



S U M M I T
P L A N N E R S

Business Succession Planning





About Summit Planners

Summit Planners is an avant-garde organisation that works in conjunction with professionals and institutions to provide clients with business and financial solutions.

At Summit Planners, we strive to provide our clients with customised solutions from our suite of services to match not only the size of their organisation but also their ambitions. From sole proprietorships to corporations, and from individuals to families, their trust in our services and our partners has enabled us to grow from strength to strength.

We know what it is like to pursue a dream. For a dream to have a chance to come true, one needs a Plan. At Summit Planners, one can count on us to help achieve those goals in life, and plan the route toward the SUMMIT.

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Welcome

Never assume that the transition of the business is automatic

Running a business is tough and running a successful long-term business is tougher. Many business owners work long hours and get little rest. You may face countless challenges that hinder your chances for long-term success. As business owners, it is crucial to ensure that your company has the right candidate to take over the business should something happen to you. Your company may not get a second chance if you fail to identify your succession and adapt quickly to the unexpected change if you or a key leader leaves the company.

Careful planning is essential for your business to remain viable and successful, especially family-owned ones. By putting Business Succession in place, there is no reason you won't succeed and bring your business to the next level, whatever the future holds.

Let's look at how Mr. Lee plans for his succession for Ah Beng Motor Repair.

Mr. Lee Ah Beng is the sole owner of Ah Beng Motor Repair and is presently in his late 60s. The business has a steady pool of customers approaching them. Despite the few economic downturns in the last decades, the business is still operating with reasonable profits.

Mr. Lee has five children. Two of his children, Ah Teck, aged 45 and Ah Ming, aged 31 are working in Ah Beng Motor Repair.

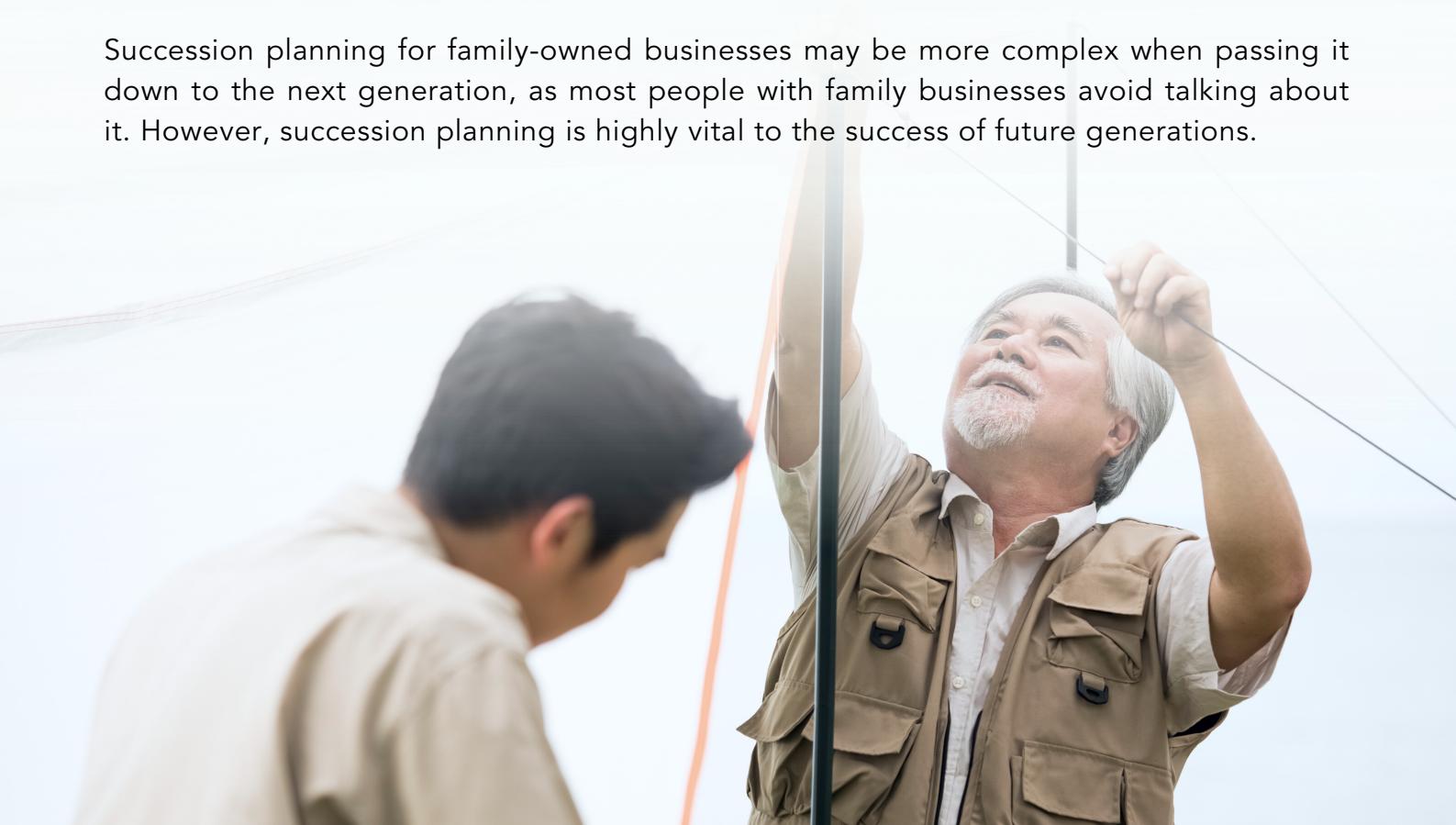
Ah Teck manages the business, while Ah Ming is responsible for the repair work. Mr. Lee visits the workshop to supervise and mingle with the customers daily.

The average net profit for his company is about \$800,000. However, Mr. Lee believes the net profit will drop by half if he departs prematurely.

As Mr. Lee is getting older, he intends to distribute his company to Ah Teck and Ah Ming. After speaking to his accountant, he has also decided to convert his business to a limited company to ensure a smooth transition to his children. With the funding from insurance, his family will be well protected as the proceeds will serve as a buffer, and his shares will be divided equally among his two sons upon his departure.

Based on the scenario above, Mr. Lee has converted his sole proprietorship to a private limited company for ease in the transfer of ownership. He has also clearly communicated his intention for the business, avoiding unnecessary feuds and disagreements among his other children.

Succession planning for family-owned businesses may be more complex when passing it down to the next generation, as most people with family businesses avoid talking about it. However, succession planning is highly vital to the success of future generations.





What is Business Succession Planning?

The succession of your business

Business Succession is a process of coordinating the transfer of ownership of a business from one business owner to another person. It is also known as business continuation planning. Planning for the succession of your business is essential for it to remain viable and successful.

Business Succession should not be taken for granted. The responsibility of the business transfer from one owner to the next depends on the present business owners.

Benefits of Business Succession Planning

Business Succession should not be taken for granted

Having a succession plan in place will eliminate confusion about your company's legacy. But, again, it is about ensuring that the business is handed over smoothly and there are no conflicts if one of the key owners departs suddenly.

Disaster Proof Your Company

Your business will be shielded from uncertainties. The transition in the event of the business owner's departure will be smoother and avoids disruption within the company. It instills a sense of respect when your company can embrace unexpected change and continue to function smoothly.

Maintain Brand Identity and Reputation

You can be assured that your company is led by someone who understands the mission and value of your business. As a result, stakeholders and clients of your company are confident that your company is here for the long haul.

Staff Retention

Your company can avoid the process of hiring externally, which may be costly and time-consuming. It also demonstrates how your company recognizes and values its employees. As such, the employees are motivated to work harder, resulting in better work quality. They will also have a more optimistic view of their career span in your company as they believe the company is committed to developing employees for future leadership positions.

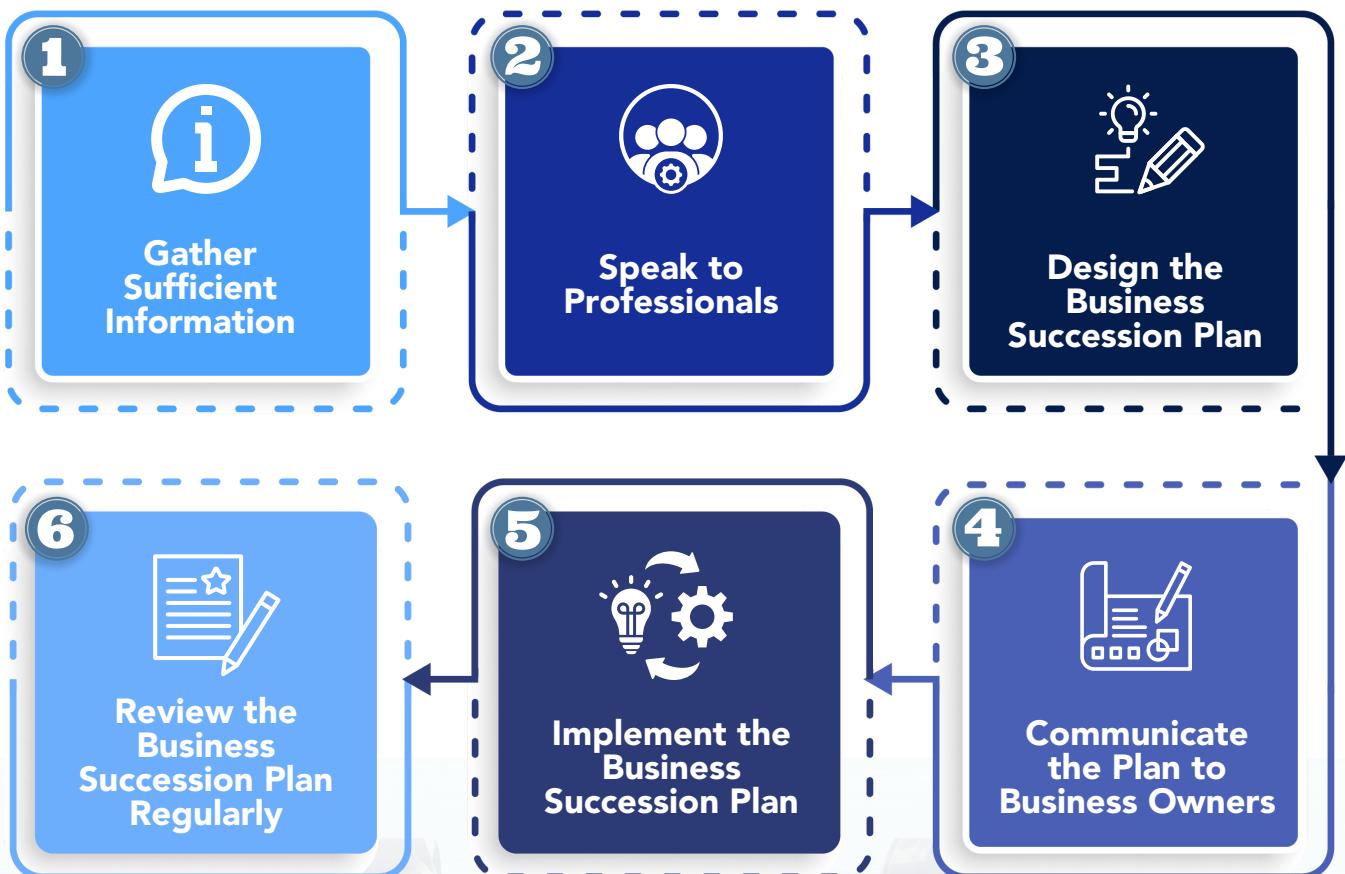
Harmony between the Remaining Business Owner and Family Members of the Deceased Owner

It provides more clarity to the heirs of the departing business owner and existing owners. With Business Succession funded by insurance, the insurance proceeds will provide the fund to buy over the shares owned by the deceased business owner.



Steps Involved in Business Succession Planning?

Your path toward Business Succession



1) Gather Sufficient Information

It is important to gather relevant and accurate information about your company as it impacts how the succession plan is designed. In addition, factors such as the setup of the business, the position of the business owners, cash flow, business forecast, long-term viability strategic goals, etc., will also impact the design of the succession plan.

2) Seek Professionals Advice

A succession plan is like a strategic plan. Hence, it is crucial to speak to relevant professionals to obtain their expertise and advice before designing the succession plan.

Typical professionals to seek advice.

- Accountant
- Financial Services Consultant
- Auditor
- Lawyer
- Tax Advisor
- Valuer
- Banker



3) Design the Business Succession Plan

Before drafting the Business Succession Plan, you will need to analyze the information gathered and plan a realistic and appropriate assessment of the business transition.

4) Communicate the Plan to Business Owners

The succession plan should be communicated clearly to all business owners. Feedback should also be welcome and acknowledged. Thereafter, you can adjust the Business Succession Plan and obtain a general consensus among the business owners.



5) Implement the Business Succession Plan

Finally, you can apply and integrate your Business Succession Plan into your business. However, educating your key personnel on the plan's mechanics is crucial, and establishing an agreement using the necessary tools for a smoother transfer between business owners.

6) Review the Business Succession Plan Regularly

It is advisable to review your Business Succession Plan regularly and make adjustments or improvements, especially when there are changes in your business.

Tools Involved in Business Succession Planning?

Understanding the important aspect of the tools used for Business Succession

Buy-Sell Agreement

Buy-Sell Agreement is an important part of Business Succession Planning that should not be overlooked. It is a document that binds the parties involved in buying and selling a business upon a trigger event such as death, total and permanent disability, retirement, or bankruptcy of a business owner.

It ensures that your business falls into the right hands. In addition, it spells out the company's value at a pre-determined price or the method used to value the business. A typical Buy-Sell Agreement allows the surviving business owners to purchase the shares from the deceased or outgoing business owner to ensure business sustainability.

Trust

Trust can be used to structure and facilitate Business Succession Planning. The shares owned by all the business owners can be held in trust by the trustee. Upon the death or retirement of any one of the business owners, the trustee will facilitate the transfer of beneficial ownership from the deceased business owner to the surviving business owners.

Call Options

Call Options give the buyer the right to purchase the shares owned by a business owner at an agreed price or formula on or before certain date. The buyer may be an existing business owner and he may exercise the rights to buy upon the death of the other business owner.

Constitution

The Constitution is a legal document that spells out the rules and regulations governing the company. In addition, it sets the roles and responsibilities of the directors, shareholders, and company secretary, which is crucial for overseeing the company's management. An important segment of the Constitution is the Transmission and Transfer of shares.

Shareholders Agreement

A Shareholder Agreement is a contract that reflects how the company is managed to ensure smooth operation of the business. It is useful when the company's shareholders are private and unknown to the public.

Consequences in the Absence of Business Succession Planning?

Effects on a company without Business Succession Planning

As the future success of your business depends on how you plan for the succession of your business, what do you think will happen if you have not done anything for your company?

Let's look at how the absence of Business Succession Planning affected Bedding Pte Ltd.

Mr. Foo, Mrs. Foo and Mr. Foo's Brother, Alex are shareholders of Bedding Pte Ltd. Bedding Pte Ltd sells various types of beds and mattresses. Over the years, its company has expanded from one store to five stores. Mr. Foo is actively running the business, while Mrs. Foo manages the household and their two children.

The company has overdraft and credit facilities. Mr. and Mrs. Foo are joint guarantors of the bank credit facilities.

Most key employees have worked in the company for more than 20 years. All the employees are remunerated fairly as Mr. Foo believes it will retain them for longer.

Mr. Foo hopes his shares can be transferred to his sons equally if he is not around. However, he has been contemplating if he should plan for the company's successor. Before he made a decision, he collapsed and passed on. Mrs. Foo was devastated and had no experience or knowledge of running the company. Upon the news of Mr. Foo's death, the company's key managers have thoughts of resigning as they feel that the company is unstable. Alex is also asking for Mr. Foo's shares to be transferred to him at an amount lower than the company's valuation. Despite the company being profitable, Mrs. Foo is facing a sudden cashflow issue as the creditors are pressing for payments and withdrawing their facilities.



Based on the above example, the situation could have been different for Mrs. Foo if Business Succession had been in place for the company. With Business Succession Planning, Mrs. Foo can exercise her right to buy or sell the company interest upon retirement, death, or disability. Thus, the business can continue without interruption, liquidation, or taking on a new partner. Furthermore, the proceeds from the insurance claims can be used to ensure that she receives the total value of her interest in the business without a dispute arising from the company's valuation.

These are the likely consequences in the absence of Business Succession Planning.

Conflict between Shareholders

The remaining business owners may fight over the percentage of the shares of the deceased business owners. It could result in adverse publicity for the business.

Family Members of the Business Owner

The family of the deceased business owner would be left without a breadwinner. Their lifestyle and livelihood will be impacted due to the loss of their sole breadwinner's income. In addition, the family members would need more money if the business owner suffered from a critical illness or was totally and permanently disabled. On top of that, the main challenge would be the family member's ability to continue operating the business.

Loss in Productivity and Sales

The productivity and sales of your business might be impacted if the deceased business owner is your specialist or keyman. Without the key to your business, there would be a drastic change to your sales figures.

Loans and Credit Lines

The remaining business owners may be unable to obtain more loans and may be forced to settle outstanding loans immediately. This will severely affect the company's cash flow to function or expand.

Funding Mechanisms

How Can You Fund Your Business Succession Plan?

Funding your Business Succession Plan may be challenging for some companies. Some companies may be able to finance their succession plan out of their pockets. However, some may be struggling with cash flow issues.

There are several ways to fund your Business Succession Plan.

Investments

Companies may choose to fund their succession plan using investments. They will determine the investment's value when activating their succession plan. Some common investment instruments are bonds, foreign exchange, options, etc. Using investment assets to fund the Business Succession Plan may be risky if the value of the investment drops and when it is insufficient for the plan.

Internal Cash Reserves

Cash-rich companies may consider using their cash reserves for the Business Succession Plan.

Banks and Financial Institutions

Some companies may fund their succession plan through loans and credits from banks and financial institutions. However, there may be better options than this, as companies may go into debt or larger debts using such a method. In addition, banks and financial institutions will grant the loan based on the company's credibility, and collateral may be requested.

Insurance-Based

Insurance-Based funding is the least expensive and most effective option. The insurance proceeds for the Business Succession Plan will help fund the business's buying and selling in the event of a business owner's departure.

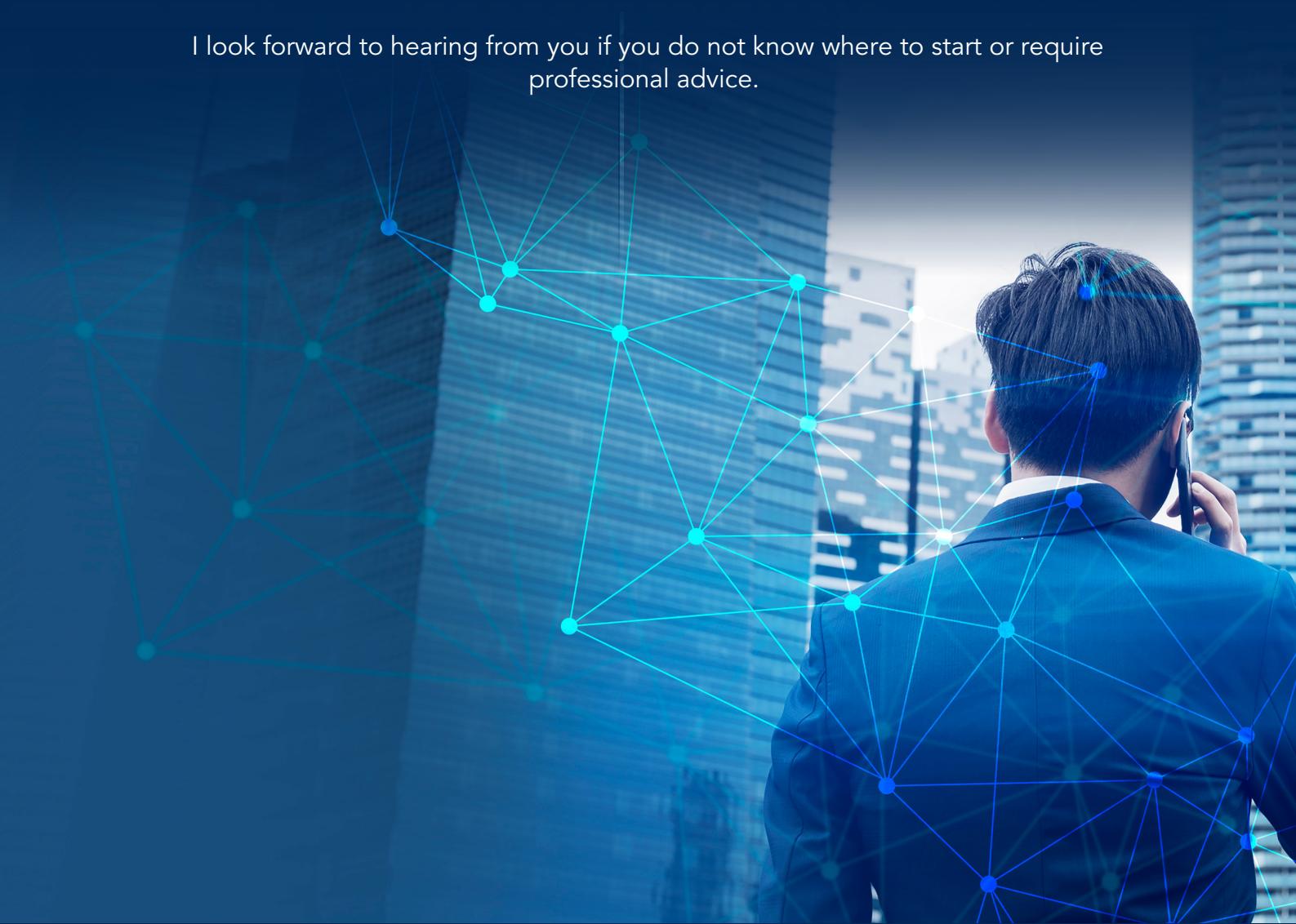


Are you *planning* to live life to the fullest?

A well-designed Business Succession Plan is to prepare your company for the future. It ensures that your company continues to advance and operate, even during unforeseen circumstances. It is also crucial to revisit your succession plan regularly, mainly when changes or movements occur within your company.

At the end of the day, it will provide all business owners, stakeholders, and employees certainty that the company will continue to grow despite any tragedy.

I look forward to hearing from you if you do not know where to start or require professional advice.



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In an exclusive collaboration with Summit Planners Cluster

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