

SMALL BUSINESS SURVEY PROGRAM

Small Business Succession and Exits

APRIL 2004



CPA Australia is the largest professional organisation in Australia, with more than 100,000 members of the accounting and business profession in Australia and overseas. Its pre-eminent position is maintained through CPA Australia's commitment to quality, ethics, rigorous codes of conduct and continued professional development programs for members.

Our mission is for CPAs to be leaders in finance, accounting and business advice.

Our vision is for the CPA designation to be the most valued designation for finance, accounting and business advisory professionals.

CPA Australia's primary role in achieving this is to support members through education, training and technical advice. It also represents the interests of members to State and Federal Government and to industry, academia and the general public. This is achieved by working with members, local and international bodies, on public policy, government relations, communications and marketing activities.

Small Business Survey Series
Published in 2004

CPA Australia
ACN 008 392 452
Level 28, 385 Bourke Street
Melbourne, Vic. 3000
Australia

Copyright
© CPA Australia 2004
ISBN 1 876 874 376

Important Disclaimer

The views expressed in this work are not the official or unanimous view of CPA Australia. Without limiting the rights under copyright above, no part of this publication shall be reproduced, stored in or introduced into a retrieval system, or transmitted in any form or by any means (electronic, mechanical, photocopying, recording or otherwise) without the prior written permission of the copyright owners.

Contents

Contents	3
Executive Summary	4
CPA AUSTRALIA'S SMALL BUSINESS SURVEY PROGRAM	4
ABOUT THE SURVEY	4
KEY CONCLUSIONS	4
SUMMARY OF FINDINGS	4
About this Survey	6
Detailed Findings	7
1. INTRODUCTION	7
2. FAMILY PARTICIPATION IN SMALL BUSINESS	8
3. SUCCESSION AND EXIT STRATEGIES	9
<i>Succession by owner's children</i>	9
<i>Small business owners' exit plans</i>	10
<i>Appeal of different exit strategies</i>	10
<i>Dependence on owner</i>	11
<i>Perceived difficulty of finding a buyer for the business</i>	12
<i>Maximising the value of the business for sale</i>	13
4. SUCCESSION PLANNING	14
<i>Getting help with succession planning</i>	14
5. RETIREMENT	16
6. READINESS FOR EXIT	18
7. CHARACTERISTICS OF SMALL BUSINESS	19

Executive Summary

CPA AUSTRALIA'S SMALL BUSINESS SURVEY PROGRAM

CPA Australia recognises the importance of the small business sector. Many of our members are working in or advising to small businesses. Through the survey program, we aim to provide research to inform the decisions of small business owners, advisors to small business and the policy makers.

Conducted twice yearly, the survey program investigates issues of major importance to the small business sector. This survey's topic – small business succession and exits – was chosen to address the impact of the aging population on Australian small businesses. Previous surveys have included risk, compliance burdens and employment issues.

ABOUT THE SURVEY

The survey was conducted in March 2004 and targeted two groups – senior decision-makers within small businesses and CPAs in public practice. CPAs are key advisers to small businesses and are mostly small business owners and decision-makers themselves.

Six hundred interviews were conducted with the owner or most senior manager in randomly selected small businesses in all States – 400 in metropolitan areas and 200 in rural. Also, 105 interviews were conducted with CPAs in public practice.

KEY CONCLUSIONS

The average age of the small business owner is increasing, along with Australia's aging population. Thirty per cent of small business owners are now over 50 and the rate is increasing each year. More and more business owners will be looking to leave their business as time goes by. This survey explores some of the issues around small business exits and succession.

Key issues include:

- Forty per cent of business owners intend to leave their business in the next five years. For around 30 per cent of these, finding a buyer is going to be difficult. The majority of small businesses (84 per cent) are very dependent on the owner, yet despite this, only 28 per cent felt it would be difficult for someone else to take over the business. The need for particular skills, lifestyle or personality type to run the business are the most common reasons for owners believing they will have problems finding a buyer.
- Small business owners would benefit from an education and awareness strategy about the need to plan for their exit from their business, particularly those who are planning to use their business as the primary source of funding for their retirement. Many business owners don't plan for the exit if they have no-one to leave the business to or they think their business is too small.

While around 60 per cent of businesses are prepared to document processes and upgrade technology to improve the sale prospects, less than 40 per cent of small businesses would be prepared to restructure, put on more staff or spend three to five years working on a sale. The most popular exit strategy outside keeping the business in the family is to advertise the business for sale without identifying a buyer.

- Fifty per cent of business owners plan to use their business as a primary funding source for their retirement. Forty-three per cent aim to realise a lump sum benefit from the business and 31 per cent expect an income stream. Given that many business owners expect some difficulty selling their business, many business owners may not be able to achieve their expectations to fund their retirement with their business assets. However small business owners are more likely to have other assets to fund their retirement than wage owners.
- Currently, 7.5 per cent of small businesses exit each year, but these are more than offset by new entrants. Business exits play an important role in the economy, ensuring that the pool of existing businesses are both productive and efficient. Inefficient and unprofitable businesses are replaced by new businesses bringing new ideas, products, services, technologies and processes that respond to changes in the marketplace.

Generally, business exits are positively correlated with business entry, with more businesses entering a market where there is a high proportion of exits. However, a significant increase in the number of exits could have major economic consequences if strategies are not in place to ensure a growing pool of viable, efficient businesses. There is a real need to review the economic and employment impact of an increase in exits – regions, industries and sectors need more information about the likely economic impact consequences in order to develop strategies to ensure a viable pool of businesses.

SUMMARY OF FINDINGS

Family participation in small business

- The survey found that 10 per cent of business owners took over the current business from family, while 60 per cent started a new business and 30 per cent took over an established business.
- Thirty per cent of respondents work alone in the business, but of these 43 per cent were informally supported by family members. Of the 70 per cent that employed, three quarters employed at least one family member.

Succession and exit strategies

- Forty-three per cent of owners have children they believe are capable of taking over the business and half of these believe their children would be willing to take the business over. The majority of business owners with willing and able children were prepared to pass the business on to their children and 57 per cent would be happy to sell the business to their children. Most preferred a strategy that allowed the owner to retain some control and/or income stream from the business.
- Seventeen per cent of business owners are planning to leave their business in the next two years and a further 22 per cent are aiming to leave in five years. Sixty one per cent want the business to remain a going concern after they leave. Half (52 per cent) expect to retire when they leave the business, and 14 per cent expect to start another business.
- The most popular exit strategies are advertising the business without identifying a buyer (26 per cent) and selling or passing the business to family members (25 per cent). Nineteen per cent plan to make a trade sale and 17 per cent expect to liquidate. CPAs agreed with the likely exit strategies.
- Forty per cent of owners say their business is totally dependent on them and another 44 per cent feel the business is dependent on them to a major extent. Despite this, 71 per cent feel someone else could take over. The main reasons why it would be difficult for someone to take over include the need for special skills and the unique knowledge of the owner.
- Thirty per cent believe it would be difficult finding a buyer for their business, mainly due to the specialised nature of the business, the expertise needed and the limited market. Accountants are the most common source of assistance for small businesses looking for help.
- Small business owners are prepared to document processes (60 per cent) and upgrade technology (53 per cent) to improve chances of a sale, but were less inclined to restructure their business (38 per cent), spend three to five years preparing the business for sale (36 per cent) or to employ more staff (26 per cent). Growing, innovative firms were more likely to implement changes to maximise the value of the business sale.
- Barriers to small businesses maximising the value of the sale identified by CPAs include the business being too dependent on the owner, processes not documented, the owner's unrealistic expectations about the value of the business and a lack of potential buyers.

Succession planning

- Thirty-eight per cent of businesses currently have succession plans. The main motivating factor was age.
- Accountants are the main source of advice to small businesses, followed by lawyers and family. Sixty-seven per cent of CPAs

provide succession planning advice including developing exit plans, writing information memorandums for sale, helping find buyers and helping to restructure the business.

- There are a range of factors that would encourage a business to develop a succession plan, but many feel if their business is too small or they have no-one to pass the business to there is no need to develop a succession plan. CPAs believe awareness about the issues surrounding the need for a plan would assist more businesses to take action.

Retirement

- Fifty per cent of business owners consider their business as the primary asset to fund their retirement. Eighty-seven per cent anticipate retirement income from another source such as superannuation (62 per cent), the family home (25 per cent) and other assets (52 per cent).
- Of the owners that are planning to use their business as the primary source of retirement funding, 30 per cent said they expect to have trouble finding a buyer and a further 12 per cent were unsure about the prospects for sale. Forty per cent of the those using their business as the main source of retirement funding were planning to exit in the next five years.
- About half of the CPAs feel their small business clients are less likely to have superannuation than wage earning clients, 70 per cent believe they are more likely to have other assets for funding their retirement than the wage earning clients; and they are evenly divided in believing that their small business clients or their wage earning clients have adequate provision for retirement.

Readiness for exit

- Almost three-quarters of the small businesses have current technology in key areas and/or professionally qualified staff; two-thirds have documented processes. Fifty-six per cent and 44 per cent of small business claimed to have a business plan and marketing plan respectively.
- Forty-one per cent of small businesses claimed to have documented strategies for the future which are understood by staff, but among CPAs the estimate of this incidence is much lower – at 14 per cent. Sixteen per cent of small businesses have non-family board members.

Characteristics of the businesses

- Three-quarters or slightly more of the small businesses surveyed agree that they are innovative, changing, growing and fast in their decision-making. There was a polarisation whether their business could be described as 'chaotic' and 22 per cent of respondents agreed that their business was 'untidy'.

The survey format and instruments can be downloaded from www.cpaaustralia.com.au.

About this Survey

This document contains the results of the CPA Australia Small Business Survey conducted in March 2004.

Who was interviewed?

The survey targeted two groups:

- The small business¹ population and specifically senior decision-makers within small businesses; and
- CPAs in public practice² who are key advisers to small businesses and mostly small business owners and decision-makers themselves. This target is able to provide a broad perspective on small businesses at large. It also acts as a control group.

Sample size

Six hundred interviews were conducted with the owner or most senior manager in randomly selected small businesses (employing up to 20 full-time staff) in all States, with 400 in metropolitan areas and 200 in rural. Also, 105 interviews were conducted with CPAs in public practice.

The survey samples are broken down by area below:

		Small businesses	CPAs
Victoria	Metro	104	18
	Regional / Rural*	46	8
NSW	Metro	89	19
	Regional / Rural	62	9
Queensland	Metro	59	12
	Regional / Rural	31	6
SA	Metro	44	10
	Regional / Rural	31	2
WA	Metro	49	9
	Regional / Rural	31	8
Tas / ACT / NT**		55	4
TOTALS	Metro	395	72
	Regional / Rural	205	33
GRAND TOTAL		600	105

Notes: * Half regional and half rural.

** We treat these as metro.

Questioning

The questionnaire focused on preparedness for exit and succession planning. Classification questions were asked about the business itself to allow analysis of the results and identify segment variations, such as size of business, industry, years operating, business territory (local, state-wide, national, international), import/export behaviour, characteristics of the owners, turnover (in broad categories) and reliance on external accountants.

Interview method

A telephone survey was conducted by market research firm, Worthington Di Marzio, with interviewing done on a CATI (Computer Aided Telephone Interviewing) system under fully supervised conditions. Worthington Di Marzio have quality accreditation for telephone interviewing from the MRQA Scheme.

1 Defined as 'independently-owned and operated business employing fewer than 20 people'.

2 Defined as 'CPA Public Practitioner Certificate holders or Managing Partners in a CPA Practice'.

Detailed Findings

1. INTRODUCTION

Australia's population is aging and this is reflected in the increasing average age of small business owners. This may, in turn, result in a bubble in the number of business exits, as an increasing number of owners reach retirement age.

Business exits result from the transfer of ownership of a business and from business cessations. Ownership transfer includes sales, management buyouts and succession by family members. Cessations can be either voluntary and catastrophic closures. Currently around 7.5 per cent of businesses exit each year, and these are usually more than replaced by new business start-ups and business growth.

Business exits play an important role in the economy, ensuring that the pool of existing businesses are both productive and efficient. Inefficient and unprofitable businesses are replaced by new businesses bringing new ideas, products, services, technologies and processes that respond to changes in the marketplace. Generally, business exits are positively correlated with business entry, with more businesses entering a market where there is a high proportion of exits.

Currently, 30 per cent of small business owners are over 50 years of age. Succession and exit become critical issues for owners in their late 50s and early 60s, therefore appropriate strategies should be considered by those in their early 50s. Successful succession occurs when a business is transferred as a going concern, while failure occurs when the business is diminished by the transfer. Successful succession is particularly important in employing firms, however only about 20 per cent of business exits result in changes in ownership.

Research from the UK suggests that factors that contribute to Small and Medium Enterprise (SME) succession failure include:

- Businesses with lifestyle and personal rather than strategic goals;
- Poor business performance;
- Managerial dependence on owner;
- No family or internal successor; and
- Ignoring the need to make arrangements for succession.³

If this is the case, then many businesses in Australia are at risk of succession failure. According to the CPA Australia survey, 40 per cent of small businesses are totally dependent on the owner, as few as 21 per cent have a likely family successor, only 38 per cent have a succession plan, and just over half have any business planning in place.

If business exits are a fact of life and necessary for economic growth, there is a need for any action to deal with the likely increase in exits resulting from the aging population. It can be argued that it is important to identify the variables which contribute to succession failure to ensure that those wishing to transfer ownership are able to do so efficiently.

There are a number of possible policy approaches that may be considered. These include:

- Awareness raising activities and resources – there is a need to raise awareness among small business owners of the importance of succession and exit planning and the potential economic loss that may arise due to inaction.
- Research into the likely high risk owners and targeted assistance – some groups of small business owners are more vulnerable to succession failure and these can be identified through research and targeted assistance provided. Many owners will find that they are unable to retire as they had planned, because they are unable to sell their business. They may be more dependent on government support for their retirement.
- Identification of regional areas that are more vulnerable – while generally the rate of business exits is lower in rural areas than urban areas, there may be regions that will face a significant loss of businesses in a short period of time. Local councils and regional development bodies could assess the risks facing their regions and develop strategies to encourage new business before the impact is felt in local employment.
- Review of economic and employment impact of increase in exits – insufficient information is available to regions, industries and sectors about the likely economic impact of increasing exits. Strategies to encourage new start-ups may be required to ensure a matching supply of new businesses counter the exits.

³ Martin C, Martin A, Mabbett A, *SME Ownership Succession – Business support and policy implications*, University of Central England, April 2002 UK

2. FAMILY PARTICIPATION IN SMALL BUSINESS

Small business is synonymous with family business, with around 80 per cent of Australian small businesses calling themselves family owned enterprises. Only a limited number of family business survive intergenerational transfer, with research showing 70 per cent are either sold or closed after the retirement of the founder. Thirty per cent are passed on to the second generation and around 15 per cent make the third generation.

Looking at the history of the businesses, the survey found only 10 per cent of the participants had taken over their business from family. Logically, business owners over 60 years of age were more likely to have started their own business and those aged between 40 and 49 were more likely to have taken over from family. Businesses that were family businesses passed on to the current owner were more likely to be found among businesses with a turnover of over \$1 million, 21 years in operation, 10 to 19 staff or in the manufacturing sector.

Sixty per cent of businesses were started by the current owner and 30 per cent took over an established business.

Thirty per cent of the sample of owners claim to work alone in the business. Not surprisingly, a higher proportion of those working alone were in younger businesses. However, 43 per cent of sole operators were supported informally by family members. Owners over sixty were more likely to have informal family help.

Among those who do not work alone, 74 per cent have at least one other family member working with them and 14 per cent had more than three family members involved in the business. Owners under 40 were least likely to employ family members.

Table 2.1: Small business ownership, start-up and family support

		Small business %
Respondent is owner or a part owner	Yes	75
	No	25
How respondent became involved		(452)
	Took over business from family	10
	Started brand new business	60
Respondent works alone in the business	Took over established business	30
	Yes	30
If 'yes', supported informally by family	No	70
		(134)
	Yes	43
If 'no', how many family members work there?	No	57
		(318)
	None	26
	One	47
	Two	14
	3+	14

Notes: 1. Refer Q1A/B, Q2A/B/C for small business.
2. Rounding occurs.

3 SUCCESSION AND EXIT STRATEGIES

According to the Australian Bureau of Statistics (ABS) around 7.5 per cent of businesses exit each year, with changes in ownership accounting for 20 per cent with the remaining 80 per cent as cessations. Cessations include liquidations and bankruptcies, however these only account for around 0.5 per cent of businesses or less than 10 per cent of the closures. Cessations are mainly businesses that are solvent but provide insufficient returns and those that close for non-financial reasons.⁴

Ownership succession arises when the owner leaves the business either to retire or for other reasons. The new owner continues the business as a going concern. Successful succession occurs when the business continues as a going concern, at least in the short term, whereas succession failure occurs when a business fails or is diminished because of the owners inability to transfer the business.

The unanswered question is: to what extent will the aging population impact on business exits and succession failure? According to a Productivity Commission report, the economic impact of business exits represents around three to four per cent of GDP and around 10 per cent of total annual job losses. However, these impacts are currently more than offset by business start-ups and growth, with the entry rate being two-thirds higher than the exit rate.

The survey indicates that almost 40 per cent of business owners are planning on leaving their businesses in the next five years – with many to retire. It is feasible that fewer businesses will successfully transfer ownership and more will close, creating an undesirable economic impact.

Succession by owner’s children

Among the owners surveyed, less than half (43 per cent) have children who they believe are or will be capable of taking over the business in the foreseeable future. Again, almost half (48 per cent) of those owners believe such children would actually be willing to take over and close to a quarter (23 per cent) were unsure whether their children would be willing to take over the business. Therefore around 21 per cent of owners felt their children were both willing and able to take over the business.

Of these, 92 per cent were prepared to pass the business on to the children, and 57 per cent were prepared to sell it to them. Where a sale to children is considered possible, then in most cases, the current owner would seek to maintain some connection with the business afterwards, for some period of time, usually aiming to retain some ownership and/or income stream.

Table 3.1 Succession by owner’s children

	% Small business
Have children capable of taking over...	(452)
Yes	43
No	44
No children	11
Don’t know	2
If ‘yes’, would children be willing to take over?	(204)
Yes	48
No	29
Don’t know	23
Would owner be prepared to pass business to children?	(145)
Yes	92
No	3
Don’t know	5
Would owner be prepared to sell business to children?	(145)
Yes	57
No	37
Don’t know	6
If ‘yes’ prepared to pass on or sell to children, would...	(139)
Sell the business to them outright	14
Make an arrangement that allowed you to earn income from the business in the future	32
Retain ultimate control	3
Phase ownership transfer over a number of years	41
Don’t know	10

Notes: 1. Refer Q4A/B/C & Q5 Small business.

⁴ Bickerdyke I, Lattimore R, Madge A, *Business failure and change: An Australian perspective*, Dec 2000, Productivity Commission Staff Research Paper, AusInfo Canberra.

Small business owners' exit plans

In this survey, 38 per cent of respondents were over 50, reflecting ABS data that showed that 30.6 per cent of business owners are over 50 years old (and this rate is increasing at 10 per cent per annum).⁵ That equates to almost half a million enterprises owned by persons over 50 Australia wide.

Seventeen per cent of small business owners see themselves leaving their business in the next year or two and a further 22 per cent in five years. This means that over the next five years, almost two in every five businesses will change hands or close. Not surprisingly, the responses correlated with age with older respondents more likely to be considering leaving.

Sixty-one per cent of owners want their business to remain a going concern after they leave and 43 per cent plan to have an ongoing income stream from it, after they leave.

A slight majority (52 per cent) expect to retire when they leave their business and 14 per cent would start or buy another one. Table 3.2 shows the owners' expectations for their businesses.

Interestingly, of the businesses planning to leave in the next two years:

- 20 per cent planned to start a new business – the highest rate of any group;
- 9 per cent were considering buying another;
- 13 per cent were looking at paid employment; and
- only 41 per cent were retiring.

These percentages changed for the next batch of exits – those planning to leave in three to five years:

- 12 per cent starting a new business;
- 3 per cent buying another;
- 7 per cent moving to paid employment; and
- 57 per cent retiring.

Table 3.2 Small business owners' exit plans

	% Small business
Can see self leaving it...	
In the next year or two	17
In 3 – 5 years	22
In 6 – 10 years	24
In 11 – 20 years	22
After that	11
Don't know	4
Want business to remain going concern after exit	
Yes	61
No	37
Don't know	2
Plan for on-going income stream from business after exit	
Yes	43
No	51
Don't know	6
If leave, expect to...	
Start another business	14
Buy another business	4
Move to paid employment	8
Retire	52
Do something else	16
Don't know	6

Notes: 1. Refer Q6A/B/C & Q9 Small business.

Appeal of different exit strategies

Businesses owners were asked about their likely exit strategies. Twenty-five per cent of business owners would prefer to sell or pass on to a child or other family members and 26 per cent expect they would advertise the business for sale without identifying a buyer.

Seventeen per cent expect they will liquidate the business. A further 19 per cent considered a trade sale to someone in industry as their most likely option. Only seven per cent favoured a sale to management or staff.

CPAs tended to agree with the small business owner respondents in terms of the relative popularity of these exit strategies among their clients rating passing or selling to family, blind sales and trade sales as the most popular exit strategies.

5 Australian Bureau of Statistics *Characteristics of Small Business Australia 2001* Catalogue no. 8127.0

Table 3.3: Appeal of different exit strategies

	Small business %	
Most likely exit strategy for owner		
Sell or pass on to a child or another family member	25	
A trade sale to someone in the industry	19	
Sell to management or staff	7	
Advertise the business for sale without identifying a buyer	26	
Close the business and sell the assets	17	
Don't know	5	
	Small business clients	
	Most popular	2 nd most popular
CPAs' small business clients most popular exit strategies		
Advertise the business for sale without identifying a buyer	43	22
Sell or pass on to a child or another family member	30	33
A trade sale to someone in the industry	17	22
Sell to management or staff	3	6
Close the business and sell the assets	3	16
Don't know	4	-

Notes: 1. Refer Q10 SB, Q3B CPAs.

Dependence on owner

Despite a significant proportion of owners aiming to sell their business, 40 per cent claimed that the business totally depends on them, while a further 44 per cent said it does to a major extent. However, 71 per cent believe another person could readily take over the business if necessary. The reasons given as the main barriers to another person taking over the business were 'special skills are needed' or 'only I know the business'.

Of the 84 per cent of businesses that are either totally or significantly dependent on the owner, 30 per cent say it would be very difficult to find someone to take over.

Table 3.4: Perceived dependence on owner

	Small business %
Dependence on owner as key person	
Totally	40
To a major extent	44
To neither a major nor minor extent	9
To a minor extent	7
Could someone else readily take over if needed	
Yes	71
No	28
Don't know	1
If 'no', why not?	(126)
Special skills needed	66
Only I know the business	30
Takes a particular personality	9
Family business/we run from home	2
I have all the personal contacts	2
Need too much capital	2
Commitment	2

Notes: 1. Refer Q7 & Q8A/B Small business.
2. Multiple responses allowed in Q8B but some very minor ones not shown.

Perceived difficulty of finding a buyer for the business

Another hurdle for many business owners will be actually selling their business. Thirty per cent of small business owners believe it would be difficult to find a buyer for their business. Perceived difficulties in finding a buyer is more common at the smaller end of the sector, particularly among businesses with total sales less than \$500,000 per year.

Common reasons for the likely lack of buyers include: few with the appropriate skills, expertise or specialisation that would be of interest, declining industry and few barriers to entry.

Accountants and brokers are the most likely source of assistance for business owners ahead of other sources such as a lawyers, family or peers.

Table 3.5: Perceived difficulty of finding a buyer for the business

	Small business %
Finding a buyer would be difficult	
Yes	30
No	57
Don't know	13
If 'yes', why?	(137)
Very specialised business/will be hard to find the right buyer/don't come up for sale often	17
Requires a lot of expertise/needs acquired skills/buyers would need to be trained	17
It's a limited industry/an industry in decline/market uncertainty	11
It's not easy going/little reward for lot of effort	10
It's an industry where people start up on their own/not something you sell	10
Similar businesses have had trouble selling	6
If 'yes', likely to seek assistance to sell from...	
An accountant	35
A broker	24
A lawyer	13
Peers	3
Family	6
(None of the above)	27
Don't know	2

Notes: 1. Refer Q11A/B/C Small business.

Maximising the value of the business for sale

Small business owners were asked what processes they would put in place in order to maximise the value of their business. Table 3.6 illustrates that out of the five options presented to respondents only two would be likely actions taken by a majority. These are:

- Document processes – mentioned by 60 per cent; and
- Upgrade relevant technology – mentioned by 53 per cent.

There were fewer than two in five businesses that considered they would restructure their business (38 per cent), spend three to five years preparing for a sale (36 per cent) or put on more staff (26 per cent) to maximise the business sale value.

CPAs were asked to indicate the extent to which they felt certain barriers prevent small businesses from maximising the sales value of their business and their responses are presented below.

Businesses that characterised themselves as growing, innovative, changing and fast decision makers were much more likely to be adopt strategies to maximise the value of the business than those that did not.

The most common barrier according to CPAs is that the business is too dependent on the owner with 71 per cent stating this applies to either a great deal or fair amount of their small business clients.

Other relatively common barriers are perceived to be:

- Owners having unrealistic expectations about the value of the business – 47 per cent said this applies to a great deal or fair amount;
- Processes not being documented – 45 per cent said this applies to a great deal or fair amount; and
- A lack of potential buyers – 39 per cent of CPAs answered great deal or fair amount here.

Less common barriers are business costs being too high, out of date technology and the business not achieving a reasonable return.

Interestingly, 45 per cent of CPAs said that their small business clients are 'not too keen' to invest in their business to maximise its sales potential. Only 13 per cent of the CPAs believe their small business clients are 'very keen' to do so.

Table 3.6: How owner would maximise value

	Yes %	No %	Don't know %
Restructure your business	38	56	5
Put on more staff	26	72	2
Upgrade relevant technology	53	44	3
Document processes	60	36	4
Spend three to five years preparing for a sale	36	59	5

Notes: 1. Refer Q6D Small business.

Table 3.7: CPAs views on barriers to small business owners maximising sales value

	No of small business clients this applies to...				
	Great deal %	Fair amount %	Some %	Few %	None %
The business is too dependent on the owner	39	32	18	6	5
The business costs are too high	7	22	32	27	12
Out-of-date technology	7	13	32	25	23
Processes are not documented	24	21	22	18	13
The business owner is not prepared to commit time preparing for a sale	14	14	23	20	25
A lack of potential buyers	14	25	35	13	11
The business does not achieve a reasonable return	15	18	39	21	5
The owner has unrealistic expectations about the value of the business	19	28	24	18	10

Notes: 1. Refer Q5 CPAs.
2. Any 'don't know' responses not shown.

4. SUCCESSION PLANNING

The survey showed that a minority (38 per cent) of small business owners interviewed had a succession plan at the current time. The most common reason for preparing a succession plan was the owner's age. Other factors cited as driving the need for a succession plan revolved around new business opportunities, forward planning and good business practices. Table 4.1 outlines the responses.

Table 4.1 Incidence of succession plans in small business

	Small business%
Have a succession plan	(452)
Yes	38
No	62
If 'yes', was prompted by...	(170)
Age	21
New business opportunities	11
Forward planning/looking to the future	11
Good business practice/logic/common sense	9
Succession/business for children/need it to continue	8
Wanted to make more money/opportunity to grow	7
View to retirement	6
Wanted to sell out/been in it too long	5
Wanted to get it right this time/needed direction	3
Need time with family/death in family	2
Low business performance	2
The work overload	2
Family break-up	2
GST too much/taxation purposes	1
Illness	1
No real reason	5
Help obtained from following with plan...	(170)
Accountant	35
Family	15
Lawyer	11
Peers in business	8
Friends	8
Industry association	4
Government sources	3
(None of the above)	(42)

Notes: 1. Refer Q3A/B/C Small business.
2. Multiples allowed in Q3BC but some very minor ones not shown.

Getting help with succession planning

Accountants were the most common source of professional advice for succession planning with 35 per cent of small businesses seeking their advice, however the family itself was a common source of help for many businesses. Close to half of the businesses did not seek outside help at all to develop a succession plan.

There was a positive correlation between the incidence of succession plans and the size of the small business. For instance 32 per cent of those owners surveyed with only one or two employees have a succession plan compared with 56 per cent of those with 10 to 19 employees.

Of the CPAs surveyed, two-thirds (67 per cent) provide business succession advice to their small business clients with popular types of succession advice being:

- Help restructure the business – 86 per cent;
- Assist with the deal negotiations – 79 per cent;
- Help develop exit plans – 76 per cent; and
- Develop succession plans for family members – 70 per cent.

Table 4.2: Succession advice provided by CPAs

	CPAs %
Mean % of small business clients aged...	
Under 30	13
30 – 50	55
Over 50	32
Ever provide business succession advice to small business clients	
Yes	67
No	33
If 'yes', type of succession advice provided is...	
Help develop exit plans	76
Develop succession plans for family members	70
Organise the sale	24
Write information memorandums on the business	40
Help find buyers	33
Assist with deal negotiations	79
Help restructure the business	86

Notes: 1. Refer Q1, Q2 & Q3 CPAs.

Small business owners without a succession plan were asked what might encourage them to develop a succession plan. Owners gave a range of reasons with no single option dominating. However a number of responses suggest that owners are more likely to consider succession planning if they have a successor in mind (see Table 4.3). Responses such as 'business too small' and 'no-one to succeed me' suggest there is a perception that a succession plan is irrelevant for some businesses.

Once again, business owners were most likely to seek help from their accountant, however many were unsure of where they would get help. Few appear to be thinking about strategies to invest their assets once they have been realised from the business.

Eighty-four per cent of CPAs interviewed have had at least one small business contact them in the last two years about a business exit or succession planning and 29 per cent had seen more than 10 clients.

CPAs were asked how small businesses could be helped to improve their succession planning. There was a wide range of responses, however an underlying theme in the answers related to access to information and education by small businesses, the need to seek advice, the importance of not leaving it too late to consider exit and succession plans. The responses are detailed below in Table 4.4.

Table 4.3 Small businesses without a succession plan

	%Small business without succession plan
What might encourage development of succession plan...	(280)
If someone will succeed me/hope offspring will take over one day	9
Age	8
Intend to close it/thinking of sale/downsizing	7
Family members aren't interested in it	6
Depends on size & growth of business/too small to need a plan	5
For long-term security/so business will still be around	4
It could improve selling prospects	3
Would consider a plan nearer retirement stage	3
Nothing at this stage	16
Don't know	13
Where help would be sought for succession planning...	
Probably an accountant/my accountant	28
Would do it myself	8
A financial advisor/business consultant	8
Solicitor/lawyer	6
Consult the family/friends	4
A small business association/industry association	4
A business associate	2
Don't know	26
Nowhere	14

- Notes:
1. Refer Q3D/E asked of small business without a succession plan.
 2. Multiples allowed in Q3D/E but minor ones not shown.
 3. Other responses not applicable and not shown.

Table 4.4 How small businesses could be helped to improve their succession planning

	CPAs %
Seek advice from a financial adviser/planner (or accountant) /get professional help	15
Because more aware of a plan/aware of developing trends/aware of future viability	14
Think about it before it's too late/recognise and understand any problems early	13
Through education relating to retirement/putting more into superannuation	13
Being educated about it/need training & education on running a business	12
Simpler tax laws/removal of some compliance work/fairer taxes	10
Gaining more information on it/more seminars/obtain more knowledge	8
Ensuring there is a well managed and profitable business	6
Discuss with family/sort out offspring's level of interest/involvement with succession	5
Removal of stamp duty	4
Arrange for someone suitable to take over/find a willing buyer	4

- Notes:
1. Refer Q10 CPAs.
 2. Multiple responses allowed.

5. RETIREMENT

Funding retirement

Fifty per cent of businesses owners plan to use their business as the primary funding source for their retirement. Forty-three per cent aim to realise a lump sum benefit from the business and 31 per cent expect an income stream.

Given that many business owners expect some difficulty selling their business, many businesses owners may not be able to achieve their expectations to fund their retirement with their business assets.

On a positive note, 87 per cent of the small business owners anticipate additional retirement income coming from other sources other than the business, with 62 per cent claiming some superannuation, 25 per cent using the family home to part fund retirement and other 51 per cent having other assets.

The proportion of small business owners with superannuation, at 62 per cent, is below the national average for wage earners. In 2000, 91 per cent of employees aged between 15 and 64 had some superannuation. However just over 40 per cent of wage earners make voluntary contributions to superannuation, putting small businesses ahead of their wage earning counterparts in this area.⁶

Table 5.1: Using the business as the primary asset to fund retirement

	Small businesses %
Is business the primary asset to fund your retirement	
Yes	50
No	49
Don't know	1
If 'yes', would seek...	(227)
A lump sum	43
An income stream	31
Both	11
Don't know	15
Anticipate additional retirement income from...	
Family home	25
Superannuation	62
Other assets	51
(None of the above)	13

Notes: 1. Refer; Q12A/B Small business.
2. Refer Q12B Small business.
3. Multiple responses allowed

Table 5.2 Comparison between small business and wage earners

CPAs believe small business clients are...	More likely to %	Less likely to %	As likely %
Relative to wage earning clients			
Have superannuation	37	50	12
Use other assets to fund retirement	70	19	9
Have adequate provision for retirement	37	41	19

Notes: 1. Refer Q8 CPAs.
2. 'Don't know'/not applicable responses not shown.

Of the owners that are planning to use their business as the primary source of retirement funding, 30 per cent said they expect to have trouble finding a buyer and a further 12 per cent were unsure about the prospects for sale. Forty per cent of the those using their business as the main source of retirement funding were planning to exit in the next five years.

CPAs estimated that for two-thirds of their small business clients, their business is their primary asset to fund retirement and:

- 50 per cent believe that their small business clients are less likely to have superannuation than wage-earning clients;
- 70 per cent believe they are more likely to have other assets for funding their retirement than the wage-earning clients; and
- They are almost evenly divided in believing that their small business clients or their wage-earning clients have adequate provision for retirement.

Fifty-three per cent of the small business owners with superannuation have a self managed fund, according to the survey. CPAs estimated that on average 28 per cent of their small business clients have self managed funds but around three-quarters believe that the incidence of such funds is increasing. None of the CPAs saw this incidence as decreasing.

Table 5.3 Incidence of self-managed super funds

	Small business %
If have super, is it self-managed fund?	(278)
Yes	53
No	47
% of small business clients with self-managed funds	SBCs %
None	4
1% - 10%	38
11% - 20%	16
21% - 30%	13
31% - 50%	12
Over 50%	19
(Mean %)	(28)
Incidence of self-managed funds is...	SBCs %
Increasing	76
Neither increasing nor decreasing	24
Decreasing	0

Notes: 1. Refer Q12D SB; Q9A/B CPAs.

6. READINESS FOR EXIT

Almost three-quarters of the small businesses said that they have current technology in key areas and/or professionally qualified staff. Close to two-thirds say they have documented processes. CPAs estimated, on average, that just over half their small business clients have current technology in key areas but only quarter have professionally qualified staff or documented processes.

Fifty-six per cent and 44 per cent of small business respondents claimed to have a business plan and marketing plan respectively. CPAs estimated that on average only 17 per cent and 14 per cent of small business clients would have these plans.

Forty-one per cent of small businesses claimed to have documented strategies for the future which are understood by staff, but among CPAs the estimate of this incidence is much lower – at 14 per cent. Sixteen per cent of small businesses have non-family board members.

The existence of a business plan had no influence on whether a business had a succession plan, however businesses with a marketing plan were marginally more likely, than those without one, to have a succession plan as well.

Table 6.1 Incidence of other plans/elements in SB

	Small Businesses	CPAs' est. of clients
A business plan	56	17
A marketing plan	44	14
Current technology in key areas	74	55
Documented processes	63	24
Strategies for the future documented and understood by staff	41	14
Professionally qualified staff	74	25
Non-family board members	16	6

Notes: 1. Refer Q14 SB; Q11 CPAs.

7. CHARACTERISTICS OF SMALL BUSINESS

Table 7.1 illustrates that three-quarters or slightly more of the small businesses surveyed agree either strongly or a little that they are:

- Innovative;
- Changing;
- Growing; and
- Fast in decision-making.

There was a polarisation whether their business could be described as 'chaotic' and 22 per cent of respondents agreed that their business was 'untidy'.

Table 7.1 Characteristics of the SB

	Our small business is...					
	Innovative %	Changing %	Chaotic %	Untidy %	Fast with decision-making %	Growing %
Agree strongly	45	53	23	8	58	52
Agree a little	30	31	26	14	19	27
Neither/nor	6	2	5	3	7	6
Disagree a little	12	8	22	26	11	9
Disagree strongly	6	5	24	48	5	6
TOTAL AGREE	75	85	49	22	77	79
TOTAL DISAGREE	17	13	46	74	16	15

- Notes:
1. Refer Q13 Small business.
 2. Rounding occurs
 3. Any 'don't know' responses not shown.

CPA AUSTRALIA

ABN 64 008 392 452

www.cpaaustralia.com.au

T 1300 73 73 73

NATIONAL OFFICE

CPA Centre

Level 28, 385 Bourke Street

Melbourne, VIC 3000

T (03) 9606 9606

F (03) 9670 8901

AUSTRALIAN CAPITAL TERRITORY

T (02) 6267 8585

NEW SOUTH WALES

T (02) 9375 6200

NORTHERN TERRITORY

T (08) 8981 2116

QUEENSLAND

T (07) 3100 0100

SOUTH AUSTRALIA

T (08) 8232 3188

TASMANIA

T (03) 6224 8770

VICTORIA

T (03) 9606 9606

WESTERN AUSTRALIA

T (08) 9481 5944

CHINA – BEIJING

T (0011) 86 10 6641 7799

CHINA – HONG KONG

T (0011) 852 2891 3312

CHINA – SHANGHAI

T (0011) 86 21 6275 1268

EUROPE

T (0011) 44 20 8579 7933

FIJI

T (0011) 679 336 3968

INDONESIA

T (0011) 62 21 726 2227

MALAYSIA

T (0011) 603 2698 8412

NEW ZEALAND

T (0011) 649 524 4935

PAPUA NEW GUINEA

T (0011) 675 321 3644

SINGAPORE

T (0011) 65 6836 1233