Let's chat

Succession or sale – the once-in-a-generation opportunity

Issue number 4,
December 2017

pwc

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Planning for the future is one of the great challenges for family businesses. A business has been built up over possibly several previous generations of the family and has generally become the most valuable asset and source of income for the extended family. Each generation of family leaders then has to make the decision – do we retain the business and train up the next generation to take over and continue the legacy, break it up between different family members or groups or exit the business to enable the wealth to be diversified elsewhere? This is a once-in-a-generation opportunity to make sure the next move – succession or sale – is a success.

A recent PwC survey of family business in Australia has identified that:

69% of private and family business owners are currently planning to either sell or pass on their business.

31% of private and family business owners are planning to sell or float the business rather than pass it on.

38% of private and family business owners want to pass on the business to the next generation, but 83% still don't have a succession plan.

70% of business transfers fail between generations and only 5% survive to the fourth generation.

60% fail due to a breakdown of communication and trust while 25% fail due to inadequately trained and prepared heirs.

75% of the next generation have big plans for taking the business forward but 26% find it difficult to get the current generation of leaders to take their ideas seriously.

>50% say they can reinvent themselves with each generation and 88% of the next generation want to leave their stamp on the business.

Private and family businesses are the growth engine of any economy and PNG is no different. The government has recognised this in its push to grow the SME sector in PNG and have more citizens participate in the formal economy.

There are also increased challenges for the many long-established private businesses where the next generation may be less committed to living and working in PNG to maintain the business and how all the varied self-interests of the wider family group can best be accommodated for the greater benefit of all.

"The next generation have more options than ever before, have generally been educated overseas, have spent less time growing up within the family business and they want increased flexibility to choose their own path," Private Clients Leader Stephen Beach comments. "This makes it increasingly difficult to align their goals and ambitions with those of the family unit as a whole, requiring more open communication and often compromise."

With so much value at stake in private and family owned business in PNG, poorly planned or executed transition, whether by succession or sale, can have an impact not only on the future success of the family but also on the productivity and employment of the PNG economy as a whole.

Ensuring the successful transition of businesses and wealth has positive benefits for both the family and the economy. For the family, it can promote harmony and continuity and make it easier to protect close relationships and promote wealth transfer. Proper planning can also make the transition easier for the next generation of entrepreneurs and to attract and retain the right talent and skills to develop new opportunities. It can invigorate the economy with new ideas and new capital, ready to challenge and disrupt conventional practices.

Planning for successful succession

The key to an effective transition is to ensure there is continual open communication between family members on both business and family issues, supported by appropriate training and education to ensure the next generation are well prepared to make informed decisions and participate in running the business.

The family should have a shared vision, values and purpose through facilitated discussions, an understanding of the goals and aspirations of each family member and a strategic plan for success for both the business and the family in the short and medium to long term.

The reality is that families rarely sit down and discuss such matters formally, particularly as it can raise sensitive issues. Often it is left to the current family business leaders to make these decisions on their own, without consulting and considering the views of other family members. This may be seen as their prerogative as the head of the family, used to making the decisions for all. However, it is worth taking the time to have a considered, formal consultative approach to ensure the family's chance of future success and continuity of the legacy.

The next generation also need to be ready, willing and able to run the family business and take it to the next phase of development. The PwC survey found that 75% of the next generation in Australia are confident and ambitious about their abilities to take the business forward. However, almost a third also feel that the current generation are resistant to change and reluctant to take their views seriously.

The current generation need to give the next generation the freedom to make mistakes and the responsibility to make their own decisions without being undermined. They also need to have clearly defined roles and lines of reporting, often through non-family members who can provide technical and leadership mentoring.

The next generation also cannot just assume they will have credibility in the business just by carrying the family name. They need to build this credibility by demonstrating that they have the skills, experience and new ideas required for eventual leadership. This is often best gained by spending time outside the family business, learning how other businesses operate, being successful in an environment where who you are doesn't matter, and then bringing those wider perspectives and experiences back into the family business.

"The next generation need to acknowledge the experience of the current generation, listen and learn with an open mind, and be prepared to play the long game. The current generation are unlikely to just step aside, but need to feel comfortable that there are shared ideas about the family and business vision and values that will see their legacy prosper and develop for future generations."

Stephen Beach
PwC Private Clients Leader

Getting the most value from your exit

Exiting or breaking up the family business is perhaps the hardest decision of all. It is a one-off decision with no going back, and is the culmination of a lifetime's or previous generations' work. Therefore, it is vital to ensure that you put in the time and resources to get the right outcome, both in terms of value and the future direction for the family.

For many family members, involvement in the business would have been a vital part of their daily lives and no longer having that involvement can leave an immense feeling of emptiness and lack of purpose. The suddenness of this impact can be lessened by gradually withdrawing from the business over a period of time, putting in place independent executives and taking on more oversight roles. Think early about the future personal challenges and goals that you want to accomplish and the new opportunities that being free of the business will present.

The business sale may also bring with it a substantial increase in disposable wealth. You should think and plan about how you will use, invest or distribute the money well in advance of the decision to sell, taking into account the aspirations, expectation and values of the family unit. Getting external advice can help you address these issues objectively.

"Business owners are also not always the best at knowing what their business is really worth," says Beach. "This leads to unrealistic expectations about potential sales value. Value is only what someone is willing to pay based on their own perspective, and this may be totally different from that of the owner."

Owners need to take the time to get a perspective on what the market value of their business may be, who the likely buyers are to engage with, and what can be done to improve the value and make the business 'sale ready'. Business values can change dramatically with changes in the economic environment, levels of technological change, product development, innovation and disruption in the particular market, real property values and buyers expectations of the future potential.

"In the current PNG economy, there is significant surplus liquidity looking for good investment deals, but buyers' expectations of business goodwill value are low and much of the business value can be tied up in the property," says Beach. "What goodwill there is may be attributable to the expertise, experience and contacts of the current owners rather than the business itself, and no buyer is going to put a high value on something that can evaporate once the transaction is completed. The 'what next' decision is also complicated by the current foreign exchange shortage in PNG which has put the remission of capital proceeds to another country at the bottom of the priority list and created significant uncertainty for those wanting to sell."

In their recently published Once in a Lifetime report, PwC has identified the following top ten tips to prepare your business for sale and maximise your value:

1. Take your time

Take at least 12-24 months to plan and prepare your business for sale.

2. Put the family first

Consult with the family and put family objectives into account before embarking on a sale process.

3. Know your buyer

Identify your likely buyers and how they will assess business value, so that you can prepare your business to maximise value and create competitive tension.

4. Make yourself redundant

Step away and put in a strong CEO and support team so that a buyer can take comfort the business can be successful without you.

5.Pay for some housekeeping

Sort out the accounting, financial reporting and any compliance issues, separate the owners' affairs from the business, and tidy up any legal and operational risks.

6. Work your EBIT (earnings before interest and taxes)

Most business are valued on a multiple of their EBIT or EBITDA, so every Kina you can add to your sustainable profitability multiplies into added value.

7. Leave something for the next person

Buyers will pay more if there are opportunities for future growth. Plan and partially implement these opportunities so that buyers can believe them and be prepared to pay for them.

8. Protect your sales proceeds

Review your structure and proposed sale strategy to maximise your after tax proceeds.

9. Be prepared, as timing is everything

Get your business "sale ready" early so that you can respond quickly as markets change or sale opportunities emerge.

10. Do your homework

You only get one shot at selling the family business, so engage the help of professionals when required.

Whether succession or sale, the key is proper planning, open communication with the family and taking everyone's aspirations and goals into account when making decisions for the future. Don't waste this once-in-a-lifetime opportunity.

If you are a PNG business owner and would like to find out more about issues succession or sale, please contact our Private Clients team.

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