

## ESOP's for Business succession planning

In terms of Business exit, one of the most important issues facing business owners and their advisers is the equity / wealth extraction to ensure retirement planning goals can be met for the exiting owners. This issue is where many exit plans fall over due to incompatible timetables, simple lack of funding and inadequate structures to deal with the vagaries of ownership styles and structures within SMEs. There is a practical solution available with the use of Employee Share Ownership Plans ( ESOP's ) as a structured approach for transferring ownership whilst facilitating the smooth exit of current owners. This approach is extremely popular in the United States, with nearly half of all ESOPs there being used by private firms to buy out an owner.

A 1997 survey conducted by the Monash University Family and Private Business Research Unit revealed that over the ensuing decade 60 per cent of private business owners are approaching retirement and the ensuing transfer of ownership of assets and business equates to approximately \$607 billion. Only 30 per cent of owners had a succession plan in place. As the paper concludes, "the AEOA is unaware of any widespread use of employee share schemes by privately owned companies for succession planning purposes." In my view this is an opportunity that should not be missed.

Interestingly, our experience with clients who have implemented an ESOP as part of a business succession strategy has shown considerable benefits apart from the obvious benefit of having a documented and funded succession strategy that matches retirement planning outcomes.

One of our clients from L J Hooker Commercial Central Coast highlights the following benefits: ***"The succession plan offers another dimension and long term outlook for key staff that often they never get. The result is truly a WIN / WIN outcome for exiting owners who want the best for the business and to achieve the best sale price for the asset, and for their employees - the people they need to make the results consistently improve."***

Involving the key people within the business in management has also led to improved performance – ***"New ideas and interesting approaches to areas that the business was ready to grow into, but where we were being held back for some reason, seemed to flow in a more open way when the key people were encouraged to see themselves with part ownership of the business."***

In summary, director, Ty Blanche concludes ***"We have created a more understanding team of people, and added value to the individual's performance congruently."***

In terms of real business benefits another real estate client focuses on the sales people who are now able to state that they are owners ( often vendors want to deal with the principal of the business not “just an employee” ) - ***“there was a strongly positive response from our staff. One of the great advantages to this scheme is the power that it gives to the employee in their negotiations. They can represent themselves as having ownership in the business, which is something that most competitors cannot offer. It’s like a trump card to a high performing sales consultant in their winning the listing in a competitive environment.”***

Interestingly, in this business, internal referrals between departments have also increased – ***“both financial services and property management referrals from employees participating in this scheme increased at a higher level than before. I put this down to their seeing value in contributing to the company’s bottom line because they will share in the profit.”***

Principal Brett Greensill, is a strong supporter and based on the improvements in business performance and valuation his view is that all business owners should be looking at a similar plan - ***“the introduction of this scheme is entirely positive”***

#### **ABOUT THE AUTHOR - CRAIG WEST**



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Craig West is a strategic accountant who has built a specialised advisory practice focused on BUSINESS SUCCESSION PLANNING – [www.successionplus.com.au](http://www.successionplus.com.au) Craig is a CPA and has been advising businesses in management, taxation and accounting issues for over 15 years. He specialises in business structuring and succession planning and has had extensive experience working with clients to improve their financial performance –with proven results.

Craig has conducted numerous seminars and presentations throughout Australia for Department of Industry, Tourism and Resources, MLC, L J Hooker, the NSW Department of State & Regional Development, NSW Chamber of Commerce and CPA Australia. He has appeared as an expert adviser with a weekly segment on the Alan Jones breakfast radio program in Sydney and was a founding member of Thought Leaders

Craig acts as a strategic business and financial mentor for business owners and has written three critically acclaimed books educating business owners on employee incentives, succession planning and asset protection and has recently been invited to complete a PhD in Business Succession Planning at Deakin University in Melbourne.