

Preserving Rural Economies & Social Succession

Business Succession including
Social Enterprises & Co-ops

Agenda

1. The Business Succession Challenge
2. Why CBDCs Should Care
3. Social Succession as Part of the Solution
4. Next Steps for CBDC Staff & Board

The Business Succession Challenge



CFIB Report Findings



76% of Canada’s business owners plan to exit their business within the next decade – meaning that over \$2 trillion worth of business assets could change hands during this period.

– Canadian Federation of Independent Business (2023) Succession Tsunami: Preparing for a Decade of Small Business Transitions in Canada.

More from CFIB report...



Only 1 in 10 business owners (9%) have a formal business succession plan in place to ensure a smooth transition.

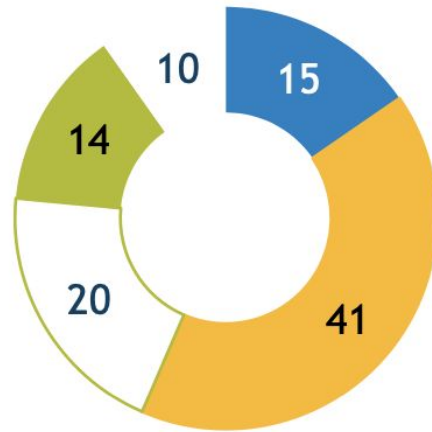


Finding a suitable buyer is the most common obstacle to succession planning (54%), followed closely by business valuation (43%) and the reliance on the owner for day-to-day operations (39%).

Critical Issue Because...

Figure 1

Expected business exit date (% response)



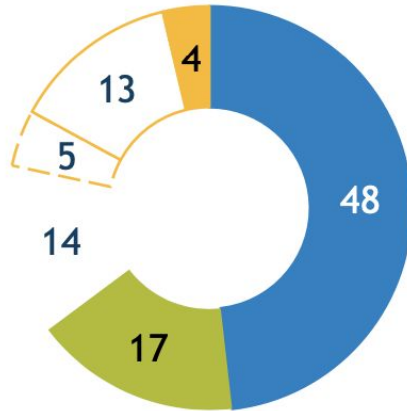
- Within 12 months
- In the next 1 to 5 years
- In the next 6 to 10 years
- More than 10 years from now
- Don't know/Unsure

Reasons for Exiting...



Impact of COVID

Figure 3
Effect of COVID-19 on exit timeline (% response)



- Exit timeline is the same
- I have accelerated the exit date
- Don't know/Unsure
- I have delayed the exit date by one year
- I have delayed the exit date by 2 to 4 years
- I have delayed the exit date by 5 or more years

Barriers to Succession...

Figure 12

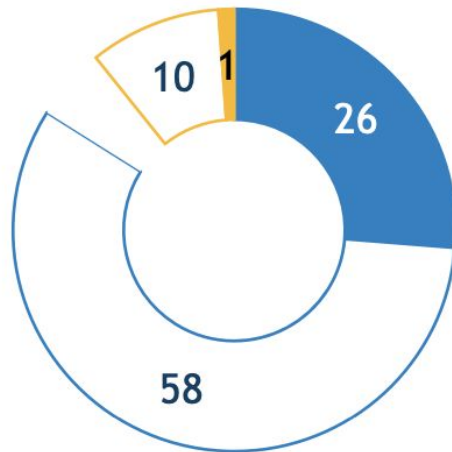
Barriers to succession planning (% response)



Difficulty Determining Value...

Figure 13

Difficulty determining the value of a business (% response)



■ Very difficult

□ Somewhat difficult

Don't know/Unsure & Not Applicable

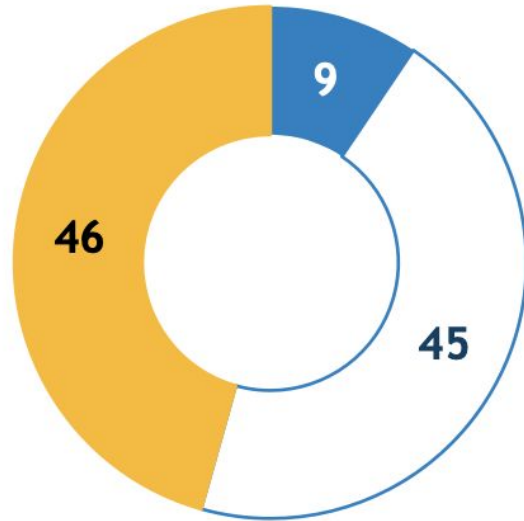
□ Not very difficult

■ Not difficult at all

Many With No Plan...

Figure 8

Existence of a succession plan (% response)

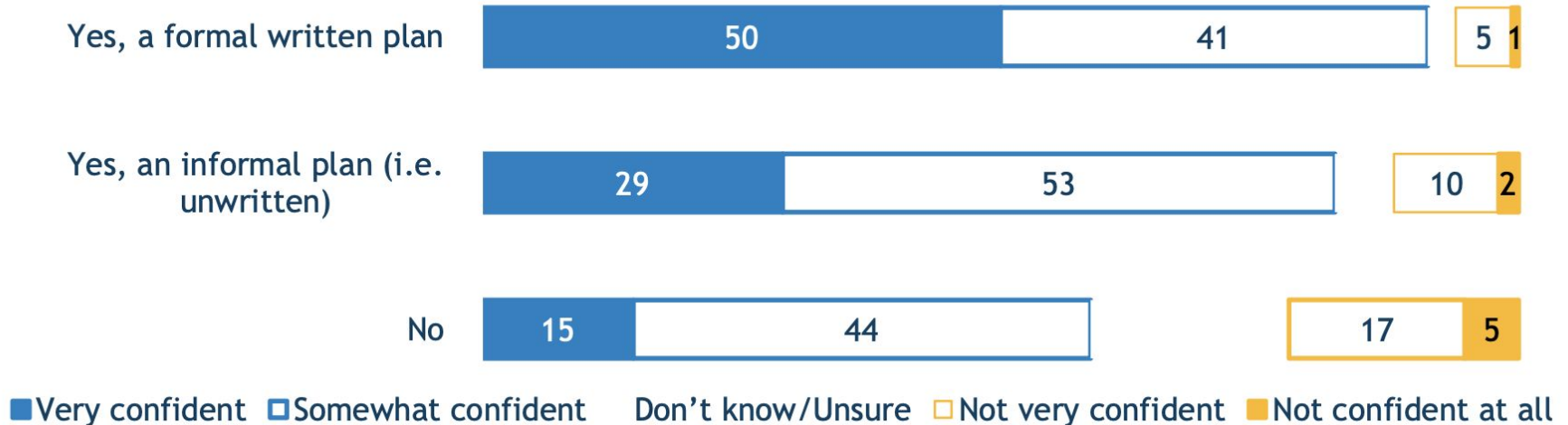


- Yes, a formal written plan
- Yes, an informal plan (i.e. unwritten)
- No

Planning & Confidence...

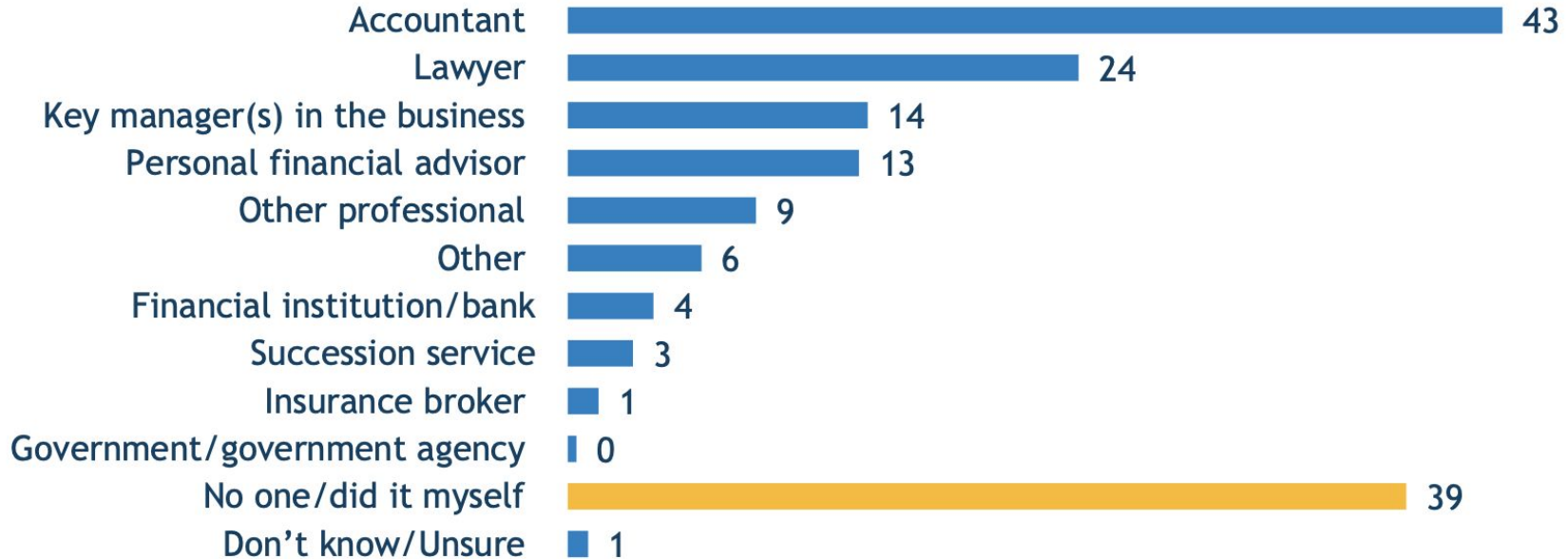
Figure 7

Owner's level of confidence that the process of exiting their business will be successful, based on the type of succession plan (% response)



Who People Turn To...

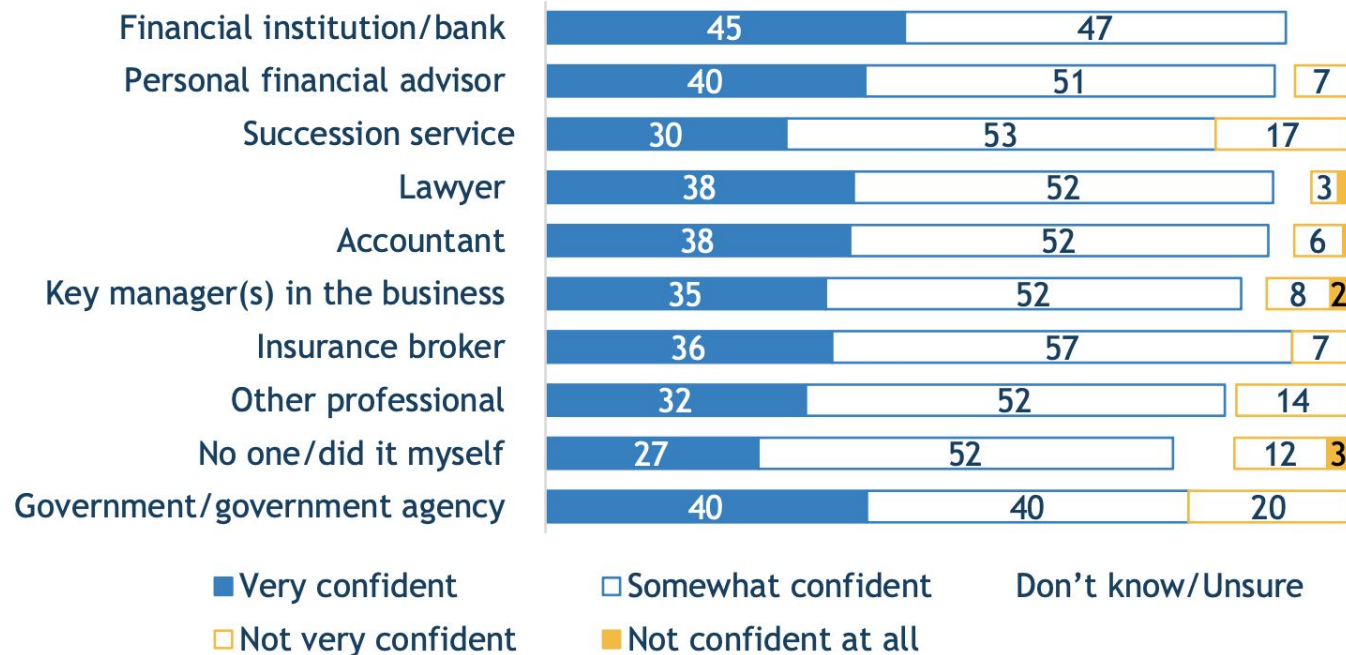
Resources business owners rely on when developing their succession plan (% response)



Note: Only respondents with a formal written or informal plan answered this question.

Confidence re: Advisors...

Business owner's level of confidence in having a successful business exit, based on advisors consulted while developing a succession plan (% response)



Why CBDCs Should Care...

- Last year, CBDCs assisted 1,606 SMEs in rural Atlantic Canada, investing over \$100,000,000
- Collectively manage over 5,461 loans with clients
- With a total outstanding loan balance of \$317,000,000

Source: Atlantic Association
of CBDCs, as of March 31, 2023

This Means...

- 2,785 CBDC clients could be looking to exit in the next 5 years, and
- 51% of loans could be in jeopardy if they just close down and do not have a buyer or successor ready to take over the business
- The loss of many 'keystone' community businesses could trigger an economic crisis in rural communities

“Keystone” Businesses = Critical Infrastructure for Rural Communities

Most rural communities have only one of each:

- Grocery Store
- Gas Station / Garage
- Hardware / Building Supply Store
- Bank
- Pharmacy
- Childcare Provider
- Medical Clinic
- Large Employer

We Also Know...

- 46% of business owners have no plan for succession,
- COVID fatigue, related debt from RRRF and competition for labour has increased the risk of businesses closing,
- We need to look at ALL succession options.



Social Succession: Transitioning Businesses to 'Social' Ownership

Social Succession is About...

...transitioning an independently-owned business to nonprofit, co-operative, municipal, Indigenous, or other collective ownership.

Opportunities & Benefits

- Preserve vital goods, services, jobs, and tax base
- Increase equity in economic participation
- Reduce / reverse youth out-migration
- Owners may have greater opportunity to stay involved after the sale and continue to contribute
- New perspectives that can help business to grow



Who's Involved?

- **Sellers** - independent business owners
- **Buyers** - employees, customers, local residents, nonprofits, Indigenous groups
- **Intermediaries and Influencers** - accountants, lawyers, business valuers, financial advisors, economic developers, CBDC board and staff
- **Social Enterprise, Co-op, and Indigenous Business Developers**
- **Other Community Stakeholders** - residents, municipal governments, others

Success Factors

- Knowledgeable & Connected Intermediaries
- Engaged Sellers & Buyers
- Openness to New Roles
- Shared Values
- Financing
- Time

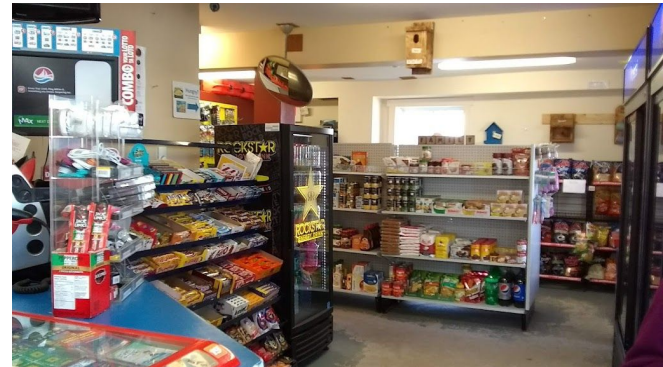


Examples of Social Succession...

- Carlton Road Industries Association
- Windhorse Farm
- Webster Farms Ltd.
- White Hills Resort
- Co-op Camping Parc Daigle
- Ferme Terre Partagée

CARLETON ROAD INDUSTRIES ASSOCIATION

<https://carletonroadindustries.com>



Windhorse Farm / Asitu'lsk and Ulnooweg Education Centre

<https://asitulsk.ca/>



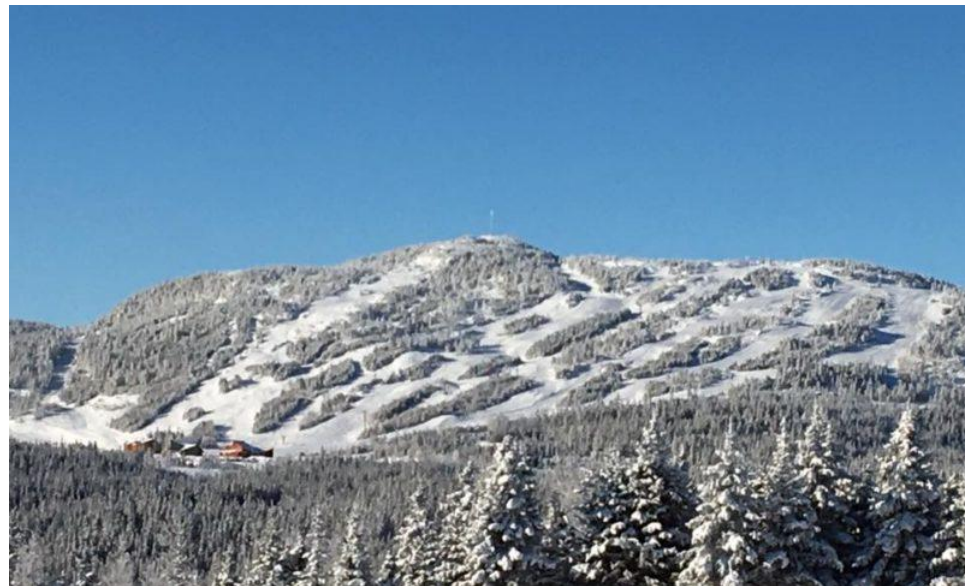
Webster Farms Ltd. & Annapolis Valley First Nation



www.avfn.ca

www.websterfarms.ca

Town of Clarendville, the Alpine Development Alliance Corporation, and White Hills Resort



www.whitehillsresort.com



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www.fermeterrepartagee.org



What can I do?

Step-by-Step...

1. In your loan portfolio, **identify** if there are any keystone businesses are at risk, then others...
2. Identify which owners might be thinking about selling & when? Do they **have a plan**?
3. If no plan, help them **develop a plan**,
4. If having trouble finding a traditional buyer, ask them if they would be interested in pursuing **social succession** as a strategy,
5. Help them **find a “social” buyer** (could be local, regional or provincial in scope)

Specific Challenges

- Takes time to prepare a Seller and find a Buyer
- Buyer might need to build Capacity
- Risk Aversion of Nonprofit Boards & Management
- No Awareness of Social Succession
- Finding Social Enterprise and Co-op Expertise
- Knowledge of Available Financing

Value of a Plan

One of the highlights of the CFIB findings is that business owners who might be struggling or worried about how much debt they have are **more confident** about sticking around to find a buyer if they **have a plan**.

One of the key roles that CBDCs can play is to help business owners to develop a succession plan, which could involve a traditional approach or social succession.

CBDC Funding for Support

CBDCs have a variety of programs that could help support both sellers and potential buyers in social succession.

These could include:

- Business Financing
- CAS and Business Valuation Programs
- Innovation Programs
- Risk Mitigation Funds

More Resources / Support

- Flourish has extensive experience in co-op and social enterprise development. We can be your one-stop shop for support.
- Check out our website: flourishcoop.ca
- We would love to hear from you!



Questions?

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