



**Daniel Poultney**  
Director  
Executive Risk Advice

## The Must Have Succession Plan

*We all hope for an accumulation of wealth after a lifetime of hard work and diligent saving. For many business proprietors (me included), their wealth is tied up in the business, and there is a need to **protect** our valuable asset. Too few proprietors think about the fate of their business in the event of their death or disability, or the death/disability of their fellow proprietors.*

Crucial questions we need to ask ourselves include the following:

- Who will pay for my share?
- Who do I want to pay for my share?
- How is this going to be paid for?
- How will my family be impacted?

A succession plan (namely a “Corporate Will”) answers these important questions, and more importantly, provides actions which will deliver the desired outcomes. Further a worthwhile succession plan will increase the chances of survival of a business when the proprietor chooses to leave on a voluntary basis, or if involvement is sadly terminated by death or disability.

The central theme of a succession plan is to ensure that when involvement in the business ceases for any reason, the departing proprietor or family receive value for the business. This ensures control and certainty that the hard work of the past few years has not been in vain.

Unfortunately, failure to address these issues can lead to loss of value, litigation involving family members and business partners, and in extreme cases the ultimate destruction of the business.

The succession planning process begins with a discussion between an adviser and the business owner on the proprietor’s plans for the future. The discussion then focuses on the points of vulnerability of the proprietor(s) and the business. Points of vulnerability are those risks which on coming to fruition would prevent the proprietors fulfilling their plans.

All businesses have points of vulnerability which can materialise at a point of stress such as death or disability. Successful businesses are not exempt from risk of destruction by a proprietor’s death or disability. In fact, the destruction of wealth following the death or disability of a proprietor of a successful business may be greater than the destruction which would arise in the less successful business. There is more at stake in the successful business.

### What are these points of vulnerability?

Points of vulnerability include the following:

- Loss of revenue in the period following a proprietor’s death or disability.
- Additional cash flow pressures caused by creditors such as suppliers who perceive a credit risk following a proprietor’s death or disability.
- Foreclosure on a bank loan by a bank anxious to protect amounts advanced by it pursuant to an overdraft facility.
- Stress between the deceased proprietor’s family and the surviving proprietors over the future direction of the business. In the absence of a succession plan, there may not be a shared vision for the future.

Once established, we should conduct regular reviews of our business succession plan to identify points of vulnerability, and to devise solutions which eliminate or reduce the risk associated with these points of vulnerability.

### Who are we?

Specialist Advice Services is a specialist risk adviser focused on assisting business owners and executives in regards to their business succession, keyperson and personal protection needs. I would encourage all business owners to call myself on 1300 615 232 for further information in this area, or to set a time to start discussions around these critical issues; obligation free.