



# Succession planning in a sickly state

By Justin Lim

THE financial planning industry has failed to address the issue of succession and the transfer of equity, with more than 80 per cent of practice principals in the industry not having a funded succession plan in place, according to a survey released by Business Health.

The report, *Future Ready II*, surveyed over 1,000 advisory practices and found that there had been some improvement since 2004; however, given that one in two principals were contemplating selling their businesses within the

next five years and the average age of principals was now 56, not nearly enough was being done.

Business Health director Ray Henderson said the report showed business owners could be losing hundreds of thousands of dollars in potential profit.

“A key finding was that where there is no written succession plan, the average profit per principal is \$123,000. Where there is a written succession plan, the profit rises 87 per cent to \$230,546,” he said.

“More startling is when there is an ‘effective’ plan in

place, which means it’s reviewed regularly, covers all contingencies, has funding in place and a clearly defined successor, the profit per principal jumps 262 per cent to \$447,000. These are really powerful figures.”

According to Henderson, while only 12 per cent of businesses had a succession plan in place, less than 2 per cent had an ‘effective’ one and 86 per cent had nothing.

“Business Health, which has done work in South Africa, the US and Hong Kong, has found succession planning to be the single biggest issue facing financial

advice businesses right across the world.”

AXA Australia head of acquisition and succession Steven Davidson said the findings were remarkable and prompted the company to start running its nationwide education session on effective succession planning.

Davidson said succession is usually reactive and only thought about when someone is forced to. He calls this the “six D’s, which are death, disability, divorce, debt, disillusionment and developing regulations”.

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“I know of an example where a partner has died and the actual business disappeared several months after the death. In the last 18 months, we’ve worked with 29 practices on succession and found that about 60 per cent of those [plans] have been triggered by one of those D’s.”

Davidson said the key is to move client dependence away from the owner.

“Unfortunately, most of the messages around succession are about

retirement and selling a business. We believe succession should be about growing a business and bringing control back to the business owner.

“At the moment, the industry is very interested in what I call simplistic multiples of recurring revenue. For instance, the current trend is for the sale price to be around three times the recurring revenue. My message is, that’s all fine, but recurring revenue may not be how a practice is valued in five years time.”