
GORISSEN

THE NEXT IN LINE

TO AVOID SPLITTING HEIRS, START THINKING ABOUT SUCCESSION PLANNING FOR THE FAMILY BUSINESS EARLY ON, WRITES **MARK STORY**.

Revelations that around 400,000 Australian small businesses will change hands over the next decade due to baby boomers retiring poses a big problem for those business owners who are unprepared. For many of the family businesses included in that figure, retirement means handing over the keys to the next generation. However, without proper attention to succession planning, these businesses may be opening themselves up to a range of difficulties that could spell the end of their company, and possibly even destroy family relationships.

For Anthony Bell, CEO of Sydney-based financial consultants Bell Partners, buying out his father's accountancy firm allowed him the freedom to take the company in the direction he felt necessary and put to rest any generational clashes stemming from a drawn-out succession plan. Similarly, Peter Doyle put his family's famous seafood restaurants back on track when he recruited outside talent to heal the damage after a family split threatened to tear the company apart.

Both men understand the importance of succession planning for maintaining a company's stability and allowing the business to face the future with all guns blazing. And both argue that most of the problems begin when family members are given a free ride.

RINGING THE BELL

"Dad, all that money I paid to buy your business back in 1997... do I get it back in your will?" Not surprisingly, 36-year-old Anthony never gets an answer to this Dorothy Dixer he ribs his dad, Donald Bell, about. But this eventuality, he hopes, will be one of the quirky corollaries of doing business with family.

Ironically, Donald never envisaged selling the accounting practice, Donald F. Bell & Co., he had run for almost 40 years to his only son as an exit strategy. He'd always assumed that Anthony, who'd learnt the business since joining as a part-time university student, would become a partner and end up running the business.

It was only when his son shattered those expectations and decided to head up his own business that both broached the idea of a sell-down. "I had to ask myself if I really wanted to become a partner with dad if it meant dashing my hopes and dreams," recalls Anthony.

As sole director of Bell Partners, Anthony has increased staff numbers 10-fold in a decade and the company has repeatedly topped *BRW*'s list of 'most productive accounting firms' with annual turnover exceeding $5.8 million (in 2005). Musing over this success, Donald often teases his son over how well he did on the sale price. ▷

ILLUSTRATION: DEAN GORISSEN

As much as he loves his dad, Anthony knew the gap between baby boomer Donald and his own Generation X mentality would be insurmountable. He instinctively knew his robust plans to take the business into new markets beyond the domain of the balance sheets and P&Ls (profit and loss statements) his dad was more comfortable with would see them clash as partners.

"I'd already started my own consultancy within dad's business. Had I continued, we would have competed over clients. Neither of us wanted that."

And Anthony didn't want to have to get permission from another partner before heading in different directions. Even if he'd gone 50/50 with his dad, he knew the senior partner would have the last say.

"Being at different stages of our life cycle, dad would have wanted to lock-in profits, while my goal was to reinvest earnings into the business."

Neither Anthony nor his dad wanted to see a cent less paid on this deal just because he was buying from family. To ensure nepotism didn't cloud the sale, both parties brought independent business valuations to negotiations that took over six months. The key to taking family out of the equation, recall the Bells, was building an agreement on fairness that met each other's needs.

The classic win-win situation meant Anthony had total control of the company and could now embark on robust expansion plans into new markets. The flip-side meant Donald would receive the best of both worlds – up-front equity and ongoing income as a consultant within his son's business.

"Ensuring he had an office, and could come and go as he pleased, minimised dad's emotional pain of letting go of a business he'd nurtured for almost four decades," says Anthony.

THE PRICE OF FISH

A difference of opinion over which family members were best suited to run the business forced the Doyles restaurant family to move in two different directions last July – more than a century after the first Doyles restaurant opened at Sydney's Watsons Bay and became a fixture on the dining scene.

After a family sell-out in the mid-1980s, two of the four Doyle brothers were left holding the reins, and when one of the two shareholding sons died three years ago, business ownership was split between two families. Peter Doyle stepped up to continue his father's legacy and take control of his side of the business, while the remaining brother, Peter's uncle, continued to run his portion of the company.

While his uncle was happy with business as usual, Peter's dissatisfaction with how the business was being run, coupled with his desire for change resulted in both family camps doing their own thing. "Doing business with family is a bit like a marriage, if one partner has different plans, a split is [often] the best option," says Peter.

While Doyles led the field in alfresco dining, wider menu choice and serving alcohol on Sundays in an eatery, he believes that the family's restaurants were no longer being recognised by diners as "funky and progressive". Part of the problem, according to Peter, was that his sisters, Robyn and Gayle, were significantly under-utilised when it came to controlling the back-office stuff where they had real expertise.

"While working for the family they would always struggle to have their capabilities fully appreciated," opines Peter. "By undervaluing the behind-the-scenes work my sisters were doing – that was critical to running restaurants – the overall business was suffering."

A less than scientific division of assets left Peter's side with the Watsons Bay Hotel and the restaurant at Circular Quay, while his uncle's side kept the restaurants at Watsons Bay and the Sydney Fish Market, plus ownership of the Doyles name.

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To Peter, the way assets were informally valued and then divided underscored the manner in which the business was run. In hindsight, he says experts should have been brought in to model the asset split and identify where the skills of individual family members could best be utilised within the business.

"Succession planning wasn't done well as family members were put first as opposed to business issues," he recollects. "There was an attitude that we knew best, and that we could sit back and rely on the Doyle name forever."

As all Doyle assets were jointly owned through family trusts, splitting the business meant setting up new companies, taking responsibility for staff, tax issues, leasing arrangements and identifying suppliers for different restaurants.

In Peter's case, it also meant an entire re-branding exercise from signage and menus through to business cards. "We had three weeks to create a fully operational back office, including liquor licences, payroll systems, customer delivery and accounts systems, and other government compliances," adds Peter.

Since the split Peter has been freed up to bring in different management and an executive chef,

where before family members were relied on to deliver. Had he been able to do that years earlier, and appoint an independent board, he suspects the restaurant on Watsons Bay Wharf – closed by his uncle's side of the family since the split – may have survived.

Equal distribution of business assets to family can be a massive headache when succession planning. Peter says that is especially true where some members have already been in the business and some haven't. That's why he recommends bringing in experts to match the competencies of family members with the demands of each respective role, especially the management and senior chef positions.

"Bringing in outside people is necessary to get fresh ideas, disciplines and the confidence to deal with family members."

FINDING THE DOOR

Having learnt as much about succession planning from his own experience as he has from his clients, Anthony is fully aware that family bring mixed blessings when it comes to exit strategies. The solution, muses Anthony, is to keep family at arm's length.

"That's why I earned the same pay as anyone else when I worked for my dad," he says. "Too ▷

EXIT THIS WAY

Clearing the way for heirs is all well and good, but how do you know if your business, and family, is better served if you sell-up and walk away? Owen Joyce, managing director of *Australian Business Review*, asked the same question.

Joyce sold his IT company, Selfcert (now SEEK Learning), to online job board SEEK.com.au in 2004. He says it is important to create a business that can be sold and to ensure the unexpected departure of a business partner or key person doesn't lead to a 'fire sale'.

When SEEK expressed an interest in buying the business, Joyce felt the time was right to exit – his wife had fallen pregnant with their first child and he started to lose passion for the business. With a consistent supply of customers, good sales and decent profit levels, the company's valuation was close to what he considered an exit point.

Everything was done with a view of making due diligence as straightforward as possible. The company's accounts, leases, employment and supplier contracts were in order, and processes were highly transparent.

"When we received the list of due diligence requirements, we were able to provide all of the information required very quickly," recalls Joyce. "The original offer came in March and the new owners took charge 1 July. I left three months later after a brief handover."

many businesses lose great staff because they know top jobs will finally go to family."

Even though he'd eyeballed his own exit strategy from day one, Anthony decided not to sell down in 2002 as originally planned, as he was simply having too much fun. He's been approached to float the business, but having witnessed too many accounting firms go public only to fail, this remains unlikely.

"Planning an exit strategy doesn't mean you have to sell. But building a business that's able to be sold means you've got options when you do," he says.

Anthony would much rather prefer to leave any future children he may have with equity as opposed to keys to the CEO's office.

In the meantime, his succession planning revolves around creating a 'wealth-play' for staff members. Instead of going down the more travelled route for accounting firms, where around 10 per cent of employees become partners, he's working on a scheme that could potentially see all staff become shareholders.

Anthony says high-profile corporate casualties where staff promotions were based more on blood lines than capability should be a wake-up call to all business owners planning to leave their kids in charge. "Beyond the damage to the business, it can also break families emotionally."

Likewise, Peter strongly urges those planning to exit their business completely to have a retirement plan. "Don't just go from working 80 hours a week to doing nothing, and don't down-size the business in a way that only keeps the stuff that you used to enjoy doing."

Peter hasn't contemplated his own exit strategy; he's more focused on growth, franchising and new store openings. But he's adamant there'll be no free ride for family members. While his two adult daughters have expressed interest in joining the family business, he's told them to go and work elsewhere – for now at least.

"If and when they do join the business, they'll need to bring something with them that's special – especially as they're family," he says. "We can only teach them so much. Just because their name is Doyle doesn't mean they'll be a manager here."

While handing over the reins to the next generation may be inevitable for some business owners, succession planning is a crucial consideration element prior to the handover in order to ensure that the business continues to run as smoothly as possible after the transfer.

As Anthony and Peter will attest to, proper attention to succession planning will not only minimise disruption to the business, but also reduce family conflicts by ensuring the positions are taken up by the most suitable and capable candidates. vb

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CONTINUING THE LEGACY

Owen Joyce offers these tips for any business planning a succession strategy.

- Ensure the business is 'sale-ready' at all times.
- Keep staff informed.
- Seek expert advice, especially on tax, super and stamp duty.
- Be realistic over company valuations.
- Ensure all legal matters are in order.
- Identify how long you wish to remain in the business once it has been sold.
- Ensure the needs of a family-owned business don't threaten its existence.