



Small Business Owners Navigating the First Steps of the Social Succession Process





Community Sector Council
Newfoundland and Labrador

Accelerating Change

Read "*Small Business Owners Navigating the First Steps of the Social Succession Process*" online: http://communitysector.nl.ca/d/sbo_social_succession.pdf

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Foreword

The Community Sector Council Newfoundland and Labrador has been encouraging greater understanding of social enterprise since 1998. While social enterprise activities have been practiced for decades, the concept has only come into public focus regarding its particular form, merits and potential since the term came in vogue in the 1990's. Our work started with looking at the role of the social economy in fostering regional development. We have organised learning opportunities and events with colleagues from community organizations, academia, the private sector and governments to help deepen the understanding of social enterprise.

At its essence social enterprise is about nonprofit organizations earning revenue in the marketplace by producing goods and services. But at its heart it is about building opportunities to generate employment, meet social, artistic, cultural, environmental and economic needs in a manner different from traditional models. It is also about sustaining and supporting development in local communities.

Always with an eye for opportunities to accelerate change, CSC NL became aware of the anticipated wave of small business owners who may wish to retire in the coming years.¹ This, we realized, might present opportunities for social enterprise and cooperative conversion as a business strategy for some small businesses to transition to community-based ownership with fresh insights, investment and growth plans.

CSC NL received funding from the Department of Industry, Energy and Technology, Government of Newfoundland and Labrador to look at preserving local economics through social enterprise, and to provide information and explore synergies between small business owners considering retirement and non-profit social enterprises or cooperatives as potential buyers as a succession planning strategy. This could also provide opportunities for nonprofits to take over businesses that might otherwise close, thereby sustaining vital community services while also developing new revenue streams to help with their core operations.

We are pleased to publish this guidebook which offers a series of tools and resources to help navigate the first steps in the social succession planning process.

Penelope M. Rowe
CEO
Community Sector Council NL

¹ In studies by the Canadian Federation of Independent Businesses (2018) and Business Development Canada (BDC) 2017, it was estimated that there are over 6,000 small businesses in this province whose owners may be seeking to transition over the next five years, but who lack formal succession plans or identified buyers.

Acknowledgements and Authors

We gratefully acknowledge financial support from the Department of Industry, Energy and Technology, Government of Newfoundland and Labrador. The Guidebook was written by Andy Horsnell and edited by Peter Hough, who are both members of Flourish Community Development Co-operative Ltd. – a Nova Scotia-based consulting firm that specializes in supporting rural communities to enhance their sustainability, resilience, and economic vibrancy. Andy and Peter are subject matter experts in social enterprise and co-operatives, respectively, both having worked for decades to help launch and grow thriving local enterprises.

Purpose of This Guidebook

This guidebook is intended to introduce both prospective business sellers and buyers to the first steps of exploring social succession: getting clarity about goals, priorities, and options. It is a starting point for a much more detailed process, which will almost certainly require the support and direction of qualified professionals, such as business valuers, accountants, lawyers, and co-operative and social enterprise developers.

Overview

About the Community Sector Council Newfoundland and Labrador

The Community Sector Council Newfoundland and Labrador (CSC NL) is committed to strengthening and promoting the essential role that voluntary and nonprofit, community organizations play in building healthy and prosperous communities. It has done and continues to do this by connecting people, organizations, and communities — playing the vital role of bridging the public, private, and community sectors. In keeping with this role, CSC NL has brought together stakeholders from the small business community, co-operatives, community sector, and various economic development agencies, to help communities explore the potential for preserving local businesses through social succession. CSC NL has been the leader on the project that has resulted in, among other things, the creation of this guidebook.

The Opportunity

The unprecedented wave of business owners who will be looking to retire over the coming years is a critical issue for NL's communities outside the major urban centres. Estimates place the number of businesses in NL whose owners will be seeking to transition over the next five years, but who lack formal succession plans or identified buyers in the 1000s. The ongoing COVID-19 pandemic has exacerbated this already-urgent issue. Whether this represents an imminent crisis that threatens the loss of businesses that are critical suppliers of jobs, goods, and services, or an historic opportunity to stabilize and grow our local economies depends largely on how it is approached. CSC NL is choosing to frame this as an opportunity — promoting social enterprise and co-operative conversions as key business succession strategies to transition NL businesses to new community-based ownership, with fresh insights, investment, and growth plans. Not only can they play a strong role in preserving and growing local businesses; they can do so in a way that will engage employees, customers, nonprofits, and other community stakeholders in making their local economies more inclusive, sustainable, and resilient.

Limitations of Current Succession Options

Most business succession planning tends to focus on either family members or individual, non-family members as the prospective buyers. Both groups come with some challenges, especially for rural businesses. The founder's children or grandchildren are frequently drawn to make their mark in larger, metropolitan centres. It's a rite of passage for many Newfoundlanders, but it leaves "Mom and Pop" holding down the fort. At the same time, many non-family buyers will be influenced by the potential sales and profitability of any business they might move across the country to buy. While stable and sustainable, many rural small businesses operate at a lower profitability and with limited growth potential relative to their larger, urban counterparts. Lifestyle (i.e. the desire to live the good life in a rural NL community) will almost certainly have to be an important factor, which will limit the pool of potential buyers. So, even a

rural small business owner with a formal succession plan may face the prospect of liquidating if they rely solely on these two potential buyer groups.

Social Succession: an Important Addition to the Business Succession Menu

There are, however, proven succession strategies that can connect employees, customers, and other local stakeholders to the businesses in their communities. We call these “social succession” strategies, as they involve transitioning independently-owned small businesses to collective ownership - nonprofit, co-operative, Indigenous, and municipal.

Nonprofit Social Enterprise Transitions

Canadian nonprofits and charities have a long history of running successful social enterprises that meet community needs through the sale of goods and services. The 2016 Canadian National Social Enterprise Sector Report revealed that the 1350 responding social enterprises reported \$828 million in sales, for an average of \$613,000 per enterprise. They paid \$442 million in wages and salaries to 30,800 employees, of whom 76% were mission-focused employees. These social enterprises also trained over 100,000 people, provided services to over 5.48 million individuals, and engaged over 116,000 volunteers.

Newfoundland and Labrador is no exception to this national phenomenon. The report *Ready for Takeoff: Social Enterprise in Newfoundland and Labrador* revealed 30 social enterprises with sales of over \$6 million, paying \$5 million to 815 full-time, part-time, and seasonal employees in 2014. These same enterprises provided services to over 70,000 people and engaged 816 volunteers. Leading examples include: SABRI, Ever Green Recycling, Impact Construction, the Bonne Bay Cottage Hospital Heritage Corporation, and Avalon Employment.

Sometimes, social enterprise activity can include taking on the operation of existing small businesses. In the small rural community of Lawrencetown, Nova Scotia, Carleton Road Industries Association (carletonroadindustries.com), a charitable nonprofit, has taken over and successfully operates the village’s only convenience store, gas station, laundromat, cafe – even the post office! It’s hard to imagine that small community functioning without that social enterprise. This activity has become the focus of the Waterloo Institute for Social Innovation and Resilience’s Leadership Legacy Lab, which is researching the potential for social enterprise conversions.

Co-operative Conversions

In addition to nonprofit social enterprises, there are two stakeholder groups who are committed to living in the local community and who are motivated by things in addition to sales growth and profitability: the company’s employees and its customers. Employees want to preserve their jobs, and customers want to preserve local access to potentially vital goods and services. These concerns are especially acute in rural and remote communities that offer limited alternatives for employment, goods and services. The loss of even one, vital small business (e.g. the local garage, health clinic, or supermarket) will impact a community’s resilience and quality of life, and it could even threaten its long-term viability.

Worker and consumer co-ops are ideally suited to engage employees and customers, respectively, in buying a business whose owner is ready and willing to sell. In Nova Scotia, Careforce (careforce.ca) was a home care service that was converted to a worker co-operative, preserving jobs for dozens of skilled employees and critical services for 100s of seniors, and the Acadia Cinema (acadiacinema.coop) was converted to a consumer co-op, preserving a vital cultural venue. Moreover, relative to other legal forms, co-operatives have an impressive success rate, with over 90% of new co-operatives still functioning after three years. *The Co-operative Opportunity: A Strategy for Small Business Succession in Ontario*¹, a report recently commissioned by the Atkinson Foundation, reveals the important role that co-ops can and are playing, throughout Canada and globally.

Municipal and Indigenous Enterprises

Municipalities and, increasingly, First Nations are stepping up to acquire larger businesses that have strategic significance for their local communities. From Whites Hill Resort (owned by the town of Clarendville, www.whitehillsresort.com), to Webster Farms (owned by the Annapolis Valley First Nation, www.websterfarms.ca), to Clearwater Seafoods (owned by a consortium of seven First Nations, www.clearwater.ca/en/our-story/history/), municipalities and First Nations communities are playing an important role in preserving businesses that are vital to local and regional economies.

¹ https://uwaterloo.ca/legacy-leadership-lab/sites/default/files/uploads/documents/geobey_and_ronson_-_the_co-operative_opportunity_2018.pdf

Business Succession 101

The Succession Process

Business succession refers to the process by which a business is transitioned from one ownership structure to another. From the perspective of the business owner looking to make that transition, the process can include the following steps:

1. Clarify your succession priorities, and those of your key internal stakeholders;
2. Choose your best succession option;
3. Build a team of advisors to support you;
4. Create a succession plan;
5. Implement the succession plan / prepare to transition;
6. Find and engage with a potential buyer;
7. Negotiate the terms of the transition; and
8. Implement the transition.

This guidebook focuses on the first three steps in this process.

Succession Options

Business owners looking to transition have many different potential buyers:

Traditional buyers:	“Social” buyers:
<ol style="list-style-type: none"> 1. Family member(s) 2. One of the other owners 3. A senior manager 4. A competitor, another business, or an independent entrepreneur 	<ol style="list-style-type: none"> 5. A group of employees 6. A group of customers or local citizens 7. A nonprofit 8. A First Nation group 9. The local municipality

This guidebook will focus on selling to “social” buyers (i.e. a group likely from your local community).

Regardless of who the buyers are, the business owner has the options of:

- Selling their business as a business or selling just the assets, and
- Walking away or staying engaged after the transition.

6 Key Findings About Succession²

From their extensive work in business succession, the Business Development Bank of Canada has identified six key findings about business succession (see Appendix A for details):

1. Transitions by insiders tend to perform better
2. A change in owners puts pressure on the company’s finances

² Source: Business Transition Planning: A Guide for Entrepreneurs, Business Development Bank of Canada, www.bdc.ca.

3. Good due diligence leads to good transitions
4. Forecasts need to be conservative
5. Synergies are harder to achieve than planned
6. The new management team is the foundation of future success

First Steps for Prospective Business Sellers

You're Ready for the Next Chapter

Your business has been a huge part of your life for many years. You've sacrificed and invested, financially and personally, to make it a success, and you're proud of how far you've come. You've earned a decent living to support your family, while providing good jobs to your employees and quality products to your customers. But now, after all the hard work and success, you're ready to start thinking seriously about starting a new chapter, by selling your business to new owners. It's time for more freedom and less pressure. You've earned that.

But even as you're ready for a change, you're keenly aware of how your business has become a vital part of your community, and it's important to you that it continues long after you've moved on. You'd be willing — in fact, you might really want — to stay on for a time to ease the transition, and help the new owners learn the ropes.

What if the new owners were actually the people from your community who have relied on your business, but who have also helped make it the success it is — a co-operative made up of your employees or customers? Or what if there was an opportunity to sell to a nonprofit or Indigenous group who'd be able to fulfill their social purpose through your business, while still preserving the quality jobs, goods, and services that you've always provided? Wouldn't that be an amazing legacy? And, of course, you'd still get paid fair market value for your business. We call this path "social succession".

This isn't for every business owner. It may take time and work that you might not encounter by selling to another independent entrepreneur. But, if leaving this kind of legacy to your community speaks to you, we think you'll find this guide useful. And, even if you decide in the end to *not* pursue one of these social succession options, the insights you'll have gained will serve you in your succession process.

Clarifying My Goals and Priorities

This journey begins with getting a clear sense of what you really do (and don't) want. This clarity will give you an invaluable compass, which will help you navigate the many decision points you'll encounter through the process, and to determine if social succession might be a good fit.

Who Should be Engaged in this Discussion

Engaging the following people will be critical to answering the questions in this section:

- ✓ You – You'll need to take some time alone to reflect on questions that you may never have considered before.
- ✓ Your family – Your family played a critical role in helping you get to this point in your business, and they'll be affected the most, so their input is essential.
- ✓ Other business owners - If you're in business with other owners, they'll of course need to be involved.
- ✓ Your financial planner and/or accountant - Your financial planner or accountant will be invaluable in helping you understand what your financial obligations and needs will be.

What I Need and What I Really Want

Let’s start with getting a sense of what you want from the sale of your business. For each question, consider what the minimum you can accept (i.e. what you need), as well as what you really want.

Consideration	What I Need	What I Really Want
My personal income requirements (after tax), after the transition ³	<ul style="list-style-type: none"> Per month: \$ _____ Per year: \$ _____ Notes:	<ul style="list-style-type: none"> Per month: \$ _____ Per year: \$ _____ Notes:
When the transition will take place ⁴	<ul style="list-style-type: none"> One year from now Two years from now Three years from now Other: _____ Notes:	<ul style="list-style-type: none"> One year from now Two years from now Three years from now Other: _____ Notes:
The role I will play in the business after the transition (see also “What You’re Willing to Offer...” section below)	<ul style="list-style-type: none"> None - I want a clean break A “silent partner” A part-time employee A full-time employee Advisor for a limited transition period Other: _____ Notes:	<ul style="list-style-type: none"> None - I want a clean break A “silent partner” A part-time employee A full-time employee Advisor for a limited transition period Other: _____ Notes:
The selling price	\$ _____	\$ _____
The payment terms	\$ _____ at closing, plus \$ _____ per (month/year) for _____ (months/years)	\$ _____ at closing, plus \$ _____ per (month/year) for _____ (months/years)
The legacy ⁵ I want to leave to my family		
The legacy I want to leave to my employees		
The legacy I want to leave to my community		

³ The personal monthly budget in Appendix B will help you get a sense of your financial requirements.

⁴ Keep in mind that successful business transitions often can take up to three years to complete.

⁵ “A legacy is a lasting impact on the world. It’s a gift that is passed down through generations: money, property or even stories. It can also be a business – or the profits from a business, set up in a foundation or charity. Leaving a legacy means dreaming big and changing the world for the better. And it is a powerful driver for the most successful people on the planet.”
 (www.tonyrobbins.com/business/how-to-leave-a-legacy/)

My Values, Beliefs, and Principles

Values, beliefs, and principles can provide useful guidance for a range of situations, beyond the future goals you have outlined in the previous section.

What I believe / value about the role my business plays (or can play) in my community:

-

Whatever I end up doing with the transition of my business, it’s essential that...

-

What I really want to avoid with the transition of my business is...

-

What I’m Willing to Offer to a Prospective Buyer

Obviously, you are looking to offer your business to prospective buyers. But there are several other value-added options that you might offer to the right buyer, presented below. As with the previous sections, think about your minimum acceptable and ideal scenarios.

Consideration	What I’m Prepared to do	What I Really Want
Support with financing (i.e. vendor financing ⁶)?		
Shared ownership? ⁷		
Mentorship (i.e. providing advice and support to the new owners)?		
Staying on as an active member of the team? ⁸		
Something else?		

⁶ “Vendor financing (also sometimes called ‘vendor take back,’ or VTB) usually involves the owner agreeing to be paid a percentage of the sale price over time with interest.” (Source: https://bit.ly/Vendor_Financing Please note that this article is written with the buyer in mind.)

⁷ “Shared ownership” would involve you (the seller) retaining an equity stake in the business, either as “silent” or active partner.

⁸ As an active member of the team, you might offer to take on certain job duties (e.g. servicing key accounts, new product development, etc.) for pay or a consulting fee.

Reviewing My Succession Options

The table presented in Appendix C presents a comparison of the various succession options, including the social succession options. In light of your goals and priorities, and after reviewing Appendix C, how would you rate your various succession options?

Succession Option	My preferred option	Not preferred, but workable	Not relevant or desirable	Don't know - need to learn more	Notes
Transfer to a family member	●	●	●	●	
Sell to a manager or one of your co-owners	●	●	●	●	
Sell to an outside business or entrepreneur	●	●	●	●	
Liquidate my business's assets	●	●	●	●	
Sell to a nonprofit, first nation, or municipality	●	●	●	●	
Sell to my employees (worker co-operative)	●	●	●	●	
Sell to my customers (consumer co-operative)	●	●	●	●	
Sell to a mixed group of stakeholders (multi-stakeholder co-operative)	●	●	●	●	
Sell to a group of my vendors (producer co-operative)	●	●	●	●	

Support I May Require in This Early Stage

Business Valuation

Professional Assistance

A Chartered Business Valuator (CBV) can help you assess not just the value of your business, but they can also help you to determine your business's readiness to be transitioned to new ownership, and identify opportunities to enhance both. You can learn more about how a CBV can assist you here: <https://cbvinstitute.com/wp-content/uploads/2021/06/what-cbvs-do.pdf> To find a CBV in your province, go here: <https://cbvinstitute.com/find/>

Tools and Resources

- ✓ *Business Valuation and Succession Planning Program* - This program, offered by Community Business Development Corporations (CBDCs) in Newfoundland and Labrador, is designed to support business owners to value and sell their businesses. The program offers participants a contribution of 75% of eligible costs to a maximum of \$7,500 to conduct business valuations, and will showcase their businesses in provincial, national, and potentially international markets, seeking interested buyers. For more information about this program, go to: <https://www.cbdc.ca/en/programs/business-valuation-and-succession-planning> To find a CBDC office in your local area, go to: <https://www.cbdc.ca/en/find-my-cbdc/nl>
- ✓ For a short, accessible introduction to business valuation, check out this video, "Top 4 Ways to Value a Business | What is Your Business Worth?", at: <https://youtu.be/cu6UX2o4oo0>
- ✓ For a free, downloadable ebook on business valuation, published by the Business Development Bank of Canada, click here: <https://www.bdc.ca/en/articles-tools/entrepreneur-toolkit/guides/business-valuation>

Financial and Tax Planning

Professional Assistance

A chartered professional accountant (CPA) or certified financial planner (CFP) will be able to help you explore the tax implications of transitioning your business to new ownership, and to determine what your financial needs will be after the transition.

- ✓ To find a chartered professional accountant in your area, go to: <https://cpanl.ca/CPANL/Find-a-CPA/firm-directory-tc.aspx>
- ✓ To find a certified financial planner in your area, go to: <https://www.fpcanada.ca/findaplanner>

Tools and Resources

- ✓ For a short article, entitled “Family successions: How to minimize the tax hit”, click here: <https://www.bdc.ca/en/articles-tools/change-ownership/plan-succession/how-to-minimize-the-tax-hit-in-a-family-succession>

Co-operative or Social Enterprise Development

Professional Assistance

- ✓ Transitioning to a Co-operative - Should you decide that transitioning your business to a co-operative is worth exploring, contact Dave Walsh at the Newfoundland and Labrador Federation of Co-operatives (<https://nlfc.coop>) at 709-726-9434 or dave@nlfc.coop. Alternatively, you could connect with one of the experienced co-op developers at CoopZone at: <https://coopzone.coop/membership-account/directory/>
- ✓ Transitioning to Nonprofit Ownership - If you’re curious to explore the potential for selling your business to a local nonprofit, you have two excellent options:
 - The Community Sector Council Newfoundland and Labrador (<http://communitysector.nl.ca/>) - CSC NL has been a leader in nonprofit social enterprise research and development for many years, and is an excellent starting point. You can reach them at 1-866-753-9860.
 - The Centre for Social Enterprise at Memorial University (<https://www.mun.ca/social-enterprise/>) – The Centre leverages existing resources at Memorial in different ways to support existing social enterprises, create new ones and promote social enterprise education.
- ✓ Transitioning to Indigenous Ownership - If you’d like to explore this option, you have a couple good options:
 - Ulnooweg Development Group (<https://ulnoowegdevelopmentgroup.ca/>) - Ulnooweg can help with a variety of Indigenous business services and loans to meet the diverse needs of our clients with a range of funding, support services, and business tools.
 - Indigrow Business Management (<https://indigrowbusiness.ca/>) - With offices in St. John’s and Happy Valley-Goose Bay, Indigrow is a majority owned Indigenous management consulting firm, focused on helping to start and grow other Indigenous-owned businesses. To explore transitioning your business to Indigenous ownership more, contact founder and president, Richard Lewis at richard@indigrowbusiness.ca or call him at 709-899-4613.

Tools and Resources

- ✓ “Business-owner’s Guide to Selling a Business to a Co-operative”:
<https://guides.co/g/businessbusiness-owner-s-guide-to-selling-a-business-to-a-co-operative/81903>

General Resources

- ✓ For a selection of short business succession articles, click here: <https://www.bdc.ca/en/articles-tools/change-ownership/sell-business>
- ✓ For a free, downloadable ebook, entitled “Selling Your Business - a guide for entrepreneurs”, published by the Business Development Bank of Canada, click here:
<https://www.bdc.ca/en/articles-tools/entrepreneur-toolkit/guides/selling-your-business>

Making Decisions About My Next Steps

What I’ll Do	Start Date	End Date

First Steps for Prospective Business Buyers

Choose Your Story...

Perhaps you’ve heard that your employer is thinking about retiring and you’re concerned about what this might mean for your job. You really like working here - it’s a good job, working with good people, in your local community, and you’d hate to see the business shut down or get sold to someone you don’t know. And maybe you’ve thought that you might like to take a more active role in running and growing the business, and you know at least a couple of your co-workers who feel the same. You may lack the resources to buy the business yourself, but maybe, if you pooled your resources and talents as members of a worker co-operative, you might be able to pull it off. Hmm...

Or perhaps you learn that your local grocery store (childcare centre, pharmacy, gas station) might be closing, because the current owners are looking to retire, or are just burned out from dealing with all the challenges of the last few years. You and your community really rely on this business and it would be painful to lose it. You’d have to travel a fair distance to the next town to get the same goods or services

and that would be costly and inconvenient, especially in the winter. You don't want to run this business yourself – you've got your own life, and maybe your own business to run – but maybe you could pull together a group of your neighbours and explore the possibility of converting that business to a consumer co-operative. Not only could you save the business, you'd have more of a say in how it's run and the goods and services it offers. *That* could be interesting.

Or maybe your nonprofit or First Nation is looking for ways to diversify its revenue streams and perhaps to provide new training and employment to your members. You've got some experience running your own social enterprises, selling goods and services to paying customers, and perhaps now you're ready to take on a new challenge that will create bigger opportunities for the people you serve. You've heard that there's a local business coming up for sale in the near future, and it would fit really nicely with what you're looking to do. Maybe, instead of starting a new business, you might buy this one – with all the staff, systems, facilities, suppliers, and (most importantly) paying customers already in place. Getting to that point on your own from scratch could take many years, but buying this business could save a lot of time and improve your chances for success. Maybe you should have a chat with your board chair...

Or, finally, say you're a councilor or chief administrative officer at your local municipality, and you've just learned that the owners of the local ski hill (camp ground, golf course) are looking to move on, and there are no obvious buyers. This business is a cornerstone for your local community, providing good jobs and property tax revenue, and it brings in 1000s of tourists who don't just spend at this business, but at many others (restaurants, gas stations, B&Bs) during their visit. Losing that business would really be a blow for your community. You've heard about other municipalities that have taken over these kinds of businesses. Maybe it's time for yours to explore doing the same.

Clarifying Our Goals, Priorities, and Capacity

This journey begins with getting a clear sense of what you really want from and what you can contribute to owning a business. This clarity will give you and your team an invaluable compass, which will help you navigate the many decision points you'll encounter through the process, and to determine if social succession might be a good fit.

The Succession Option(s) We're Considering

There are several social succession options to consider, as outlined in Appendix C. Take a few minutes to review these options and then indicate the option(s) in which you are most interested:

- My nonprofit, First Nation, or municipality, _____, is looking to buy a business
- We're a group of employees looking to buy our employer's business
- We're a group of customers looking to buy a local business that we patronize
- We're a group of employees, customers, suppliers and others looking to come together to buy a local business

Who Should be Engaged in this Discussion

Engaging the following people will be critical to answering the questions in this section:

- ✓ If you're an employee considering buying your employer's business, you'll need to take some time alone to reflect on questions that you may never have considered before. Your family will play a critical role in supporting you and they'll be affected the most, so their input is essential. There may be a few of your co-workers who you respect, trust, and have the potential to be leaders. And, if your family supports you and you're able to build a core group of co-workers who can provide some leadership, you'll need to talk to your employer.
- ✓ If you're a leader at a nonprofit, First Nation, or municipality, you'll need to have a discussion with your staff leadership (i.e. the people who will be critical in leading the implementation of this idea) and your board or council (i.e. the people who are ultimately responsible for the organization's strategic direction and allocation of resources). If and when you find your staff and board leadership think that this is an idea worth exploring, you'll want to talk to the owner(s) of the business.
- ✓ If you're a concerned community member, you'll need to find a group of other members who have a particular interest in seeing this business continue in your community – likely because they (like you) are regular customers. If and when you find that you've got a core group that's willing and able to provide some leadership for this idea, you'll want to talk to the owner(s) of the business.

Clarifying What We Need and What We Really Want

Consideration	What We Could Live With...	What We Really Want...
What we'd be looking to achieve by buying this business		
The price we could pay		
The payment terms we could offer		
When we would take ownership of the company		
The role that we'd play in running the business		
If/how we'd like to engage the current business owner, after the transition was made		

A Quick Self-Assessment of Our Strengths and Weaknesses

Consideration	In This Area, We're...			Explanation of Our Assessment
	Strong and ready to go	Okay, but would need some work	Weak - really starting from scratch	
A strong, tightly-knit team of people to lead the purchase of the business	•	•	•	
Access to financing to buy a business	•	•	•	
Marketing and sales experience	•	•	•	
Financial management experience	•	•	•	
Human resource management experience	•	•	•	
General business management experience	•	•	•	
Experience in the production of our chosen business's products or services	•	•	•	
Knowledge and experience with running a cooperative or social enterprise	•	•	•	
	•	•	•	
	•	•	•	
	•	•	•	

Support We Might Require

From the Seller

- Assistance with financing
 - Mentoring our leadership team in the operation of the business
 - Active involvement in the management of the company
 - Something else:
-

From Intermediaries⁹

- Business Valuator – to help us determine a fair price for the business
- Lawyer – to help us structure the purchase of business agreement
- Accountant – to help us prepare the financial projections
- Co-operative or social enterprise developer – to help us explore the unique challenges of transitioning an independent business to collective ownership
- Credit union, bank, or other financial institution – to help us with financing the purchase of the business

Helpful Resources

- ✓ If you're a nonprofit leader looking for a step-by-step guide to acquiring a business, check out "Pathway to a Successful Business Purchase – Adapted Buyer's Workbook for Non-Profit and Charitable Organizations", [https://bit.ly/Pathway to Business Purchase](https://bit.ly/Pathway_to_Business_Purchase)
- ✓ For a useful overview of converting a businesses to a worker cooperative, check out "Steps in the Buy-out Process: Worker Co-op Buy-out Guide", https://canadianworker.coop/wp-content/uploads/2009/11/3of4-Union-Led-Buy-Outs-steps-1_0.pdf
- ✓ For good general resources on buying a business, check out:
 - "Buying a Business in Canada – a guide for entrepreneurs", <https://www.bdc.ca/en/articles-tools/entrepreneur-toolkit/guides/buying-business-canada>
 - "4 steps to doing due diligence when buying a business – How to make sure you're paying the right price when acquiring a business", <https://www.bdc.ca/en/articles-tools/start-buy-business/buy-business/buying-business-conducting-due-diligence>

⁹ For additional details about these intermediaries, see "Support I May Require in this Early Stage", page 12.

Making Decisions About Our Next Steps

What We'll Do	Start Date	End Date

Funding Resources

- ✓ CBDC Entrepreneurial Training Fund: <https://www.cbdc.ca/en/programs/business-management-skills-training>
- ✓ Canada NL Job Grant: <https://www.gov.nl.ca/ipgs/employ-support/foremployers/canada-nl-job-grant/>

Appendix A: 6 Key Findings

6 key findings

from BDC's change of ownership study

Why do some business transitions succeed while others perform poorly or fail? To answer that question, BDC studied nearly 200 small and medium-sized companies where a change of ownership had occurred.

1 Transitions by insiders tend to perform better

Transitions involving family members or an internal management buyout tend to perform better than acquisitions by outside parties. This is likely because new insider owners benefit from longstanding relationships and company knowledge.

2 A change of ownership puts pressure on a company's finances

Financing a change of ownership often leads to an increase in a company's debt and a corresponding decrease in profitability due to higher debt-servicing costs. This new reality, combined with a tendency to underestimate the costs of a transition, could lead to a liquidity crisis.

3 Good due diligence leads to good transitions

New owners are more likely to have a successful transition when they've taken a hard look at the business's strengths, weaknesses, opportunities and threats before investing. They're also more likely to have sought outside advice.

4 Forecasts need to be conservative

Few businesses achieve projected financial results in the first year following a transaction. Therefore, entrepreneurs should be conservative in forecasting how their new business will perform and, in turn, how much money will be available to service the company's post-transaction debt.

5 Synergies are harder to achieve than planned

We found, in many cases, synergies expected by new owners fail to materialize after the transaction. When they do, it's seldom in the expected timeframe, or to the extent anticipated by the new owners.

6 The new management team is the foundation of future success

We found that the management team is the driving force in a successful or failed transition. The make-up of that management team is extremely important. Successful managers had the courage to make difficult decisions in response to changing conditions.

Did you know?

61%

The percentage of companies that don't achieve expected financial performance one year after an ownership transition.

40%

Average percentage by which companies fall short of their financial forecasts one year post-transaction.

51%

Chances a company is growing one year post-transaction.

Source: Business Transition Planning: A Guide for Entrepreneurs, Business Development Bank of Canada, www.bdc.ca

Appendix B: Assessing My Financial Needs

	What it is now	After we sell the business	If it will change, why?
PERSONAL INCOME:			
My monthly income (net after tax)	\$	\$	
My spouse's monthly income (net)			
Investment/other income			
TOTAL PERSONAL INCOME	\$	\$	
PERSONAL EXPENSES:			
Fixed monthly payments:			
Rent or mortgage pmt (include property taxes)			
Personal / car loan payments			
Insurance premiums			
Investment purchases:			
Other:			
Other:			
Total fixed monthly payments	\$	\$	
Other personal expenses:			
Food (at home and in restaurants)			
Clothing (purchasing and cleaning)			
Medical & dental (not covered by insurance)			
Utilities (gas, electricity, water, sewer, etc.)			
Phone			
Child care			
Education			
Auto maintenance, gas, parking			
Household repairs, maintenance, and supplies			

	What it is now	After we sell the business	If it will change, why?
Taxes			
Entertainment, gifts, and travel			
Other:			
Other:			
Total other personal expenses	\$	\$	
TOTAL PERSONAL EXPENSES	\$	\$	
PERSONAL INCOME – PERSONAL EXPENSES	\$	\$	

Appendix C: Reviewing the Succession Options

Traditional Succession Options

	Description	Pros	Cons	My Assessment (check all that apply)
Transferring to a Family Member	Typically involves transitioning the business to a child.	<ul style="list-style-type: none"> ● This option provides an “opportunity to keep the business in the family. This can help keep the company rooted in your original ideals and give you a sense of confidence about the future.”¹⁰ ● A more private option than looking for an outside buyer. 	“When naming an heir, there is the potential to stir up family conflict. In some extreme cases, legal battles can ensue for years after an heir takes on the role of successor.” ⁸	<ul style="list-style-type: none"> ● My preferred option ● Not preferred, but workable ● Not relevant / desirable ● Need to learn more
Selling to a Co-Owner or Manager	Where there is a co-owner or manager who is in a position to buy out your interest in the company.	<ul style="list-style-type: none"> ● Leaves your legacy in the hands of a trusted colleague ● A more private option than looking for an outside buyer. ● Transition time can be shorter, where the buyer has an established presence within the company. 	There is nothing stopping the buyer from selling the business to an outside party, liquidating the business, or otherwise taking the business in a direction that you may find undesirable.	<ul style="list-style-type: none"> ● My preferred option ● Not preferred, but workable ● Not relevant / desirable ● Need to learn more
Selling to an Outside Party	“This could involve selling to an investor, a competitor,	<ul style="list-style-type: none"> ● Offers “the chance to profit as you walk away from the business.” ● This “could represent the opportunity for your business to grow in the 	“Anytime a business owner considers selling, it’s important to address the possibility that the future of the company may not be what they had in	<ul style="list-style-type: none"> ● My preferred option ● Not preferred, but workable

¹⁰ Source: <https://trustandwill.com/learn/types-of-succession>

	a management firm, or other interested party.” ⁸	future. If you did not have the capital to expand the brand as you wanted, an outside investor may be able to do so. This can further grow your legacy.” ⁸	mind. An outside party might be a great option at the time, but after the sale is complete you may not always agree with how the business is managed. As a former owner, it can be difficult to watch your company move forward without you or your vision in mind.” ⁸	<ul style="list-style-type: none"> ● Not relevant / desirable ● Need to learn more
Liquidating My Business’s Assets	Selling your business assets (versus selling the business as a going concern)	<ul style="list-style-type: none"> ● If you have a capital-intensive business (a lot of money tied up in land, buildings, equipment, vehicles, or production quota), this might be the most lucrative option. 	<ul style="list-style-type: none"> ● You may get less for your business assets than selling your business as a going concern. ● Your employees, customers, and vendors will all lose something they value, at least in the short term. ● You’ll lose your legacy. 	<ul style="list-style-type: none"> ● My preferred option ● Not preferred, but workable ● Not relevant / desirable ● Need to learn more

Useful resources for learning about traditional succession options:

- ✓ “A Guide to 5 Different Types of Business Succession Planning”, <https://trustandwill.com/learn/types-of-succession>
- ✓ “Plan Your Succession – Discover the steps for effective succession planning”, <https://www.bdc.ca/en/articles-tools/change-ownership/plan-succession>
- ✓ “Sell your business – Discover the steps to selling your business”, <https://www.bdc.ca/en/articles-tools/change-ownership/sell-business>
- ✓ “Selling Your Business – A guide for entrepreneurs”, <https://www.bdc.ca/en/articles-tools/entrepreneur-toolkit/guides/selling-your-business>

Social Succession Options

	Description and Examples	Pros	Cons	My Assessment
Selling to a Nonprofit, First Nation, or Municipality	<p>A type of selling your business to an outside party (see previous table). Examples include:</p> <ul style="list-style-type: none"> ● Windhorse Farm - A retreat centre located near Bridgewater, Nova Scotia. Purchased from Margaret and Jim Drescher in 2022 by the nonprofit Ulnooweg Education Centre ● White Hills Resort - Purchased from private owners in 2000 by the Town of Clarendville, and managed by the nonprofit Alpine Development Alliance Corporation ● Webster Farms - Purchased from the Webster family in 2018 by the Annapolis Valley First Nation. 	<ul style="list-style-type: none"> ● Unlike co-operative succession options listed below, this option involves selling your business to an existing entity that has an established leadership team, staffing, systems, and resources (i.e. they don't need to set up a new organization before they can buy yours). ● This option can be an excellent way to preserve and even enhance your legacy, by converting it to an enterprise that fulfills an important social purpose. 	<ul style="list-style-type: none"> ● Same cons as "Selling to an Outside Party" presented in the previous table. ● Also, these options are highly dependent on having a local nonprofit, First Nation, or municipality that is keen to explore owning a business that would further their strategic goals. And this can be hit-and-miss, depending on your locality. 	<ul style="list-style-type: none"> ● My preferred option ● Not preferred, but workable ● Not relevant / desirable ● Need to learn more
Selling to my Employees (Worker Co-operative)	<p>In most cases, this would involve a core group (if not all) of your employees creating a new legal entity, a worker co-operative, which would purchase your business. Examples include:</p> <ul style="list-style-type: none"> ● The Greenhouse Co-operative Ltd. ● Yellowknife Glass Recyclers Co-operative 	<ul style="list-style-type: none"> ● This option works best in service businesses that have a core group of dedicated, long-term staff, with respected and trusted internal leadership ● It can enable you to preserve your legacy (and your employees' jobs), by transitioning to a team of 	<ul style="list-style-type: none"> ● These options generally require the creation of a new legal entity, a co-operative, which will then buy your business, and that can take time. ● Even before the creation of the co-op, the founding members 	<ul style="list-style-type: none"> ● My preferred option ● Not preferred, but workable ● Not relevant / desirable ● Need to learn more

	<ul style="list-style-type: none"> ● Glitter Bean Café Co-operative 	people who have a demonstrated commitment to your business.	have to be identified and organized; this is generally easier with worker co-ops (where you're generally dealing with a known group of employees) and harder with consumer or multi-stakeholder co-ops (where the customers and other stakeholders have to be identified, recruited, and organized).	
Selling to my Customers (Consumer Co-operative)	<p>This option would involve a core group of your loyal customers coming together to create a consumer co-operative, which would then purchase your business.</p> <p>Examples include:</p> <ul style="list-style-type: none"> ● The Acadia Cinema Co-operative ● Épicerie Coop Grocery Moonbeam 	A good option when you have a large, loyal customer base who rely heavily on your goods or services (e.g. where you have the only grocery store, gas station, pharmacy, or childcare centre in the community)		<ul style="list-style-type: none"> ● My preferred option ● Not preferred, but workable ● Not relevant / desirable ● Need to learn more
Selling to a mixed group of stakeholders (Multi-stakeholder Co-operative)	<p>This option would involve a core group made up of your employees, customers, vendors, and perhaps other stakeholders who all have an interest in your business continuing coming together to buy your business.</p> <p>Several examples of multi-stakeholder co-ops can be viewed at: https://bit.ly/Multi-stakeholder Co-ops</p>	A good option when you have a large, expensive business that benefits a diverse group of local stakeholders who can collectively raise the necessary financing.		<ul style="list-style-type: none"> ● My preferred option ● Not preferred, but workable ● Not relevant / desirable ● Need to learn more

Useful resources for learning about social succession options:

- ✓ Case Studies - Business Conversions to Worker Cooperatives Insights and Readiness Factors for Owners and Employees, <https://bit.ly/Business Conversions to Worker Cooperatives>
- ✓ The Conversion to Co-operatives Project, <https://www.coopconvert.ca/> (Includes a large number of case studies of successful co-operative conversions.)

This report may be accessed online: http://communitysector.nl.ca/d/sbo_social_succession.pdf



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