



## THIS WAY OUT - A ROADWAY TO BUSINESS TRANSITION

Over the next decade it is predicted that 20 million privately owned businesses are going to come up for sale in the western economies. By any level of estimates this is a major economic consequence requiring detailed transition planning.

Given that the majority of SME business owners are part of this ageing 'baby boomer' population, it is estimated that between 50% – 70% will exit their business within the next 10 years. In fact half of that figure already intend to exit within the next 5 years. About a quarter simply don't know at which point in the future they may look to transfer or dispose of their business. Consequently the need for 'transition planning' is imperative if the disposer of the business is to reach anywhere near the true value of their business on retirement or sale.

In a nutshell the primary purpose of transition planning is to complete the transfer of business wealth from the business to the owner in the most effective and appropriate way possible. In most circumstances, business wealth transfer happens while the owner is still operating the business, yet often at the time the owner chooses to exit, considerable wealth or business value can often be "left on the table"?

Most of us look at a business transition as some yet-to-be determined day in the future, and because it is just some future event, it isn't all that important to us today. But ask any business owner who has moved through transition and they will tell you that this "day" was ultimately the most important day in their business life. And like all major events it requires careful planning if it is to be successful. It is an event that will impact on the rest of your life, on the way the business survives separation from you as the manager, and on everyone that can and will be affected - your family, your employees, your customers and your suppliers.

But sitting at the epicentre of all this is YOU - this is your pay off for all the hard work over the last 20, 30 or 40 years, it's

about being able to walk away with your "chin up" on terms of your choosing. Lets look at some of the initial things you need to consider.

### STARTING TO FIND THE RIGHT WAY OUT

You cannot start to plan without an end in mind. That's why the starting point for you begins with working on your end game. You need to identify how you wish to transition, what you need to leave with, and when you want to go.

To do this you will need to review where you are at now, both personally and with the business. This puts you in a position to commence organising the legal and tax issues while you still have plenty of time.

This information also means you can strategise; you can explore the many ways transition can happen and evaluate these options to find the best way to meet your transition objectives.

As a transition event is the intersection of many aspects of your personal and business affairs, it usually involves expertise pulled in from a number of areas, working in harmony so that all aspects are fully considered – and that requires an orchestrated approach so that the outcomes are not dominated by a single services providers narrow perspective.

Over the years, as you managed your business, you may have put certain matters aside and left them in the cupboard. The challenge with transition is that the cupboard needs to be emptied, and if proper planning has not been undertaken a "skeleton" or two might fall out. This is particularly so in the area of tax and contingent liabilities where the transaction event in itself can trigger an issue.

### Key Planning Questions and "Show Me the Money"

There are four things you must decide before you can make the successful transition:

- How much do you need to live on?
- When to you want to get out?
- Do you want any ongoing involvement?
- Are there family members or other people who want an ongoing role?

While it may not just be about money, money is certainly a big consideration.

### Questions that need answering include:

- What is your current financial position?
- What is the business worth - as opposed to what could it be worth?
- What tax has to be paid?

You need to build a comprehensive model around all these issues so that you can clearly see and decide on all the possible alternatives. This phase is about strategy and that means working through the various scenarios that are available to you.

The aim should be to provide you with a well-structured plan that covers all aspects of how you can achieve your transition objectives, with a real focus on the action steps.

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