

Good Morning,

I'd like to begin this morning by reading directly from your brochure – Small business is essential to the future of Saskatchewan. With over 40,000 small businesses operating in Saskatchewan it is evident that most new jobs will come from the development, growth and retention of these enterprises. Saskatchewan small businesses directly employ one-half of the provincial labour force. 73% of new jobs come from new and growing small business. Small business is thriving in both rural and urban Saskatchewan. 42% of all Saskatchewan businesses are located in rural areas. They have 6 employees, on average, and account for 25% of the total employment in our province. In Saskatchewan, small business often grows into big business. Half of the 130 largest private manufacturers in Saskatchewan were originally started by an entrepreneur as a local business venture. The statistical evidence bears out what each of us knows – small business is the lifeblood of Saskatchewan.

These same statistics, however, also demand that we pay attention to business succession. To an entrepreneur just starting out it may seem silly to spend much time thinking about how to liquidate their future interest in a business that is just getting going. Yet, their exit strategies impact many directions they might choose in growing their business. We each have to remember that it is not a matter of if they will sell, or otherwise dispose of their business, the only decisions are when and how.

60% of business owners who do not have a succession plan indicate it's too early to plan for succession, anyway, while another 28% indicate

they have no time to deal with the issue. The remaining 12% of business owners identify varying issues such as I can't find adequate advice or tools to start, the issue is too complex, or I just don't want to think about it.

Business succession has, only recently, moved up in priority on our agenda in rural Saskatchewan. The Canadian Federation of Independent Business recently conducted a formal survey of business owners. The survey was unique in several aspects – it focused on both family-owned and non-family businesses; it covered all major industry sectors and provided insight into those who recently acquired their business through succession. The survey results confirmed that only one third of businesses have a succession plan and the majority of those are informal; 41% of SMEs want to exit their business within the next 5 years and additional 32% of business owners intend to exit within the next decade; and SMEs with succession plans are not adequately addressing 'soft' issues and are providing little time for the training of successors. On the positive side recent successors cite significant benefits from the succession plan of previous owners and SME owners also cite significant benefits to succession planning – well in advance of their succession.

Historically 70% of all businesses were start-ups or where ownership stayed within the family unit. Today, 37% of SME owners intend to sell outright to non-family members while only one in four business owners intend to sell or transfer their business to a family member. Given the large presence of family businesses in our economy this last fact should be a surprise however when considered with the out-migration of our youth it is our reality as community economic development professionals.

The fact that 73% of business owners intend to exit their business within the decade is another reminder of our reality as community economic development professionals. Retirement is the number one reason for business owners planning to exit the business. There has never been a time in our history when business succession has been more critical.

There can be many barriers to successful transition. While many business owners do not plan for succession early enough 46% of those that are transitioning their business indicate financing is a barrier. Finding a suitable leader or buyer is a close second at 42%. And although a significant number of business owners intend to participate in the business during, as well as immediately after, transition of ownership 39% indicate that the dependence of the business on their active involvement is an obstacle to succession. Tax implications, family matters and the valuation of a business can also be troublesome when considering succession.

While it may seem like the barriers to succession are many we need to see business succession as an opportunity. It is an opportunity to re-invigorate our small business community, an opportunity for development professionals to actively participate and an opportunity to engage our communities in the development of dynamic succession strategies that reflect our local realities, our local leadership and our local values. Succession can also create a career path in an enterprise or a sector that may otherwise have limited opportunities for career advancement.

Most community development plans incorporate new business start-ups, business attraction and Business Retention & Expansion Strategies as core components. I would suggest that succession is an important long-term strategic consideration. Business succession as a component of the strategies just mentioned can be more of a coincidence than a concerted effort. Succession needs to be a concerted effort.

The most common exit strategies used today include – family transfer, a management or employee buy-out or by selling to an outside interest. The issues involved in developing an exit strategy are as varied as the entrepreneurs who grew those businesses. Depending on the method that is right for the current business owner many different issues need to be considered. But an exit strategy or a succession plan is not just about identifying a ‘successor’. A solid succession plan identifies the management roles and human resources that the business will need over the next 3-5 years so that the company’s strategic plans can be met. A solid succession plan will include an appropriate valuation for the business, outline the ideal scenario for the business owners’ exit, determine the succession’s tax implications and how that tax burden might be reduced, as well as examine the field of potential buyers, heirs, or other successors and who will coach them, for how long and at what cost.

Community Economic Development professionals can lead the way by incorporating assistance and/or support for businesses in transition as an economic development tool. We can help plan for business transition by identifying businesses that will be experiencing transition in the short to mid term. In conversation with the business owner we can determine what type

of support might be appropriate – providing templates for business succession planning, matching interested buyers with interested sellers, promoting their business to potential buyers inside and outside the community or simply putting them in touch with experts in the field so that they can begin the process.

The Community Economic Development Professional also has a role to play with the successors. We can establish business management training opportunities, create innovative financing tools, secure additional resources that may be identified by the successor and assist with integration into the business community or by providing mentoring opportunities.

While keeping the business in the community is important one of the more silent outcomes of transition is a change in community players. Business owners play important roles in our communities and given that retirement is the number one reason for business owners planning to exit our development strategies need to consider the ‘hole’ that will be left. Many business owners volunteer their time by being active in municipal councils, chambers of commerce and local development committees as well as other community and cultural organizations. Community succession strategies will need to identify ways and means of ensuring that successors are actively engaged in their community.

As I look back through our own Corporate records we have always participated in business succession – we just didn’t call it that. Year over year about 25% of the annual financing deals we wrote helped transfer ownership of the business from one to another. Those numbers bear out this

year, as well. What has changed through the years is the degree of involvement we have with the intended purchaser of an existing business. It has risen dramatically. Business counselling and management training are two areas where we spend an increasing amount of time even when the individual is not looking to Sagehill for financing. And I know that the time has produced good results. Most of the potential business owners have gone on to successfully finance their purchase using traditional financing institutions or have been able to secure some combination of personal equity and/or vendor financing. That is good news for all of us. We continue to be active in this financing area but don't pretend for a minute that our resources, on their own are enough. The involvement of banks and credit unions as well as vendors is critical. And if we remember that 73% of existing business owners intend to exit within the next decade those networks and resources need to continue to grow.

In our Community Futures region we've been testing various methods to determine how we might best participate in facilitating business succession. Sagehill has solid expertise in terms of business counselling, training, mentoring and financing. We also enjoy excellent relationships with our area banks and credit unions as well as the local Realtors. Each of these various skills and networks play significant roles in business succession, the question more - is which skills? Which network? And to what degree? And the last question is - can our resources and systems actually correct themselves to match the individual and the situation in front of us given it will be different than the time before?

We've started to experience some success with matching would be entrepreneurs with existing business owners. Many of these individuals already work in the business and owing it seems very natural for them. In this case succession creates a career path in an enterprise or a sector that might otherwise have limited opportunities for career advancement. In these early cases we have worked with both the incoming and exiting business owner. The process starts like it normally would – with an offer to purchase that is accepted pending financing. In one case the incoming entrepreneur had equity (somewhere around 10-15%) and the balance has been provided by our CF less a holdback of 20% which the vendor financed at prime. A contract written between the individuals stipulated how the exiting entrepreneur will mentor the new owner and for how long (between 3-9 months) as well as the rate of pay, if any, the vendor will receive for service. When the commitment has been met on both sides the balance of the financing was released by our office to the exiting owner. In this case the transition worked wonderfully. Both individuals met their objectives – for the incoming owner they successfully purchased their own business, they were able to secure financing as well as receive valuable advice and support from their previous employer. For the exiting entrepreneur his objectives, too, were met. He was able to sell the business to someone he respected and trusted, he was able to secure the purchase price relatively quickly, and the exit from his business was done in a timeline that helped him adjust to his newfound retirement.

In a second case the entrepreneur wanted to exit their business because of health related issues. A young entrepreneur had been identified by the owner and the approach to Sagehill was made by the current business

owner. We followed the same procedure as in the first case with the exception of who participated in the financing. The new owner was able to secure patient (better known as family) financing for 20% of the deal, the Business Development Bank of Canada came in with 50% (using a financing program intended for participation with a Community Futures office) and Sagehill wrote the remaining 30%. In this case the exit by the existing owner happened much more quickly because of health but still, I think, each individual's objectives were met in terms of successful transition. The previous owner has not moved out of the community and when health permits still drops by to assist the new owner by answering questions, providing advice and sometimes just a shoulder.

What we've learned in each of these cases is that the transition when done in concert seems to be much more secure particularly for the incoming entrepreneur.

What we've also learned is that every situation is going to be different, one from the other and we need to ensure that our service and products have that flexibility. In the past 18 months we have also ramped up our business management training program to include far more topics and far more opportunities to participate. The management training workshops have allowed new entrepreneurs to build new networks of like-minded business owners and has created a whole new set of shoulders to lean on. These networks of colleagues have also encouraged new business owners to take the leap and participate in local organizations because now they 'know some one' and that has increased their comfort level dramatically.

We are just beginning this journey of facilitating business succession and we the one thing we are certain of is that we can't do it alone. Even if, in our region, we don't hit the 73% mark of exiting business owners within the next ten year period the number is still incredibly high and it will take a number of hands working together to make sure that we can successfully transition our business community.

I would encourage each of you to take up the mantle and meet business succession head on. Incorporate succession in your community economic development plans and engage as many partners as you are able. This is an important issue for all of us and there will be more than enough work and opportunity for everyone.

Thank you.

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Prepared for SEDA Conference November 9, 2005.