

Putting you in control

Business succession planning

This case study demonstrates the importance of having a business succession agreement. In the event that a co-owner of a business departs either voluntarily or involuntarily, it provides the remaining owner(s) with a level of control over how that business will be run in the future.

Helen's story

Helen and Soula had been close friends since attending Hairdressing College in 2000.

A couple of years after graduating they took a big risk and established a hairdressing salon together, each having a 50 per cent shareholding in the company operating the business.

Helen and Soula were so successful with their new venture that they established a second salon in a nearby suburb in 2005.

After a few years of running the business Soula married her long term boyfriend James. As Soula was earning good money James left his job and has been 'looking for work' ever since.

Privately Helen had reservations about James. She believed that he was lazy, untrustworthy and a bit uncomfortable to be around. She believed that he was taking advantage of Soula's success. However, she was not willing to share these thoughts with Soula.

In 2007 Helen and Soula were making more money than they ever expected and more importantly loved working at their two salons. They had a good rapport with their customers and other staff and often socialised together after work.

They even consulted a financial adviser to find out how they could minimise their tax.

The advice

As part of providing advice to Helen and Soula their adviser recommended that they should both draw up wills and also consider setting up a will for their business ie a business succession agreement.

The adviser also suggested that both Helen and Soula should purchase life, total and permanent disability (TPD) and trauma insurance as part of their business succession agreement so that if one of them were forced to leave the business as a result of death, permanent disablement or a serious medical condition funds would be available to buy out that person's share of the business.

Both Helen and Soula established wills shortly after the meeting with their adviser. However, as they were young and very happy working together they thought that there was no need to establish a business succession agreement or to take out insurance at that stage of their lives.

Implications of not implementing a business succession plan

One day in late 2008 Soula, who was only 30 years old, suddenly collapsed in the salon. An ambulance was called, but the paramedics were unable to revive her. The cause of death was later established as a brain aneurysm.

Soula's death affected Helen immensely. She closed both salons for six weeks after Soula's death. However, after getting over her initial grief, Helen decided to reopen the salons, as she believed that is what Soula would have wanted.

On the day of the re-opening Helen was reasonably upbeat until she met her new business partner – James.

According to Soula's will James was the sole beneficiary and therefore he inherited all of her assets, including Soula's 50 per cent shareholding in the company operating the hairdressing salons.

Over the next month James makes Helen's life very difficult. He can't cut hair, but continues ordering Helen and the other staff around.

As an owner James is receiving 50 per cent of the profits from the salons, while Helen is doing 100 per cent of the work.

He also insists on being involved with all business decisions, regardless of the fact that he has no business acumen and no understanding of how a hairdressing business operates.

One day while getting her lunch Helen bumps into her financial adviser. Straight away Helen remembers the recommendation that her adviser made to her about setting up a business succession agreement.

Benefits of having a business succession agreement

Business succession agreements play an important role in ensuring that both the business and its owners are protected in the event of the departure of an owner, whether due to a voluntary or involuntary event.

From Helen's perspective, if she and Soula had established a business succession agreement it would have:

- Provided her with a greater level of control over who would replace Soula
- Addressed the issue of where the funding used to buy out Soula's shares would be sourced from. For example, for insurable events such as death, permanent disablement or serious medical illnesses these could have been funded by taking out life, TPD and trauma insurance policies

- Prevented the introduction to the business of James who is both unsuitable for the business and cannot work cohesively with Helen and her staff, and
- Offered greater peace of mind to everyone involved in the business, including customers, suppliers and employees.

Returning back to the salon after lunch to James yelling at one of her staff members Helen wishes that she had listened to her financial adviser and established a business succession agreement prior to Soula's death.

If she had taken out the recommended insurance policies she would have both the right under the agreement and the funds readily available to buy Soula's shares from her estate, for a set price and get James out of her business – and her life.

To avoid finding yourself in the same situation as Helen speak to your financial adviser about business succession planning.

Contact us

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