

BUSINESS TRANSITION PLANNING

2019
SURVEY REPORT



Timmins Chamber of Commerce
Chambre de Commerce de Timmins





tran·si·tion plan·ning

/tran'ziSH(e)n planiNG/

Verb:

1. The development of a succession plan undertaken by a business owner that is critical to the smooth transition of ownership, ensures the best sale price for your enterprise, and is key to the continued success of the business.
2. Viable options may include: family succession, insider buyout, a sale to a third party, or winding down the business and selling assets.

Methodology

The population of business owners in Timmins is aging. To help better understand how local small- to medium-sized enterprises (SMEs) plan to transition their businesses, the Timmins Chamber of Commerce Municipal Affairs Committee conducted a transition planning survey. The survey asked business owners where they are in the lifecycle of their business, how prepared they are to sell their business and if they are taking the steps necessary to realize the best price for their most valuable asset — their business.

Among our 650 Chamber members, we surveyed 292 family-owned and operated businesses, 51 of which submitted their response.

In order to understand the obstacles faced by soon-to-retire business owners, we asked about plans to acquisition a business, who their prospective buyers are, what their exit timelines are, and how they identify potential buyers. In this report, we examine whether they are taking steps to ensure they get top dollar for their business while securing its continued success.

From the President



On behalf of the Timmins Chamber of Commerce, I am pleased to present the results of our business transition survey. This report outlines where our members are in the lifecycle of their business, and how they plan to approach the sale of their business.

As the baby boomer generation—including several within our membership—move to retire, many are beginning to think about selling or transitioning their businesses. In the coming years, Canada will see a major shift in business ownership as baby boomers begin to retire. Many business owners in our membership have yet to undertake a formal plan and have not identified the lifecycle stage of their business.

The Timmins Chamber of Commerce is committed to ensuring our members have the tools they need to do business better. This report is part of the Timmins Chamber's continued effort to provide information on business transition planning, including the risks, opportunities, and recommendations to ensure that SME owners receive the best sale price and conditions for their enterprise.



Nancy Mageau
2018-19 Chamber President

About the Timmins Chamber of Commerce

With over 650 members, the Timmins Chamber of Commerce is one of the largest accredited chambers of commerce with distinction in northeastern Ontario. As the "Voice of Business in Timmins" since 1949, our advocacy and policy initiatives focus on ensuring a positive business climate in the City of Timmins.

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Figure 1 Age of Business Owner

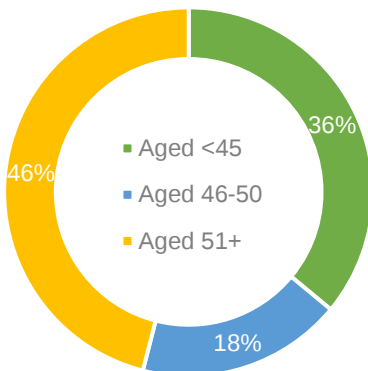


Figure 2 Age of the Business

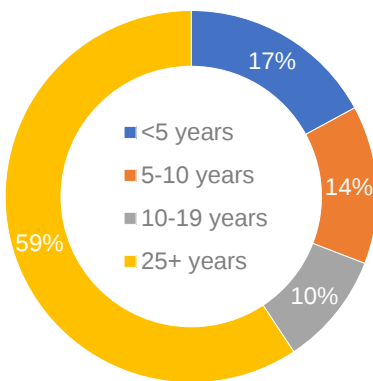
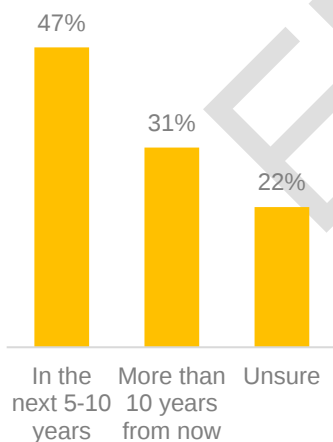


Figure 3



Age Comparisons |

To determine how and when SME owners in Timmins will transition their business, we asked what the average age of business owners is compared to the age of their business.

Of the 51 respondents, 46% indicated they were over the age of 51 years (Fig. 1) and more than half are operating enterprises that exceed 25 years of age (Fig. 2).¹

To broaden the statistic, the Chamber identified 296 family-owned business within our membership and found that the median age of those businesses was 28 years.²

We can see from these numbers that not only does the age of business owners exceed that of their workforce, they are also looking to retire in the near future.

Close to 60% of family business are over 25 years old. Weighed against the median age of the business owner, several will be looking to retire in the near future

Exiting Timelines |

Nearly half of all survey respondents indicated they plan on exiting their businesses within the next five to ten years (Fig. 3). As these owners consider selling, we asked how prepared they are to take vital steps to ensure a financially stable retirement.

We asked whether they are taking action to gain top dollar for their most valuable asset. Will entrepreneurs that are nearing retirement continue to pursue growth for the business? Are these soon-to-be-retired entrepreneurs taking steps to ensure a successful hand-off to new management?

Business owners with plans to retire soon must prepare for the continued success of their business.

¹ The Timmins Chamber of Commerce Timmins Business Transition survey was conducted online March 11 - April 16, 2019 and is based on a sample of 51 small- to medium-sized business owners from the Timmins region.

² Timmins Chamber of Commerce Weblink Customer-Relationship Management Database, 2019.

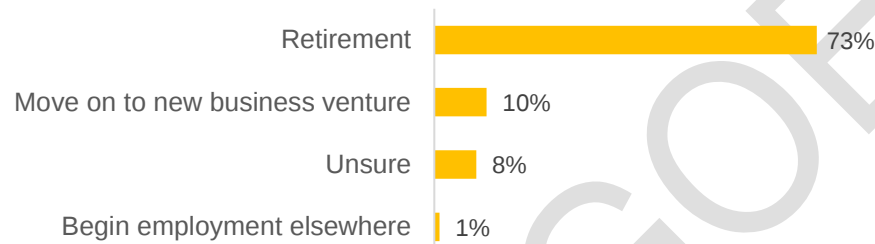
| Why Exit?

Nearly three-quarters of respondents indicated that retirement will be their reason for their exit (Fig. 4). Almost half (47%) cited that they plan to leave in the next five to ten years, which will create a surplus of business owners looking to sell. Many of these individuals depend on the sale of their business to fund their retirement.

73% of business owners will look to retire in the next five to ten years

Most business owners will average 65 years of age at retirement.³ With retirement lasting longer than in previous generations, business owners should ensure that they have enough financial capital to support themselves for nearly 20 years.⁴ Ensuring that they get the best price for their business is crucial for an entrepreneur's retirement.

Figure 4



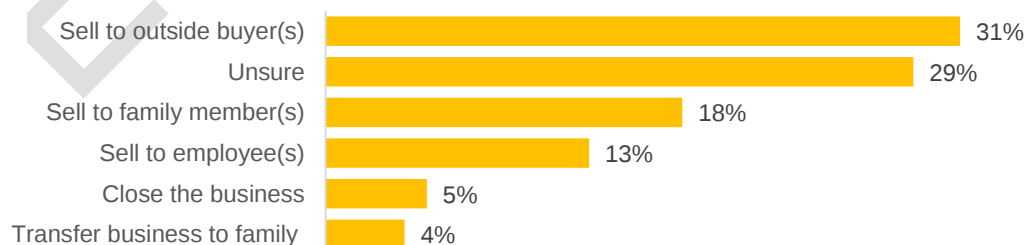
Note: Multiple answer question; therefore, data does not add up to 100%

| Method of Exit

Most (31%) of our respondents indicated that they plan to sell to an outside buyer. They indicated that selling to a family member ranks very low in terms of the continued success of their business.⁵ A surprising number (29%) are unsure who a potential buyer could be or whether they would transition to a family member or inside buyer. Others cited that they plan to transfer the business to family member(s) (18%), or that they would do so as a form of inheritance (4%).

Some respondents (5%) indicated that they plan to wind down or close their business entirely because they feel the business' legacy should end with their retirement (Fig. 5).

Figure 5



³ Statistic derived from those who indicated their age, exit timeline, and method of exit, "Transition Planning Survey, 2019"

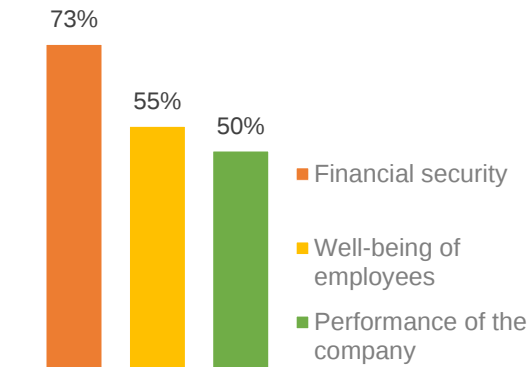
⁴ <https://www.conferenceboard.ca/hcp/Details/Health/life-expectancy.aspx>

⁵ Survey question: "Personally, how important is it that the successor of your business be a member of your family," whose result was 2.2 on a scale of 1 to 5.

Three-quarters of business owners express concern over their financial stability after the sale of their business

| Concerns

Figure 6



Note: Multiple answer question; therefore, data does not add up to 100%

When asked to rank their concerns with the retirement and the sale of their business, owners indicated that financial security was a top priority (73%). The well-being of their employees (55%) and the continued performance of the company (50%) ranked second and third respectively (Fig. 6).

Some indicated that the legacy of their business is a concern and that the reputation with their clientele may diminish with a new owner.⁶

These concerns may be mitigated by creating a formal onboarding process and a transition plan for the handoff.

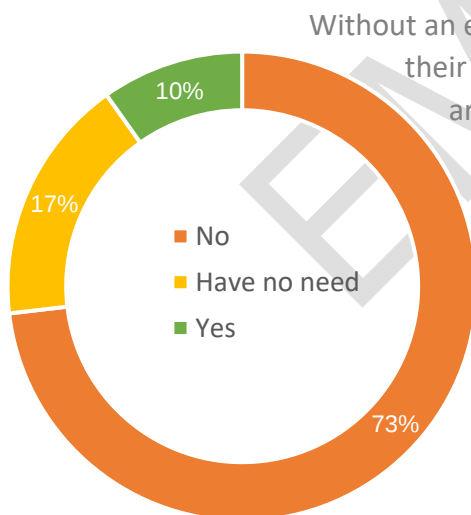
| Existence of a Transition Plan

Several business owners have pressing concerns when it comes to the sale of their business. When asked if respondents have a formal or informal transition plan, a staggering 73% cited that they do not (Fig. 7).

The majority of respondents indicated that they had no formal or informal transition plan in place

Some (17%) indicated that they have no need for a formal transition plan due to the owner's plans to wind down or close the business when they retire. Only one in ten entrepreneurs indicated they had some plan in place, either formal or informal.

Figure 7



Without an existing transition plan, business owners may miss key steps in the sale of their business. Their financial security and continued success of the business are not only crucial to the future business owner, but to the prosperity of our local economy as well.

If the majority (73%) of respondents move to sell their business without a formal plan, we can expect to see a shift in assets of close to \$13M in the next 10 years from these businesses alone.⁷ Providing business owners with resources to transition their business is vital to our local economy's competitiveness and growth.

⁶ Survey question: "What concerns do you have about your own retirement," five respondents provided their own under "other."

⁷ Based on 2018 statistics from Municipal Property Assessment Corporation citing the average price for a business for sale in Timmins is \$350,000.00, multiplied by the 37 respondents who do not have a transition plan.

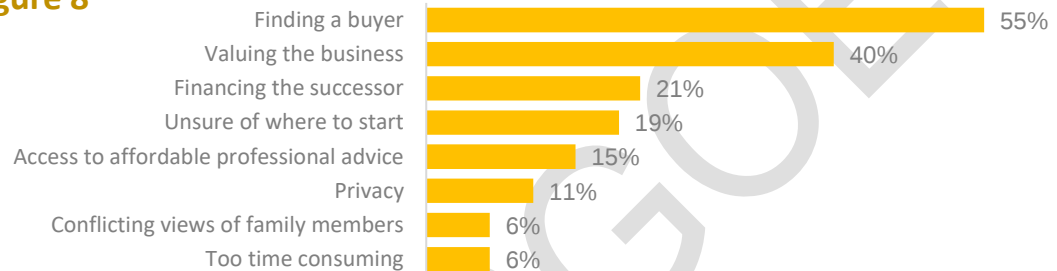
| Barriers

Transition planning can be daunting for owners of SMEs who lack the appropriate resources. The most cited barrier in transition planning and the eventual sale of their business is finding a buyer for their enterprise (Fig. 8). Due to the majority of respondents indicating that transferring their business to a family member was unlikely, the need for marketing strategies, access to a pool of potential buyers, and affordable resources to assist with the sale of their business are required.⁸

Access to information on valuing their business ranked second (40%) in the list of barriers when it comes to transition planning. Without proper information, the process of financing a transition plan and valuing the business can be difficult, leaving many unsure of where to start (19%).

Access to affordable, confidential and professional advice is critical when drafting a transition plan to ensure the successful sale of their business.

Figure 8



Note: Multiple answer question; therefore, data does not add up to 100%

| Conclusion and Recommendations

Timmins will see a significant turnover in the ownership of SMEs in the next 10 years.

Our survey found that the majority of family owned and operated business within the community are not prepared to develop a transition plan. With little access to affordable information and resources, SMEs see little value in having a plan in place. To ensure SMEs can better plan, the

Timmins Chamber offers the following recommendations:

For Businesses:

- Begin drafting a formal transition plan to ensure an exit strategy is in place. This is key to the business owner's financial stability and the continued success of the business and the local economy.

For Professionals:

- Develop templates tailored to the size of the business to help business owners understand the importance of this process.
- Help business owners understand the valuation of their business.

For Governments:

- Increase awareness of existing information about business succession planning.
- Create a business succession immigration stream that allows potential immigrants to purchase and operate an existing business.
- Adjust the Federal Tax Act so the sale of a business to a family member is taxed as capital gain.

⁸ Survey question: "Personally, how important is it that the successor of your business be a member of your family," whose result was 2.2 on a scale of 1 to 5.

| Resources from Local Chamber Members

Legal Services

Maisonneuve Dawkins Professional Corporation

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Griener Lambert Professional Corporation

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Financial Institutions

National Bank of Canada

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National Bank Business Transfer Program

RBC Dominion Securities

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Business Succession Checklist Package

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TD Wealth Financial Planning

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[Transition Planning Checklist](#)

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[Business Transition E-book](#)

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