

# Future-proofing your Business with Succession Planning

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## **Establishing a business succession agreement together with comprehensive insurance can help prevent future complications.**

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

Consider what happened to Helen and Sarah, a pair of talented young graphic designers.

### **A cautionary tale**

After graduating from university in 1998, Helen and Sarah took a big risk and established a graphic design company together, each holding a 50% shareholding.

By 2005 they were making a good living and had developed strong relationships with their customers and employees.

Helen's only concern is Sarah's new husband, James, who is starting to interfere in the business with grandiose and inappropriate schemes. Sarah knows how Helen feels and keeps James at arm's length.

As their business thrives, Helen and Sarah consult a financial adviser about how they can minimize their tax and invest surplus cash. Their financial adviser recommends they both draw up Wills and also consider setting up a separate Will for their business – in other words, a business succession agreement.

Their adviser also suggests they both take out life, total and permanent disability (TPD) and trauma insurance as part of their business succession agreement so if one of them were forced to leave the business because of an insurable condition, funds would be available to buy out that person's share.

Both Helen and Sarah establish Wills shortly after the meeting with their adviser. But as they are still young and very happy working together they decide there's no need to establish a buy/sell agreement at this stage or take out insurance.

### **Tragedy strikes**

One day in 2007 Sarah collapses in the office. An ambulance is called, but the paramedics can't revive her and she dies in front of Helen and her staff. The cause of death is later established as a brain aneurism.

Helen is deeply affected by Sarah's death, initially closing the business. After her initial grief subsides Helen decides to go back to work.

On the day of the office reopening, Helen is reasonably upbeat until she meets her new business partner – James. As the sole beneficiary of Sarah's Will, James has inherited all her assets, including the 50% shareholding in the graphic design company.

Over the next month, James makes Helen's life very difficult. He insists on being involved with all business decisions, even though he has limited business acumen and no understanding of graphic design. Furthermore, one of Helen's staff members is becoming increasingly uncomfortable around James and wants to resign.

One day while out for lunch Helen bumps into her financial adviser. She immediately remembers her adviser's recommendation about setting up a business succession agreement, and wishes she had entered into a buy/sell agreement prior to Sarah's death.

A business succession plan would have:

- provided Helen with a greater level of control over who will replace Sarah
- funded buying out Sarah's share of the business via additional insurance covering events such as death, TPD or serious medical illnesses
- prevented James' involvement in the business as he is unsuitable and cannot work constructively with Helen and her staff, and
- offered greater peace of mind for everyone involved in the business, including customers, suppliers and employees.

Had Helen taken out the recommended insurance policies, she would have the funds readily available to exercise an option under the buy/sell agreement to buy Sarah's shares from her estate for a set price.

This is just an example of what can happen. If you would like any information or help establishing a business succession agreement, speak to your financial adviser.

Source: AXA



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