Next please!

Identifying and developing someone in your business to step up, or a potential buyer to take it forward, can be a challenge when it comes to succession. But, as Ian Leech hears, leaving it in the right hands is about more than money

Getting succession right is a big deal for a business owner. A range of factors determine whether it will be successful. Sellers become very attached to their business. It's an emotional tie: they created it and have loyalty to the staff and the clients.

The best successions happen when both sides know just what they want, says Giles Clegg, head of the corporate finance department at law firm Lupton Fawcett. In the ideal succession nobody notices it has happened. He says there are four essential points that you need to get right in any succession plan: finding your successor; communication; leadership to implement it, and structuring.

"First of all you need a willing successor and you have to identify who your successors are," says Clegg. And you have to work out what they want because it might not be what you want.

"To get any succession through you need someone who will lead the process and set out and negotiate, because you will start with groups wanting different things. Then you will have to get them to do a deal; get advisers on board and get it structured. A lot of succession can drag out and then it becomes a disincentive."

Are people taking a share, increasing a share or eventually buying a person out? Or is it a clear cut off line?

Ensuring you have a tax-efficient structure can be crucial, depending on the business. What you don't want to do is come up with a structure where you buy someone out, or there's a partial exit and that triggers a tax bill that you didn't know about.

The flipside is that you see a lot of shareholder disputes, where something has gone wrong because of a lack of communication or a succession plan not being in place.

The vendor needs to decide whether they go through a standard consultancy or a set earn-out period related to performance. Earn-outs are usually 12 to 24 months but can last five years. The simplest are based on turnover. Profit-related ones can be affected by many factors, though. If you are going to have issues on a deal the earn-out is a regular one because it relates to price.

Chris Oldfield

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> **Chris Oldfield**

Clegg says: "It's how you police that, because you have the inherent tension because the buyer may just want to run the business and the seller says 'no, hang on, a big part of what I have earned is tied up in that contractual arrangement'. I used to say the earn-out should be the icing on the cake, but not the cake. Then a client told me: 'yes, I get that, but I do like the taste of icing though'."

In a family business, the dynamic of emotions brings in a whole layer of other issues to consider that aren't just commercial. You can end up in a situation where people who are not engaged in the business day to day end up, through a will, with quite a big share ownership.

Succession is a chance to have that dialogue about what people are doing in the business and whether they want to be involved. In all succession matters, Clegg advises: "Try to think about what is best for the business. The best leaders are more concerned about the business and its future separate to themselves and not just what they can get out of it. It's recognition that they have created something and want to leave something."

Chris Oldfield sold his balers and shredders business Riverside Waste Machinery to Austrian company UNTHA in 2011. UNTHA didn't want the baler side of the business so when Riverside changed its name to UNTHA UK Oldfield's wife and son bought the assets back and kept that business going. UNTHA tied Oldfield into the Boroughbridge business for six years and asked him for a succession plan.

He says: "You really want to know who is the likely buyer. I knew UNTHA was the best buyer for the company. I firmly believed in it; it's a good company with good people. I had to create a plan and spell out why it should buy the business.

"UNTHA left the running of the UK business to me, which was good because it didn't know how to run a company in the UK. I have started four businesses in my life and all four are still running and profitable. I'm proud of that and didn't want this to fall apart because I wasn't there."

Ultimately, you have to be able to start releasing responsibility and extract yourself from the company. Oldfield appointed a managing director and after four or five years went part time.

"Extracting myself slowly allowed staff to get used to the idea of me not being there and also gave me an opportunity to get used to retirement," he says. "You see so many people who walk out of work and don't know what to do with themselves from the day they finish.

"I was thinking of selling before the recession. The recession hit us hard and for a long time and it was tough. But all it did was affect the price. There's no point looking back and regretting. I'm happy with the outcome and so is UNTHA. It was a win-win for everyone."

Union Industries is a famous manufacturer of industrial doors and curtains in Leeds. In 2013, Paul and Isobel Schofield (affectionately known as Mr and Mrs S) had reached a point where they wanted to sell. They didn't have any family, and there wasn't a natural path for the business in the longer term.

They looked at a trade sale and a potential purchaser made a credible offer. Managing director Andrew Lane says that as Union went through the detail, the words 'consolidation' and 'rationalisation' emerged.

"Mr and Mrs S had built the business without proper training, just hard work, and all the things that we have that are a bit quirky, like our building and culture, were going to get lost. They would get rich from it but the people who had also built the business weren't going to get a piece of it – they were just employees. So they decided that wasn't for them."

The couple then read an article on employee ownership. They started exploring what a transition might look like. They recruited Lane, who had experience of employee ownership – albeit that hadn't gone particularly well.

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In total, £100,000 was needed from employees, most of whom had lower paid shop floor jobs. An unsecured loan was arranged, but at a 9 per cent collar. The recession came and people lost jobs or went on to short-time working.

Lane takes up the story: "When I came to Union for the interview I was all set to tell Mr and Mrs S how employee ownership had to be something that the company could afford. They stopped me and said 'we want to leave all the assets in the company and leave £1m in the company, and think the company can afford something like £350,000 a year repayment, but we wouldn't be drawing any additional income'.

"The employees were not asked for any money because the owners felt they had put in their equity in terms of their efforts. So when you added it up we were buying a £6m business for effectively £80,000 a year over ten years. I wanted to prove it could work. If I had made a mess of it I would never have forgiven myself. For them it was about legacy. It was absolutely not about them. The old boy is 80 now and there is a potential 12 years of repayments before it gets to full amount. He's got two false knees and a pacemaker. That's optimistic isn't it!

"First and foremost, me being successful wasn't about profitability, it was about maintaining the culture of the business. If you try to do everything right, the numbers shake out anyway." ■

Union Industries: Isobel and Paul Schofield with Andrew Lane