

acumensa

WEALTH MANAGEMENT

Being an entrepreneur

The cycle of building your family's wealth

Address

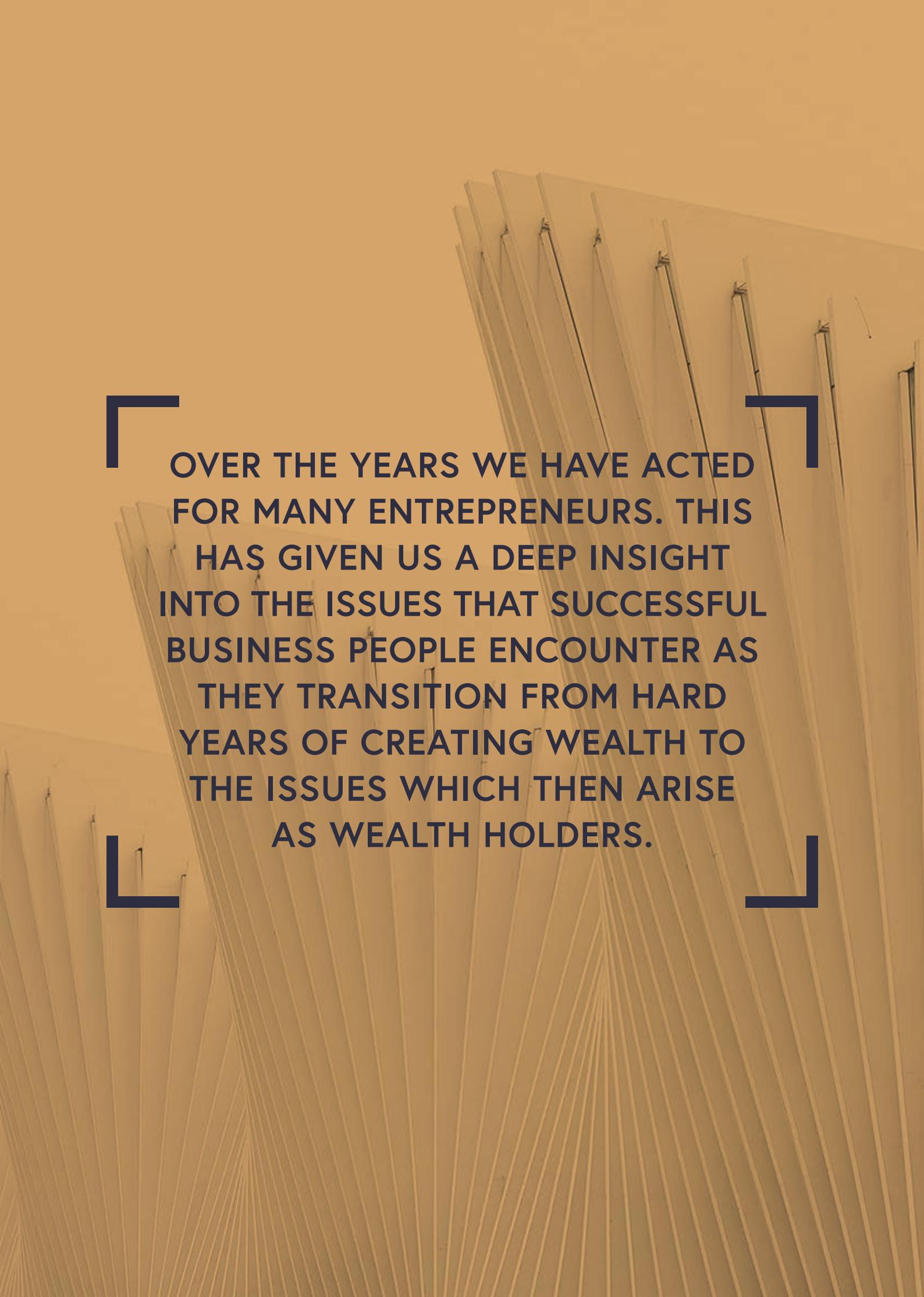
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**OVER THE YEARS WE HAVE ACTED
FOR MANY ENTREPRENEURS. THIS
HAS GIVEN US A DEEP INSIGHT
INTO THE ISSUES THAT SUCCESSFUL
BUSINESS PEOPLE ENCOUNTER AS
THEY TRANSITION FROM HARD
YEARS OF CREATING WEALTH TO
THE ISSUES WHICH THEN ARISE
AS WEALTH HOLDERS.**

Introduction

By building a successful business you have already defied the odds. This may be down to certain traits possessed by many entrepreneurs that enable you to beat these odds. These might include:



Recognising that failing occasionally in the short term enables you to succeed in the long term.



A significant immunity to setback.



The pursuit of opportunity beyond resources that you currently control.



Being imaginative and having the ability to deviate from established business practices if needed.



A healthy approach to innovation.

Success may come quickly. More often it may take many years of hard work to create that overnight fortune.

During this time most entrepreneurs are very focused on what they are doing. You may lose sight of what you are working towards, what you are doing it all for and what ultimately it means for yourself and your family.

According to recent research in the US, over 50% of business owners intend to exit from their business in the next 10 years. However, only 1 in 10 have prepared any sort of exit strategy.

Here we look at the life cycle of being an entrepreneur and some of the issues often faced when transitioning from a wealth creator to a wealth holder.

The phases

There are a number of distinct phases involved in growing a business. These can be summarised as follows:

01

THE PIONEER PHASE

This is when things are frantic, exciting and nervous. Failure rates are often high. Funding in terms of starting the business may be from personal resources, loans from friends and gearing against personal assets.

02

THE GROWTH PHASE

Typically there will still be high levels of energy and satisfaction. Your sources of funding will normally extend to bank debt but potentially also external shareholders. You are likely to have more employees and the business is moving from being "you" to something else. The level of complexity and day to day management will have shifted significantly.

03

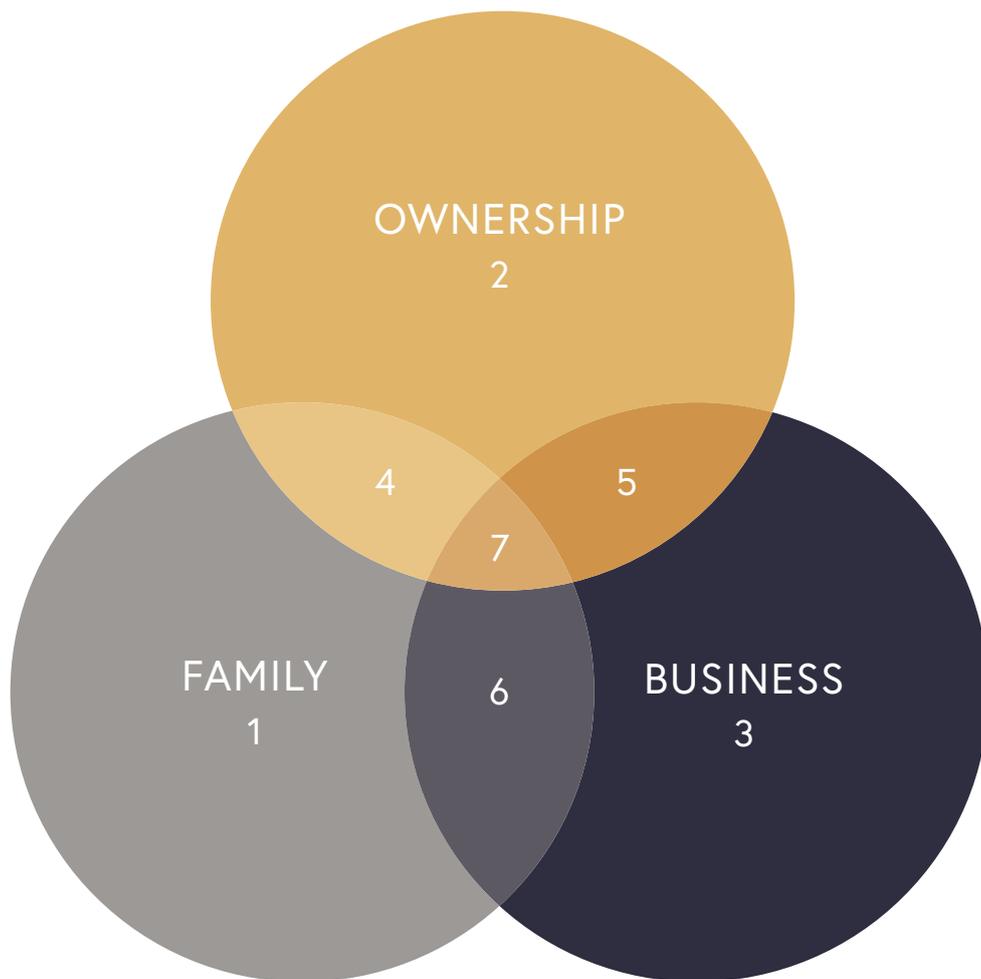
THE PAY BACK PHASE

This is when the business achieves success and you as founder (and possibly other pioneer stakeholders) are paid back. This may create a significant transference from the business balance sheet to your own. It also creates what you might call a dilemma of success. A level of expectation may evolve at a personal/family level that requires sustaining. This is a potential danger time for the business.

04

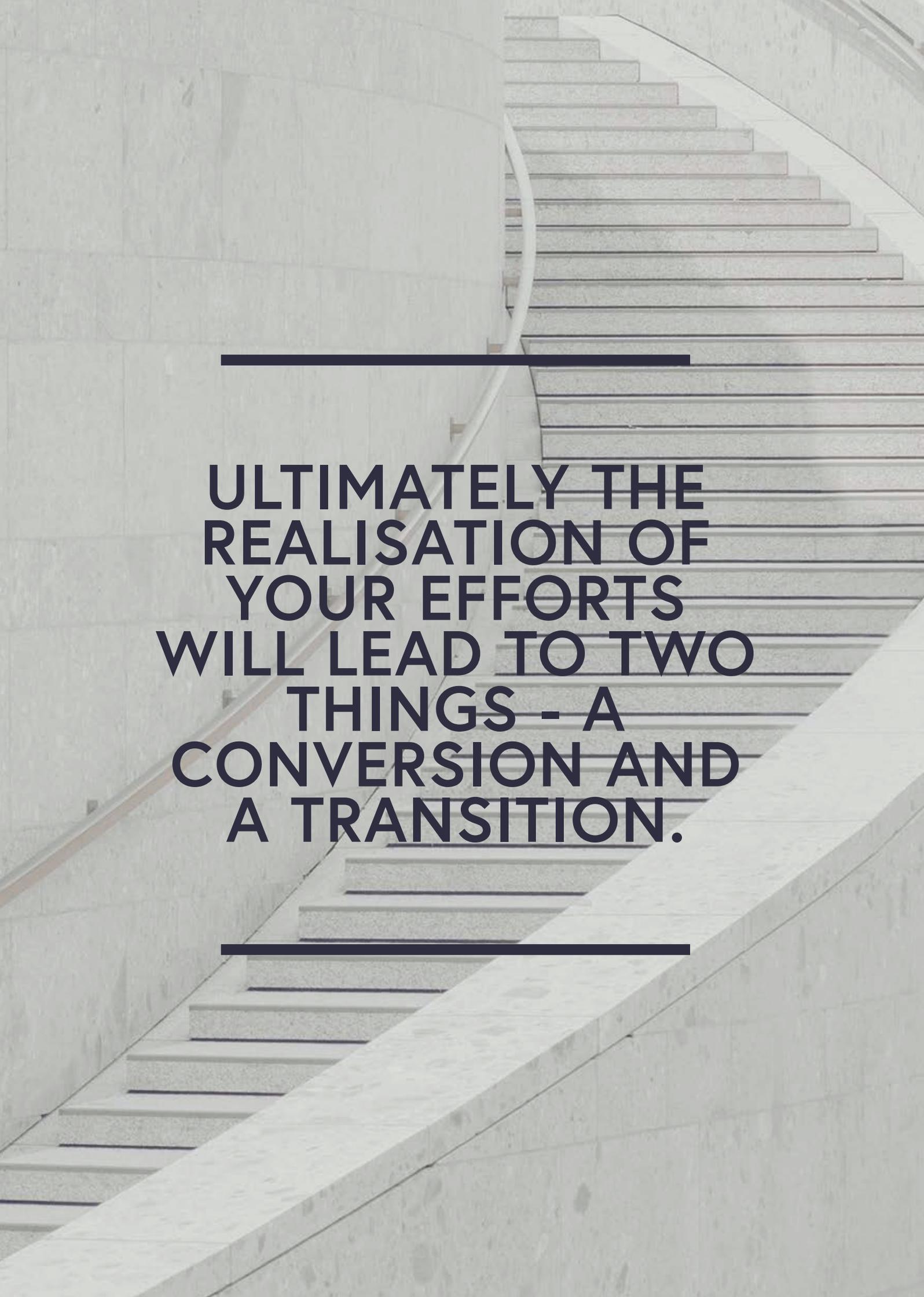
CONSOLIDATION

Following a payback from the business there will often be a period of consolidation. It is during this time that a business can plateau or even decline. For the business to continue growing you as founder may have to think carefully about the dynamics going forward.



Having gone through these phases you will no doubt start to think about succession - i.e. the longer term without you involved. These decisions may become more complex as the business has grown. It's worth working through the potential spheres of influence. The diagram above shows the typical situation for many companies in the UK and the zones of influence.

As founder, you will always be in zone 7. Zone 5 for instance could include a member of the firm's management who is also a minority stakeholder. Zone 6 could be someone who has married into the family and actually works in the business. All of these have spheres of influence to some extent.



**ULTIMATELY THE
REALISATION OF
YOUR EFFORTS
WILL LEAD TO TWO
THINGS - A
CONVERSION AND
A TRANSITION.**

Conversion and transition

The conversion involves changing one type of asset to another - your business to cash. This can be structured in a number of ways; an outright trade sale, a private equity investment or a management buy out (MBO). These are commonly known as liquidity events.

Optimisation in terms of timing will depend on several factors including the business and economic environment as well as the personal and family goals and needs.

Alternatively, the business may be taken over by the family members in which case it becomes an annuity vehicle for the founder owner.

The transition is a far more personal affair. Many business owners spend little time thinking about this but the transition from wealth creator to wealth holder can have quite an impact.

Again most of the research on this has been done in the US where entrepreneurial wealth creation is more advanced than the UK.

In particular many successful business owners who have taken part in research in this area talk of the moment when years of hard work and deprivation are finally transformed into wealth leaving the family rich but then lacking an outside identity, potential loss of social contacts, no place to go every day and a potential loss of purpose in life.

Giving some thought to this aspect before you turn off the lights to the business for the final time can be helpful.

Once you have settled into the transition you may well be looking for things to do.

Many successful entrepreneurs will look to use the skills they have learnt over the years to invest in other businesses which then becomes their own private equity portfolio. You may also wish to mentor other entrepreneurs who are growing their businesses.

A key part of this stage will be to manage the wealth that you have obtained from any liquidity event. The wealth management industry is quick to jump in.

Often they will focus on the "burden" of organising a large sum of money and will try to rush you into setting up investment platforms, portfolios and products. This is invariably the wrong approach. It does not reflect the changes that you will go through during the transition period. Ask yourself "why the rush?".

The most important thing is to ensure that your capital is safe and secure. Find an advisor that you trust who can help educate you and focus your wealth on the long term needs and objectives of the family going forward. It is not uncommon for entrepreneurs to apply the same behavioural instincts and biases as managers of their own wealth as they did when growing it in the first place. A level of circumspection in this respect is sometimes useful.

Where significant wealth has been generated a governance structure for the family should be considered. Most successful business people are good at preparing the money for the family and usually less so at preparing the family for the money.

Quite often the younger generations do not have a means to create an identity outside the context of the wealth and the money. The position is very different for the founder and wealth creator. Recognising this and putting in place appropriate procedures for a family governance structure can help diffuse disputes that may build up when families come into money.

Philanthropy often features when entrepreneurs transition from wealth creators to wealth holders. In the US there are now a number of very wealthy entrepreneurs who would rather be defined by how they spend their money than how they made it in the first place.

On a smaller scale, it is possible to set up a charity or private foundation (usually in the name of the family) which supports good causes in which the family have an interest. This can be done very tax efficiently. It can also assist in unifying family members around a project that gives an additional sense of identity and meaning to the wealth created.

Acumensa is a wealth management and tax planning specialist for leading entrepreneurs in the UK and overseas.

We understand what it takes to grow a business. We also understand that this process is not usually a means in itself - it is a means to an end. The long term objective is usually the financial security and freedom for you and your family to live the life you want to lead. This can sometimes get lost in the fog that can descend when running the business day to day.

Our starting point is to help you understand exactly where you are in the cycle of being a successful entrepreneur and how this might relate to things you and your family want to do in the future. Our process includes the use of sophisticated software to show you clearly how things are likely to pan out. This will usually be based on any number of "what if scenarios" We can then help you develop a plan to achieve your long term financial security and freedom.

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