



MANUFACTURING FACTSHEET

Succession planning: The essentials for manufacturers

Experts share their smart strategies for a smooth transition.

Next-gen plans for a new manufacturing era

From skills audits to smart advice, succession planning essentially starts early.

The global pandemic has brought the need for planning into sharp focus. One of the most valuable plans for business owners? The exit strategy.

At the best of times, a clear succession plan can help drive growth, optimise your tax structure and set the stage for a comfortable retirement.

“One of the first questions I ask new clients is: ‘What’s your end game?’”

John Spender, Director, Business Advisory, William Buck

But during COVID-19 the often-unpredictable dynamism of the economic environment has highlighted the need for businesses to plan for a myriad of possibilities.

Among them, transitioning out of a business has become particularly salient, due to the high numbers of manufacturing entities projected to soon change hands.

While some businesses have certainly struggled because of the impacts of the pandemic, others have prospered, leaving them with ample cash to invest for growth or to secure their supply chains – and there’s already evidence of a strong surge in M&A activity.

Couple this with the fact that a significant demographic shift is taking place – most Australian business owners are currently aged between 45 and 59 years, which means a substantial number of manufacturing businesses will undergo a change in leadership, ownership, management, or all three, in the not-too-distant future – and the need for smart succession planning becomes a priority that should be front and centre of every business strategy.

John Spender, Director, Business Advisory, at accounting and advisory firm William Buck, says it’s never too early to start planning for succession. “One of the first questions I ask new clients is, ‘What’s your end game?’”

The sooner you start planning, the more control you’ll have of the process. So, what are your options? ▶

DIVERSE OPPORTUNITIES

All businesses can benefit from diversity of experience in leadership roles. Do you have the right mix in place to promote future success? Manufacturing is still a male-dominated industry with women comprising just under 30 per cent of the workforce, but with the highest value-add roles existing outside production, this looks set to change.

“Think about all the steps in the manufacturing value chain – research and development, design, logistics, production, distribution, sales and service,” says Jens Goennemann, Managing Director, Advanced Manufacturing Growth Centre (AMGC).

“Are these jobs blokey? Quite the opposite. Manufacturing has enormous opportunities for all genders.

“As to the question of succession, you do not have a succession problem if your industry is made highly attractive to everyone.”

FAMILY SUCCESSION: KEY STEPS IN TRANSITION

What are the main considerations to ensure a smooth transition?

When building a business, many manufacturers are also building a legacy – an asset to hand to the next generation. However, a recent [report from KPMG](#) shows that, while 67 per cent of all Australian businesses are family businesses, less than 15 per cent have a documented transition plan for their senior leader.

Who will take the reins?

Spender recommends undergoing a skills audit to gauge the strengths in your current business structure and identify gaps.

“What are the key skills required to lead your business? And do those skills currently exist in your family? Do you need to bring in an outsider to a leadership role in the business? Does the next generation even want to work in the business? These are all important conversations to have with family.”

What is your role?

Will transition be immediate or gradual over an agreed timeframe? How much influence will you maintain in the business? “You need to set some clear boundaries as to what the succession plan means for control,” says Spender.

Training your successor

A formal training program may be required, or a gradual transfer of responsibilities may include working closely with your successor to bring them up through the ranks.

Rebecca Hegarty, Principal/Director and Head of Commercial Advice at Coleman Greig Lawyers says some business owners prefer their successor to work outside the family business before taking the reins.

“I have a client who wouldn’t allow his daughter to work in the family business until she’d gained experience working elsewhere,” she says. “She ended up joining the family business and bringing some very valuable skills that she had gained outside.”

Transferring ownership

Transferring control of your business to family members may involve changing share structures or transferring assets via the creation of trusts or other entities. It’s wise to seek advice from your accountant, lawyer and bank.

“We can assist someone wanting to acquire a manufacturing business, or gain an equity stake,” says Matthew Kelly, Head of Manufacturing and Wholesale NSW at St. George Bank.

“Given the knowledge we’d have of that business, we can make a seamless transition for the incoming owners or partners – and that certainly includes family members. We can fund them to pay out mum and dad, whether that’s in stages with an earn out, or funding a pay out in one go.”

“You do not have a succession problem if your industry is made highly attractive to everyone”

Jens Goennemann,
Managing Director, AMGC

Seeking guidance and support

Succession planning can be an emotional experience for families.

“My recommendation for families is to engage a third party to help steer the conversation toward the best outcome for everybody,” says Kelly.

“We’ve seen some wonderful examples of that happening, and we’re able to leverage our experience of this and put clients in contact with right people.” ▶

RESOURCES

Family Business Australia and Australian Small Business and Family Enterprise Ombudsman’s office have created [An Introductory Guide to Family Business Succession Planning](#) that provides a step-by-step guide to passing the family business on to the next generation.

See page 5 for more help at hand.

TRADE SALES: POST-COVID OPPORTUNITIES EMERGING

For the optimal outcome, it takes time to realise the value of your business.

If the ultimate aim is a trade sale, focus on maximising profits and having the right tax structure in place – and seek advice from your lawyer, accountant or business broker.

Plan ahead

Preparation for selling a business ideally requires a lead time of at least two years to ensure the paperwork is in order.

This includes:

- Tax records
- Profit and loss statements
- List of customers and revenue generated
- Accounts receivable
- Liabilities
- List of equipment and service records
- Inventory
- Insurance policies

“It takes time to get your financials to a state that shows a buyer the real value of the business,” says Kelly. “When you’re getting ready to sell, the focus should be on maximising sale proceeds. Our aim is to understand our clients’ plans so that we can help them through that process.”

“It all starts with good conversations around what succession planning looks like for you, and then helping you with any direction you wish to take. If it’s a trade sale, for example, or perhaps a sale to a private investor, we assist through our network in how to get your facility and your financials structured to maximise the sale of your business.”

It is also a useful and timely exercise to conduct general due diligence on your business to see if it is ‘sale ready’. For example, review whether all those listed encumbrances on the Personal Property Securities Register are still current, or if any need to be discharged.

Choose your moment

The best time to sell your business is when it’s performing at its peak, but it also pays to gauge the market.

Recent signs suggest investors are exploring Australian acquisitions to help accelerate growth post-pandemic.

Data from Refinitiv Deals Intelligence show Australia has recorded a year-to-date record in M&A activity, reaching **US\$173.8 billion** by July this year. The United States account for 81 per cent of inbound M&A activity in 2021 to date.

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Rebecca Hegarty, Colemain Grieg, says there are strong levels of sales activity across the manufacturing industry.

“We’re seeing a lot of transactions in the current COVID environment,” she says. “In some instances, businesses are suffering and their only option is to sell. But some sales are happening for reasons of consolidation. I have got a client who’s looking to buy their supplier’s business to help secure their supply chain.”

SHIFTING EMPHASIS FOR EMPLOYEE BUYOUTS

Selling your business to an employee can create continuity for your business and reward the loyalty of your staff. It can also help in attracting and retaining talented employees.

This option may include an employee share purchase plan or employee equity scheme, which provides shares or other equity interests in your business in relation to their employment.

“If the plan is to sell to an existing employee, you may want to pay more attention to investments within the business that help set it up for the future,” says Spender.



A lab for support

Need expert advice while considering your options for business succession? Help is at hand.

Objective guidance will help you succeed in succession. The Western Sydney Manufacturing LAB, a collaborative initiative between St.George, Coleman Greig Lawyers, William Buck and AMGC, was developed as a forum for individuals and businesses to network and access services that could lead to strategic partnerships. It's also an opportunity for manufacturers to undergo a business health check.

"We can discuss their plans and whether they have the right structure in place to support it," says Hegarty. "The reason we have all partnered to set up the LAB is because we're very invested in the future of manufacturing in Western Sydney."

Talk to your bank

Need to improve your cashflow? Speak to your bank about accessing capital tied up in machinery or equipment. If you need to conduct repairs or upgrade equipment to make your business more appealing to buyers, loans such as St.George equipment finance can provide flexible repayment terms.

"We're always interested in speaking to clients about their succession plans, because they are generally the ones with a solid strategy in place and a strong focus on driving profits," says Kelly.

➔ READY FOR ACTION?

If you have any questions or would like to know more about the information contained in this report, please contact the author:



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