

Succession Planning Bulletin – November 2022



As Gambit Corporate Finance LLP celebrates its 30th Anniversary this year, we investigate how crucial a succession plan is for owners to understand and preserve business' value, demonstrate future growth potential, and transfer ownership to an ideal suitor.



**2 out of 3
businesses do not
reach 10 years**



**Only 1 in 12
businesses reach
3rd generation**



**Only 1 out of
500 business
reach 80 years**



Why do so many businesses leave it so late to plan for succession?



The operational demands of running a business can be all-consuming, owners caught up in the challenges of the present, rather than reflecting on what needs to happen for the business to transition when the time comes for them to exit.

To avoid disruption, uncertainty and mitigate emotional conflict owners should consider developing a proactive succession road map, rather than a reactive one and leverage off key value enhancers. After all, over the long term all companies must embrace change or face extinction, succession is more than a stage in the business cycle, it is key to longevity.



What can businesses do to balance planning for succession with growing their business?



Succession planning is essential to having choices, protecting and realising many years of personal dedication and investment. It is vital that owners continue to grow the enterprise during this process, business as usual or better. Avoid getting carried away with the aspirational prize until it is realised.

To balance both aspects of the succession journey, here are some key processes to consider:



Identify the skill set required for senior management to run the business independently



Provide your senior management team with sufficient training to support continued business growth



Consider establishing a reward scheme (including shareholder participation) for the managers and employees, rewarding performance and loyalty



Factor simplicity and realism into your plan, setting achievable goals and timescales



Communicate the roles and responsibilities of your management team to your stakeholders



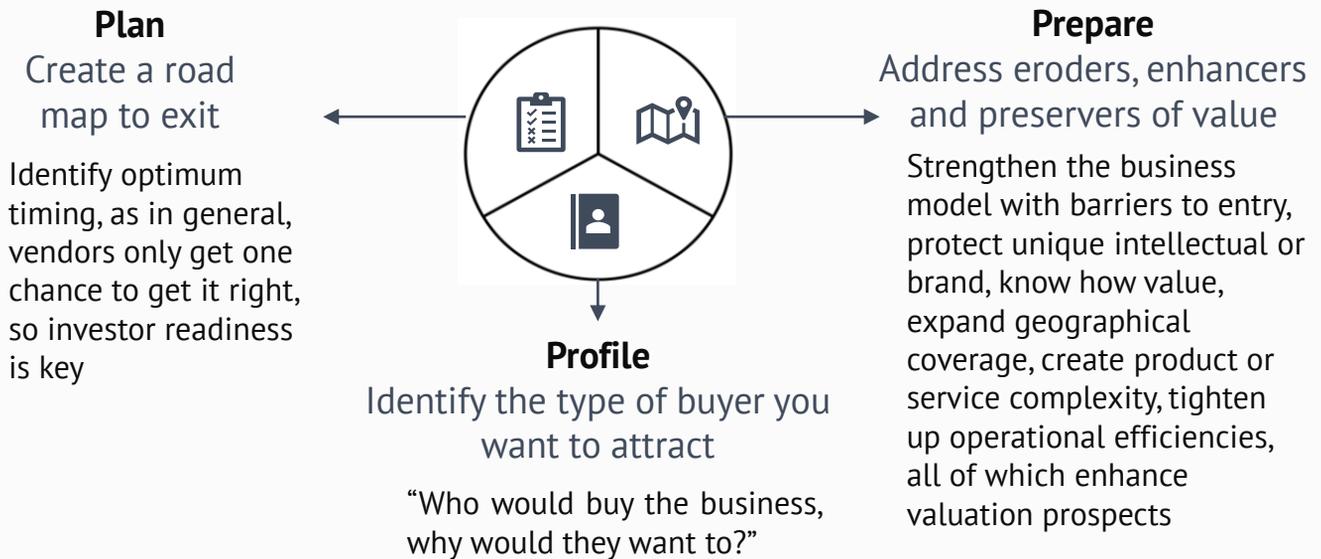
Start now – it's never too early



What makes a great succession plan?



Adopt a formal processes to ensure an easier transition when the time arrives to relinquish control. The transition is complicated and full of highs and lows so consider how the business follows the market, the economic backdrop, funding options and whether to pursue a path of growth or liquidity. Owners must take control of the process rather than be exposed or unable to react positively to an unsolicited approach. Be clear on how to maximise enterprise value and understand what buyers are looking for.



Case Study: Safety Letterbox Company

Gambit Corporate Finance LLP advised The Safety Letterbox Company Ltd (SLB), the UK's leading manufacturer of secure mailing, in its sale to German business RENZ Group.

During the assessment of its succession options, SLB's board thoroughly investigated whether to sell or remain independent, to the point where retaining the business run by next generation became Plan A. Alternatively, Plan B, or the sale option, required an external investor and facilitator securing the business' future with some substantial customers, as well as pre-empting the inevitable privatization of the mail delivery industry. The ultimate decision to pursue Plan B and sell came down to the consideration offered and terms for ongoing family involvement.

SLB continues as an independent subsidiary of RENZ Group, whilst Chairman was retained as a technical consultant and daughter continues as managing director and CEO.

The Chairman said: “The future of SLB will be further enhanced by the RENZ Group, allowing both parties to share knowledge, products and expertise to provide customers with the total mail delivery package of the future. Together, we can push the boundaries in mail delivery and product design to provide customers with secure, high-quality equipment for any site profile and budget range on worldwide basis.”



Life After Exit



Answering the question of what comes next is tougher than most owners anticipate. Of all the stages in an entrepreneur's journey, what comes after a successful business exit receives comparatively little attention before the transaction is completed. The majority of "hands on" owners find it hard to consider walking away from their business and the desire to stay involved post transaction is much more powerful than often their imagination allows. Many owners post transaction do not realise that much value is vested in the expertise and reputation they have acquired and their extensive network, both of which are critical to pursuing other opportunities, if retirement is not on the agenda.

Planning and managing time is as important as handling wealth. The big benefit of "life after exit" is the ability to do what ever you want with your time. Factors such as family, wellbeing and the extent to which the entrepreneurial flame continues to burn will all need contemplation. Understanding what matters to you most will help, as the best way to predict the future is to plan and create it.

As the old Chinese proverb states, "decide on three things at the start: the rules of the game, the stakes, and the quitting time."

How Much Money Do You Need to Live Your Ideal Life?



Probably Less Than You Think

You can't make quality financial decisions unless you know what you're aiming for. A recent study published polled 8,000 people and asked them to imagine their "absolute ideal life" where all their material wants were fulfilled. Then, offering a range of prizes from \$10,000 all the way up to the sum of \$10 billion.

What answer proved most popular among participants?

Only a minority chose the top prize. In most countries, including the UK, the majority of people chose a lottery equivalent to US\$10 million or less, and in some countries (India, Russia) the most popular choice was US\$1 million or less. When prompted to think about their financial dreams in detail, it appears that most people focus more on the doable end of the spectrum. The first step to financial freedom isn't making more or spending less, it's knowing how much is 'enough' for you.

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