

# BUSINESS OWNERSHIP SUCCESSION

## Introduction

In Canada, the population is aging and many small business owners are interested in retiring and exiting their business. According to the [Business Development Bank of Canada](#), 40% of small business owners are planning to exit their business in the next five years. In rural areas, close to half of businesses do not have a formal business plan or succession plan. The lack of planning could make many ownership transitions very difficult and could lead to business closures, bankruptcy, employment loss and negative effects in the economy and vitality of rural communities. Opportunities to overcome the challenges to business succession might include the development of co-operatives, newcomer attraction and youth enterprises.

## ISSUE/OPPORTUNITY

Business owners retiring may lead to economic pressure on communities. If owners do not have a succession plan and cannot find a buyer or suitable successor, they might be forced to close the business. If the business is bought out by investors interested only in acquiring its customer base or its equipment at a low cost, the business may also close. Business closures, and the consequent employment loss and empty buildings on main streets, could reduce the economy and vitality of rural communities.

The first step to a business transition is to determine and understand the transferable value of the business. This phase is essential to ensure that the business is stable and profitable before putting it on the market. The next step is to find a buyer or successor.

The majority of business owners expect to pass their business to a family member, but the reality is that only 30% of family business survive into the second generation.

Employee/management buyouts (worker co-ops) have a good rate of success ensuring continuity of the business and protecting jobs. Co-ops can also be formed by customers or business suppliers.

Entrepreneurial immigrants bring potential benefits to rural business transition, whether they are buying a business from a retiring owner or developing a brand-new business.

Keeping youth in rural communities provides opportunities for family farm succession, on-farm diversification and local food (farmers' markets, organic production).

## Ontario Rural Business Ownership Succession in numbers

There were more than **230,000** rural businesses in Ontario in 2016

**6%** of rural businesses will face a transition in 18 months (almost 14,000)

**48%** of rural businesses will face a transition in 5 years (more than 110,000)

**46%** of rural businesses do not have a business plan.

NOTE: these are estimates drawn from *The Rural Ontario Context and Business Succession*, by N. Ragetlie (2017)

## Resources

- [Rural Business Succession: Innovation Opportunities to Revitalize Local Communities](#), Chamberlain, P. (2017) While business succession is usually viewed as an approach to continuing a specific business, this paper takes the place-based approach that rural business succession needs to be viewed as the continuation and growth of local business communities.
- [Succession Planning for Small and Medium Enterprises: Presentation of the Research Findings](#), Entrepreneurships and Start Up Services Branch, Ministry of Economic Development and Growth, Ministry of Research, Innovation and Science. (2017) The goal of this study was to gain a better understanding of the issues associated with succession planning, as well as examine the current state of succession planning and the potential economic and social impacts of retiring SME owners in communities across Ontario.
- [Business Development Bank of Canada Transition Tools](#), Business Development Bank of Canada. Are you thinking of selling a business? Have you developed an exit strategy? Get started by learning with 106 business transition tools from the Business Development Bank of Canada.
- *The Step by Step Guide to Successful Business Transitions*, Community Futures and [SuccessionMatching.com](#). An overview on selling your business, including a step-by-step process for doing so successfully.
- *Rural Immigrant Entrepreneurial Guide*, The Workforce Planning Board Waterloo-Wellington-Dufferin (2017). The guide includes information on resources that can provide start-up toolkits, access to capital, legal advice, exporting assistance and others.
- [Components of a Farm Succession Plan](#), OMAFRA (Last review: 2015). This factsheet deals with the components of a written succession plan.
- [Co-operative Business Conversions](#), Ontario Co operative Association (2013). This factsheet is a quick guide to successfully transferring a business to a cooperative.
- *Succession Planning Using the Worker Co-op Option*, Hough, P. (2005). This report documents the information, knowledge and strategies for business owners to sell the business to the employees and managers.
- Mill, J. (2014). *Hire your Buyer! A Philosophy of Value Creation*. Engagement Thinking Tools Co. This book sets out a well-defined path for creating a team and building value on top of your solid business foundation so that everyone can win.

## STORIES OF SUCCESS

### **The Aron Theatre**

From *"How the co-op model keeps businesses alive when boomers cash out"* by Richard Blackwell. The Globe and Mail. November 30, 2015

In some cases a business co-ops' members will not be its employees. In some circumstances a co-op can be formed by of the community where the business operates, or even by its customers. The Aron Theatre in Campbellford, Ont., for example, is a non-profit co-op owned mostly by members who live in the town, about 50 kilometres east of Peterborough.

The movie theatre, constructed in 1949, was going to close in 2010 when its owner decided to retire. But Russ Christianson, a co-op specialist who happened to live in the town, figured he could set up a co-op to keep the theatre alive while providing the owner with an exit strategy.

Dozens of community members joined in, and bonds were sold to raise needed funds. The theatre itself has been revitalized, a new digital projector purchased, and first-run movies are bringing in new patrons. The co-op now has a surplus from operations, partly thanks to a lot of donated time from volunteers.

The co-op structure was the main reason the Aron survived, Mr. Christianson says, because it tapped into an emotional attachment of the membership to the theatre. "They didn't want to have another empty building on the main street," he said. "It is a community engagement project."

### **The Ludwig Family Farm**

From *"Succession through diversification."* Farm Credit Canada. April 28, 2016

Established farms sometimes head in different directions when the next generation becomes involved, and that has certainly been the case for the Ludwig family farm on Vancouver Island.

In 2004, Terry and Bonnie Ludwig called Abel O'Brennan to help them build two heifer barns on their large dairy farm near Black Creek. Abel and the Ludwig's daughter Amanda were high school sweethearts. Soon after Abel returned to Black Creek, the two married. He began to work on the farm, but discovered he was allergic to cows.

Amanda's two younger brothers, Phillip and Daniel, didn't share their parents' passion for dairy either. All three siblings wanted to stay on the farm, though, which by the mid-2000s included about 1,000 acres and was milking 260 cows three times a day.

After meeting a Washington State berry propagator and packer who was looking for additional product, the family decided to plant a trial field of blackberries – despite having no previous experience. They soon incorporated raspberries and blueberries, and further

diversified with a portable sawmill as well as beekeeping and honey extraction equipment. Because berries alone would not sustain the farm, the boys branched into corn, pumpkins and squash. “In 2015, we shipped 15 semi-loads of produce off the farm,” Abel notes.

In 2010, Coastal Black Fruit Winery was added to the mix. At the same time, Abel and his brothers-in-law made a major foray into agri-tourism. They built a bistro with a wood-fired pizza oven, open from Mother’s Day to Labour Day, into the winery. In the fall they’re occupied with a highly successful Pumpkin Festival that attracted about 15,000 visitors in 2015, and there are plans to increase pumpkin production and expand the festival further.

## Videos

- [Rural Succession Planning - Utilizing the Co-Operative Business Model](#). Peter Cameron, Co-Op Development Manager with the Ontario Co-Operative Association speaks about how the co-op business model can aid with rural business succession planning.
- [Writing a Succession Plan](#). This webinar session explains the five phases to business transition and helps to design a succession plan for your business or farm.
- [Employee Shared Ownership Plans with Dan Ohler](#). This webinar session presents the definition and advantages of Employment Shared Ownership Plans.

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Does your community/organization have a successful experience related to business ownership transfer? Please share it with us. Send us an email at [info@ruralontarioinstitute.ca](mailto:info@ruralontarioinstitute.ca)