

# Nelson Business Succession Survey



Commissioned by: **Nelson Economic Development Partnership**



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## Background

In 2006 the Canadian Federation of Independent Businesses (CFIB) polled over 9000 members and determined that almost 70% of owners planned to exit their businesses within 10 years while almost one third planned to leave within 5 years. Most were moving into retirement. Very few business owners had started planning for succession. Virtually none had identified a successor.

The CFIB pointed out that many of the retiring Baby Boomers will be leaving at close to the same time and many of the businesses – unless strategic action is applied – risk closing their doors and having significant impact on Canadian communities.

Further research on business succession indicates that most business owners do not adequately plan or prepare, leaving the search for a successor to the last year of operation. This leaves things much too late. A study in Australia found that only one in four businesses listed are sold within a year.

One study from the United Kingdom attributed 30% of all business closures to succession failure.

In the Fall of 2008 the Nelson Economic Development Partnership (NEDP) set out:

- To develop an informed strategy for businesses that might need assistance in their business succession or transition efforts
- To reduce the number of Nelson & area businesses that close

A survey was drawn up borrowing questions from a similar study in Nanaimo, allowing for a useful baseline comparison to Nanaimo.

The NEDP survey objectives were:

- To determine the number of businesses that might be affected
- To get an understanding of critical issues
- To educate members of the business community of InvestKootenay.com & potential 'match-making' services
- To determine some strategic actions

## Process

The survey (See Appendix A), accompanied by a self-addressed stamped envelope, was mailed out to 1044 City of Nelson business license holders with a letter from the NEDP Appendix B) explaining the survey and the NEDP's interest in succession planning. In addition, a press release (Appendix C) and limited media campaign helped to launch the program in the media, businesses and the community.

## Outcomes

195 of the surveys were returned. Taking into account duplicates and envelopes returned to the NEDP (old address, etc.), this represents a 19.5% return rate of the 999 licensees. This number is approximately double the Nanaimo return rate and double the expected return.

The survey (Appendix A) included 11 multiple choice questions and six questions where comments could be placed. All comment responses to the survey were confidential. Some of the themes included in the comments form part of this report. (See Appendix D for raw data)

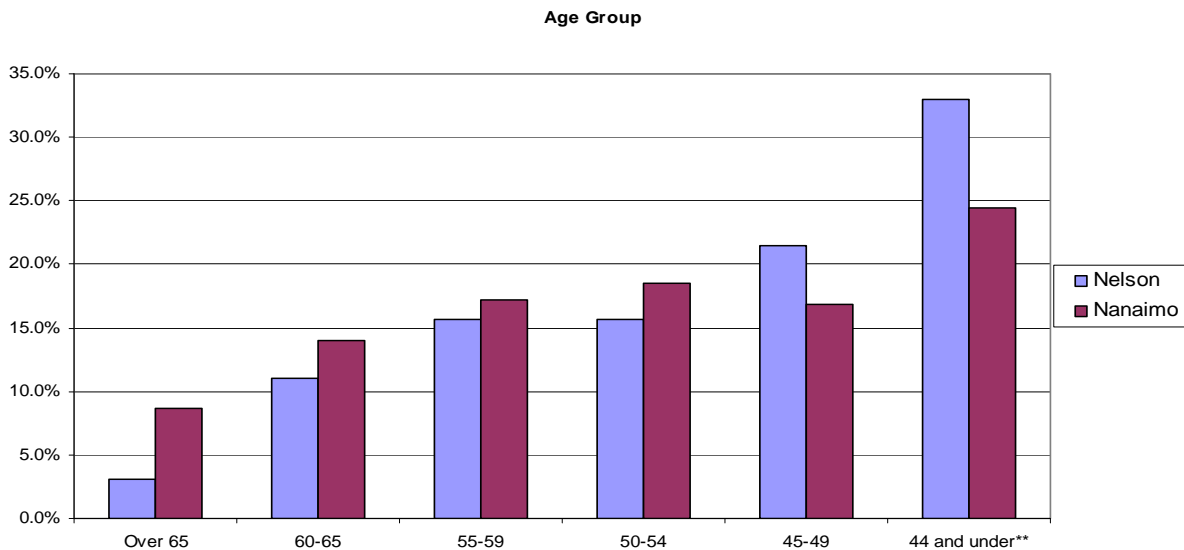
The surveys were returned to the Community Futures Central Kootenay office and entered into an online survey program. The data was then analysed by Mike Stolte, an economist, and the owner of Mike Stolte and Associates (250-354-3737 cell - [www.mikestolte.com](http://www.mikestolte.com) – [mstolte@telus.net](mailto:mstolte@telus.net)).

On November 4, 2008, Mike presented the results to the NEDP.

## Survey Results

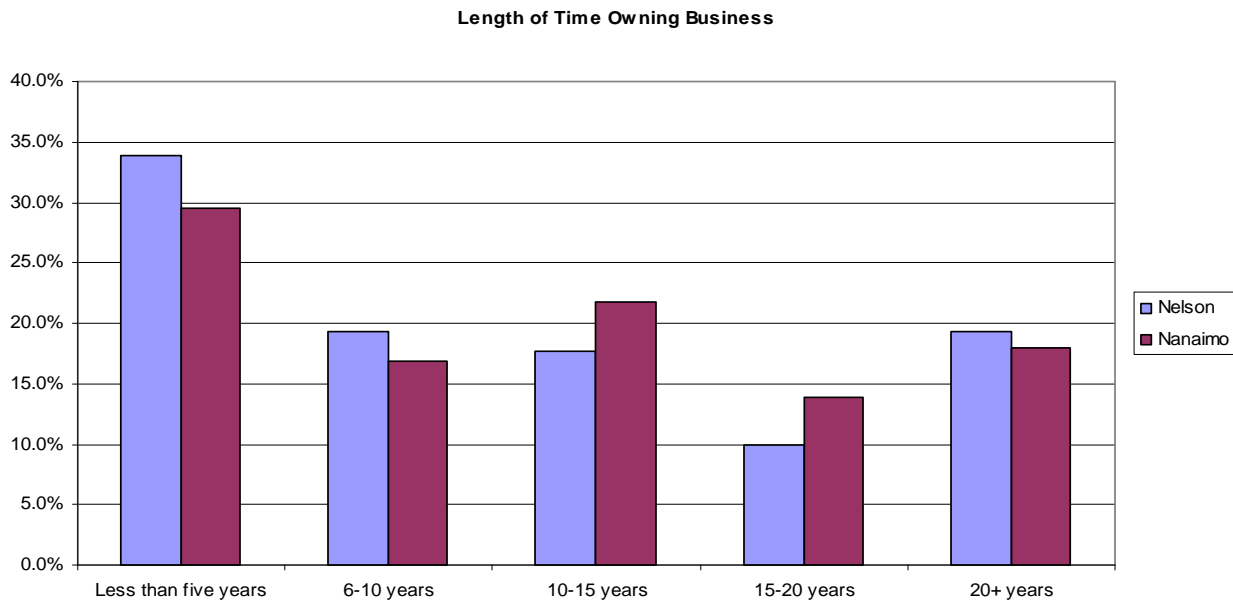
### Age Group

The respondents were slightly younger in Nelson than they were in the Nanaimo survey. 55% of respondents were under 50 in the Nelson survey. Only 40% of respondents in Nanaimo were under 50.



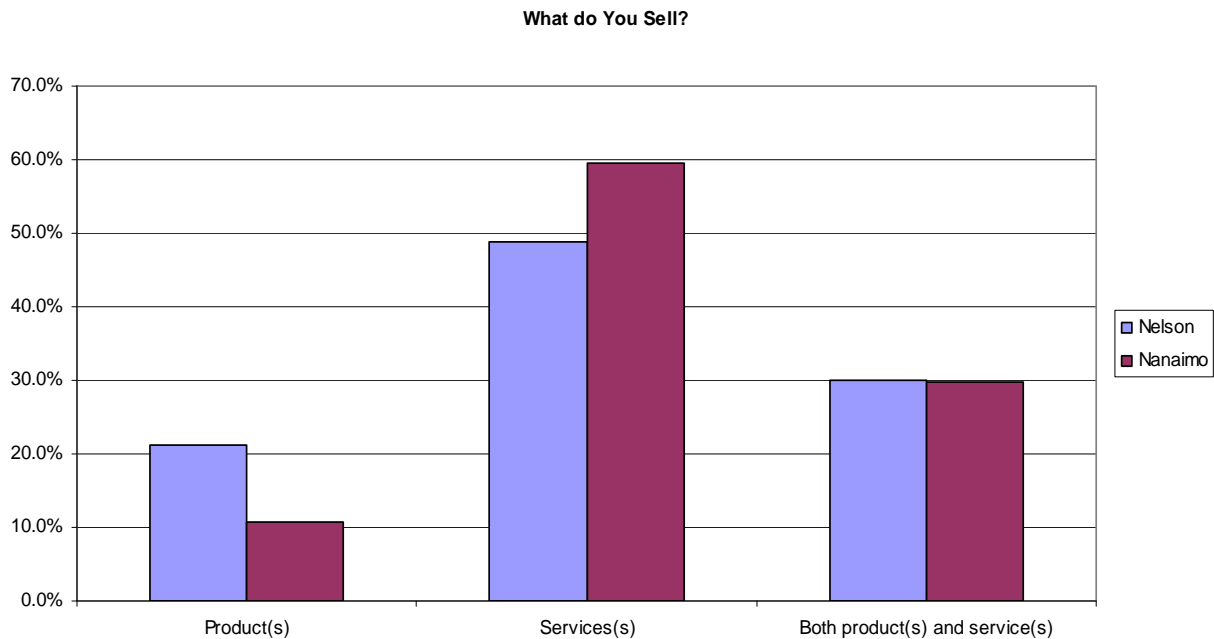
### Length of Time Owning Business

In the Nelson survey 52% of respondents had owned the business for less than 10 years while only 37 per cent of Nanaimo owners had owned the business for less than 10 years.



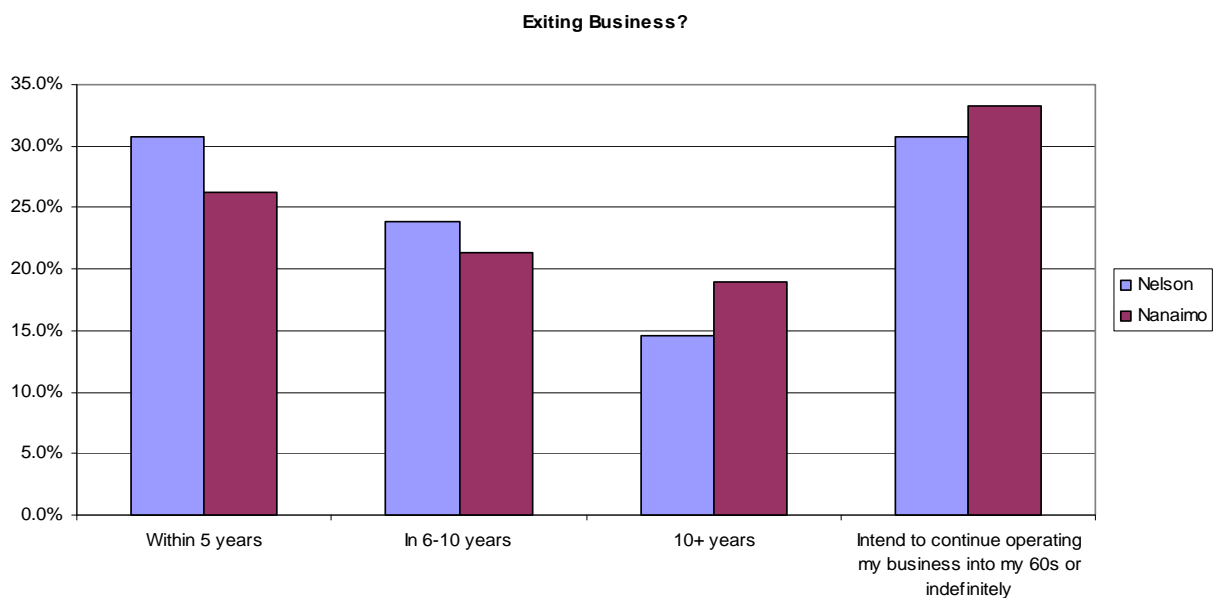
## What is Sold?

While most businesses were services businesses, 50% sold products and 80% services (as many sold both).



## When will you be exiting business?

55% of Nelson respondents will be exiting their businesses in the next 10 years, while almost one third will be leaving in less than 5 years. Meanwhile, a third will operate their businesses into their 60s or indefinitely.



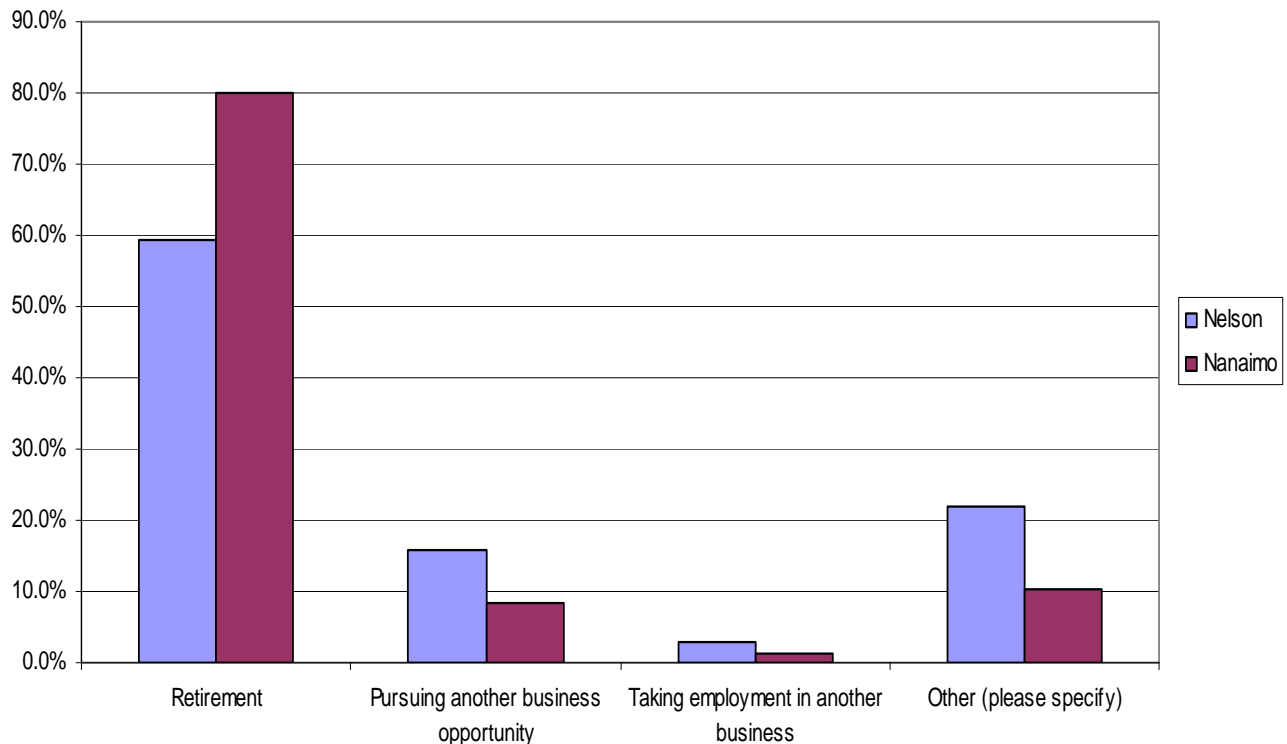
## Why will you be Exiting your Business?

Almost 60% of business owners will be transitioning to retirement compared with 80% in Nanaimo. Fifteen percent of owners will be pursuing another business opportunity while fewer than 5% will be seeking employment in another business.

'Other' reasons listed for exiting were:

- Cost/Could not find place to live
- Moving
- Nelson getting too busy
- Semi-retire
- Simplify
- Too hard – may become employee
- School, travel & learn
- More family time

Why Exit?



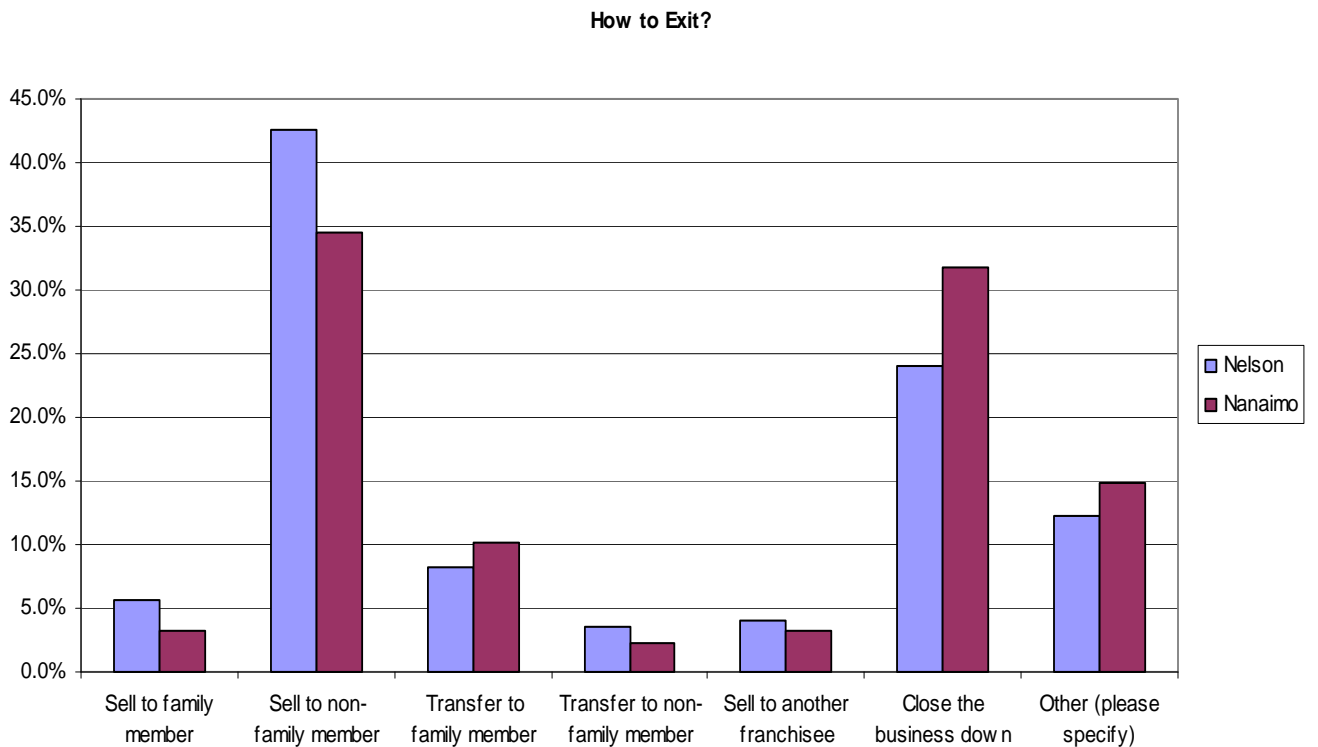
## How will you Exit?

More than 50% plan to sell or transfer to a non-family member compared to only 15% planning on selling or transferring to a family member, a 3.5 to 1 ratio of 'non-family to family' transfer.

Nearly a quarter said they would close the business down.

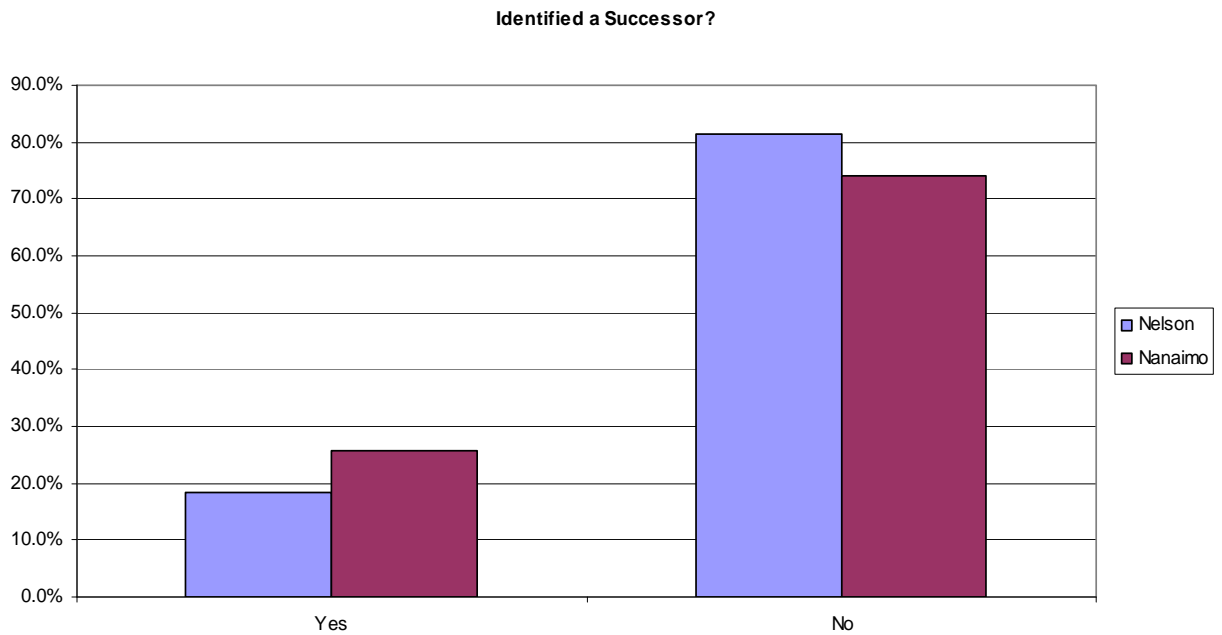
Other responses included:

- Don't know
- "Gracefully"
- "Die"
- Convert to non-profit
- Worker's co-op



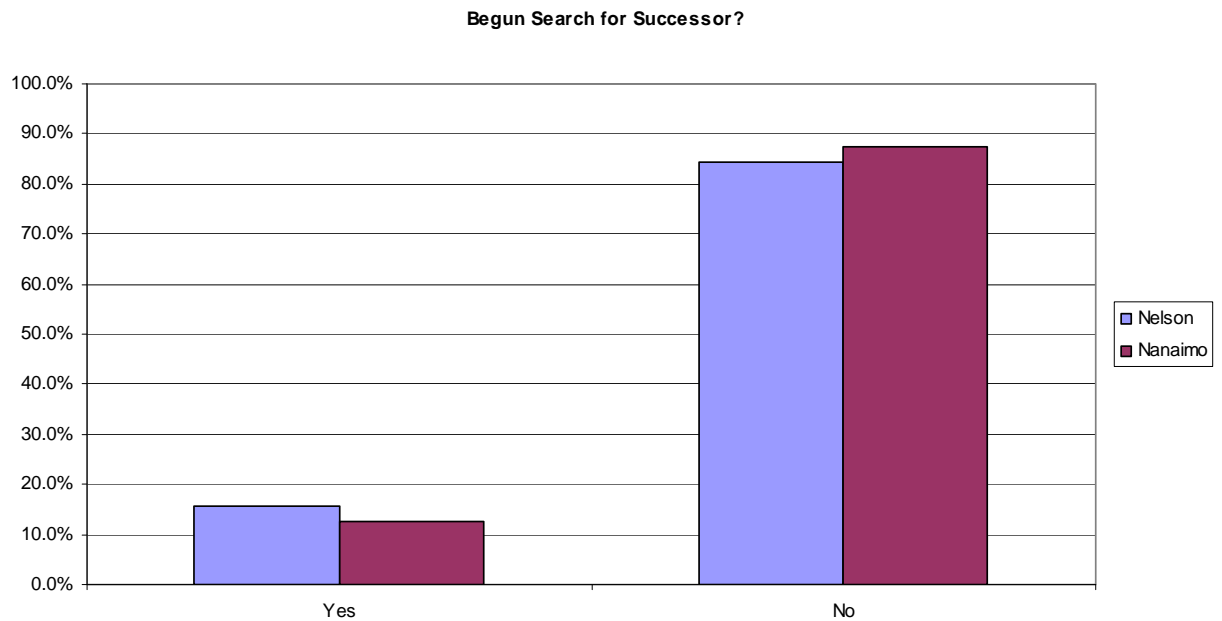
## Have you Identified a Successor?

80% of business owners had not identified a successor.



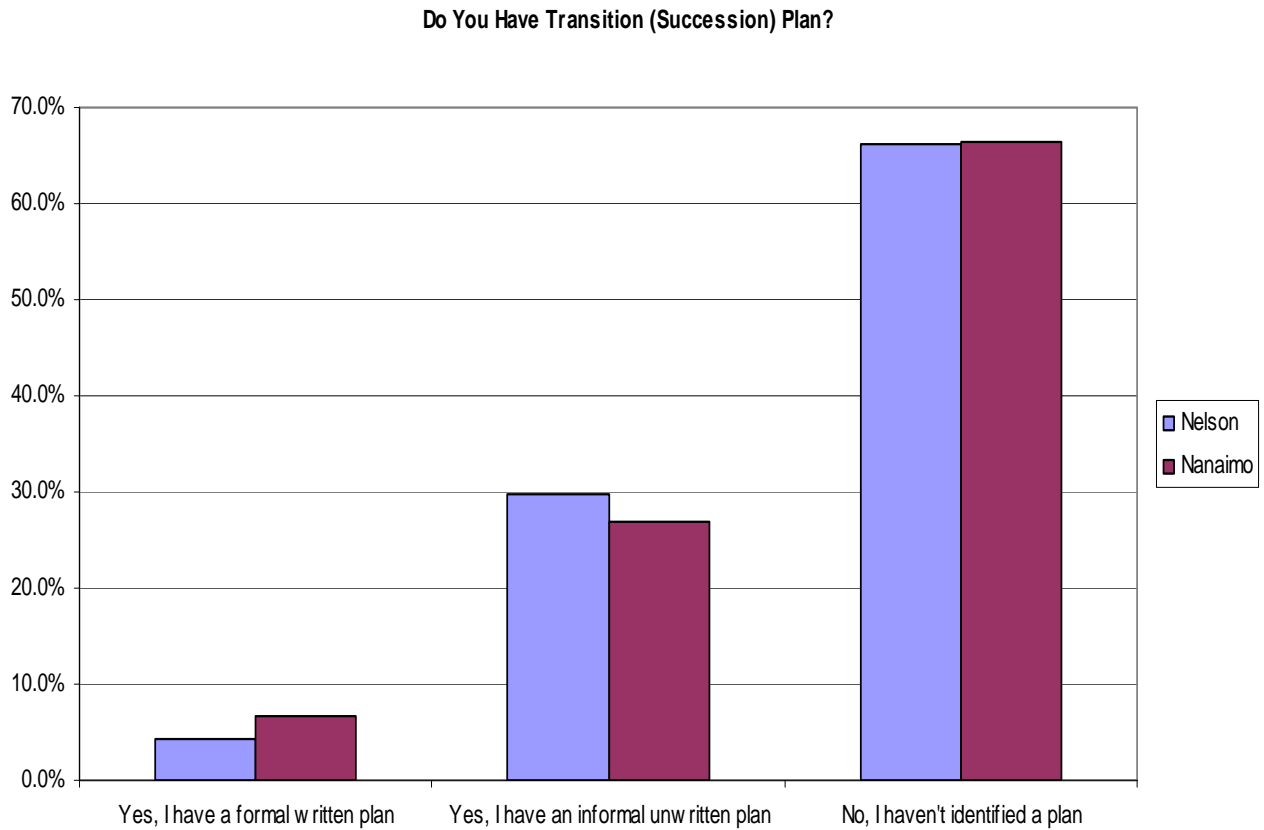
## Have you Started a Search for a Successor?

85% of business owners have not begun a search for a successor.



## Do you have a Transition or Succession Plan?

Two out of three business owners do not have a succession plan. Only one in 20 has a formal written succession plan.



## Who have you been Assisted by in Succession Planning?

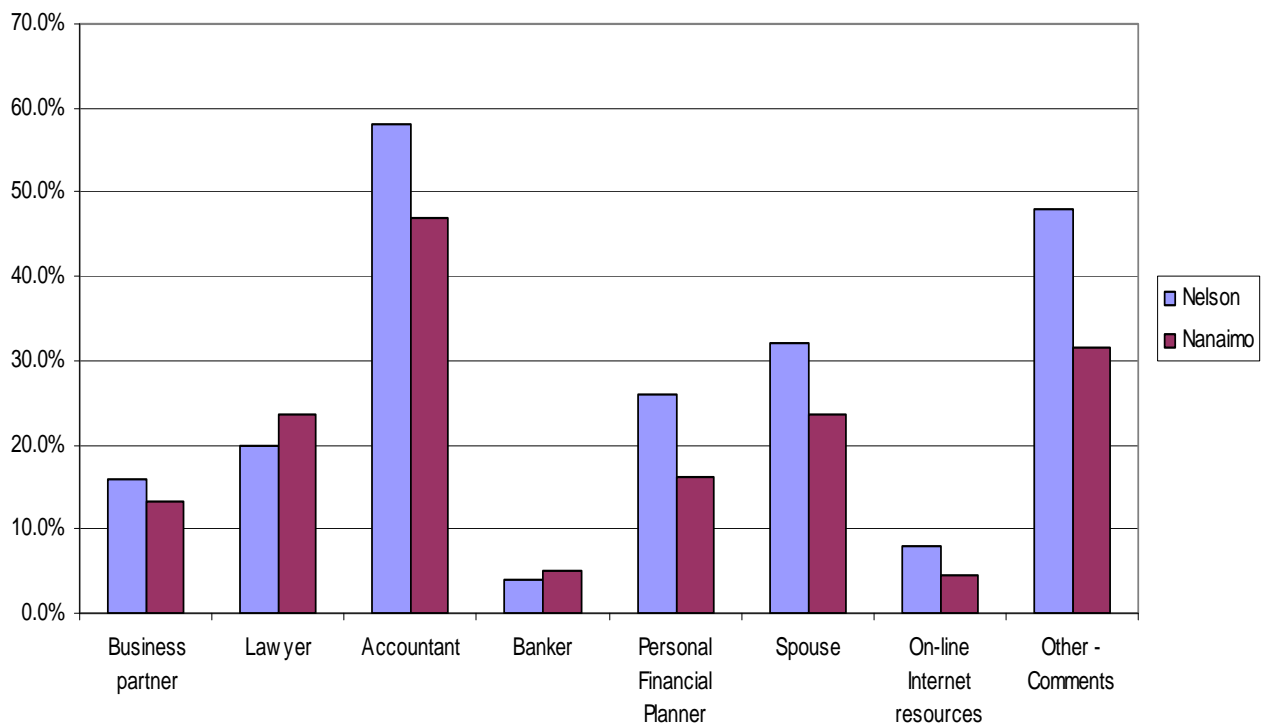
The top 3 resources for local business owners in assistance with succession planning are:

1. Accountant
2. Spouse
3. Personal financial planner

Other responses were:

- Parent company
- Professional association
- Business coach
- Real estate broker

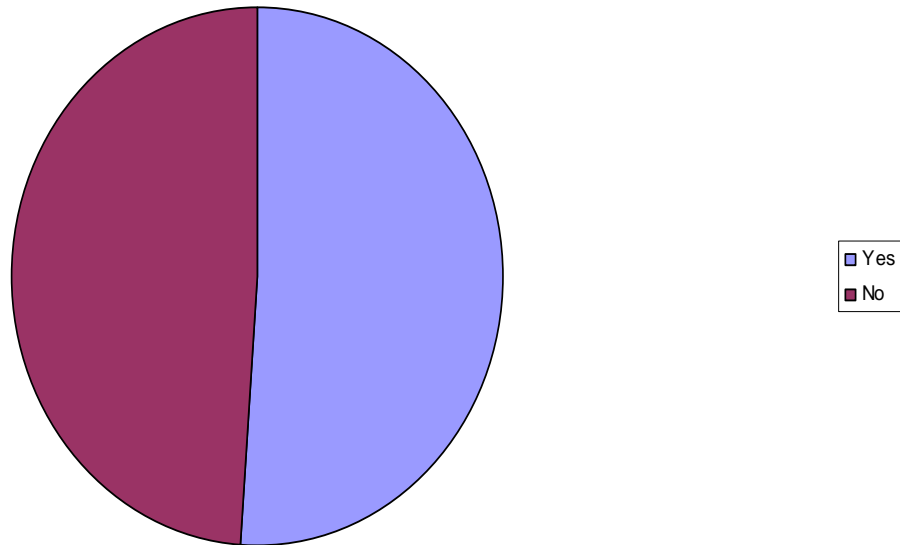
Assisted in Transition Plan by...



## Would you Like to be Informed of Succession Events/ Workshops hosted b the NEDP?

More than half the respondents were interested in follow-up events and workshops related to succession.

Like to be Informed of Succession Events/Workshops?



### Other Issues and Comments

- Other issues related to business succession with those related to barriers:
  - Many owners did not know how to accurately determine the value of their business
  - Many owners did not know how to locate buyers or qualified buyers
  - Some had issues of training their workforce to take over. Some had been unsuccessful in this.
- Several commented on the need for:
  - expert advice
  - just-in-time listing/brokering
- Others took the time to point out other issues such as:
  - The shortage of rental housing
  - Nelson's housing being too expensive
  - A criticism of the City & Chamber for focusing too narrowly on tourism development as the key business/ economic development issue
- There were many positive comments on the timeliness of the study

## Barriers to Succession/Transition

The study also looked to other literature to discover common barriers to business succession/transition. Among those frequently listed in studies and news coverage of business succession were:

- Complexity (or perceived complexity)
  - Many business owners believe that selling their business is incredibly complex. For many, there are issues related to finance, taxing, staffing and many other key issues. A CBC story on business succession cited one business owner as saying, “It’s more complicated than divorce by far”
- Emotional attachment to business
  - Many business owners have put much time and effort into their business and cannot see another person running it. Others cited control and not wanting to give it up as a barrier.
- Busyness
  - Many business owners are very busy running their own businesses and do not want to take the time to devote to what many consider a very time-consuming issue.
- Sheer # of Baby Boomers
  - With so many owners approaching possible retirement, there is sure to be a glut of businesses for sale. This will compound the problem for those seeking to sell as the number of businesses for sale will outnumber the number of possible new owners.
- Books not up to date/ impossible to determine value
  - One business succession initiative in Kansas cited this as the biggest barrier to business succession. Many businesses do not keep books up to date -- some even under report earnings, ‘saving’ on taxes in the short run, but leading to their businesses being undervalued in the long term. Bookkeeping issues are important in determining a proper value for a business, affecting the saleability of the business.
- Financing
  - Often, owners are not aware of various creative financing options like vendor-financing. In other cases, prospective owners are not aware of the options available. In some jurisdictions there are programs that allow employees to buy businesses from owners. However, they are often unknown to owners and prospective buyers and many are targeted for larger businesses. In other jurisdictions like Quebec, there are programs designed specifically to address the business succession financing issue that are partnerships between various funding agencies - <http://www.dec-ced.gc.ca/ASP/SalleNouvelles/DetailComm/EN/05sept06.html>
- Non-planning – waiting until last year or so
  - Most business owners do not adequately plan or prepare leaving the search for a successor to the last year of operation – much too late. A study in Australia found that only one in four businesses listed, were sold within a year.
- Awareness of options
- Children too young
  - Some business owners hope to pass the business on to their children. Statistics reveal that only 30% of businesses are transferred to children, while only 10% are transferred to a third generation. In some cases, the children are too young. In other cases the children are not interested. In many cases, there is a stigma attached to talking about transition because it is tied to death. Therefore, the issue does not get properly addressed.

- Fear of not maximizing price (employees or community sale not considered)
  - To maximize price, most business owners hope to sell in an open market, often referred to as a trade sale. Many however, wait until the last year, and are left with the prospect of selling to a competitor, leading to layoffs for employees. Owners often do not consider selling to employees or to a community organisation. This issue needs to be addressed.
- No one with enough experience in business
  - Many businesses try to pass the business on to an apprentice or an interested employee. Sometimes, however, these possible successors do not have the drive, business skills or desire to run a business. In many service businesses, there are professional requirements that must be met (e.g. trades, trade associations, professional associations, etc.), limiting the number of prospective buyers.

## Best Practices

In reviewing the literature, there seem to be three main areas of business succession best practice for business and economic development bodies.

1. Education/Awareness/Advice
  - a. Seminars & Workshops
  - b. One-on-one advice
  - c. Experts/Mentors or teams to assist
    - i. Knowing right time frame (not waiting until business is on downhill skid – e.g. Gretzky getting out at peak)
2. Brokering
  - a. Identifying potential buyers
  - b. Providing some form of matchmaking
3. Financing
  - a. Assisting with having records up to date
  - b. Proper valuation (being realistic)
  - c. Knowing options
  - d. Having programs available (e.g. BC Employee Share Ownership Program (ESOP) & Quebec Community Futures program)

## Resources

### Resources for Business Owners

"Succession Planning Toolkit for Business Owners" - available through the Canadian Institute of Chartered Accountants.

"Investing in Your Future: Building a Succession Plan" - available to members of the Canadian Federation of Independent Business.

Helpful internet pages include:

- [Succession Planning for Corporate Knowledge Transfer – A Guide for Managers and Human Resource Specialists"](#)
- ["The nuts and bolts of succession planning"](#)
- [Transition planning tips from the Business Development Bank of Canada](#)

## Interesting Programs

### [Phillips County, Kansas - Economic Development Program](#)

Rural Enterprise Assistance Project (REAP) helps to prepare communities

The following key points are covered in seminars:

1. Evaluating where the business is currently
2. Recognizing the importance of having the financial records in order
3. Identifying who might be potential buyers for the business
4. Considering the time frame of selling
5. Putting your team of advisors together
6. Being realistic in valuing the business
7. Financing options for the business transfer

## Conclusion

Without intervention in Nelson and area, many businesses that do not need to close, may close. The impact could be **substantial**. If one considers that even if half the 55% of businesses in Nelson close without finding a successor, the impact of approximately 300 businesses shutting down over a 10-year period is enormous.

Nelson is better positioned than most other communities to deal with the issue. It is a highly desirable community with a healthy influx of new residents and a high quality of life. Therefore, businesses are much more saleable than in many other small and rural communities.

With minimal financial resources, the NEDP could make significant inroads, especially if done in conjunction with the existing [www.InvestKootenay.com](http://www.InvestKootenay.com) matchmaking service and Ambassador program. There are many retired business people that can offer the specialised and confidential advice that is required for a successful business succession intervention program. Community Futures already has a solid reputation for putting on just-in-time training and has a steady stream of prospective buyers coming through its doors.

In some jurisdictions business succession has become one of the top economic development priorities, and seen as complementary to organizations that assist with business start-up and growing businesses. It is important that business succession is looked upon as a critical economic and community issue in Nelson and area.

# Appendices

## Appendix A - Survey

**1. To avoid duplication and to ensure the accuracy and integrity of this survey, please enter your business license number or address of business:**

**2. What is your age group?**

Over 65     60-65     55-59     50-54     45-49     40-44     39 and under

**3. How long have you owned your current business?**

Less than five years     6-10 years     10-15 years     15-20 years     20+ years

**4. Do you sell:**

Product(s)     Services(s)     Both product(s) and service(s)

**5. When do you intend to exit your business?**

Within 5 years     In 6-10 years     10+ years     Intend to continue operating my business into my 60s or indefinitely

**6. Why do you intend to exit your business?**

Retirement

Pursuing another business opportunity

Taking employment in another business

Other (please specify)

**7. How do you intend to exit your business?**

Sell to family member

Sell to non-family member

Transfer to family member

Transfer to non-family member

Sell to another franchisee

Close the business down

Other (please specify)

**8. If you intend to sell or transfer your business, have you identified a successor to your business?**

Yes     No

**9. If No, have you begun the search for a successor?**

Yes

No

**10. Do you have a transition (succession) plan?**

Yes, I have a formal written plan

Yes, I have an informal unwritten plan

No, I haven't identified a plan

**11. Have you been assisted in preparation of a transition plan by any of the following? Check all that apply.**

Business partner

Lawyer

Accountant

Banker

Personal Financial Planner

Spouse

On-line Internet resources

Other (please specify)

**12. Please identify other succession issues or provide any additional information that will help the NEDP to better understand and address your succession planning/transitioning issues.**

**13. Would you like to be informed about any succession planning events or workshops hosted by the Nelson Economic Development Partnership?**

Yes

No

Contact information

**14. Additional Comments.**

## Appendix B - Letter Accompanying Survey



Nelson Economic Development Partnership

Sept. 24, 2008

Dear

Many business owners, and perhaps yourself, are considering what they will do with their business when it is time to retire, change careers, or move away. Did you know that **more than 40 per cent of business owners surveyed by the Canadian Federation of Independent Business in 2006 plan to leave their businesses in the next five years, and more than 70 per cent within the next 10 years?** At the same time, 71 per cent of family businesses and 61 per cent of non-family businesses surveyed did not have a plan on how to exit their business (also known as a succession plan).

**Nelson has already seen the beginning of this transitioning trend with the closure of keystone businesses in the community and many up for sale. The impact of closing businesses due to "succession failure" will undoubtedly impact employment, economic output, business formation and availability of services in Nelson and area.**

The Nelson Economic Development Partnership (NEDP) recognizes that it is necessary to develop a Nelson Business Succession Planning Strategy. Your participation in this survey will provide the NEDP with a better understanding of how the transitioning trend will impact the businesses in the Nelson area.

The goal of the strategy is to reduce the number of Nelson businesses that close because they have no succession plan or successor in place, and to identify services and resources for business owners that might need assistance in their transition and/or succession efforts.

**Please help us help Nelson & area businesses by filling out the survey and return it in the enclosed self addressed stamped envelope or complete the survey on-line at [www.discovernelson.com](http://www.discovernelson.com).**

If you are a business owner that is interested in selling your business we invite you to visit [www.investkootenay.com](http://www.investkootenay.com) and register to post your opportunity and connect with investors. It's easy, it's fast, and it works.

For more info please contact Lisa Cannady at 352-1933 ext 105.

Sincerely,

Bob Wright  
NEDP Chair

**Nelson & District Chamber of Commerce • City of Nelson • Community Futures Central Kootenay**

**Nelson Economic Development Partnership**



## Appendix C - Survey Press Release

Let's face it we're all getting older, and change is inevitable. For business owners, one of the challenges is what to do with their business when they retire.

A 2006 survey by the Canadian Federation of Independent Business showed that more than one third of independent business owners planned to exit their business within the next 5 years, and more than 70 per cent within the next ten years.

Nelson has already seen the beginning of this transitioning trend with the closure of keystone businesses in the community, and many more businesses currently up for sale. This is made even harder with people wanting to start a new business, rather than buying into an existing business.

Planning an exit strategy is critical to business owners. It also has major implications for the future of Canada's overall economy, employment and the availability of services in Nelson and area.

Tom Thomson from the Nelson & District Chamber of Commerce says now is the time for business owners to begin the process of transitioning for retirement. "With our aging population, the number of baby boomers reaching retirement age in the next five to ten years will be significantly higher than it historically has been. There was a time when most small businesses' best option for retiring was keeping the business within the family, or selling to an existing employee. These days, kids have many more options open to them and your alternate plans need to be developed now rather than waiting until the last minute".

The Nelson Economic Development Partnership (NEDP) wants to better understand just how much this new trend will affect local businesses. Business owners will receive a survey in their mailbox this week. The results will help form a Business Succession Planning Strategy to help deal with these issues. The survey is also available on the Nelson Chamber of Commerce website at [www.discovernelson.com](http://www.discovernelson.com) for any business wanting to participate.

For people wanting to sell their business now, you can post your business on the Invest Kootenay website. The website's Connect Database connects business owners with investors by showcasing businesses that are for sale, as well as offering a variety of resources to potential investors. List your business for free at [www.investkootenay.com](http://www.investkootenay.com).

**For more information, please contact Lisa Cannady at 352-1933 x105.**



Less than five years	33.9%	29.5%	65
6-10 years	19.3%	16.9%	37
10-15 years	17.7%	21.8%	34
15-20 years	9.9%	13.9%	19
20+ years	19.3%	17.9%	37
skipped question			3

100.1%

100.0%

Q4. Do you sell:

**Nelson**

**Nanaimo**

Response  
Count

Product(s)	21.1%	10.7%	40
Services(s)	48.9%	59.5%	93
Both product(s) and service(s)	30.0%	29.8%	57
skipped question			5

100.0%

100.0%

Q5. When do you intend to exit your business?

**Nelson**

**Nanaimo**

Response  
Count

Within 5 years	30.8%	26.3%	57
In 6-10 years	23.8%	21.4%	44
10+ years	14.6%	19.0%	27
Intend to continue operating my business into my 60s or indefinitely	30.8%	33.3%	57
skipped question			10

100.0%

100.0%

Q6. Why do you intend to exit your business?

**Nelson**

**Nanaimo**

Response  
Count

Retirement	59.3%	80.0%	105
Pursuing another business opportunity	15.8%	8.4%	28
Taking employment in another business	2.8%	1.4%	5
Other (please specify)	22.0%	10.3%	39
skipped question			18

99.9%

100.1%

Q7. How do you intend to exit your business?  
(NOTE: Some people answered more than one

response)

	<b>Nelson</b>	<b>Nanaimo</b>	Response Count
Sell to family member	5.6%	3.2%	11
Sell to non-family member	42.6%	34.5%	83
Transfer to family member	8.2%	10.2%	16
Transfer to non-family member	3.6%	2.3%	7
Sell to another franchisee	4.1%	3.2%	8
Close the business down	24.1%	31.8%	47
Other (please specify)	12.3%	14.8%	24
skipped question			12

100.5%

100.0%

195

Q8. If you intend to sell or transfer your business, have you identified a successor to your business?

	<b>Nelson</b>	<b>Nanaimo</b>	Response Count
Yes	18.5%	25.8%	29
No	81.5%	74.2%	128
skipped question			38

100.0%

100.0%

Q9. If No, have you begun the search for a successor?

	<b>Nelson</b>	<b>Nanaimo</b>	Response Count
Yes	15.5%	12.6%	20
No	84.5%	87.4%	109
skipped question			66

100.0%

100.0%

Q10. Do you have a transition (succession) plan?

	<b>Nelson</b>	<b>Nanaimo</b>	Response Count
Yes, I have a formal written plan	4.2%	6.6%	7
Yes, I have an informal unwritten plan	29.7%	26.9%	49
No, I haven't identified a plan	66.1%	66.5%	109
skipped question			30

100.0%

100.0%



answered question	17%		34
skipped question	83%		161