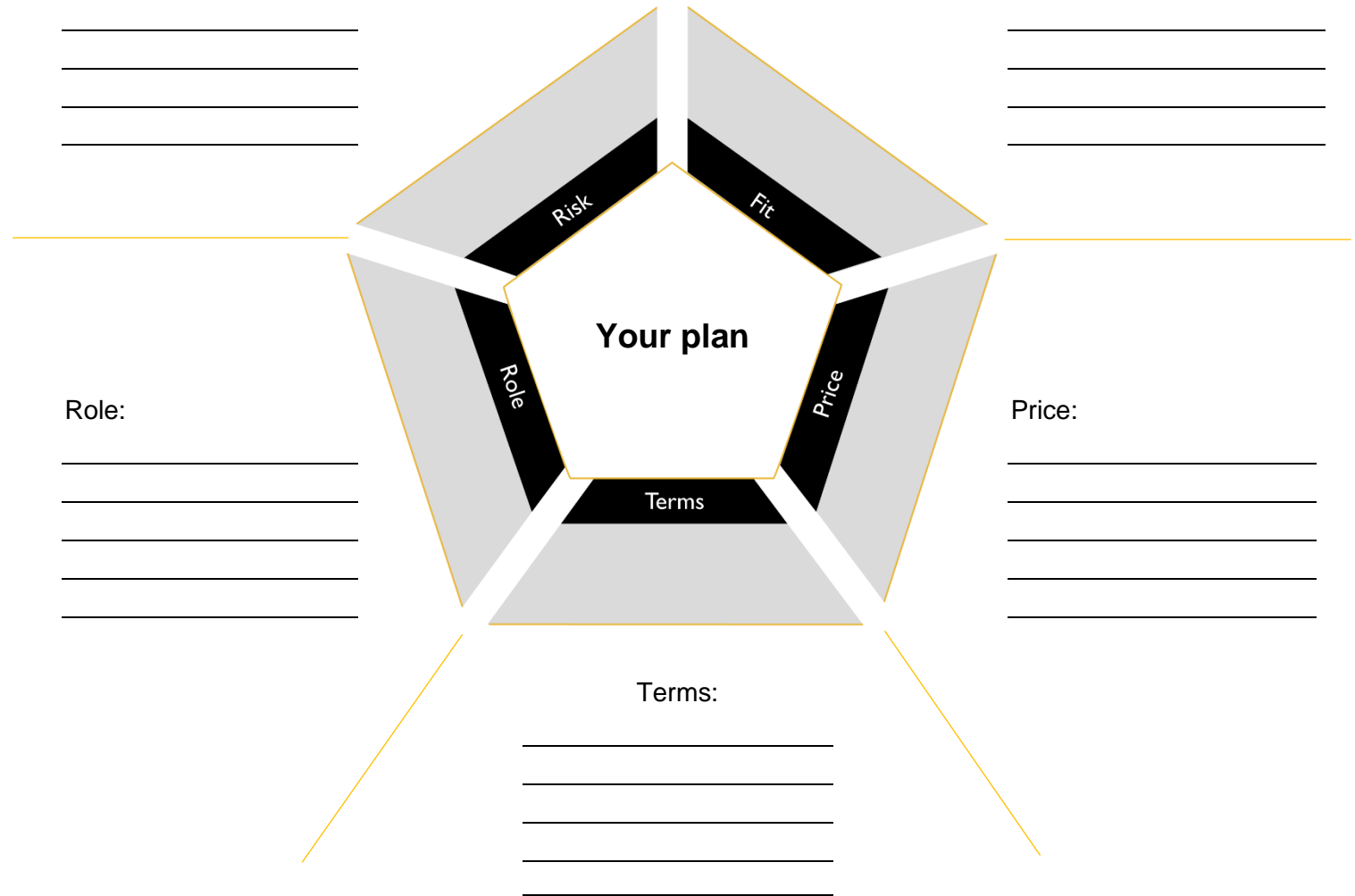
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## Your optimum deal design layout

|                                   | At completion | End of year 1 | End of year 2 | End of year 3 | End of year 4 | End of year 5 |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Initial Consideration</b>      |               |               |               |               |               |               |
| <b>Deferred Consideration</b>     |               |               |               |               |               |               |
| <b>Interest</b>                   |               |               |               |               |               |               |
| <b>Sub-total</b>                  |               |               |               |               |               |               |
| <b>Tax</b>                        |               |               |               |               |               |               |
| <b>Post-completion Comp (PCC)</b> |               |               |               |               |               |               |
| <b>Tax on PCC</b>                 |               |               |               |               |               |               |
| <b>Grand Total</b>                |               |               |               |               |               |               |

### Notes

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## Assessing the pros & cons of your options

### Statement of rationale for the deal

“I plan to sell the business to a third party/the team/a specific individual (delete as appropriate), in \_\_\_\_\_ (year), for a total of £\_\_\_\_\_, with £\_\_\_\_\_ upfront in cash and the balance over \_\_\_\_\_ years. They will buy the business from me because \_\_\_\_\_

”

| Seller | Pros | Cons |
|--------|------|------|
|        |      |      |
|        |      |      |
|        |      |      |
|        |      |      |
|        |      |      |
|        |      |      |
|        |      |      |
|        |      |      |
| Buyer  | Pros | Cons |
|        |      |      |
|        |      |      |
|        |      |      |
|        |      |      |
|        |      |      |
|        |      |      |
|        |      |      |
|        |      |      |

As you list the pros and cons, reconsider the statement of rationale and work to address any obvious issues with your plan.

## 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 often like   | What could be done   | What should it be like?  |
|--|--|--|--|
| <p><b>Leadership</b></p> <p>includes ownership, vision, strategy, mission &amp; management structure</p>                               | <p>Lack of communication and/or differences of opinion amongst owners regarding exit plans.<br/>No business plan.<br/>No structured approach to management.</p>  | <p>Engage in succession planning &amp; document output.<br/>Document approach to management, define business as usual &amp; work to maintain.<br/>Avoiding strategic projects with high risk &amp;/or long payback periods.</p>    | <p>Owners aligned in desire to exit or differences understood.<br/>Clear &amp; proportionate business plan in place.<br/>Able to demonstrate approach to management &amp; decision making.</p>                         |
| <p><b>Marketing</b></p> <p>includes clients, proposition &amp; pricing, brand, content, distribution, sales &amp; client retention</p> | <p>Clients &amp; introducers told no change or no external sale.<br/>Limited data recorded for client profiles.<br/>Ongoing tinkering of proposition/price.<br/>Multiple marketing ideas not followed through.</p> | <p>Manage communication with clients and introducers carefully.<br/>Review clients &amp; document profiles.<br/>No changes to proposition or price.<br/>No changes to marketing activity.<br/>Formalise introducer agreements.</p> | <p>Able to provide qualitative background data on clients.<br/>Proposition &amp; pricing documented &amp; no recent changes.<br/>Marketing activity consistent &amp; recorded.<br/>Introducer agreements in place.</p> |
| <p><b>Organisation</b></p> <p>includes roles, structure, reward, development &amp; recruitment</p>                                     | <p>HR files have gaps.<br/>Lots of rumours.<br/>Recruiting &amp; making promises that won't be delivered.</p>  | <p>Check all HR docs &amp; fill gaps.<br/>Manage team comms carefully.<br/>Avoid non-essential recruitment.</p>  | <p>Comprehensive HR records in place.<br/>Team focussed on business as usual.<br/>No new recruits in last 12 months.</p>   |
| <p><b>Operations</b></p> <p>includes processes, IP, IT, physical premises, risk management, suppliers &amp; data</p>                   | <p>Lack of documented processes.<br/>Contemplating an IT project.<br/>Over-reliance on external compliance.<br/>Premises subject to long lease.<br/>Data in multiple silos and a mess.</p>                         | <p>Tidy processes.<br/>Avoid IT projects.<br/>Get an external risk assessment.<br/>Avoid committing to long leases.<br/>Check data &amp; test extraction.</p>  | <p>Processes documented &amp; evidence of teams' adherence.<br/>Risk assessment on file &amp; any easy fixes completed.<br/>Premises with short lease or a license.<br/>All data tested &amp; available.</p>           |
| <p><b>Finance</b></p> <p>includes revenue, direct costs, expenses, profit, balance sheet &amp; valuation</p>                           | <p>Unexplained variation in performance.<br/>MI difficult to obtain/interpret.<br/>Overdrawn DLAs/Members Accts &amp; lack of provision for CT etc...</p>  | <p>Review performance &amp; provide commentary.<br/>Tidy MI and be ready to distribute.<br/>Pay down DLAs or Members Accounts.<br/>Check CT accruals etc</p>   | <p>MI pack ready for data requests, with quantitative &amp; qualitative data.<br/>Discrepancies between data, bookkeeping &amp; accounts explained.<br/>Balance sheet in good order.</p>                               |

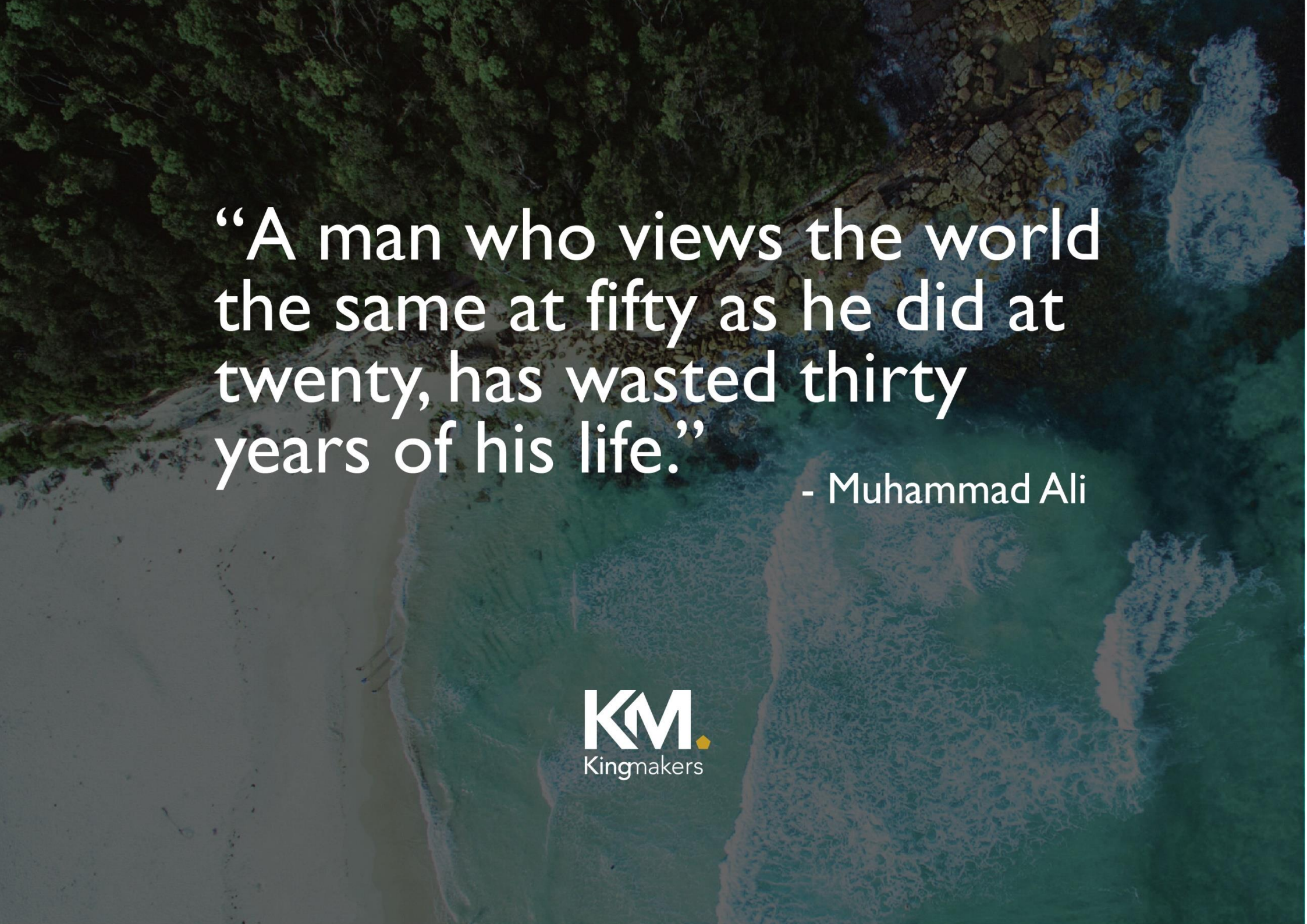
## Maximising your firm's value

Now select the areas you need to focus on, detail what it should be like, what it's like now and 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 |
|--|--------------------|-----------------------|--------------------------|
| <p><b>Leadership</b></p> <p>includes ownership, vision, strategy, mission &amp; management structure</p>                               |                    |                       |                          |
| <p><b>Marketing</b></p> <p>includes clients, proposition &amp; pricing, brand, content, distribution, sales &amp; client retention</p> |                    |                       |                          |
| <p><b>Organisation</b></p> <p>includes roles, structure, reward, development &amp; recruitment</p>                                     |                    |                       |                          |
| <p><b>Operations</b></p> <p>includes processes, IP, IT, physical premises, risk management, suppliers &amp; data</p>                   |                    |                       |                          |
| <p><b>Finance</b></p> <p>includes revenue, direct costs, expenses, profit, balance sheet &amp; valuation</p>                           |                    |                       |                          |







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

- Muhammad Ali