

# Business succession

## – the most important business decision you'll ever make?

**Norman Watson looks at why so many owners fail to plan for the long-term survival of their businesses**

In his Budget of 2004 the Chancellor of the Exchequer asked for a review of the barriers to successful business transfer. Since then, the topic has risen up the business support agenda. The powers that be are now realising that it is just as important to ensure the transfer of existing companies, as it is to continually set up new ones. The survival rate of transferred businesses is better than that of new businesses – on average a business transfer is 150 per cent more effective than a start-up. In other words 1.5 people are employed for every transfer compared to one for a start-up (source: DTI).

The problem is that most business owners don't think about the future transfer of their business until it is too late. In a recent survey in Wales by the Assembly Government, two-thirds of respondents said they would like their business to continue if they were to move on, but 65 per cent of them had no succession plan.

National figures from the University of Durham suggest that around 30 per cent of business closures could be regarded as succession failures – viable businesses that closed for the lack of a suitable successor. This means that 100,000 businesses in the UK close each year because no succession plan is in place.

The reasons for lack of succession planning are complex and vary from company to company. They include the lack of available sound advice, the reliance on the trade sale route for exit, and the failure to plan for succession long-term – ie to have an exit plan as part of the original business plan. Only six per cent of the companies surveyed in Wales had done this.

The Wales Co-operative Centre has pioneered a service over the past five years to address the

problem. It has encouraged owners to come forward and get free advice on how their business could be transferred to the workforce, either through a management or an employee buyout.

As a result it has assisted more than 30 companies to make a successful internal transfer, resulting in the saving of more than 1,000 jobs.

**AROUND 30 PER CENT OF BUSINESSES THAT CLOSE ARE 'SUCCESSION FAILURES' – VIABLE FIRMS THAT CLOSED FOR LACK OF A SUITABLE SUCCESSOR**

The turnover of these companies ranges from £100,000 per annum to £25m, and they are in a wide range of sectors including engineering, training and manufacturing, including hi-tech companies.

The Centre was able to negotiate a deal between the owners and the workforce to make sure the transfer happened successfully. The result has been that the staff have been willing to invest in the business to protect their future and to gain financially from the growth of the business.

The Centre has installed employee share schemes to make sure their investment is protected long-term. In almost all cases, these companies have demonstrated growth in both turnover and staff post-transfer.

Gordon Brown has said: "Effective transition of business ownership has the potential to drive productivity benefits through improved innovation, investment and skills." Getting business owners in Wales to plan for succession is fundamental to the country's economic prosperity. ■

### Contact

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