



**POLICY BRIEFING PAPER
JUNE 2005**

Business Transfer

THE ISSUE

Many successful businesses face unnecessary closure because their owner managers fail to plan for the future of the business when they retire or want to move on. Research shows that 100,000 viable businesses close every year due to failure to plan their succession¹. Lack of forward planning not only effects the survival of the firm in question, but can also have serious implications for the owner's family, local employment and supply chains, which, in turn, impacts on the economy.

Business transfer is important given that the survival rates of transferred businesses are better than that of new businesses². European Commission figures indicate that a business transfer is, on average, 150% more effective than a start-up. In other words, one and a half people are employed for every transfer, as compared to one for a start-up³.

There was considerable large growth in the number of people starting up businesses in the 1970s and 1980s – those business owners will now be in their 60s and considering retirement. Policy makers must, therefore, realise the importance of business transfer or face possible high levels of business closure in the near future.

In recognition of the importance of the successful transfer of businesses and current level of succession failure, the Small Business Service has commissioned research 'Passing the baton'. This document highlights the importance of succession planning and the role played by accountants. Importantly, the document also details an agenda for improving the success of business transfers in the future.

WHY DO SMES FAIL TO PLAN THEIR SUCCESSION?

Owner-managers are closing their businesses rather than transferring them because they often believe that the business has little value. It is estimated that 85% of SMEs in the UK are in the service sector and as such, the nature of these businesses are knowledge based and therefore, the assets are often intangible.

Business transfer differs across business sectors, with, for example agriculture and the family run hotel industry considering succession planning earlier than in other sectors of the economy. This may also reflect that most of the assets of these businesses are tangible and can be more easily valued which enhances the chances of successful transfer.

ACCA's research found that most owner-managers delay considering business transfer until certain critical events or a change in circumstances which activate a desire to leave the businesses within two or three years. This usually leaves insufficient time to devise an effective succession plan and exit in a way that maintains the value of the business.

Business transfer has traditionally taken place within the family but recent figures indicate that only 5-15% of family owned SMEs reach a third generation. This reflects the lack of interest within the family to run the business, the changing nature of businesses within the economy and the lack of an effective and formal plan for the transfer of ownership within the family.

The propensity of the business owner to be 'entrepreneurial' effects the extent to which a succession plan is put in place. 'Entrepreneurs' build their businesses with clear exit routes in mind and develop succession plans at the stage when they are planning to invest. ACCA research revealed that 20% of businesses were 'entrepreneurial' and have a succession plan whereas 80% of businesses were lifestyle orientated, and tended to not have a plan for business transfer.

ACCA'S INVOLVEMENT

ACCA (the Association of Chartered Certified Accountants) is the largest and fastest growing global professional accountancy body, with over 105,000 members and 240,000 students in 160 countries. In the UK, 56% of ACCA's members work in or for a small firm. Independent research shows consistently that accountants are the first choice advisors of small businesses. We have over 100 years' experience of working with and providing professional advice to small and medium sized firms (SMEs).

The role of the accountant has been shown to be critical in the succession planning process. SMEs need to employ and are likely to have a close relationship with their external accountant. Recent research by Dr Chris Martin for ACCA, 'Accountancy practices and the provision of ownership succession advice' revealed that there are four main areas of advice that accountants provide to their clients which are tax, valuing and selling businesses, business development and providing 'emotional' support. ACCA, with the Small Business Service, staged a seminar on 7 June 2005 'Encouraging successful business transfer' which examined the needs of business owners, the quality of the support and information available to them and what role might be played by the various bodies involved in supporting small businesses. A summary of recommendations are stated below.

ACCA'S RECOMMENDATIONS

ACCA believes:

- there needs to be more research carried out into the issues surrounding business transfers – there is considerable experience and anecdotal evidence but this needs to be tested further.
- there is a need to develop a comprehensive strategy to encourage business transfer. It is clear that this issue is not a fad given an ageing labour force and business population.

- there should be improved communication between buyers and sellers, intermediaries and the private and public sectors in order to facilitate business transfers. There is need for a 'route map' which would help businesses to find the appropriate business transfer agent, help to fund the transfer process and assistance with taxation issues.
- market segmentation should be understood by government and advisers. There are many needs to take into account as each business is diverse and owner-managers view their businesses as being unique.
- relationships between intermediaries, including banks, accountants, estate agents, solicitors and trade associations must be improved. All groups need to be brought on board to help businesses find the appropriate advice to buyers and sellers.
- there is a market failure which needs to be dealt with. There are specific problems and issues for women, ethnic minority and micro businesses.
- the market needs stimulating to overcome prejudices about taking over a business – this already happens with franchising. Buyers need to give time to understand the needs of potential sellers. The methodologies for valuation need to be developed by intermediaries, particularly for intangible assets.
- businesses often see the state as schizophrenic – acting as tax collector and regulator while also trying to stimulate the economy. There is a need to work through existing intermediaries used by businesses, such as accountants and trade associations. Public policy has an educational role through stimulating dialogue and undertaking research.

REFERENCES

¹ Stone, I. (2005) *Passing the baton – encouraging successful business transfers*, Small Business Service

² European Commission. European Seminar on the Transfer of Businesses Final Report, 2003

³ ACCA report (2002) Family planning for small business