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Craig McIvor: Letting go can be the hardest thing to do

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By Craig McIvor

You are over 55, have a strong business turning over more than \$10 million per annum – built up over 30 years of hard work. You are making a good profit and you own your own house, a yacht and a wonderful holiday home. Surely, this is the Kiwi version of bliss.

Maybe not. Many owners of businesses of this size are trapped in a vicious cycle, working up to 70 hours a week, with limited holidays, untold stress and retirement nowhere in sight.

A Colmar Brunton survey funded by ANZ in 2006 brought these privately owned businesses and their owners into sharp relief. There are more than 3500 owners who fall into this category. They are the true SME powerhouses of the economy with combined annual turnover of \$3 billion. The survey found that many of these owners wanted to exit their businesses or scale down their involvement over the next five years. The problem is, many do not know how to go about achieving this simple goal.

Most run their businesses without the assistance of a board and have generally poor governance systems and procedures. These owners do not have a succession plan and time is running out for them, mentally and physically.

Unless these owners start engaging in strategies now, they have little hope of exiting their business any time soon. The result may be that they either sell the business for next to nothing or close it.

However, there are strategies that can allow these owners to exit the business or, even better, keep the business so it can continue to produce handsome dividends for the owner well into their retirement, and continue to serve the interests of the economy.

So what are the options?

Sell the business. This allows the owner to get out with no further involvement and a lump sum.

Sadly, businesses of this type are discounted in value for a number of reasons, such as poor historical financial reporting and lack of governance procedures. Owners are so integral to the business that it may only be viable if the owner comes with the business, defeating the purpose of the exercise.

Also, these owners, looking to exit the business in the near future, typically engage in short-term strategies which expose the business to greater risk. Older owners are less likely to invest in long-term initiatives that would make the business more competitive or sustainable. The result is that these businesses, while profitable, require potential purchasers to invest in new systems, infrastructure and plant – further discounting the final sale price.

Management buyout. Selling the business to the existing management, who should have a good understanding of how it really works, is another option. Unfortunately, many owners never allow mid-level

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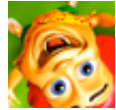
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