How Collaborative is the Exit Planning Process in a Business?

Our Survey

We were keen to gain a clearer understanding of how accountants saw their role in exit planning with a business. Did they see it as part of their core service offering or should it be a collaborative process involving other specialists? We were also keen to gauge how successful their current practices were with regards to this.

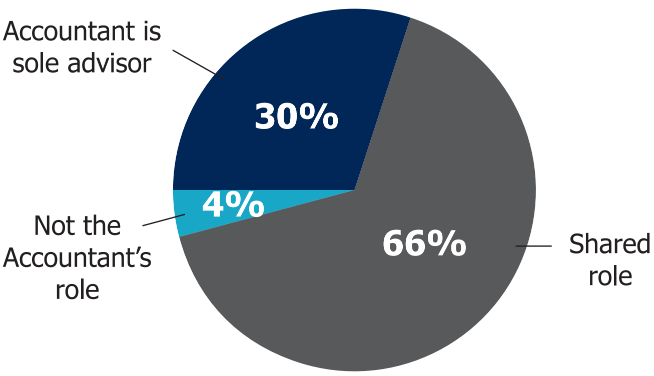
We asked the following question of over 800 accountants:

> *As you are their trusted advisor, your clients probably go to you first to discuss Exit Planning for their business. What role do you think Accountants should have in this process?*

The Results

Our respondents gave one of three responses and the results were as follows

- Accountant should be the Sole Advisor – 30%
- It should be a shared role – 66%
- It was not the Accountant's role – 4%



Overview:

- Nearly all respondents believed the Accountant has at least some role to play
- The majority clearly see Exit Planning as a shared role

The above observations lead to another key question, which we address in this paper:

> *If accountants understand the value of collaborating, and are including other specialists when selling a business, why are the majority of Australian businesses sold for less than owner's expectations?*

Key Survey Insights

Collaboration Brings the Best Results

The survey results overwhelmingly confirmed that most accountants see the most efficient and successful way of exiting or selling a business as a collaborative process using external advisors.

Two-thirds of respondents expressed this opinion, with many stating that the approach required was circumstantial, depending on a variety of factors, and that particular areas of need for external intervention were valuations and managing the sales process.

Many recognised that, while accountants can play a key role and were often the first point of contact, other professionals are better equipped to advise in certain key areas.

“Accountancy is a broad area, so an Accountant's role in a client's exit will depend on their skill set. I'd say collaborating with a team of advisors is most likely to get the best result for the client, which is what we're here for.”

“I believe that the accountant definitely needs to be a big part of the process, particularly relating to the financial aspects, however I also believe that accountants should not try to be a jack of all trades and other specialists should be involved in things such as business valuation, selling the business etc.”

“Our experience suggests the accountant is involved in the longer term planning across the whole spectrum of the life cycle which makes them the most appropriate first point of contact. Their role should be to plan and co-ordinate and bring in other appropriate skills as necessary.”

“It would be beneficial for a client to talk to an accountant/financial planner/lawyer who has had experience in the exiting/succession areas.”

Size Matters!

Many respondents expressed the view that the role of accounting in exit planning should depend on two things:

1 The size and resources of the accounting firm

A small accounting firm may not have the time or depth of skills to collaborate with a team of advisors and professionals who specialize in exit planning. A larger firm is likely to have access to a broader team, although they may also benefit from collaborating on part of the process, as it is an efficient and dependable way of delivering this process to their clients.

2 The size and nature of the client's business

For large organisations, there may be more factors to consider when dealing with exit planning. For this reason, respondents generally believed it would be most suitable for an accounting firm to involve of other exit planning professionals to complement their skills.

And Sometimes... Accountants Prefer to Go it Alone

Just under a third of respondents expressed the view that exit planning should be a primary role of an accounting firm.

Some typical reasons for this were:

“As an Accountant I always advise clients that businesses should be set up to sell. That is why I always recommend our clients get advice from us regarding the correct structure for them so that when the time comes for them to sell, there is an easy tax effective exit strategy. I believe the accountant needs to be the primary adviser.”

“The professional that should co-ordinate the exit strategy is the one who has the greatest knowledge of the client and business through the whole life cycle. The exit strategy cannot be considered in isolation, as it is often part of a greater long-term plan so for it to be successful it needs to be put in context to the greater strategy.”

Why the Gap between Responses and Results?

The **AIBB** (The Australian Institute of Business Brokers) is the peak industry body representing professional business brokers involved in the sale of businesses across Australia. In April 2012 it surveyed its members regarding the market conditions for selling smaller businesses.

One of their questions asked about vendor pricing expectations and it uncovered some very interesting results:

- Members estimated that only 21% of vendors' pricing expectations were within 10% (over or under) of the market value of their business.
- The largest group (29%) was vendors who overvalued their business by between 10-25%.

- Whilst a modest overvaluation of their business is not unsurprising, a worrying 43% of vendors either over valued their business by more than 25% or had no idea of the value.

Clearly the average vendor had little idea of market value, which was leading to disappointment with the end results – one of the biggest challenges for accountants and brokers.

Realistic vendor pricing expectations are a critical step in becoming exit ready and it is up to their advisors to manage these expectations.

This brings us back to the key question we introduced in the overview, and which we are left with from our survey:

> *If accountants understand the value of collaborating, and are including other specialists when selling a business, why are the majority of Australian businesses sold for less than owner's expectations?*

There are several possible reasons for this:

1. Accountants are using advisors who are not managing expectations correctly
2. They are undervaluing the importance of being realistic about prices in a successful exit strategy
3. The advisors are misinformed about market value and do not have the current market knowledge to set prices correctly
4. The principal advisor is setting vendor expectations themselves and ignoring the specialist's advice
5. While accountants understand the importance of collaboration, in practice they often go it alone without bringing in other specialists

Managing Expectations

The question is then – how do we better manage vendor expectations to reach a more favourable end result for the vendor *and* for the facilitator of the sale (enhanced reputation, referral business etc.)

Firstly we must consider which advisors are best equipped to set a realistic sale price and thereby set expectations correctly.

Clearly those who are closest to the market and most in touch with buyers are best equipped to do this; it also requires the ability to take a dispassionate, emotion-free assessment of the business in the context of the prevailing market conditions.

We will get back to the subject of business valuation soon, but first let's take a wider view of the whole exit planning process.

The Range of Skills Required in Exit Planning

Valuation is one skill required in successful exit planning. Below is a summary of the full range of skills usually required in the process:

SKILLS	ACTIVITIES
Exit Coaching	• Help define the business owners future goals, considering the larger picture • Assist in the development and implementation of the exit plan • Provide advice on ways to maximise business value • Facilitate family councils • Mediate family issues
Accounting & Tax	• Prepare financial statements • Provide taxation advice • Assist in estate planning • Provide advice for business restructuring
Valuation	• Provide a credible estimate of fair market value of the businessProvide a credible estimate of fair market value of the business

SKILLS	ACTIVITIES
Business Sale	• Market awareness of the demand for and pricing of the business • Prepare and promote the business for sale • Find and negotiate with buyers
Legal	• Draft and negotiate any necessary agreements, such as a shareholders' agreement and sale agreement • Prepare wills and powers of attorney • Advise on business structures and implement any required corporate restructuring
Financial Planning	• Advise on retirement planning, personal wealth management and estate planning

Each accountant (and their firms) will have varying skills in the key areas required for successful exit planning.

All professional advisers have a responsibility to act in the best interest of the client. With exit planning, this may represent the single biggest transaction that the vendor makes in his/her business life, and it is extremely hard for one person to have all the skills required to get it right.

Specialists from various disciplines are required, if the vendor's interest is the paramount concern. Apart from the accountant, the following professionals may be needed at different stages:

1. Financial Planner
2. Business Valuer
3. Insurance Professional
4. Lawyer (corporate, tax, estate, M&A)
5. Family business advisor / facilitator
6. Business Broker / M&A Professional

The Accountant-Business Broker Relationship

Arriving at a Realistic Valuation

We have seen the importance placed on arriving at a realistic valuation on a business. Whilst most accountants have some knowledge of valuation theory, many are not up to date with current market conditions and values.

It is almost impossible to undertake a business appraisal without sufficient market evidence to ensure that the estimate of the selling price is realistic. Business brokers are permanently connected to the market and work with it day in and day out, so they bring the critical capabilities necessary to advise on the valuation of a business.

Access to Buyers

As well as evaluating a business correctly there are promotional tasks that require expertise and access to networks that will increase the chances of a successful sale that meets vendor expectations.

Simply placing an advertisement on a web site is not maximizing exposure or sales potential. Business brokers have access to a range of potential buyers that can help achieve this.

When do Accountants Most Often Collaborate with Brokers?

As a number of accountants pointed out, the size of the business and the skills of the accountant will determine the extent to which they need to collaborate with other professionals. Generally, the larger the business the more important it is to bring other advisers in early.

How to Start Matching Owner Expectations

Most accountants understand that collaboration is required because no single advisor can possess all the necessary skills. To create realistic vendor expectations and to ensure they are matched by the outcomes will require the service of a business broker somewhere along the line.

The principal advisor, usually the accountant, needs to let their clients know that it takes 2-4 years to make a business saleable at a good price.

Bear in mind that, to get to the decision to make the company ‘exit ready’, the owners often have to come to terms with underlying emotional issues. They will need to answer many critical and confusing questions about their next steps and, for most, owners it is a time of great upheaval in their lives.

Owners need to understand what it means to them personally to sell and move on; what legacy they want to leave; and how they will be perceived by employees and industry colleagues. These early questions often stop a sale in its tracks, if no one helps owners rationalize what it all means to them.

Once the time frame has been communicated and the full implications of the decision explained, an accountant can start exit planning with a recommended team of professionals, including a trusted business broker.

Finding the right broker and acting upon their advice will be the most effective way to fulfill the best interests of the client.

ABOUT ENDEAVOUR

Established in 1998, Endeavour is an independent advisory firm specialising in providing solutions to smaller and middle-market Australian companies. We operate as two divisions, Endeavour Capital and Endeavour Business Brokers to address the specific needs of mid-market companies and smaller businesses. Peter Wallace, Managing Director of Endeavour is a Chartered Accountant, registered business valuer and business broker.

Endeavour Capital (**www.endeavourcapital.com.au**)

Our mid-market clients engage us to assist them in achieving their objectives through providing independent, sound, creative and experienced counsel in acquisitions, business sales, exit planning and valuations. Endeavour Capital clients are typically in the $2-$50 million enterprise value range.

Endeavour Business Brokers (**www.endeavourbb.com.au**)

Following requests by our referring professionals, we established Endeavour Business Brokers to bring mid-market professionalism to small business sales and valuations for businesses up to $2 million value.

We deliberately only work with a small number of clients, so we can provide an ongoing high level of personal service. Our approach is honest, practical and objective, earning us a reputation for genuinely wanting business owners to succeed.