PROFESSIONAL SERVICES:
INSIGHTS SERIES

Succession planning checklist

5 vital tips to boost the value of a professional services firm.

IMAGE: ISTOCK.COM / FILADENDRON

Map your way to a seamless exit

Succession planning impacts firms in surprising ways and on multiple levels – both directly within their own business and for the future stability of their client base. Here's what to consider and action.

As the last of the Baby Boomer generation reaches retirement age this decade, the number of businesses changing hands looks set to spike, and this puts succession planning in the spotlight for both professional services firms and their clients.

Now is the time for action to maximise value, but some of the most impactful aspects of succession are easily overlooked.

To inject more value into your business and create a smooth exit, there are five hidden factors to consider.

1 Know your worth

With more businesses changing hands than ever, planning for exits or handovers is a vital advisory skillset, but one of the greatest barriers is understanding what a practice is worth.

A succession planning "education gap" exists across the professional services sector, observes Grant Bloxham, founder and CEO of Bstar, a business advisory consultancy that provides technology solutions to the accounting industry.

"There's a lack of understanding about the correlation between business valuation, improvement and succession planning," he says. "And this is a major barrier to firms implementing their own plans or advising their clients on succession."

Bstar data shows that 88 per cent of SMEs have a value gap risk, where the price that they want for their business is more than it's worth in the market. It also shows that 91 per cent of accountants don't know their financial independence profit margin and practice value.

"One way of reducing a value gap risk is to improve profit margins, and industry benchmarks indicate there are significant differences between average profit and benchmark profitability," says Bloxham.

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>
> **GRANT BLOXHAM**, CEO, BSTAR

According to Bstar data, the average profit margin for accounting firms is 19.3 per cent, while the benchmark is 28.2 per cent.

"There's an improvement opportunity of 46.1 per cent," says Bloxham. "But there's a big education gap and to get people to address succession, you need to close that gap."

2 Analyse your client base

Potential buyers are likely to scrutinise your client base, so it's wise to get ahead of the game. Which clients represent growth? Which clients are time-sappers or perpetual late payers?

Paul Goessler, National Head of Professional Services, Westpac Commercial Banking, says debtor management solutions like FeeSynergy can help reduce debtor days while revealing client payment patterns.

KEY TAKE-OUT

Both client advice and the future of your practice depend on understanding the correlation between business valuation, improvement and succession planning.

IMAGE: ISTOCK.COM / JOHNNYGREIG

"No one wants to buy a book of debts at 120 days," says Goessler. "They want to buy a book of debts that's turning over every 30 days."

FeeSynergy is powered by Westpac's PayWay solution. Its features include automatic debt reminder emails to clients, a direct debit option, an online payment gateway and an engagement letter module. It also has an insights module that integrates with Equifax credit-scoring technology to give users a deeper understanding the quality of their client portfolio.

> **"Everybody has different views and motivations and time frames around succession, just as every firm has its own nuances."**
>
> **PAUL GOESSLER**, NATIONAL HEAD OF PROFESSIONAL SERVICES, WESTPAC COMMERCIAL BANKING

"When it comes to succession planning, platforms like FeeSynergy give business owners an advantage of greater insights into their client base," says Goessler. "But it can also give buyers confidence that a robust, automated debtor management system is in place and that they won't be taking on clients with poor payment habits."

3 Focus on non-financial performance indicators

It's easy to focus on numbers when calculating the value of a business, but Bloxham recommends taking a "deep dive" into non-financial performance indicators, which can help predict the future economic performance of a firm.

"When you are valuing a business for succession planning, you've got to go beyond the numbers," he says. "Start with things like external risks. What trends are shaping your industry? What's the impact of technology changes? How are your competitors doing in response to events like COVID-19 and its aftermath?"

Next, Bloxham suggests examining the non-financial risks and value drivers within your business.

"For instance, do you have accurate financial information to measure the profitability per service offering per client? Are any of your main customers looking at succession planning and how will that impact your business? How engaged and proactive are your staff? Are all partners and future partners aligned in the future direction of the business?

"These kinds of non-financial performance indicators have a significant impact on your valuation multiple," says Bloxham.

KEY TAKE-OUT

Data shows that 88 per cent of SMEs have a value gap risk, where the price they want for their business is more than it's worth in the market.

SOURCE: Bstar

4 Map out your operations

Is the goodwill in your business connected to the owner or the enterprise? The answer may impact your valuation.

"Many businesses have a lot of personal goodwill, which can be a huge challenge for owners because, in effect, they are the business," says Bloxham, who recommends transferring goodwill into the business via an operations manual.

"It's surprising how few professional services firms document their processes," he says. "If a buyer's advocate comes into your business to discuss a sale, the first thing they'll ask is to see your operations manual. And if you don't have one, there's a good chance they'll just walk out."

Bloxham says an operations manual should cover all the different elements in your business and document the processes behind them step by step, from employing staff to onboarding new clients and responding to cyber risks.

This transfers the knowledge and expertise to the business.

"It also shows that you're running a well-oiled machine, and generates a higher valuation multiple, because a buyer can see that there are processes in place to ensure the business can operate independently of the owner, which makes it more valuable."

5 Define your exit goals

What do you want to achieve from succession? Is a financial windfall your game plan, or are your more focused on leaving a legacy?

"Some owners may be financially secure and their motivation is to create a succession plan that ensures their employees are looked after, or perhaps they want to hand the firm to their kids and see the business that they developed go on for many years," says Bloxham. "Others are looking solely at the valuation multiple, because they need to grow the business more in order to achieve financial independence through succession."

Goessler stresses that every succession plan is different.

"Westpac has products and credit policies to support succession planning, but we also understand that there is no cookie cutter approach," he says.

"Everybody has different views and motivations and time frames around succession, just as every firm has its own nuances. And that's where we come in. Our commercial banking team is here to work with each individual firm to create a solution that fits their needs."

EVERY SUCCESSION PLAN IS DIFFERENT. TALK TO A PROFESSIONAL SERVICES BANKING SPECIALIST TODAY.

We're here to help

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