



Plan your escape

Succession planning is frequently overlooked until necessity dictates it. Kieran Marsh explains the many benefits of taking a long-term, strategic view — not least its potential impact on a brokerage's market value.

IT TAKES A HUGE amount of hard work over a long period of time to build up a successful brokerage. Present market conditions place significant demands on entrepreneurs, and while there is an appetite to address the challenges posed by a soft market and the need to be regulatory-compliant, it is easy to lose sight of the one certain thing that will happen to your business — succession.

For many entrepreneurs, the term 'succession planning' may instantly evoke thoughts of passing the baton to a family member or key member of the management team. But while your business may have good management at present, succession planning can also act as a key driver to the retention of your most talented employees.

Effective succession planning embraces the ongoing business process of monitoring and developing management talent, while ensuring that future managers have the experience and skills needed to be successful.

Unfortunately, many businesses do not implement such planning in advance, only using it as a contingency activity in the event of an emergency or in response to management changes. And yet failure to have an effective plan in place can place stress on the business, reduce morale and seriously damage your business wealth.

Strategic linkage

It is prudent therefore to link your succession plan to your business plan so that everyone is on the 'same page' in terms of business strategy generally and succession planning in particular. And an effective plan should encompass five common components.

Firstly, monitor the future talent needs of your business by identifying the management and leadership needs in the business plan. This should create insight into the individuals who are carrying out the most critical roles — and what impact

DON'T MISS THE OPPORTUNITY TO DEBATE THIS SUBJECT

The whole question of 'what is your brokerage really worth?' will be the subject of a key seminar session on **Thursday 24 May** at the **British Insurance Brokers' Association conference** when Kieran Marsh will be joining Grant Ellis, chief executive of Broker Network Holdings, and Andy Halstead, chief executive of Erinaceous Insurance Services. The session promises to be dynamic and will give brokers a valuable insight into how the 'consideration dial' can be moved significantly. Mr Marsh qualified as one of the youngest accountants in the UK and, after 11 years as a group finance director, culminating at PLC level, formed a corporate finance business. The company works extensively throughout the insurance sector with brokers of all sizes and insurers and is endorsed by Biba for Financial Services Authority financial compliance.

they would have on the business should they leave. Essentially, good succession planning builds a long talent runway.

Current and potential talent should also be assessed, because constant monitoring of this pool will enable you to recognise those that are ready for promotion, as well as those needing additional training to fill key management roles. The aim is to build a sustainable pipeline of new talent.

Thirdly, development plans should be established for key employees. Look beyond the normal training needs dictated by the regulatory environment and invest in their development in terms of professional qualifications and also in challenging their talents, by enabling them to become involved in projects. It can be amazing how individuals respond when given the opportunity to work outside their comfort zone.

Furthermore, when you share your strategy, it can be surprising to find that employees you were certain would take over key roles have alternative plans. Naturally, it also works the other way with different employees, whose ambitions were previously hidden but surface through the communication process.

Development of talent should also be aligned with that of strategy. If the plan is to grow the business, it is essential that

the individuals are on board to move into the required positions. New offices or new departments need managing and those promotions create vacancies. So strategic planning of this nature has to include the most important resource — people.

Finally, be sure to revisit the succession plan because it is not a static target. Best practice only remains that by continuously refining and adapting to meet changing circumstances. If your plans are not working adequately then adjustments — or even major changes — may need to be made.

Once succession planning is up and running, the level of attraction it presents in your business can be eye-opening.

So even if, in reality, your rationale is more about finding the right exit strategy for handing the business to new owners, this process is worth the time investment. After all, you prepare for things that may not happen through business continuity plans so why not prepare for something that definitely will?

Sales process platform

The succession plan may well prove a catalyst in awakening the management team to review the opportunities for their own careers and will certainly act as a great platform in the sales process of your brokerage.

Whether the team wishes to undertake a management buy-out or you plan to sell directly to an insurer, a consolidator or a significant network, you will doubtless be doing the mental arithmetic. Why not compile a list and set out your own business benchmarks? But before doing this it is useful to remember the 10 steps to a successful sale (see box below).

Present market prices are in the ranges of 0.75 to three times commission income plus, of course, net tangible assets. The dial moves in relation to the buyer's needs in addition to many factors relating to your business. And there are also opportunities for interesting earn-outs, which, if structured correctly, can carry very little downside. **POST**

Kieran Marsh is chief executive of Marsh Corporate Consulting

TEN STEPS TO A SUCCESSFUL SALE

1. Always have a valid reason for selling.
2. Never wait until you have to sell for economic or emotional reasons.
3. Gather all the information needed such as annual accounts, the business plan and key performance indicators that differentiate your business relative to your competitors.
4. Be prepared to move into marketing mode.
5. Establish and maintain confidentiality at all times.
6. Try to think like the potential buyer and do your homework. If you are in growth mode do not buy or build a business that is not wholly attractive to your intended buying audience.
7. Selling is a strategic decision but never let the operational issues fall behind — the day-to-day running must continue as normal, if possible.
8. Engage professionals who understand the broking sector and ensure you nominate one of the professionals as lead adviser who co-ordinates the whole sales process. This not only keeps you in line with agreed timescales but also enables you to utilise their services as a 'shock absorber' in the difficult aspects of the negotiations.
9. Study every offer carefully and be patient.
10. Create a win-win situation.