Lack of succession plans can lead to 'fire sale'

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Only 30 per cent of Australian financial advice practices have a clearly documented succession plan or buy/sell agreement while only one-in-10 has an "effective" succession plan, according to a report.

The 'Future Ready VII Report, which surveyed 226 firms and was released by Business Health and sponsored by knowITdigital, showed that despite an ageing industry where the average age of a principal was 60, the number of practices with a succession plan was down from 39 per cent in Future Ready VI, released in 2014.

knowITdigital chief executive, Wayne Wilson told a media briefing yesterday a combination of the Global Financial Crisis (GFC), and the transition from an asset-based remuneration to fee-for-service had hindered practice principals' plans to sell their practices.

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"There was a relatively robust market for selling practices prior to the GFC because the market kept going up 12 to 13 per cent compound every year. They were all on asset-based revenue streams so their profitability kept going up and it was all a beautiful thing," Wilson said.

"And then the GFC came, took anything from a third to half of their revenue away. Which is why age is so high: the average age is 60 because they're not selling."

Business Health director and partner, Rod Bertino said just 11 per cent of principals told his firm their businesses would continue to operate and grow if they were not involved.

"Fifty-six per cent stated it could not even operate without… not grow… it could not even operate without them," he said.

"Depending upon the reason for the sale (death, disability), it's whatever the market will pay. The market knows it's a fire sale and no one's going to be paying above," Bertino said.

"If it's a compliance issue, which we've been involved in, again the market knows that this business has to be sold."

The report also found 59 per cent of the firms with a succession plan had identified a "successor" who had formally agreed to the plan, while six per cent had identified a successor but did not have a formal agreement in place. The remaining 35 per cent of business owners still did not know who would succeed them in the practice.

Figures showed that for the 70 per cent of practices that did not have a written succession plan or buy/sell agreement, their profit per principal was $235,049, whereas the 30 per cent who had clearly documented succession plan/buy sell agreements saw profits of $332,833, a 42 per cent increase.

Furthermore, the 12 per cent that effectively implemented it with a documented plan that was reviewed regularly covering all contingencies with successors identified and agreed with funding in place saw profits of $493,070, a 110 per cent increase.