



SHIFT

Business Buyers

Have control over your future



THOMPSON RIVERS
UNIVERSITY

Funding provided through the Canada-British Columbia Labour Market Development Agreement

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Our partners, Thompson Rivers University, Venture Kamloops, Business Development Bank of Canada (BDC), KPMG, Kamloops Chamber of Commerce, Small Business BC, Growth Strategy Dynamics, Community Futures, BC Chamber of Commerce, Pacific Business Brokers, Forward Law, THRIVE Business Strategies and Edward Jones.

Resource Development Team

Tracy Penny Light, Executive Director, Centre for Student Engagement and Learning Innovation
Sukh Heer Matonovich, Interim Associate Director, Centre for Student Engagement & Learning Innovation
Alana Hoare, Continuing Education Coordinator, Community Engagement
Brian Lamb, Director, Innovation Open Learning

John O'Brien, Resource Writer
Prasad Ravi, Assistant Professor, School of Business and Economics, Resource Writer

Melissa Jakubec, M.A., Instructional Designer
Dani Collins, B.F.A and B.Ed., Editor
Bob Byrne, M.Ed., Curriculum Media Producer
Robline Forsythe, B.A., Graphic Designer

Print Production by: Open Learning Production Team

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Thompson Rivers University
900 McGill Road
Kamloops, BC V2C 0C8

About SHIFT

Project Background

In 2011 there were approximately 385,100 small businesses operating in BC, employing over one million British Columbians and accounting for 98% of all businesses in BC.

Recent trends have shown a dramatic increase of small business owners closing their doors at the time of retirement. Research from Venture Connect, a subsidiary corporation of six Community Futures offices, indicates about 25% of all small businesses will be looking to exit within the next five years, and with about 1/3 of those electing to just close their doors. Thus removing those products and services and potentially making them unavailable to residents in the areas served by those companies.

In an effort to increase retention of jobs and workers within our community a Labour Market Participation Agreement was forged to between a number of industry stakeholders to develop curriculum which would share valuable concepts around business succession.

The purpose of this Shift project is to help educate people on the steps required for successful transfer of business ownership. This is presented as a starting point or stepping stone to business succession. While a variety of topics and a breadth of information is covered, we highly recommend seeking legal and accounting advice early on in the process. Each person's business objectives are unique and a professional can best tailor advice to your specific needs.

This series was developed to bring together various documents and information to facilitate the purchase or sale of small businesses. Over the next ten years many owners will be retiring and making the effort to sell their business.

The curriculum presented in this resource provides the skills for new entrepreneurs to successfully transition to business ownership, while owners looking to transition out of their business will benefit from learning how to transfer the operating knowledge of their business to a new owner.

Learners will have opportunities to engage with case studies within each module, view interactive content, and have opportunities to make connections between their own context and the examples in order to acquire the knowledge and skills required for success.

Project Objectives

1. Increased retention of jobs and workers within our community.
2. A clear and comprehensive step-by-step curriculum to simplify the process of business succession.
3. The availability of this curriculum to anyone in the province via a workbook format, or through an online version.

Project Partners

This project was funded by the Ministry of Jobs, Tourism and Skills Training, Labour Market Programs Branch of the Province of British Columbia and is a Labour Market Participation Agreement with the Province of British Columbia

Our partners, Thompson Rivers University, Venture Kamloops, Business Development Bank of Canada (BDC), KPMG, Kamloops Chamber of Commerce, Small Business BC, Growth Strategy Dynamics, Community Futures, and the BC Chamber of Commerce all have vested interest in the continuation and the growth of small business in Kamloops and region for the sustainability of healthy economies and communities.

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Who can Use this Resource?

This resource is freely available to anyone with internet access. The resource was developed for entrepreneurs and business owners in the province of British Columbia (BC). If you are considering selling or buying a business outside of BC, different rules and regulations may apply.

How Much Time Can I Expect to Spend?

This resource is meant to be completed in a linear fashion; however, it can easily be broken up into a variety of ways depending on your background, comfort level with the information, and focus. There is no time limit for completion of this resource. Each section is roughly 10 to 15 hours in length. We strongly recommend you take your time and follow the links provided to gain more insight from experts and well-established organizations in the field.

What are the Technical Requirements?

To access all the resources, you will need access to a computer with internet access and audio/video capability.

Learner Activities

Throughout this resource you will come across a variety of Activities which will allow you to reflect on your learning so far. The activities are intended to support the development of a successful Business Plan (Buyer) or Plan of Action (Seller).

Finally, you will find case studies which illustrate a variety of potential scenarios which may occur along your pathway to Business Succession.



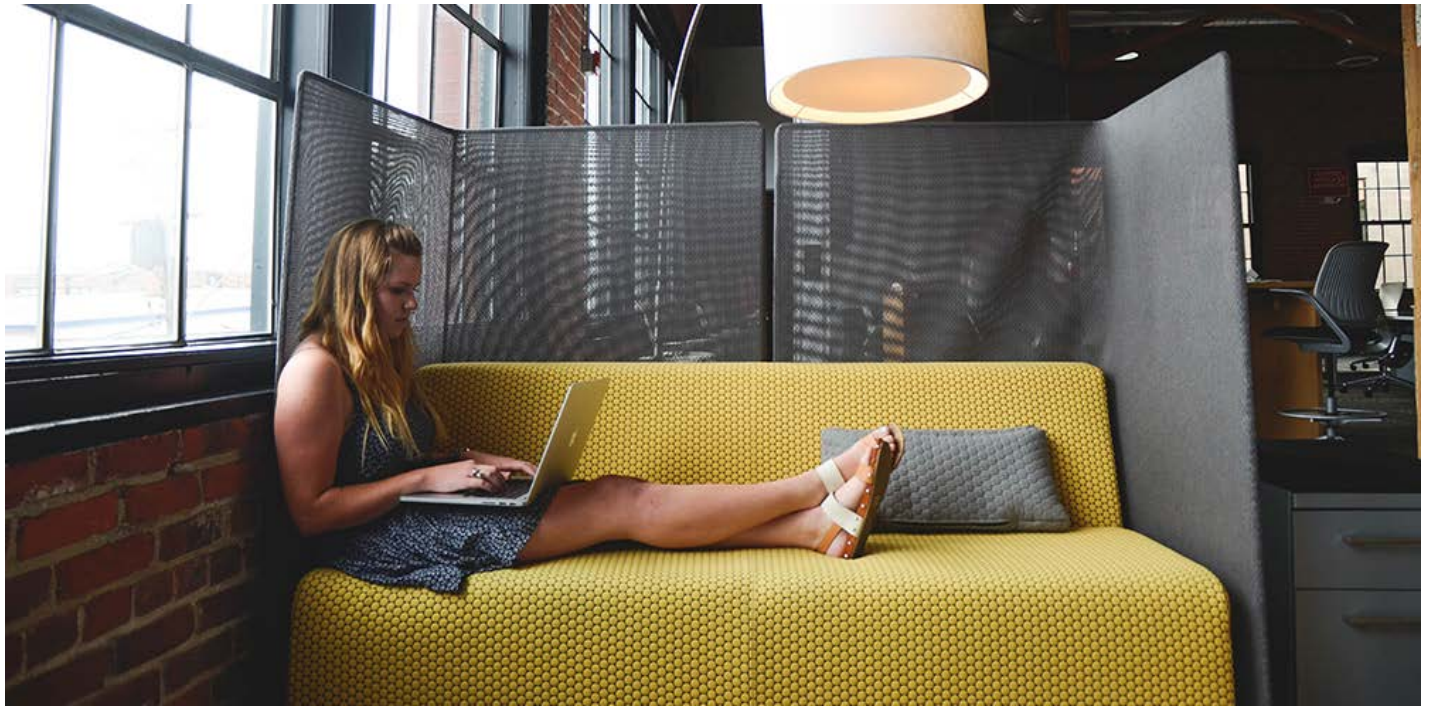
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Buyer



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Buying a business can be a challenging process with many factors to consider. To help you become better prepared to buy your own business, Thompson Rivers University in partnership with key industry stakeholders have gathered information and developed a series of case studies and learning activities, and put them all together into a trio of Buyer section modules.

Please, feel free to work through the Buyers section at your own pace. We recommend that you follow the order of the material as it is presented; however, you are free to jump to other sections of this resource if there are certain areas of more interest to you.

The Seller's section of the resource contains three complementary modules. You will see some overlap between the Buyer and Seller sections; however, each trio of modules is specifically targeted to its own audience.

Case Study Resources

Case studies provide excellent examples of the ups and downs of business succession and provide valuable insight for overcoming barriers. You can find Buyer and Seller case studies at the end of each booklet.

Preparing to Purchase a Business



StartupStockPhotos. (2015). Pixabay. Entrepreneur, startup, start-up, man, planning, business. Retrieved from <http://pixabay.com/en/entrepreneur-startup-start-up-man-593358/>License: CC0 Public Domain / FAQ

Overview

The lure of being your own boss and having control over your future is very appealing. At this point, you likely have made the decision to buy a business. You may have decided not to buy a franchise because of the high capital cost, ongoing royalty fees and rigid structure. You may have also rejected the idea of starting a business from scratch due to the lack of established customers, employees and suppliers. You are ready to consider buying an established business with a good reputation for quality, innovation, and growth.

Welcome to **Preparing to Purchase a Business**, the first of three modules that will help prepare you to become the owner of a small business. Once you have completed **Preparing to Purchase a Business**, you will have carefully considered your own suitability as an entrepreneur. You will also have determined the growth potential of your target business using data from Statistics Canada.

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In **Preparing to Purchase a Business**, you will explore the following aspects of a business valuation:

- » Current and future labour availability—researching demographics of your area to confirm you have a suitable labour and customer supply for now and in the future.
- » Estimation of how large a market exists - predicting market potential
- » Various legal forms of ownership
- » Contracts and fiscal responsibilities impacting business
- » Evaluating the human resources of a specific business
- » Confirming that owning your own business is a good fit with your personality, ability and future

Learning Outcomes

By the end of **Preparing to Purchase a Business**, you will be able to:

- » Evaluate whether or not you are well suited to be an entrepreneur.
- » Determine the growth potential of your target business using data from Statistics Canada.
- » Characterize demographics of your area and determine if there exists a suitable labour and customer supply for now and the future.
- » Practice and evaluate market share.
- » Select the appropriate legal form of ownership for your new small business.
- » Characterize and evaluate contracts and fiscal responsibilities when taking ownership of a small business.
- » Effectively communicate Human Resource responsibilities of owning a small business.



Photosteve101. (2012, January 11) Red post-it label, calculator and ballpen. www.planetofsuccess.com/blog/. Retrieved from <https://www.flickr.com/photos/42931449@N07/6812497415/>. Attribution 2.0 Generic Creative Commons License

Self-Assessment for Entrepreneurs

When considering buying a business, you should consider your personality and character and whether or not you are suited to the role of entrepreneur. Try answering the following questions:

1. Is one of your values a “steady income”? If so, being an entrepreneur may not be suitable.
2. Do you tend to be an introvert? If so, becoming an entrepreneur may be a challenge when you are selling products or services.
3. Do you tend to be creative, adventurous and willing to take financial risk for a large potential reward? If so, you may have the characteristics of an entrepreneur!
4. Do you have a history of entrepreneurship within your family? This is also a positive indicator for being an entrepreneur.

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Many resources are available to help you gain a deeper understanding of yourself. First, we recommend you complete the Keirsey Temperament Sorter®-II (KTS-II) on the Keirsey Website at www.keirsey.com, or the Meyers Briggs Personality Types at The Myers and Briggs Foundation website at www.myersbriggs.org. The Keirsey site has a free summary; however, any custom reports have a modest charge. The Meyers Briggs site does charge to take the test. There are also free options which are typically based on same theory as the Meyers Brigg test. One example is <http://personality-testing.info/tests/OEJTS/>.

We also recommend you perform a preliminary analysis of your strengths, weaknesses, opportunities and threats – in essence a SWOT analysis of your personality. If you haven't completed a personal SWOT in the recent past, you may want to take the time to complete one now. The following resources can be helpful.

- » Forbes' How to Conduct a Personal SWOT Analysis, at <http://www.forbes.com/sites/lisaquast/2013/04/15/how-to-conduct-a-personal-s-w-o-t-analysis/>
This webpage provides an overview of how a personal SWOT analysis can help you understand yourself and how you will adapt to new challenges.
- » Nancy Dube and Michelle Fontaine's slide presentation: *S.W.O.T. Analysis for Entrepreneurs*, at <http://www.slideshare.net/LAMICHProductions/swot-analysis-for-entrepreneurs>.

In addition to evaluating your personality fit for entrepreneurship, it is essential to take a serious look at your financial situation to determine your borrowing capacity for a down payment on an existing business. You will need to assess your ability to provide ongoing financial support of the business. This process will help define the size of a business that is feasible for you. This is also the ideal time to determine what you will need to gain from the business in order to cover your personal expenses.

Finally, it is important that you have a family discussion explaining the impact of being in business for yourself. Often family members become involved in the new endeavour and are potential candidates to continue the business into the future. Having your family's support will be paramount in becoming a successful entrepreneur.

Activity: Self-Assessment

You may want to take the time now to consider your own personality, conduct a personal SWOT analysis and examine your financial situation more carefully as you consider purchasing a business.

Activity: My Personal SWOT Analysis

The next page contains a template for you to document your strengths, weaknesses, opportunities, and threats. The following guidelines should help you:

Strengths

What are you good at? What special talents/skills/abilities can you draw on? What have you been told are your strengths?

Examples:

- » Strong project management skills.
- » Experience presenting to large audiences.
- » Proven successful sales abilities.

Weaknesses

What could you do or be better at? What areas do you find more difficult or have to work harder at? What have you been told are your weaknesses?

Examples:

- » Disorganized.
- » Uncomfortable speaking in front of groups.
- » Tendency to procrastinate.

Opportunities

What opportunities do you have? Are there any trends you could use to your advantage? How can you transform your strengths into opportunities?

Examples:

- » Owning a small business will help me control my workload.
- » Working through this resource will help me learn business skills.

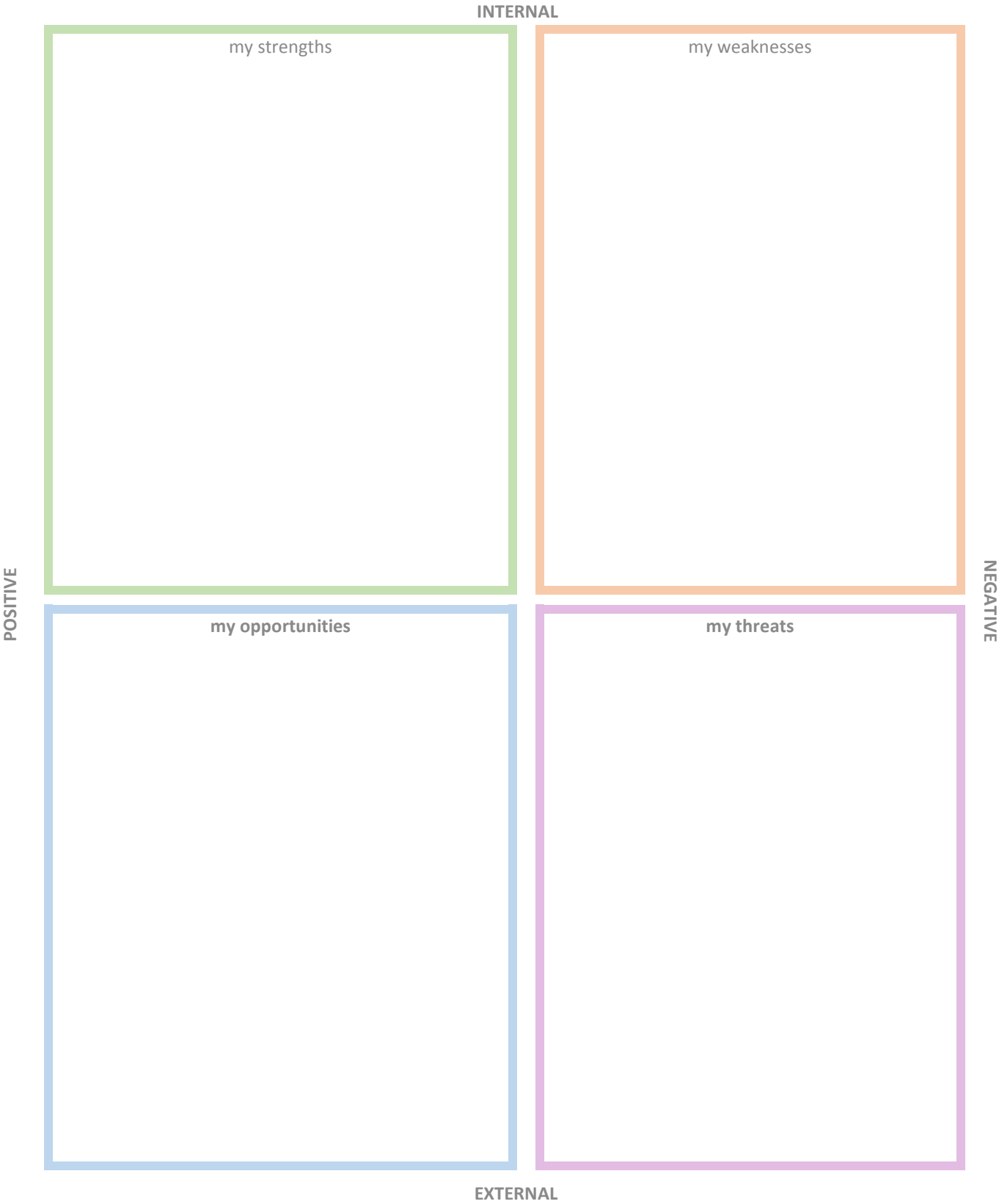
Threats

What threats could hurt your business? What are your competitors doing? Do your weaknesses pose any threats to you?

Examples:

- » Family isn't as supportive as they could be.
- » Other financial obligations.
- » Other business owners may be more personable.

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Growth Potential



StartupStockPhotos. (2015). Pixabay. Startup, meeting, brainstorming, business, teamwork. Retrieved from <http://pixabay.com/en/startup-meeting-brainstorming-594090/>. License: CCO Public Domain/ FAQ

The best place to start this endeavour is to determine the overall growth of the business you are considering purchasing. To do this you will explore how to:

- » Understand and interpret statistics on small business,
- » Determine the significance of the growth potential,
- » Identify the growth that has occurred in the past 5 years,
- » Identify the existing impediments to growth, and
- » Examine the performance of your competitors.

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Small Business Statistics

Fortunately, Innovation, Science and Economic Development Canada <http://www.ic.gc.ca/eic/site/icgc.nsf/eng/home> has collected data from businesses for many years. Review the most recent report entitled *Key Small Business Statistics Annual Report* at http://www.ic.gc.ca/eic/site/061.nsf/eng/h_02689.html. The 2013 report states that innovative high-tech firms are often aligned with high-growth firms. High-growth firms tend to be found across all industrial sectors. Growth is often measured in either revenue or number of employees. Over half the service firms in each sector expect to grow between 1% and 10%. Of the manufacturing firms, 19% expect to grow 11% to 20% and 9% expect to grow more than 20%. (Industry Canada, 2013).

NOTE

Innovation is the lifeblood of small business. The main categories of innovation include:

- > Product – tweaking existing products or creating new products
- > Process - utilizing employee suggestions to streamline existing routines
- > Organization – looking for more effective ways to utilize employees
- > Marketing – continuously assessing markets to developing effective strategies and improve results

It is interesting to note that 38% of small businesses made at least one of these types of innovations (Industry Canada, 2013, p. 7).

Small Business Profile

British Columbia's *Small Business Profile 2014* at <http://bcstats.gov.bc.ca/Publications/AnalyticalReports.aspx> breaks down the changing number of businesses by industry and region. This will become a terrific resource to test your future business and to see how many businesses are in a similar area.

The largest growth areas in the Thompson-Okanagan area include Public Administration and Mining, Oil & Gas. The largest number of businesses is in the Personal & Business Service as well as Trades and Construction.

Take time now to study the overall report. Visit the BC Stats page on "Analytical Reports" at <http://bcstats.gov.bc.ca/Publications/AnalyticalReports.aspx>, then look for the most current report titled "Small Business Profile" and download the document. Read the report to gain an insight into small business growth, employment and the contribution to the economy. The appendix reports the number of businesses by industry and by geographic area. Which group would your business fall into?

Statistics Canada also compiles data by business category on their Canadian Industry Statistics (CIS) website at <https://www.ic.gc.ca/eic/site/cis-sic.nsf/eng/home>. You can drill down to very specific business data, (e.g. search Bed & Breakfast), by province and the number of employees. With a little more digging, you can find the revenue and expenses of this category. This information would be most helpful when deciding the capacity your business has to support you and your family, and to see what the financial performance has been of your prospective business. For the B&B business (North American Industry Classification 721191), the number of establishments seems very low. A complete picture of this

industry may not be available but the reported data can still be useful in determining the value of buying; the report is based on Revenue Canada Income Tax reporting and would be more accurate than guessing. The North American Industry Classification is a standard method for a business to classify its primary activity. The classification system is used in Canada, United States and Mexico, however Statistics Canada data excludes other countries. This is a powerful tool that is freely available.

Financial Performance Data



PublicDomainPictures. (2012). Pixabay. Cooking, chef, teaching, granny, grandchild, boy. Retrieved from <http://pixabay.com/en/cooking-chef-teaching-granny-13812/>. License: CCO Public Domain/ FAQ

The Statistics Canada data can also provide insight into the competition. On Innovation, Science and Economic Development Canada's website at <http://www.ic.gc.ca/eic/site/icgc.nsf/eng/home> under the "Just for Businesses" tab, choose "Find Statistics by Industry" and then choose the sector "Accommodation and Food Services" which is North American Industry Classification 721191. Under "Accommodation and Food Services," you will find the following links to additional information about Financial Performance Data, which includes Revenue, Cost of Goods Sold, Expenses and Net Profit.

It is interesting to note that in a Statistics Canada report that 30% of the businesses were not profitable and yet had higher average revenues than profitable ones. Also, notice that the average revenue was about \$100,000. Having the raw data is only half the story. The reasons behind the results are more important. While all businesses are impacted by a "slow economy" there may be local factors that severely impact results, such as the opening of a big box store in the community. A business that is underperforming the average may present an opportunity to turn it around with a new owner. This data should form part of your due diligence process prior to tendering an offer to purchase.

The United States NFIB Research Foundation's 2011 *NFIB National Small Business Poll Growth-External Impediments* report at <http://www.nfib.com/Portals/0/PDF/AllUsers/research/studies/small-business-growth-study-nfib-2011-11.pdf> states that business uncertainty and weak sales are two principal impediments. During discussions with owners, questions about their confidence regarding improving business conditions will prove to be insightful. Be aware that doing business in the USA is very different from Canada. This study is American but it should still be helpful. You will quickly develop many questions and may be able to understand the business more intelligently.

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Trends are important in choosing your industry and business. The *Small Business Profile 2014* from BC Stats referenced above shows the number of small businesses that have increased across the Province (p. 5). Businesses with 1 to 4 employees grew 7.0% (6,800 more companies) and those with 20 to 49 grew 6.6% (900 more companies), while the self-employed without paid help were reduced 3.5% (7,500 businesses) (Small Business BC, 2014, p.5). If your prospective business has no paid help, you will be challenged. It would seem that the micro groups (1 to 4 employees) are increasing in numbers of businesses. This data does not measure any change in sales or profits, only the inventory of companies reporting across the Province.

Selecting a business with deteriorating opportunities would prove to be challenging. Drive-in movie theaters, for example, have basically gone the route of the do-do bird and are extinct today. Customers are looking for different venues for entertainment. When you find interesting and innovative products and services, then perhaps that industry will enjoy growth for the next several years. Data on the labour force is another key factor that you will investigate next.

Activity: Growth Potential

Before continuing to the next section, explore the statistics related to the business you are considering buying.

Activity: Determining Growth Potential Using Business Statistics

Part 1. Look for trends in your industry.

Visit the BC Stats page on "Analytical Reports" <http://bcstats.gov.bc.ca/Publications/AnalyticalReports.aspx>. Look for the most current report titled "Small Business Profile" and download the document. Read the report to gain an insight into small business growth, employment and the contribution to the economy. For detailed statistics consult the appendices at the end of the document.

Example: The following table is from the *Small Business Profile for British Columbia – 2014*. It shows that in the Thompson-Okanagan region, the number of small businesses in the construction industry decreased by 7.1% between 2008. The number of small businesses concerned with health and education increased by 12.7% over the same period.

THOMPSON-OKANAGAN	2008	2009	2010	2011	2012	2013	2008-2013 Change	
							#	%
Mining, Oil & Gas	100	102	99	95	114	122	22	22.0%
Other Primary	1,472	1,456	1,415	1,468	1,523	1,557	85	5.8%
Utilities	38	38	38	36	42	43	5	13.2%
Construction	3,460	3,444	3,309	3,161	3,153	3,215	-245	-7.1%
Manufacturing	923	901	895	848	863	863	-60	-6.5%
Transportation & Storage	887	869	844	802	847	905	18	2.0%
Trade	3,706	3,674	3,654	3,578	3,587	3,594	-112	-3.0%
F.I.R.E	1,714	1,753	1,746	1,753	1,982	2,013	299	17.4%
Health & Education	2,014	2,080	2,110	2,114	2,138	2,270	256	12.7%
Public Administration	68	69	84	79	77	85	17	25.0%
Professional & Business Serv.	3,269	3,364	3,317	3,266	3,335	3,420	151	4.6%
Other Services	3,683	3,669	3,698	3,608	3,693	3,818	135	3.7%
Total	21,334	21,419	21,209	20,808	21,354	21,905	571	2.7%
High Tech	699	729	722	717	758	773	74	10.6%
Tourism	2,002	1,940	1,965	1,891	1,990	2,048	46	2.3%
Secondary Manufacturing	747	728	707	668	690	678	-69	-9.2%

Source: BC Small Business Profile-2014, page 30.

Explore the statistics related to the business you are considering buying. What trends do you see? Do you foresee any impediments for growth in your business?

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Part 2. Compare the performance of your business to others in the same industry.

1. Visit Innovation, Science and Economic Development Canada's website <http://www.ic.gc.ca/eic/site/icgc.nsf/eng/home>.
2. Under the "Just for Businesses" tab, choose "Find Statistics by Industry."
3. Click the industry that your business is part of, and then choose the specific category for your business.
4. Click the link to "Financial Performance Data."

The report will give you average revenues, expenses, and profits for small and medium sized businesses, which you can use to see how your business measures up. You will need some financial data from your business to compare to the average. How does the revenue and profitability of your business compare?

Assessing the Current Labour Force



Magnus Manske. (28 October 2009). Walmart employees adding boxes to baler. Retrieved from http://commons.wikimedia.org/wiki/File:Walmart_employees_adding_boxes_to_baler.jpg [CC-BY-2.0 (<http://creativecommons.org/licenses/by/2.0/>)], via Wikimedia Commons

Every business needs workers and customers. Turning to Statistics Canada, look for population trends to confirm the region or city that will supply both workers and customers. Your investigation may have provided some insight into the turnover rate in the proposed business. Often young people working at their first job are willing to accept a starting wage but they likely have an eye on higher wages through a promotion or a new employer. On the other hand, older employees are more often in established positions, commanding higher wages, with lower turnover. Regardless of age, most innovation often comes from employees.

Education may also be partly responsible for innovation as it allows a variety of opportunities for students to think analytically and critically while collaborating with peers. It would be helpful to know the education levels of the people where your business is located. Progressive employers develop a culture of innovation. By respecting employee ideas and implementing as many as practical, a culture of innovation will be created.

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Continuous improvement can be noticed through tweaking products, introducing new products and stopping obsolete ones. For example, a baker with a single product, English T Crumpets, may not have a bright future without continuous improvement and reinvestment. An Industry Canada study revealed that from 2009 to 2011, 38% of small businesses and 56% of medium-sized businesses made at least one of these types of innovations (Industry Canada, 2013, page 17).

Wages are a key element in employee attraction and retention. It is important to understand the hidden cost of employee benefits beyond the base salary. Benefit plans enhance the pay package. Statutory benefits paid partly by employers include Canada Pension Plan and Employment Insurance. It is also important to know what the competitors pay as employees will seek out the best remuneration package.

Employee Wages



Paolabaldacci0. (2015). Pixabay. Kitchen, chef, resort, egypt. Retrieved from <http://pixabay.com/en/kitchen-chef-resort-egypt-649110/>. License: CCO Public Domain/ FAQ

The *Small Business Profile 2014* report states that 2013 BC annual average earnings are \$39,244 for small business compared to large business \$48,933 (Small Business BC, 2014).

NOTE

One observation in The Small Business Profile 2014 report is the 4% increase in small business wages is less than the 14% increase in large business (Small Business BC, 2014). This may be a factor in attracting talented individuals.

Consider the training required to develop key employees and how many are needed in the business. A key employee should be able to keep the business “on course” for at least one week with a minimum of supervision. Also, consider the training time for a new employee and if the key employee would be the trainer. In general, the degree of complexity of a position will be reflected in the wage package. It is important to look ahead to confirm your source of future employees.

Forecasting Future Labour Market Availability



Vhanepfu. (26 September 2014). Steel construction. Retrieved from http://commons.wikimedia.org/wiki/File:Steel_construction.jpg [CC BY-SA 4.0 (<http://creativecommons.org/licenses/by-sa/4.0/>)], via Wikimedia Commons

BC Stats provides a thorough report on the level of employment and unemployment in BC sorted by economic region and broken down by sector at <http://www.bcstats.gov.bc.ca/StatisticsBySubject/LabourIncome/EmploymentUnemployment/LabourForceStatisticsAnnual.aspx>. For all of BC, the construction sector has increased employees from 126,000 in 1995 to 192,000 in 2013 with unemployment levels decreasing from 13.1% in 1995 to 6.4% in 2013 (BC Stats, 2015). One can clearly see that the growth has been steady and the unemployment rate has decreased. Beware—growth can put upward pressure on wage levels.

Work BC has also done a detailed estimate of the *British Columbia Labour Market Outlook 2012-2022*. This two-part report details the current and future outlook, with and without the impact of Liquefied Natural Gas (LNG). **Preparing to Purchase a Business** focuses on the future without an estimated 100,000 openings due to LNG. Total job openings are estimated at 1 million over the next 10 years. Anticipated retirements make up 68% while economic growth is 32% (British Columbia, 2015). There is every likelihood that worker demand will outpace the supply.

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More than 75% of the projected job openings will require some post-secondary education (Work BC, 2012). A university degree will be required for 34% of the jobs while a college education will be required for 44% (Work BC, 2012). High school education will be required for 18%, with the balance of 5% of jobs having less than high school requirement (Work BC, 2012). Migrants, people from outside BC or Canada, are expected to fill about one-third of the openings (Work BC, 2012).

The *British Columbia Labour Market Outlook 2012-2022* report from WorkBC deals with an occupational outlook that highlights Sales & Service as having the highest job openings, followed by Business, Finance & Administration. Trades, Transport, Equipment operators, and related jobs are the third largest group looking for workers. This report digs into the seven regional outlooks as well, which will help you focus on the future labour market availability for your area.

Before continuing to the next section, explore the BC labour market statistics related to the business you are considering buying.

Activity: Labour Market Availability

Before continuing to the next section, explore the BC labour market statistics related to the business you are considering buying.

Activity: Assessing the Labour Market

In this activity you will examine the labour market statistics for your business using the data tables found on the BCStats web site: <http://www.bcstats.gov.bc.ca/StatisticsBySubject/LabourIncome/EmploymentUnemployment/LabourForceStatisticsAnnual.aspx>.

1. Open the spreadsheet “Employment and Unemployment Rates by Industry and Development Region.” Click the tab at the bottom of the spreadsheet for the region you are interested in. Then, in the left-most column, find the industry that your business fits into. Employment figures are arranged by year, increasing as you move to the right in the spreadsheet.

For example, the figure below shows the employment statistics for the Construction industry in the Thompson-Okanagan region for 2012-2014.

Construction						
	AJ	AK	AL	AM	AN	AO
1 Employment and Unemployment Rate by Detailed Industry, 15 year						
2						
3 Note: figures of less than 1.5 (1,500 persons) suppressed	2012		2013		2014	
4 Thompson/Okanagan	Employ-ment	Unempl-rate (%)	Employ-ment	Unempl-rate (%)	Employ-ment	Unempl-rate (%)
5 (an Economic Region in the Province of British Columbia)						
6 All Industries (NAICS - North American Industrial Classification System)	252.7	7.1	246.6	7.0	249.0	6.3
7 Goods-Producing Sector	54.6	7.0	60.6	6.6	60.3	7.7
8 Agriculture	5.0	-	6.1	-	5.0	-
9 Forestry, Fishing, Mining, Oil and Gas	6.7	-	8.0	-	8.6	-
10 Forestry and Logging with support activities	2.2	-	3.8	-	3.1	-
11 Fishing, Hunting and Trapping	-	-	-	-	-	-
12 Mining and Oil and Gas Extraction	4.4	-	4.0	-	5.4	-
13 Utilities	-	-	1.7	-	1.5	-
14 Construction	25.4	7.3	26.2	6.1	24.8	9.8
15 Manufacturing	16.7	-	18.6	7.5	20.5	-
16 Food, Beverage and Tobacco Product Mfg.	2.1	-	2.0	-	2.5	-
17 Textile Mills & Textile Product Mills	-	-	-	-	-	-
18 Clothing Mfg & Leather & Allied Product Mfg.	-	-	-	-	-	-
19 Wood Product Manufacturing	7.0	-	7.8	-	9.2	-
20 Paper Manufacturing	-	-	-	-	-	-
21 Printing and Related Support Activities	-	-	-	-	-	-

Explore the employment figures related to the business you are considering buying. What trends do you see? Do these trends have any implications for the labour market for your business?

SHIFT

2. Open the document “B.C. Labour Market Outlook 2012-2022”. This document forecasts the BC labour market supply and demand trends to the year 2022.

The document is organized by geographical region, and provides a summary and a list of occupations with the highest numbers of job openings.

Read the page for your region. Does this outlook have any implications for the labour market for your business?

Business Market Share



Anna Dziubinska. (n.d.) Retrieved from <https://unsplash.imgix.net/36/yJI7OB3sSpOdElpHhZhd> .Creative Commons Zero

One important metric to consider is the market share a business enjoys. A company that has a majority of the market could be very successful. A company with a deteriorating market share could be in trouble. The process to determine the market share involves two steps:

- » Knowing the prospective business revenues which the owner will supply
- » Estimating the overall market, which you will explore next

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Several different measures of overall market can be determined by the following:

1. **Consider the share of unit sales.** For example, the local golf course finds out that all the courses in the nearby area host 100,000 rounds of golf annually. While, this particular golf course hosts 20,000 rounds annually. The market share is 20,000 divided by 100,000 or 20%.
2. **Consider the share of customers served.** For example, the local carpet cleaning company serves clients within 25 kilometers of the office. Using Canada Post Precision Targeter software at <https://www.canadapost.ca/cpotools/mc/app/tpo/pym/targeting.jsf?LOCALE=en>. It is possible to determine the number of households, apartments, businesses or farms within a present distance of the potential business. Further, a demographic filter can be applied in your search including household income, education and family structure. This free tool allows a comprehensive view of the households surrounding the business. Dividing the business customers —1,000—by the number of households in the nearby area—4,000—would give a 25% market share. However, the owner assumed that only 50% of the households had their carpets cleaned annually, and revised the realistic market to be 2,000; for then its share would be 50%. It becomes clear that calculating the market share is an estimate at best.

Identifying Market Share

Statistics Canada has a *NHS (National Household Survey) Profile, 2011* at <http://www12.statcan.gc.ca/nhs-enm/2011/dp-pd/prof/index.cfm?Lang=E> that has population data points for individual communities. You may want to explore the profile in relation to your prospective business:

- » The age profile may be helpful depending on your business.
- » The ethnic profile may be helpful for restaurants or boutique food stores.
- » The education levels would be important as a source of employees and customers.
- » Available data on people in the labour force and those unemployed or out of the labour force may be helpful as a source of employees and customers.
- » Transportation, length of commute and regular time of departure are also included in the report.
- » The dwelling age, number of rooms and bedrooms, type of maintenance needed, and shelter costs as a percent of income.
- » The gross and net income by range is included for both individuals and households.
- » All the data is available for most large or small communities.



StartupStockPhotos. (2015). Pixabay. Write, plan, business, startup, start-up, notebooks. Retrieved from <http://pixabay.com/en/write-plan-business-startup-593333/> License: CC0 Public Domain / FAQ

The next item to investigate is the potential impact of a change in ownership.

Activity: Business Market Share

Before continuing to the next section, take some time to examine the market share for your business.

Activity: Determining Market Share

1. Examine the market size.

Take time to examine what data is available in the *NHS Profile, 2011* by following this link <http://www12.statcan.gc.ca/nhs-enm/2011/dp-pd/prof/index.cfm?Lang=E>. Search either by "Place Name" or "Postal Code." Click your relevant area in the search results. This will take you to a page with the NHS Profile for your area. Next from the "Select a View" menu, explore "Income of Families," "Income of Households," and "Income of Individuals."

For example, an examination of the households in Kamloops in 2010 shows that 26,200 (75%) have after-tax income in excess of \$50,000.

Record your findings about the market size for your business below.

2. Techniques for examining business market share could include looking up the competitors in the phone book, visiting their website and discussing with the seller what is their impression of the market share.

Record your findings about the market share for your business below.

SHIFT

Change of Ownership



Unsplash. (2014). Pixabay. Office, meeting, business, partners, cooperation. Retrieved from <http://pixabay.com/en/office-meeting-business-partners-336368/> License: CC0 Public Domain / FAQ

A business is established under one of the following forms:

- » A proprietorship has a low start-up cost, is in control of decision making, and pays income tax as individuals, as all profits go to the owner. The disadvantage is the personal liability for business debt, risk of a lack of continuity during illness, challenges in raising capital and no name protection for the business.
- » A partnership is easy to establish, has similar low start-up costs, additional sources of capital from the partners, pays income tax as individuals, has limited regulation and a larger management base. However, it suffers from unlimited liability, shared decision making, challenges in raising additional capital, difficulty in finding suitable partners, risk of conflict between partners, risk of being legally bound without knowing, lack of continuity and no name protection for the business.

- » A limited company is most often favoured due to its limited liability, possible tax savings, transferability of ownership, ongoing existence, ease of raising capital and name protection. However, it is more closely regulated, formation is most expensive, it requires extensive record keeping, has potential double taxation by company and shareholders, directors may be held liable, and it requires personal guarantees for debt of corporation. The type of structure you intend to form requires careful consideration and legal advice.
- » A Co-operative is the least common form of business that is suitable to individuals wanting to pool resources to access common needs.

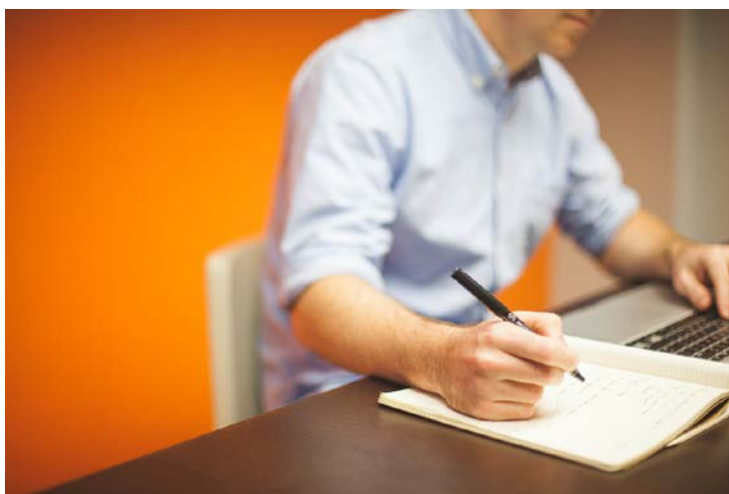
(Canada Business Network, 2015)

Small Business BC's *How to Choose the Right Business Structure* at http://smallbusinessbc.ca/wp-content/uploads/resource_files/How_to_Choose_the_Right_Business_Structure.pdf describes the advantages and disadvantages of each business structure. The formation of the business you are buying is important to know, as is the formation of the new business that you will enter into.

The form the selling business takes does not preclude the new owner from changing the format. For example, an existing Proprietorship can be changed to a Partnership, or a Limited Company to one that is most suitable for the new business owner.

Next, you will focus on responsibilities that are assumed from the existing business.

Contract and Fiscal Responsibilities



StartupStockPhotos. (2015). Pixabay. Office, startup, business, home, office, businessman. Retrieved from <http://pixabay.com/en/office-startup-business-home-office-594132/> License: CC0 Public Domain / FAQ

When an existing business is purchased there are several relationships already in place. Existing customers, suppliers, employees and bankers know the business and will likely want to continue after the change in ownership. Building relations with the key partners will be an important task for the new buyer.

Examining customer commitments for either price or performance will help you understand the degree of formality. The use of purchase orders, payment by statement or invoice, and credit terms will need to be discussed.

Suppliers are also key to a successful enterprise. Knowing what relationship exists, volume discounts or annual volume rebates are important. The credit terms

and history of payment to suppliers will be relevant as well. Pending price increases will impact future profit margins.

It is important to determine if any labour contracts are currently in place. Most small businesses are not likely to be under a Collective Agreement; however, confirmation is part of a due diligence process. The employees may have an expectation based on the current owner for a year-end bonus or regular annual increases. Discussions with the owner and perhaps the key employees would be prudent.

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Look into the possibility of maintaining the same banking relationship that the current owner has as the bank will have good knowledge and experience with the company. On occasion the bank may have covenants in place that restricts the level of debt or the sale of assets in order to protect the bank's investment. Disclosure of covenants should be discussed. Any monthly or quarterly reports to the bank need to be identified.

The relationship with the accounting firm is also relevant. Annual financial statements and tax returns for the past 3 years will shed valuable insight into the reported results.

Any indication by the seller that the statements reflect only part of the revenue should be a caution flag. Small business owners may not report all income for a variety of reasons. A wise buyer would need to be very cautious to avoid any liability related to misrepresenting business records.

Other regular reports to various levels of government, including Statistics Canada, should be reviewed. These mandatory reports need to be completed on a timely basis. The Canadian government generates many different reports based on data collected from businesses that are relied upon as factual, complete and representative.

Submission of payments for Canada Pension, Employment Insurance and Income Tax need to be current. You can find further information on Revenue Canada's website at <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/clcltng/menu-eng.html>.

Work Safe BC (http://www.worksafebc.com/insurance/managing_your_account/payroll_reports/emp_30_10_40.asp) reports and benefit plans also need to be up to date.

Determining Value of People Resources



Haydenweal. (2014). Pixabay. Man, person, happy, waiter, worker, job, employee. Retrieved from <http://pixabay.com/en/man-person-happy-waiter-worker-439040/> License: CC0 Public Domain / FAQ

Most small businesses rely on the owner to do the Human Resources (HR) work. When assessing a potential business it is important to recognize any “key” employees. These are the ones that can continue the business with minimal supervision for a week-long period. Try to estimate the number of weeks of training required to move a person to the “key” role. Now look at the other employees and determine which “specialists” are in the company. The “specialist” may work alone and have little backup for vacation or sickness. Also, estimate the number of weeks of training to move a person into this role.

The remaining employees may need an orientation period, basic training and close supervision typically lasting less than one week. When you total the training required to replace all the staff you will have an idea about the overall value of the people. Naturally, employees will not leave at the same time but rather over time, each one could be promoted or resign. Determining who would be the trainer is also useful as that individual would be operating with reduced productivity during training.

The level of education required for each position is important. Most businesses are looking to promote people within the company. By setting a high education standard for new hires the company can train and promote from within. Innovation can often be boosted with educated or experienced employees.

Acknowledging that employees are the most important resource in a business is very important. Nothing will be ordered, built, or shipped without an employee action. Business is simply not automated. The owner will have to develop special skills to manage the workers, to help them achieve outstanding results. The owner may err at times but an honest, open, engaged employer should be a pleasure to work with. Determine the present culture at the prospective business to provide insight into the success of the firm.

Financial Considerations

You will recognize the need for a Certified Professional Accountant (CPA) to review the audited financial statement of your business. The CPA will be able to highlight trends in the business that you will want to know. Often there may be an excellent explanation that needs to be discussed or there may be an opportunity for a new buyer to act on.

The following videos by Pacific Business Brokers help give an insight into financial and income tax issues:

- » *What is EBITDA? What should you know about it?* at <https://www.youtube.com/watch?v=l3zUce7A80w>
- » *Inventory and Business Value* at <https://www.youtube.com/watch?v=vW4h4BGntuQ>
- » *Importance of Tax Planning When Selling or Preparing a Business to Sell* at <https://www.youtube.com/watch?v=9TJQJVSJHg>



StartupStockPhotos. (2015). Pixabay. Startup, meeting, brainstorming, business, teamwork. Retrieved from <http://pixabay.com/en/startup-meeting-brainstorming-594091/> License: CC0 Public Domain / FAQ

Activity: Change of Ownership

Before continuing to the next section, take some time to examine the business structure for your business.

SHIFT

Activity: Assessing the Business Structure

Take time to consider the business structure of your prospective enterprise.

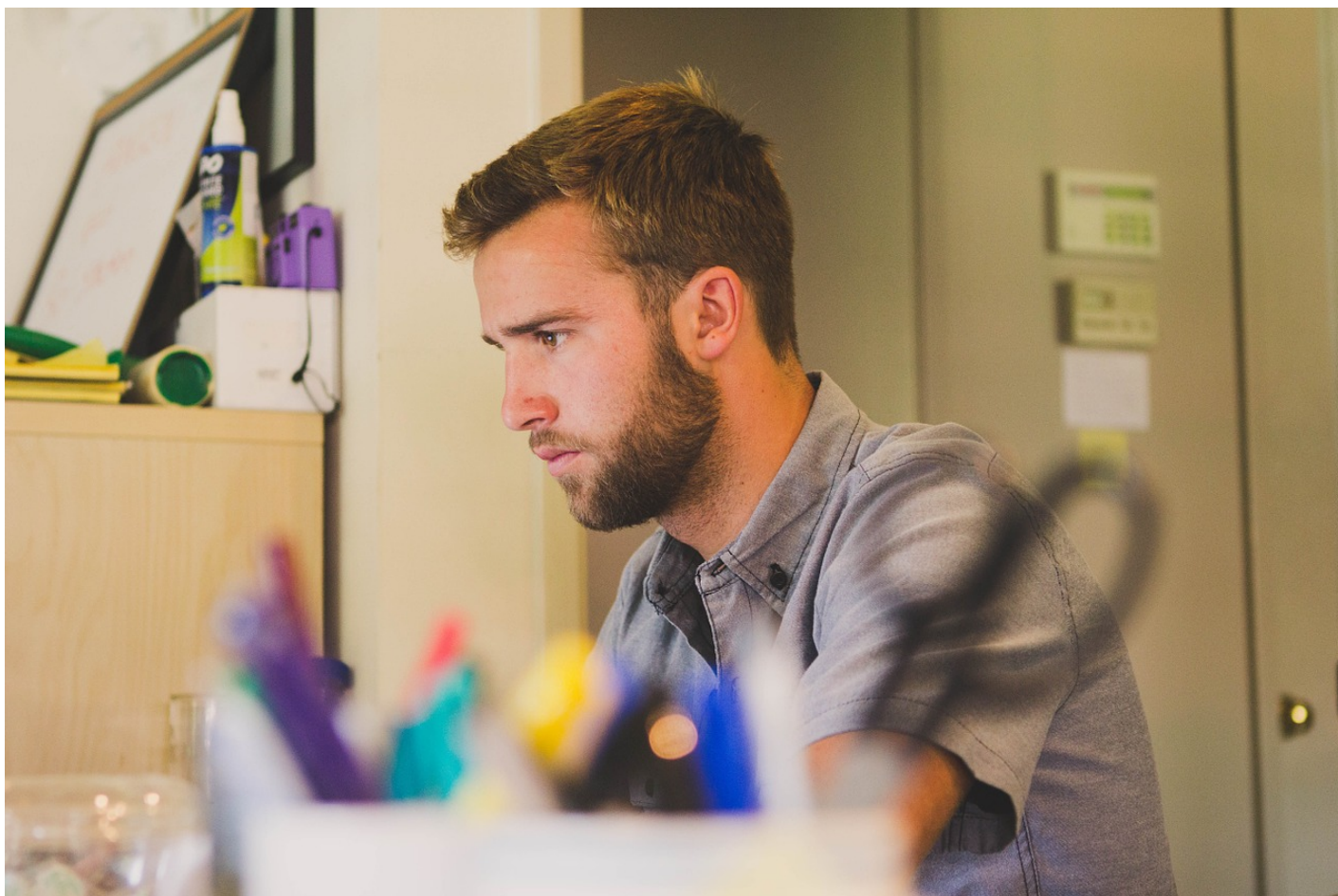
1. How would the existing structure work for you? Would you need to change the structure?

2. Consider the existing contracts and fiscal responsibilities? What would you need to ensure when taking over the business?

3. Look at the current employees. What are the key roles? What education and/or training is needed for each position?

4. What is the current culture of the business? What will you need to do if you assume ownership?

Summary of Preparing to Purchase a Business



SnapwireSnaps. (2015). Pixabay. Man, work, desk, business, person, working, job, male. Retrieved from <http://pixabay.com/en/man-work-desk-business-person-597178/> License: CC0 Public Domain / FAQ

In **Preparing to Purchase a Business**, you explored a large scope of material, which included:

- » Reviewing the steps you have taken to arrive at the point of wanting to be an entrepreneur
- » Identifying the growth potential of the business
- » Examining the current population for both employees and customers
- » Looking into the future supply of workers
- » Estimating the business market share and its importance
- » Reviewing the different types of ownership forms
- » Exploring existing contract and fiscal responsibilities

Take your time to review and follow the links provided in **Preparing to Purchase a Business** before continuing to **Preparing for Ownership**.

SHIFT

In **Preparing for Ownership**, you will look at shareholder agreements, business plans, labour standards, recruitment and retention, supervisory leadership skills, working with other businesses, strategic competencies, and other areas.

In the Seller section is a complementary module for the potential seller, Positioning Your Business for Sale. An astute buyer will want to know exactly what an informed seller needs to know. We recommend that you spend the time to familiarize yourself with that section as well.

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Preparing for Ownership



Russell James Smith. (22, March 2010). Flat White Coffee. Retrieved from <https://www.flickr.com/photos/russelljsmith/4675028010> [CC-BY-2.0 (<http://creativecommons.org/licenses/by/2.0>)], via Flickr

Overview

Welcome to **Preparing for Ownership**, the second of three modules that will help you become an entrepreneur. So far, you have covered a wide range of material including:

1. Reviewing the steps you have taken to arrive at the point of wanting to be an entrepreneur
2. Identifying the growth potential of the business
3. Examining the current population for both employees and customers
4. Looking into the future supply of workers
5. Estimating the business market share and its importance
6. Reviewing the different types of ownership forms
7. Exploring existing contract and fiscal responsibilities

Now take your time to work through and follow the links provided in **Preparing for Ownership**..

Learning Outcomes

By the end of **Preparing for Ownership**, you will be able to:

1. Understand the need for a Shareholder Agreement within a small business.
2. Recognize the importance of a business plan.
3. Study the BC labour standards.
4. Plan for recruitment and retention of employees.
5. Polish supervisory skills as a small business owner.
6. Work with other business owners to strengthen your target business.
7. Develop strategic competencies to distinguish your future business.

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Understanding Shareholder Agreements



condesign. (2014). Pixabay. Playground, rope, bridge, balance, game device. Retrieved from <http://pixabay.com/en/playground-rope-bridge-balance-493042/>. License: CCO Public Domain/ FAQ

A Shareholder Agreement is a key legal document to protect the owners in the case of unexpected change in the owners. Typical events include retirement, death, disability, bankruptcy of an owner, or divorce. This document controls future ownership of the business if one of these events occurs. The agreement dictates who buys the shares and at what price. Typically, life insurance is used to fund the death of an owner. Often the insurance policy is owned and paid for by the business. Valuation is a challenging area as the agreement needs to be fair to all owners and be as close to market value as possible (Holleman, 2010). For more information, read Vernon W. Holleman's *Understanding Buy-Sell Agreements for Small-Business Owners*. Sun Life has also prepared an extensive case study on two partners which illustrates the various aspects of a Shareholder Agreement (Sun Life Sample). Be certain to recognize the importance for such an agreement and consult with legal and insurance advisors when you are defining goals and priorities.

Activity: Understanding Shareholder Agreements

Consider the business you are considering purchasing. Will you be the sole owner? Will you need a Shareholder Agreement?

Activity: Understanding Shareholder Agreements

Explore the materials provided by Sun Life on their website at http://www.sunlife.ca/advisor/v/index.jsp?vgnextoid=cd7cb0c0c862f110VgnVCM1000009b80d09fRCRD&vgnextfmt=default&vgnLocale=en_CA

Consider the business you are considering purchasing. Will you be the sole owner? Will you need a Shareholder Agreement? Record your findings below.

SHIFT

Defining Goals and Priorities



africanischool. (2014). Pixabay. Man, African, laughing, idea, light bulb, electric bulb. Retrieved from <http://pixabay.com/en/man-african-laughing-idea-319282/>. License: CCO Public Domain/ FAQ

Entrepreneurs need to set goals on a quarterly basis. These goals need to be measurable and have an action plan. In the words of Antoine de Saint-Exupéry, “A goal without a plan is just a wish.”

Too often the goals are too many to undertake at one time. A better strategy would be to determine where your greatest needs are, then select only a few goals that will address those needs. A goal might be to increase sales by 15% by increasing your social media presence. This is a major goal that will need further refinement with timing, responsibility to implement, and follow-up. Where the goal involves multiple people, then communication, buy-in, and support to get the tasks completed is needed. Adding more tasks to employees may reduce time for other equally important priorities of the business.

Reviewing the progress towards the goal, at least quarterly, needs to be part of the business process. Regular reviews will help maintain focus and will more likely result in achieving the goal. One key item is to reinforce the achievement with an appropriate celebration.

Goals can be communicated in a variety of ways including verbal, written via memo, and with signage. For example, one company chose the motto, “We will be our Customers first choice”. This was included on business cards, stationery and signage. The key was visibility. The celebration occurred when new customers were added. Feedback from customers that left was also shared with employees to learn what went wrong. Goals and priorities may not have a direct financial impact but together will influence the business results.

Budgets and plans are similar to goals and priorities and are embedded in a business plan. In order to obtain financing, often a bank will require a multi-year business plan with annual updates. The true value in doing a business plan is to try different options without committing your business to the change. The first version of the plan utilizes the existing business “as is” or “base case” and allows for changes in prices from suppliers, and prices to customers. Wage increase assumptions are usually factored in as well. From the “base case,” options are considered.

Recall the goal example of increasing sales 15% using social media. This option will reflect a ramp-up of sales and an increase of labour and perhaps training budget as appropriate. Input from the employees can be very helpful as options to increase profitability are developed. Often more than one option will be suggested. Once the best option is selected, take steps to implement it. On a quarterly basis, confirm your actual results to the selected option and confirm whether you are on track for success or if you need to regroup and tweak some of the assumptions. Updating a business plan can be time consuming but the process offers solid value in knowing where you plan to go and how you plan to get there.

Activity: Defining Goals and Priorities

Your goals and priorities for your business should be reflected in your business plan. Take a moment to explore business planning in this activity. (Starts next page)

As a buyer you can expect the seller to have a current business plan to share once both parties have signed a Non-Disclosure Agreement. One important aspect of a business plan is to include the development of the employees.

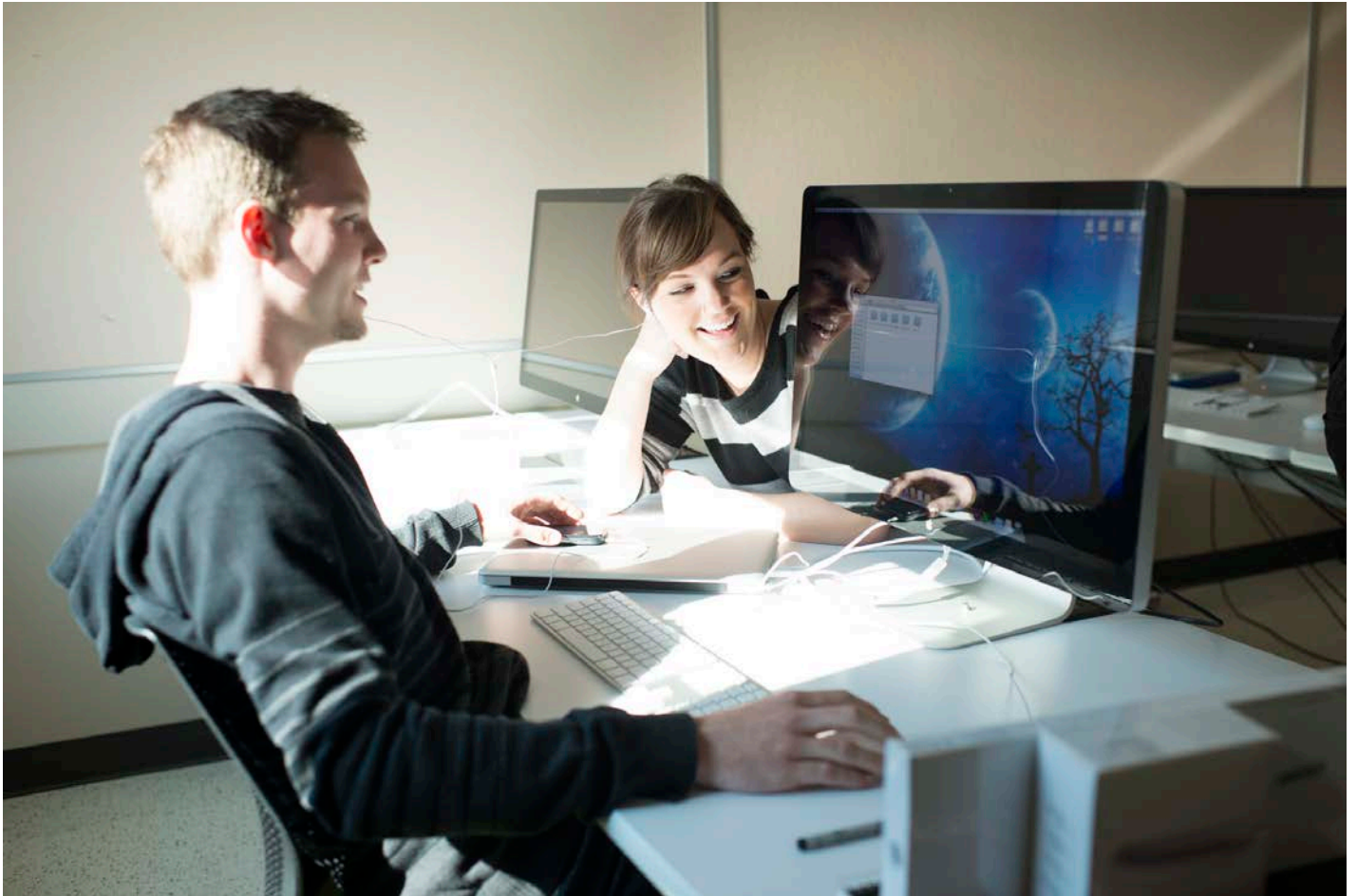
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Activity: Defining Goals and Priorities

Read Small Business BC's webpage How to Write a Business Plan at <http://smallbusinessbc.ca/starting-a-business/how-write-a-business-plan> to help you get started. They've also developed a Business Plan Checklist available at <http://smallbusinessbc.ca/resource/howtos-checklists/business-plan-checklist/> outlining the core components from the same source that you may find helpful.

Reflect on your goals and priorities for the first quarter of your business. Think about how those goals and priorities will fit into your business plan. Record your observations here.

Understanding Human Resource Responsibilities.



University of the Fraser Valley. (27 September 2012). UFV graphic and digital design program. Retrieved from <https://www.flickr.com/photos/ufv/8042515604> [CC-BY-2.0 (<http://creativecommons.org/licenses/by/2.0>)], via Flickr

The BC government website for Ministry of Jobs, Tourism and Skills Training at <http://www.labour.gov.bc.ca/esb/> helps employers understand the BC Labour Standards laws. Basic issues including Hours of Work and Overtime, Statutory Holidays, Termination of Employment and Vacations are addressed. Several videos available on the site, explain the above concepts, as well as Dispute Resolution, Mediation and Adjudication.

Take time now to view the Employment Standards Branch-videos at <http://www.labour.gov.bc.ca/esb/videos/welcome.htm>, particularly the Hours of Work and Overtime video. You may be surprised at what you learn.

While the videos provide an overview they do not supply legal advice; reviewing the relevant laws for these topics is likely required should a dispute arise.

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Industry Canada supports Corporate Social Responsibility (CSR)

Industry Canada promotes Corporate Social Responsibility (CSR) principles and practices to Canadian businesses because it makes companies more innovative, productive, and competitive. CSR helps make Canadian business more competitive by:

1. Supporting operational efficiency gains
2. Improved risk management
3. Favourable relations with the investment community and improved access to capital
4. Enhanced employee relations
5. Stronger relationships with communities and an enhanced license to operate
6. Improved reputation and branding.

(Industry Canada, 2011)



Ksenia Kudelkina. (n.d.) Retrieved from https://download.unsplash.com/resize/TxbDzeAhRmCwa6DDrbOQ_ka-zan-big.jpg .Creative Commons Zero

In the past, CSR concepts applied only to major corporations. Today these principles can be adopted by small business to improve their bottom line. Take “Enhanced Employee Relations” for example; it is easy to see the link between an engaged work force and satisfied customers. In a similar manner, the link between an engaged work force and innovation is clear. Small business owners can look on Corporate Social Responsibility as a tool to improve results.

Most employees want their business to succeed. This leads to improved job security, possibly higher wages and potential promotions. The recruitment, management and development of employees are key areas that an owner needs to consider. The culture of the business is the key to success. Nurturing a progressive culture should result in smoother employee recruitment, engagement and retention.

Strategies for Recruitment and Retention



University of Salford Press Office. (27 November 2008). Women in construction. Retrieved from <https://www.flickr.com/photos/salforduniversity/3063632328/> [CC-BY-2.0 (<http://creativecommons.org/licenses/by/2.0>)], via Flickr

The work force is one important asset not found on the books of a company. A discussion with the existing owner about the Human Resource (HR) policies and practices is very important. Small businesses often rely on the owner to be the HR specialist. The owner likely selects new employees and terminates others on occasion. Knowing the legal rights of both the employee and employer should result in a fair decision that helps both parties.

The WorkBC site at <https://www.workbc.ca/Employer-Resources/Your-Workforce/Find-Workers.aspx> has an entire section describing recruitment. A few of the most effective articles for sharpening your Human Resources techniques are:

- » The Canadian Human Right's Commission's A Guide to Screening and Selection in Employment at http://www.chrc-ccdp.ca/sites/default/files/screen_1.pdf,
- » Service Canada's webpage Evaluating and Testing Job Applicants at https://www.jobsetc.gc.ca/eng/pieces1.jsp?category_id=2805&root_id=2801
- » Go2hr's How to Conduct an Effective Interview at <https://www.go2hr.ca/articles/how-conduct-effective-interview>

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- » and Go2hr's Conducting Effective Reference Checks at <https://www.go2hr.ca/article-category/recruitment/reference-and-background-checks>
- » Liebowitz's Building a Winning Employee Team at http://www.workbc.ca/WorkBC/media/WorkBC/Documents/Docs/Building-a-Winning-Employee-Team_0_1.pdf
This resource emphasizes the importance of providing continual feedback to employees, considering how employees see you and the firm, sharing future goals and plans, team problem solving and employee decision-making. A buyer would be most interested in determining the culture at the business. In the case of a weak culture, then there may be an opportunity to significantly improve employee morale and, potentially, the overall business results.

Activity: Strategies for Recruitment and Retention

This activity will help you think about potential strategies and techniques to recruit and retain human resources for your business.

Activity: Strategies for Recruitment and Retention

Take time to explore the WorkBC site <https://www.workbc.ca/Employer-Resources.aspx> and select two articles that interest you. Think about your potential business while you read, and think about how you can apply the strategies and techniques in the articles for your business.

Record your observations here.

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Supervisory and Leadership Skills



We Are Social. (31 July 2013). Brainstorming session in the park with the a-team Tilly & Taylor. Retrieved from <https://www.flickr.com/photos/wearesocial/9406284808/> [CC-BY-2.0 (<http://creativecommons.org/licenses/by/2.0>)], via Flickr

During the Non-Disclosure period, the buyer may wish to interview key personnel to determine their expectations of the buyer after the sale. The buyer will be able to inquire what skills the key employee has and if there is a backup person trained in case of sickness or vacation.

Annual performance reviews are a sign of a healthy human resources program. The reviews need to be backward looking as well as forward looking. Where training is anticipated, the cost should be included in annual plans. As the buyer solidifies the vision of the future business, training objectives need to be incorporated and funded.

Activity: Supervisory and Leadership Skills

This activity will help you to develop some standard questions for each of your staff interviews.

Activity: Supervisory and Leadership Skills

At this point, you might want to take the time to develop some standard questions for each of your future staff. This may include questions, such as the following:

- » Which position do you feel comfortable taking over for a week?
- » What training have you had recently?
- » Who can fill in for you when you take a vacation?
- » If you were the owner for a week, what change might you consider?

Record your questions here.

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Working with Others



Smallworldsocial. (January 2014). Small world social teamwork. Retrieved from http://commons.wikimedia.org/wiki/File:Small_World_Social_Teamwork.JPG [CC BY-SA 3.0 (<http://creativecommons.org/licenses/by-sa/3.0>) or GFDL (<http://www.gnu.org/copyleft/fdl.html>)], via Wikimedia Commons

As the buyer prepares for ownership there is a recognition that working with others will be most important.

Customers are often nervous about a change in ownership. The original business relationship with customers, including previous agreements and credits, may potentially change and result in previous customers looking for a new supplier if the new owner changes the products. Suppliers will be watchful as well, as the new owner may have relationships with other suppliers or may want to revise credit terms or prices.

The current owner's lawyer may also be concerned about losing a client. However, it is possible the new owner will stay with the same lawyer to save the cost of a new lawyer getting up to speed on an existing business, but it's also possible they may have an existing lawyer they want to stay with.

Staying with the accountant used by the present owner can also save the cost of another financial review.

The decision to retain advisors has the caveat that there is no conflict of interest with the purchaser.

Bankers have intimate knowledge of the business and retaining the firm's banker could be a wise move.

All in all, the buyer has a variety of outside personnel to work with as well as the employees directly working in the business.

Activity: Working with Others

This activity will help you to define what your role in the business will be, and what steps you can take to resolve any shortcomings.

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Activity: Defining Your Role

Consider your strengths from the SWOT analysis done in **Preparing to Purchase a business** as you answer the questions below. One of the most powerful ideas in *The E Myth Revisited* by Michael E. Gerber is that you can learn to identify a weakness and strengthen it. Often hiring individuals with specific skill sets will resolve shortcomings.

1. Are you more like an entrepreneur, manager or technician?

2. How can you move from one role to another?

3. In which area are you least comfortable?

4. How can you reinforce the skills in your weak area?

Strategic Competency Model



Skeeze. (2015). Pixabay. Boat, teamwork, training, exercise, military, paddle. Retrieved from <http://pixabay.com/en/boat-teamwork-training-exercise-606187/> License: CC0 Public Domain / FAQ

If developed and implemented effectively, a well-defined competency framework can help organizations:

- » Find and keep the best people;
- » Enable better employee performance, and
- » Improve business results.

(Noonan, 2012)

Most often large companies with Human Resource departments embark on developing ineffective competency models that are overly complicated and detached from the business.

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A small business can identify core competencies needed in each position to achieve its strategic goals. A few examples include:

- » Position descriptions that outline the range of authorities delegated to the employee and encourage taking initiatives in the responsible areas to improve business results.
- » Engaging the employees to develop competencies in all areas via a mentoring role.
- » Developing appropriate reward systems with a focus on strategic goals that many employees can achieve.
- » Sharing the improved business results as well as communicating deteriorating results with employees to offer a transparent view of the company.

Definition of Roles



Alan Cleaver. (15 June 2008). Working late. Retrieved from <https://www.flickr.com/photos/alancleaver/2581218229/> [CC-BY-2.0 (<http://creativecommons.org/licenses/by/2.0/>)], via Flickr

A small business owner can quickly become fully consumed in his new enterprise. The time commitment to being your own boss often becomes 100% of every day. Balancing the various roles may result in favouring certain familiar tasks and allowing other tasks to slide. Having technical skills in the business may naturally draw the owner to doing technical work while purchasing supplies, paying suppliers or remitting taxes may be postponed with potentially disastrous results. Today, the small business entrepreneur must recognize when critical parts of the business are being overlooked. Fortunately, experienced bookkeepers are readily available to handle routine administration tasks.

In *The E-Myth Revisited* (1995), Michael E. Gerber states that one way for the small businessman to

look at the enterprise is to recognize three key roles: the Entrepreneur, the Manager, and the Technician. To be successful is to be able to do all three roles when needed. The entrepreneur will look ahead, create new processes, and new products. The manager will deal with the employees, customers, and suppliers to keep the business moving forward. The technician will fill current orders without significant innovation.

The E Myth Revisited is a worthy read for any small business owner. The case study “All About Pies” simplifies the challenges of running a small business by breaking down each aspect with excellent examples. It further develops the idea to document the business process like a franchise to gain the consistent customer experience and build repeat business. The author has several small business books available through his website at <http://michaelegerbercompanies.com/web/>. The concept of core competencies and a documented business process for each activity will allow new employees to train quickly and provide consistent service to the customers. With these tools in place, promoting employees will be significantly smoother.

Activity: Definition of Roles

Consider your strengths from the SWOT analysis you completed in **Preparing to Purchase a Business**.

1. Are you more like an entrepreneur, manager or technician?
2. How can you move from one role to another?
3. In which area are you least comfortable?
4. How can you re-inforce the skills in your weak area?

One of the most powerful ideas in *The E Myth Revisited* is that you can learn to identify a weakness and strengthen it. Often, hiring individuals with specific skill sets will resolve shortcomings.

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Forecasting Future Skill Requirements



tpsdave.(2013). Pixabay. Spring, summer, sky, clouds, trees, working, men. Retrieved from <http://pixabay.com/en/spring-summer-sky-clouds-trees-79619/>. License: CCO Public Domain/ FAQ

You may recall that in **Preparing to Purchase a Business** we discussed the current labour force as a supply of employees in this area. The most successful companies will develop innovative new products from both customer and employee suggestions. New ideas may require new skills for the manufacture or selling of the products. A business that can train existing personnel and upgrade their skills supports a retention plan. When the business hires new people to provide skills not readily in place, there is a risk of a senior employee quitting. An individual may feel there is not a future with the company and feel like they are being passed over. The owner could anticipate this reaction and move proactively to discuss new hiring with employees before it occurs, effectively squelching the rumor mill and the risk of losing experienced personnel.

The vision for the company is usually to grow, and that vision will include additional workers to manage the growth. The ten-year job forecast indicates that highly trained personnel will be in demand and be expecting above average wages. The strategy of selecting people may be to hire the person with the *least* skills to do the job and then augment her skills through a robust training program. This will increase the candidate selection pool and likely attract people that would be satisfied to work for a more modest wage.

In general, companies try to hire the best qualified person, resulting in higher costs to attract more skills that may not be necessary to do the work. This situation can frustrate ambitious people who want to achieve their own goals.

When forecasting future skill requirements, keep in mind that there may be attrition of employees. Keep the vision of the future in place and be prepared to promote employees to fill vacancies. Plans to expand across new markets will need sufficient people to support new business.

Work BC's *Forecasting the Labour Market* webpage at <http://www.workbc.ca/Statistics/Labour-Market/Forecasting-the-Labour-Market.aspx> includes the *British Columbia 2022 Labour Market Outlook* report at <http://www.workbc.ca/WorkBC/media/WorkBC/Documents/Docs/BC-LM-Outlook-2012-2022.pdf>, which you may find useful. The key point is with baby boomers retiring and expected liquid natural gas (LNG) projects ramping up, there may be challenges to hiring suitable employees (Work BC, 2012).

Understanding Best Practices



Shane Trist. (10 June 2008). Dryden mill. Retrieved from http://commons.wikimedia.org/wiki/File:Dryden_mill.JPG [CC BY-SA 3.0 (<http://creativecommons.org/licenses/by-sa/3.0>) or GFDL (<http://www.gnu.org/copyleft/fdl.html>)], from Wikimedia Commons

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Once the business process settles down and becomes repetitive, there is little incentive to change. However, in most cases, a small tweak here and there will make the process quicker, easier and more reliable. Reviewing each business practice on a regular basis is a good start towards establishing best practices.

One major pulp and paper company was closing its books and reporting the financial results on the 5th business day after the month-end. A project was started to shorten the process down to 2 days. The reaction amongst the finance team was “shock and awe” but they realized the financial data was important to the success of the business. With a lot of planning and reviewing every document used to close the books and without additional staff, the team was able to accomplish the two day goal. This example of best practices continues to be discussed with many companies as a goal to achieve.

The International Federation of Accountants (IFAC) has developed an excellent checklist to consider in your own business. You can find their *Good Practice Checklist for Small Business, Second Edition* on their website at www.ifac.org under “Publications & Resources.”

Activity: Understanding Best Practices

At this stage you likely want more information on the business opportunities available to you, however, you also probably have more information than you can digest. You can proceed to the **Preparing to Transfer Working Knowledge**, but we recommend you review the previous topics, and research the type of business you are most interested in purchasing. It is when you narrow your focus from the general overview of owning a business to a specific type of business, that what you have learned becomes most useful.

Summary of Preparing for Ownership



Rock drum. (9 September 2012). Wmuk board meeting september 2012 - St Mary's Guildhall 2. Retrieved from http://commons.wikimedia.org/wiki/File:WMUK_board_meeting_September_2012_-_St_Mary's_Guildhall_2.JPG [CC BY-SA 3.0 (<http://creativecommons.org/licenses/by-sa/3.0/>)], via Wikimedia Commons

So far you have covered a wide range of material including:

1. The importance of a Shareholder Agreement
2. Goals and Priorities
3. The Human Resource role of a small business owner
4. The opportunity to use Corporate Social Responsibility to enhance recruitment and retention
5. The need for a high level of competency among employees
6. The various roles a small business owner has
7. The need to forecast future skill needs
8. The importance of Best Practices

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Norco Bicycles. (16 February 2012). Norco green team. Retrieved from <https://www.flickr.com/photos/norcobicycles/6779884850/> [CC-BY-2.0 (<http://creativecommons.org/licenses/by/2.0>)], via Flickr

Take your time to review and follow the links provided in **Preparing for Ownership** before beginning **Preparing to Transfer Working Knowledge**.

In **Preparing to Transfer Working Knowledge**, you will focus on communications with the existing owner, developing a timeline prior to a sale, assessing employee skills, overcoming challenges, understanding limitations and critical thinking. Also included in **Preparing to Transfer Working Knowledge** is knowledge management, succession planning, mentoring, and knowledge building.

In the Seller section is a complementary module for the potential seller, **Preparing to Transfer Working Knowledge**. An astute buyer will want to know exactly what an informed seller needs to know. Consider spending the time to engage with that section as well.

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Preparing to Transfer Working Knowledge



Matthew Clark. (n.d.) Retrieved from https://unsplash.imgix.net/resize/tlC8KhNJR0CA2xdomLfx_DSC_0358-2.jpg?fit=crop&fm=jpg&h=650&q=75&w=950 . Creative Commons Zero

Overview

Welcome to **Preparing to Transfer Working Knowledge**, the third of three modules created to help you become an entrepreneur. Previously, you explored the following:

1. Reviewing your decision to become an entrepreneur,
2. Identifying the growth potential of the business,
3. Looking for potential customers and employees,
4. Exploring existing contract and fiscal responsibilities,
5. Understanding the need for a shareholder agreement with partners in your business,
6. Recognizing the importance of a realistic business plan,
7. Learning about the BC Labour Standards,
8. Planning for recruitment and retention of employees, and
9. Developing strategic competencies to distinguish your business.

Learning Outcomes

By the end of **Preparing to Transfer Working Knowledge**, you will be able to:

1. Communicate with the owner or broker.
2. Develop a time line for the transfer of ownership.
3. Assess the existing employees' skills and potential.
4. Build a strategy to overcome challenges.
5. Recognize limits that may exist in your business.
6. Strengthen critical thinking skills regarding business.
7. Develop succession plans with employees.
8. Determine a suitable exit strategy for the distant future.

Assumptions Regarding the Buyer's Situation

At this point in the buying process, we assume:

1. The buyer has identified the business to consider purchasing,
2. The buyer and the seller, or broker, have met,
3. The seller or broker has determined that the buyer is financially qualified,
4. The Non-Disclosure Agreement has been signed,
5. The buyer has viewed the business and has expressed an interest in buying it,
6. The buyer has reviewed the business documents and is still interested, and
7. The buyer and the seller are comfortable with each other.

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Setting up the Communication Path

The overall timeline for the purchasing process is about a year from initially finding the right business to completing the sale and taking over. In that period, there will be meetings with several key people, including a banker, lawyer, accountant, broker and the seller. Each professional will have an area of expertise, knowledge regarding the sale, and an expectation to be paid. If a broker is utilized, the seller will pay that individual in the form of commission. The broker and the seller should be the initial contacts for the majority of any clarifications needed.

Regular meetings with the seller and broker will resolve questions in the buyer's mind. Keeping clear notes on questions and responses will prevent repeatedly going over the same queries. Start the habit of jotting down questions when they arise and send an agenda to the seller to prepare a timely response at the next meeting.

Assess your knowledge of the business. Determine what gaps exist and decide on a strategy to strengthen your knowledge. Initially, you can expect to have a reasonable grasp of most aspects; however, a few areas may be weak, such as:

- » Purchasing techniques may be unique to the business.
- » Marketing strategies may have a distinct focus through direct mail.
- » There may be a major social media strategy that has worked well.

When you have worked through the business process from the initial order to collection of the account, an overview will emerge that may identify opportunities to build your skills and possibly build the business earnings. Initially, the current owner may have the skill but not yet the support of a proficient staff. A strategy will be needed to deal with skills retained by the owner.



Duncan Hull. (30 August 2008). "Science may never come up with a better office communication system than the coffee break" --Earl Wilson. Retrieved from <https://www.flickr.com/photos/dullhunk/2816284089/> [CC-BY-2.0 (<http://creativecommons.org/licenses/by/2.0>)], via Flickr

Develop a Timeline for the Transfer of Ownership



Sonja Langford. (n.d.) Retrieved from https://unsplash.imgix.net/37/tEREUy1vSfuSu8LzTop3_IMG_2538.jpg ?.
Creative Commons Zero

Once an offer to purchase has been made there will be “subject to” conditions that need to be resolved. A buyer training and transition period, a non-compete clause for a fixed period, building inspections, financing or inventory documents may be required. The offer may be accepted, rejected or countered. With a rejected or countered offer, you may decide not to proceed or you may present a counter offer. Once an offer is accepted, the Due Diligence period begins. A good faith refundable deposit is made usually with the broker or a lawyer that is increased to 10% to 20% of the purchase price once the conditions are removed.

The Due Diligence period is used to confirm the statements made by the seller to the buyer are true. The complexity of the business will determine the length of time needed from a few weeks to several months to wrap up. The Due Diligence is the responsibility of the buyer to complete.

Once the Due Diligence is completed and found to be accurate, a lawyer will draw up the final agreement of purchase. The legal fees are expected to be between 1% and 2% of the final purchase price. Once the buyer and seller accept the final agreement, the closing process starts.

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When inventories are included in the sale, a final count and value is done or scheduled at a convenient time. The final value will be reflected as an adjustment to the closing price. All legal papers are signed, including "Non-Competition," Training and Transition Timing, Leases and any other documents unique to the sale. The sale is now complete and the buyer becomes the owner.

Assessing Employee Skills

As the new owner it is necessary to understand the skills of the employees, both for their present position, as well as their potential for advancement. A new owner can cause stress on the employees. You will need to make extra effort to alleviate their worries about change. Group meetings regarding plans for the next few months may reduce speculation. Your experience in this business area may help you to start the conversation with groups of employees. Follow up one-on-one discussions regarding employee's unique skills and aspirations will be helpful to confirm where the employee fits in the business. Engaging employees to develop a strategy to reduce skill shortages will be viewed as progressive.

Employee attitudes towards change and innovation are important. Most innovation starts with employee suggestions for small changes, perhaps based on customer feedback. As the new owner, if you listen and try new things, you will encourage change and reinforce a positive culture.



PDPics (2014). Pixabay. Pottery, potter, clay, craft, pot, handmade, rotation. Retrieved from <http://pixabay.com/en/pottery-potter-clay-craft-pot-166798/>. License: CCO Public Domain/ FAQ

Building a Strategy to Overcome Challenges



skeeze. (2015). Pixabay. Workers, training, electrical, pole, climbing, hardhat. Retrieved from <http://pixabay.com/en/workers-training-electrical-pole-659883/>. License: CCO Public Domain/ FAQ

As a new business owner, you will be faced with several challenges including lack of family time, financial requirements, employee needs, customer expectations, and supplier concerns.

Initially, you will want to spend every waking moment with the business to help it succeed. This will place stress on your family and may result in resentment. Managing your family's expectations will require time and perhaps compromise. If you schedule regular time off, your family will know that they are important and your employees will know that you trust them to carry on the business.

A small business may have a large appetite for cash when it is growing. Expansion of inventory may be needed to offer new products to customers, which may mean higher debt to suppliers and to the bank. A carefully crafted business plan should forecast cash needs so that there is no surprise and an orderly draw on credit does not add to your stress.

A small business with a few employees may not have the luxury of back up personnel to fill in when regular employees are off work with illness or vacation. The employees need to help develop the strategy to cover for each other in the event of an emergency. They know which tasks are critical to complete and who can do the tasks. In this way, training gaps can be identified and closed by other employees or the owner. Vacation periods need to be covered with regular employees or part-time workers to minimize any backlog of work for the returning employee.

Customer expectations can be challenging but an astute owner may see opportunities to improve service and build the business. It is unlikely that every expectation can be met but when a trend is noticed, then perhaps an opportunity exists.

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A careful review of your customers may reveal that 80% of the concerns come from 20% of the customers. While it is difficult to do, can you imagine firing 10% of your worst customers? What sort of impact could that have on the business?

Suppliers concerns often regard payment terms, discounts, and inventory. The supplier's challenge is to carry sufficient inventory to meet orders without tying up large amounts of working capital. While borrowing costs are low, suppliers may carry sufficient stock, but when interest costs rise, having large volumes of inventory becomes a luxury. Meeting with suppliers on a regular basis to discuss future plans will reinforce your expectations. Seldom will a small business rely on one supplier for key inventory items. Using one alternative supplier will confirm that you are paying a competitive price with your regular supplier.

A small business owner needs to have a mentor to bounce ideas off of. Often an experienced individual could be a good friend or acquaintance who is retired and willing to listen, ask questions, and discuss suggestions. Using the mentor's perspective, the new owner should arrive at a better decision. Finding a mentor may be challenging; however, it is a huge help to the new business owner. One place to check is the MentorshipBC website at <http://www.mentorshipbc.ca> where mentors in various geographic areas in BC exist.

Understanding Limitations

A new entrepreneur will be anxious to make changes in the business to remedy any problems. However, the risk is that changes can have unintended consequences. The idea of firing 10% of your worst customers assumes you know exactly who the worst ones are and you are fine with letting them go. The unintended consequences could include a backlash from other customers, suppliers or employees that reduces the profitability of the business. When changes are being considered it is best to involve as many of the employees as possible to brainstorm other possible solutions to the problem before deciding on a particular path.

When problem solving, it is best to change one item then observe the effects. Changing more than one item precludes the ability to know which item resolved the problem. The same holds true in business. It is a dynamic world with changes happening all the time; knowing which change had what impact may not be discernable. Minimizing the changes helps employees deliver a consistent product as in the example of a franchise.

Being patient with change will give the employees, customers, suppliers, and competitors time to assess your leadership ability and impact on the market. There will be many opportunities to trip up so minimize the risk by minimizing change. However, when the market is changing and you have been able to confirm that, then change is needed. Products which don't sell this year but had a good season last year are a red flag that needs investigating. Price reductions from competitors may be the reason. Products go out of fashion in some cases. New products are developed that are cheaper, faster, better. Buying samples of competitor's products is one way to assess the strengths and weaknesses of your products. By developing tools to identify changes, your business can be more proactive than reactive.

Critical Thinking



StartupStockPhotos. (2015). Pixabay. Startup, meeting, brainstorming, business, teamwork. Retrieved from <http://pixabay.com/en/startup-meeting-brainstorming-594090/>. License: CCO Public Domain/ FAQ

The Merriam-Webster dictionary defines creativity as “the ability to make new things or think of new ideas” (<http://www.merriam-webster.com/dictionary/creativity>). Any employer would be delighted to have a creative staff. However, employees need to be able to try things that fail without being criticized for it. A cautious employee will never suggest something new as the consequence of failure may be termination. In a small business, the risk of creating new things might result in a complete failure of the company. Consider trying out a new idea on a small scale to test it; if successful, it can be expanded, and if not, it can be tweaked or abandoned.

When considering change, the critical aspect is to determine the magnitude of impact a particular change might have before embarking on the change. The old saying “with big risk comes big reward” may be true but could also be stated “with big risk comes big failure.” The business plan may be the ideal tool to try different options before implementing the change.

An example that comes to mind was a forest company that was considering the best way to improve the profitability of the Kraft Pulp product. At one stage, there were nearly 20 options being considered. The choices were all on modeling

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spreadsheets; however, none were acceptable to management. The final decision was to close that part of the operation and purchase Kraft Pulp from a nearby mill (MacMillan Bloedel Limited, Alberni Pulp & Paper Division).

One tool to develop ideas from employees is brainstorming. A focused discussion dedicated to solving one problem can create a dozen ideas for follow-up and consideration. The employees have to grasp the concept that no idea is right or wrong, only an idea. Often more ideas are generated than expected and you will need to spend more time critically thinking to determine which idea has the most merit. Feedback to the group in a timely matter will reinforce the idea that brainstorming creates ideas and management is considering them.

Another tool is role-playing, where employees take a position and discuss solutions. A customer-service employee who is unfamiliar with the issue may tackle a problem in the shipping area.. New ideas can come from unexpected people and lead to improved techniques.

Personal experiences or memories that people have used to resolve issues may also be fruitful to explore. If someone has experienced a similar issue and resolved it, the same idea may apply to the business.

Developing trust with employees is clearly the best way to raise the level of critical thinking in a small business. Having the confidence that making mistakes is expected before something is perfected will inspire the staff. WD-40 is the classic example of 39 failures before achieving a product that is well accepted today. Accidental discoveries like “post-it-notes” prove that there is room for innovation and creative thinking in every business.

Knowledge Management

Another aspect of critical thinking is determining how best to develop backup for key employees. All employees on occasion become sick, need to take vacation, or leave the company. You will need to develop backup personnel to replace key employees from time to time. Developing backup personnel requires a commitment that is challenging for a small business. Training does cost time and money; however, not having trained backup personnel risks relationships with customers and or suppliers, and puts additional pressure on the staff. It is the hidden cost of errors that can outweigh the training savings.

Once your key employee's coverage is determined, you need to consider your own coverage. Your business needs to run at capacity while you are away. Developing key people to back you up will inspire them to demonstrate their capabilities. Initially, training may include shadowing the owner before taking over for a few days. While employees appreciate the opportunity to fill in and “run the business,” be certain to include appropriate remuneration as they could well be stretched outside their comfort zone. Demonstrating your confidence in your staff will bring major dividends in the future.

Succession Leadership Development Plan



Jamie King. (n.d.) Retrieved from <https://unsplash.imgix.net/photo-1416400453940-65c69d70ad91?fit=crop&fm=jpg&q=75&w=1050> . Creative Commons Zero

Often the small business owner is embedded in the business and does not take the opportunity to step back and plan the future. Succession planning is planning the future to protect the quality of your business service. With a plan, you will be better prepared to deal with unexpected events that happen both to your employees and yourself.

A business owner needs to develop a succession plan using the current employees on the organization chart. One of the first steps is to decide who is ready now to step into a promotion and who needs additional training. For those ready to step up now, when might that opening happen? When there is little likelihood of a vacancy, there is a risk the employee may look elsewhere. One strategy you might use is to meet with staff that are ready to move up but for whom no opportunity exists at this time. Perhaps there is an area of the business where the employee might wish to work to expand their experience and future opportunities.

Designing succession plans in isolation from the employees is risky. Employees are a curious lot and want to know what opportunities exist and how well they fit in. While sharing succession plans raises the expectations of promotions, it can also help retain employees. When employees are involved they will understand how they can impact their own future

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through training which leads to vacation relief and possibly a promotion. A three-year time horizon is a realistic schedule that allows time to move people into new positions, and provides time for learning to occur.

Succession plans need to be reviewed regularly to recognize training that has happened and to schedule training that needs to happen. Similar to a business plan, succession planning has a long-term horizon that can be implemented in the short-term due to the careful consideration that has been made.

Succession planning will help you organize your thoughts for that day in the future when you too have decided to sell your business. There is no harm in planning that early.

Retirement Development Retention Plan

One of the benefits of developing a succession plan is that you will have also identified potential employees that may want to buy you out in the future.



Caroline Gutman. (n.d.) Retrieved from http://41.media.tumblr.com/a4c5fc63b6278b39233d79129b3dd59f/tumblr_mzzr7n7idZ1st5lhmo1_1280.jpg . Creative Commons Zero

Early identification of partnerships would allow for sharing the workload and arranging an orderly exit from the business in the future. Including an outstanding employee as a partner will also insulate that individual from being poached by other companies.

As the buyer of a new business, it may be tempting to hold off on succession and retirement planning. It is as important to organize your exit as other aspects of your business. The adage about being “hit by the bus” could happen at any time. Rather than being paralyzed for a period of time, you have the opportunity to be proactive should the unforeseen happen, which will protect your business, your employees, your suppliers, and your family.

Facilitating Relationships between Experienced and Inexperienced Workers



skeeze. (2015). Pixabay. Construction, workers, building, drilling, installing. Retrieved from <http://pixabay.com/en/construction-workers-building-652321/>. License: CCO Public Domain/ FAQ

Your succession plan will place new employees with experienced ones. It may become apparent that not all matches are working well. In a few cases there may be animosity between the two people, as a senior employee may feel threatened by a younger one, or vice versa. Be aware of what is happening between the individuals. Prior to the training, meet individually with each employee to discuss the importance and goals of the training. Look for the win-win situation and make certain that both employees feel the time is worthwhile. After each training session, hold an individual debrief and a joint debrief to review the progress, and plan for the next session.

Consider the fact that not everyone wants to be a mentor. It takes time to become organized for the training and to answer numerous questions. Further, the mentor may not have had any training when they accepted the position and may not be aware of why certain tasks are done in a particular order. Mentoring is a skill and careful selection of a mentor will be well worth the owner's time. Coaching the mentor may be an option but be watchful so that the mentee has every opportunity for success.

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When a person feels ready to step up, try to provide the opportunity on a timely basis. Any significant delay will risk forgetting the new information. When errors occur, suggest reinforcement in the challenging areas at the earliest opportunity. Most errors can be corrected with little fuss. Keep in mind that the goal is for all employees to take time off without risking customer service or business interruption.

Knowledge and Skill Building



Tpsdave. (2014). Pixabay. Man, welding, industrial, industry, sparks, hot. Retrieved from <http://pixabay.com/en/man-welding-industrial-industry-115799/> License: CC0 Public Domain / FAQ

As a new owner it will be easy to become overwhelmed at all there is to learn, do, and plan. To extract the maximum earnings and enjoyment from your business, you will need to tackle areas that are not initially appealing. The sign of a good owner is one that balances challenges and retains composure. Setting goals through the business plan and succession plan will help you measure your success.

Developing and retaining excellent employees will reflect your leadership and skill as an entrepreneur.

Motivating people through appropriate training, sincere feedback, and genuine concern for them will distinguish your business in their eyes. Your support for each employee will be reflected in how your customers are treated and in the long run, how successful your business becomes.

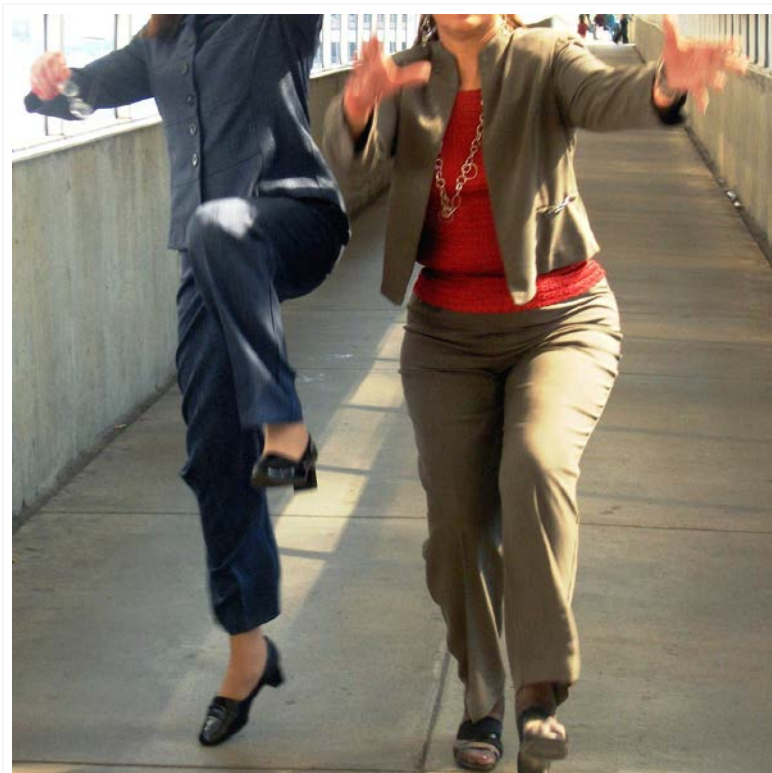
There is no “checkered flag” in life-long learning. Both employees and entrepreneurs will be involved in training, planning, and mentoring which will enrich their lives and those around them.

Buyer Summary

You have now reached the conclusion of the Buyer section. You may have jumped over material on the first time through. Consider going back to the beginning and reading through the material again, looking for key passages that may be important in your decision to become an entrepreneur.

At this point, you should be comfortable with the basic steps to confirm you want to buy an existing business. You have checked with your family and they support your decision. A comprehensive review of your finances and a discussion with your banker initially indicates a suitable purchase is probable. You may have a target business in mind and have considered worker and customer availability. You have studied various business plan examples to see how they are assembled and have an idea of your ideal business deal. You have experience in your chosen business area that will help with the transition. Your review of the Buyer section is complete and you are almost ready to take the next step.

Keep in mind that the present owner is likely as nervous about selling as you are about buying! By taking your time, asking serious questions and being honest about your situation, you are giving the best chance for a satisfactory transition to becoming an entrepreneur.



PublicDomainPictures (2012). Pixabay. Jumping, people, jump, moving, happy, young, joy, fun. Retrieved from <http://pixabay.com/en/jumping-people-jump-moving-happy-15316/>. License: CCO Public Domain/ FAQ

Remember to review the case study located at the end of this booklet to get a better understanding of the processes of business succession.

References

MentorshipBC. (2014). MentorshipBC. Retrieved from www.mentorshipbc.ca .

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Buying a Business Case Study

Overview

The Buyer section has provided you with a wealth of information to prepare you to buy a small business. This Case Study will set this information in a specific context and lead you through each process to even better equip you to make your own decisions in your own unique context.

The Case Study provides background information and questions related to the case. Possible responses are provided for you to review after you have considered the questions yourself.

This Case Study has been created by Dr. Siva Prasad Ravi of TRU's School of Business and Economics.

Introduction

This case focuses on entrepreneurship and more precisely delves into various aspects related to buying an existing small business. Like many people, David always wanted to be an entrepreneur. With this aim he pursued studies in entrepreneurship at Thompson Rivers University. His studies provided him with insights into the intricacies of starting a new venture. His work experience in different sales jobs gave him some practical skills that are needed to run a business. He has also learnt from his own experience that to be a successful entrepreneur one needs to be reasonably financially stable and must have a thorough knowledge of the industry he is entering. With this realization, David started working immediately after his graduation. After working at a couple of jobs in different industries, he finally landed a position as an assistant store manager in a reputable national retail store chain.

He worked there for a decade, gained substantial experience in running a retail businesses and saved a decent amount of money. Though he was quite successful in his job, he never gave up on his dream of owning his own business. When he decided it was time to become an entrepreneur, he found himself facing the decision every new entrepreneur faces: should he start a new business himself or should he buy an existing business?

Analysis

Many people have entrepreneurial ambitions. Many jump into their 'dream' venture without having a clear plan of how to go about their businesses. In many cases, entrepreneurs base their decision to start a business more on their emotional attachment to their business idea than the cold realities of the market place. Many also suffer from selective perception - they will listen and register all the good points about the business they want to start but will not hear or pay attention to the weaknesses of the business or business idea. This is the reason why many first time entrepreneurs fail to realize their dream.

When people have entrepreneurial ambitions, it helps if they discuss their ideas with someone who is in a position to give unbiased advice. Many entrepreneurs discuss such ideas with family members which has some advantages but also many disadvantages. The advantage is that an entrepreneur can get moral and sometimes financial support from a family member. The disadvantage is that in many cases family members try to argue against such an idea, especially when an entrepreneur wants to leave a comfortable and secure job to start a business.

A better option is to find a mentor. In this case, luckily for David, John, his supervisor, fit the bill well. Initially, John felt that David had an excellent future in the company and advised him to continue in the job. However, after careful consideration of all factors and seeing David's strong resolve, he became his mentor. Any new entrepreneur needs his mentor to be experienced and, more importantly, willing to act as a 'Devil's advocate.' A mentor who can think outside the box can be of an immense value to an entrepreneur.

The more research an entrepreneur conducts into his business idea and the more information the entrepreneur gathers from different sources, the better the decision he will make. David did well to collect as much information as possible from different sources. Now, he is facing his first decision: should he start a new business from scratch or buy an existing business? The answer to this question is not simple and depends on many factors, such as the industry, market, customers, and products.

The Search

The most important issue is searching for a suitable company to buy. When a business is for sale, the first thing the buyer has to find out is why is the business being sold? This process is known as 'due diligence.' Many a time, sellers say that the business is a profitable one but there can be many hidden issues. For example, there may be pending litigation against the business. Although the seller may be confident that the litigation will be decided in the businesses' favor, the decision may go the other way with disastrous consequences for the business. An honest seller will tell you up front, but not everyone is honest. Remember the caveat 'Buyer, Beware.' The search for a business is a full time job in itself.

A Potential Business

David has found a business for sale that might be a good candidate. The details of the business are discussed thoroughly below. You will need this background information to answer the case study questions which will help you gain a greater understanding of the complexity of buying a business.

Grimaldi Grocers"

Background

It was a chilly winter night with temperatures reaching - 20 at 9:00pm on January 10, 2015. Robert was standing in front of his store Grimaldi Grocers. After closing the store for the day, he looked up at the glowing store sign with satisfaction and pride, just as any parent looks at their well settled children. This was a ritual Robert had followed every day for the past two decades, 21 years to be more precise. Whenever he looked at the store, a pleasant feeling passed over him as he recalled the store's humble beginnings, its growth, and the ups and downs in the initial years. However, during the past two months he had something pressing on his mind – Grimaldi's future. His emotional attachment with the store was so great that Robert wanted the store to be part of his family forever, but he knew that it may not be possible. Being a pragmatic person, Robert wondered about the future management of the store.

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The Entrepreneur

Robert's parents immigrated to Canada from Italy in the 1950s. Robert's father was a farmer who chose to settle down in Kamloops. Robert was born and raised in Kamloops, a small yet beautiful community located along the banks of the majestic and beautiful twin Thompson rivers. His family consisted of his father, mother, and a brother. After graduating from North Kamloops High School in 1989, Robert enrolled himself in the BBA Program at Thompson Rivers University. Robert knew that in order to support his education he needed to take up a part-time job. After working a couple of odd jobs, Robert landed a position at the Canadian retail chain, Safeway. Working at Safeway suited him in many ways. Firstly, the hours were flexible and he could easily arrange his work based on his university routine. Secondly, it helped him to develop many skills, the most important one being people skills. Thirdly, the pay was sufficient for his current needs. Robert was making \$12.65 per hour initially and by the time he left the job a few years later, he was earning \$21.00 per hour. During summer vacation, he could work full time.

While at Safeway, Robert learned the intricacies of running a retail store, which Robert believes has influenced his success as a business owner. The job at Safeway not only helped Robert to pay for his tuition at university but also provided him with adequate savings for future business endeavors. Robert, being the elder son of immigrants from a humble financial background, was very frugal in his lifestyle and made saving a habit right from an early age. By 1994, Robert had not only graduated from TRU with a BBA, but also had savings upwards of \$150,000.

It was during this period that Robert considered opening his own retail business and began looking for opportunities. From his research, he soon discovered that there are two types of retail stores in Kamloops: 1) large stores (e.g. the Real Canadian Super Store, Safeway, Save on Foods) and, 2) small street corner convenience stores. He was not sure if he wanted to open a conventional convenience store or an already established franchise. Around this time, Robert attended a social gathering of Europeans where he came across an interesting discussion. A group of women were discussing the difficulties in finding authentic European cheeses and olive oils in Kamloops. This was when Robert got the idea for his business: a specialty store for European grocery and food items.

The Strategy

Right from the beginning, Robert was clear about the growth strategies he wanted to pursue. The growth strategy of a firm is all about deciding the level to which the entrepreneur wants to grow his business. All firms adopt one of the following four generic strategies:

1. Life style firms: These are normally part-time businesses with sales less than \$25,000 and are started by the entrepreneur to supplement his other income. Nearly 50% of small businesses fall into this category.
2. Traditional small businesses: These are full-time businesses that account for 22% of small businesses and have sales in the range of \$25,000 to \$100, 000. These kinds of businesses provide livelihood for the owners.
3. High performing small businesses: These businesses have sales ranging from \$100,000 to \$1,000,000 and growth rates between 5 to 10% a year.
4. High Growth Ventures: By far these types of firms are very few, normally around 5% of all small businesses (Katz & Green, 2012).

While Robert aimed at creating a traditional small business, it eventually developed into a high-performing small business.

The Business

Once Robert realized his business idea, he developed a business plan as the capstone project for his BBA. He tried to visualize the investment involved and make some projections about sales. Looking back now, after all these years, Robert recognizes that this effort to create a business plan certainly helped structure his approach. Another important step that helped Robert was his market research. He met owners of other specialty stores like the Indian stores on the North Shore and received valuable information from such meetings. There were many similarities between these stores and the one he planned to open, including the size of the customer population; both these communities have nearly 2,000 households in Kamloops. The Indian community is concentrated in the northern part of Kamloops; where as the European community is concentrated downtown. Robert also learned that both communities, especially immigrants and first generation Canadians, crave their respective ethnic foods. The larger stores offered a few items, but customers were not satisfied with them. The normal practice, at least for Indian families, was to buy foods in bulk from Surrey or Vancouver. Robert expected similar feedback from European Canadians too and his interviews with some Italians and other Europeans proved him to be right. From this data, he could forecast the expected sales in his business' initial years. Robert began interacting with the European community extensively and, from these conversations, he developed a list of items that Europeans prefer.

The next piece of the puzzle was to determine the best suppliers for these foods. Robert had two options: 1) to import the items directly from Europe or, 2) buy them from suppliers in Vancouver. He could import high quality products from Europe but it would be prohibitively expensive to import the small quantities he needed. Hence, he decided to procure these items from suppliers in Vancouver and then attain those items that were not available in B.C. from Europe.

Next, Robert had to make two important decisions: 1) the location and, 2) financing for the new venture.

The Location

From his research, Robert learned that for businesses such as retail stores and restaurants the single most important factor for success is location. He recalled his new venture creation instructor who never got tired of saying "Location, Location and Location." His market research revealed that a majority of the European population lived in and around downtown Kamloops so he decided to open a store in downtown Kamloops. The only hitch was that the downtown commercial space was very expensive. He needed a small place initially, but with a possibility to expand later, if business picked up. Also he needed sufficient parking space on the road or pay parking close by. This requirement proved to be a difficult one to meet. Many places that were available were not suitable for a store or if suitable they were very expensive. Fortunately, he came across a space available on Victoria Street. The property was owned by a group of 8 people jointly who were willing to lease the space on a long term basis. Further, the neighboring property was leased to another firm and was likely to be available in couple of years once their lease period was over. This seemed to be the closest Robert could get in terms of a desired location. Robert signed a lease agreement with the owners in January 1994.

The Financing

When it came to financing the new venture, the estimates Robert made in his informal business plan came in handy. He needed capital of \$170,000 to make the store operational while keeping a reserve of 3 months working capital. Over a period of 12 years, he had saved \$150,000 and thus needed only another \$20,000. Family and friends promised help, as and when needed.

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The Life Cycle - Introduction and Growth

That is how “Grimaldi Grocers” was born and opened its doors for business in 1994. Robert registered the store as a limited liability company. The store started with one employee and Robert’s father promised to help whenever needed as an additional hand. The items offered for sale were mainly of European flavor, like the olive oil, specialty cheeses, and pasta.

In the initial introductory years 1994 - 1997, the going was quite tough. Though Robert was very realistic in his projection of sales, he soon realized it was becoming difficult to reach those numbers. The first three years did not see much profit. Fortunately, Robert was able to break even and thus survive the initial growing pains. Conservatively, Robert made the decision to continue working at Safeway. This was hard work, but the strategy paid off in later years. Robert realized that in order for the store to succeed it must have a European flavor but must also cater to the needs of other communities in Kamloops. He started expanding the range of items that were offered to include products like meat and milk. Towards the end of the third year Robert started seeing the proverbial light at the end of the tunnel in the form of some decent profit.

In the initial years, Robert’s marketing and promotion campaign was mainly based on print media and radio. Though the advertising helped in creating awareness about the store and developing its branding, it did not contribute in a big way to the store’s bottom line. Robert realized that it was actually word-of-mouth that was bringing in new customers. Consequently, he started concentrating on customer relations activities aimed at retaining the existing customers and attracting new customers. Robert understood that promotional material like cotton bags with the store’s name and logo helped as well. By providing better personal service to his customers he was creating a positive image of the store in the public’s mind.

As it stands today Robert has 15 bulk suppliers from Vancouver, 15 Canadian suppliers and five suppliers of specialty items from Europe. Most of the cheese is imported directly from European suppliers; meat and milk is imported from Canadian suppliers; fruits, vegetables and other produce are from the US; and dry items like olive oil and pasta are imported from Italy.

The store entered a growth phase in 2007 and continued to grow until 2008. The growth during this period was phenomenal and the store started attracting domestic customers as well. During this period Robert concentrated on reducing waste with the eventual aim of achieving zero wastage. This is the same time that Robert introduced value added products like ready to eat European soups, meals and salads. This new addition was a success from the start and contributed 10% in the first year, growing to 25 to 30% of sales in just a few years. The location of the store, which was surrounded by many offices, also contributed positively towards the store’s growth. In the winter, soups and lasagna became very popular items and in the summer soups and salads were the meal of choice.

Robert, after having worked at Safeway for more than a decade, understood the needs and aspirations of employees well and practiced what he had learned. The store started with one employee in 1994 and by 2000 had 10 employees. The very fact that the first employee, who is 72 years old now, is still working for the store is a testimony to Robert’s human resource practices. Robert attributes the store’s success to the highly motivated employees. However, in 2000 technology started affecting small business practices and efficiency and, as a result of Robert’s adoption of automation, the number of employees fell to 6, though this number varies from year to year.

Another important development that occurred was a change in property ownership. Some of the property owners wanted to sell their shares. Robert bought the shares of 6 of the owners between 2008 and 2012. Currently, Robert owns the property along with two of the original owners.

Hungry for more knowledge, Robert enrolled in the MBA program offered at Thompson Rivers University. While attending school, Robert's brother and father helped maintain the store. Robert performed well in the MBA program. After graduating, Robert started teaching as a sessional lecturer at the university which included instructing TRU's program offered in Chandigarh, India. Robert shared his experiences with students and became a popular teacher at TRU. He enjoyed teaching in the classroom and appreciated the opportunity it provided to motivate young, aspiring entrepreneurs.

Last but not least, Robert believed the civic responsibilities he undertook had played a major role in developing his brand image and contributed to the success of Grimaldi Grocers. The store supported local fundraisers for charities, cancer runs, diabetes camps, Boogie the Bridge, and TRUSU clubs. His participation in Italian cultural committees and sport teams also helped to create a positive brand over the years.

In 2010, the store entered into a mature phase. The sales were still growing but at a much lower rate. The profits were still growing but less than 10% on a year to year basis. The financial performance of the store during the last 5 years is provided below:

Grimaldi Grocers: Performance 2011 -2015					
	2011	2012	2013	2014	2015
Sales					
Grocery and other specialty items	\$820,000	\$850,000	\$890,000	\$920,000	\$935,000
Ready to Eat Foods, salads	\$205,500	\$220,000	\$245,000	\$250,000	\$260,000
Total Sales	\$1,025,500	\$1,070,000	\$1,135,000	\$1,170,000	\$1,195,000
Expenses					
Cost Of Goods Sold	\$600,000	\$650,000	\$690,000	\$710,000	\$750,000
Wages (Employees)	\$115,200	\$115,200	\$133,400	\$134,400	\$115,200
Salaries (Owner Manger)	\$55,000	\$55,000	\$55,000	\$60,000	\$60,000
Rent	\$100,000	\$100,000	\$100,000	\$108,000	\$108,000
Hydro, Telephone	\$7,500	\$6,900	\$7,000	\$6,000	\$6,000
Consumables	\$11,700	\$13,000	\$12,000	\$10,700	\$10,000
Promotion Material	\$18,000	\$20,000	\$20,000	\$20,000	\$20,000
License Fee	\$1,600	\$1,800	\$1,800	\$2,000	\$2,000
Total Expenses	\$909,000	\$961,900	\$1,019,200	\$1,051,100	\$1,071,200
Gross Profit	\$116,500	\$108,100	\$115,800	\$118,900	\$123,800
Taxes (10%)	\$11,650	\$10,810	\$11,580	\$11,890	\$12,380
Net Profit	\$104,850	\$97,290	\$104,220	\$107,010	\$111,420

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The Choices

Question 1:

What are the advantages and disadvantages of buying this existing business?

Question 2:

Should he go for outright purchase or take the other offer of joining Robert as a partner?

Question 3:

John's advice is that a business can be normally valued at 3 to 5 times the annual net profit adding that a multiplier of 3 is the safest. However it is unlikely that Robert would be willing to sell a well-established and profitable business for \$300,000. What should be the ideal offer for a win-win situation?

Question 4:

If Robert is not willing to come down on the price and David agrees to pay \$500,000 to purchase the business outright using his \$250,000 in savings and borrowing \$250,000 from the Business Development Bank of Canada at 10% interest what would David's net earnings on his investment be in the next 5 years at the present rate of net profit?

Question 5:

David is confident that he will be able to increase the sales and net profits by 10% a year in the future. If he can achieve this what would be his returns over the next five years?

Question 6:

If Robert agrees to sell for \$400,000 and David borrows \$150,000 from BDC at 10% what would be the scenario for the following 5 years?

Question 7:

If David joins Robert as partner what would be his returns in the next 5 years?

Question 8:

If David joins Robert as a partner and uses only \$150,000 of his own funds and borrows \$100,000 from BDC so that he can use his funds for the proposed expansion what would be his gains in the next 5 years?

Question 9:

What if things go wrong and business shrinks by 10% in the next year?

Question 10:

What if the sales and profit shrink 20% for the next two years?

The Choices Answers

Question 1:

What are the advantages and disadvantages of buying this existing business?

Buying an Existing Business

Advantages

- » Benefit from the existing brand
- » Captive customers and relationships
- » Processes in place
- » Can count on sales and profits from day one
- » Much easier to convince potential investors
- » Risk is much less when you buy a successful business
- » You are also buying relationships with suppliers, customers
- » You can take off from day one
- » Cost of setting up can be very low, as most often you are likely to get existing infrastructure at a deeply discounted rate
- » Easier to get new business through cold calls
- » You have a readymade team, with trained employees
- » Easier to convince banks for line of credit arrangements
- » Buyer may be able to negotiate an attractive price for stock
- » Non-Competition from seller

Disadvantages

- » Sometimes, if the image is poor, the brand can be a burden instead of being an advantage
- » Business model may not fit into your ideas
- » Larger initial investment
- » Inherit 'not so good' things also
- » Suppliers may not be good
- » You may like to have a new set of suppliers
- » This partially can be offset by outdated technology and equipment
- » Some of them may not be people you want
- » Getting rid of employees can be difficult
- » But banks normally wants the credit terms renegotiated
- » Liabilities, debts, litigation at the time of buying can be tricky and in most cases expensive
- » A few employees can become competitors

Starting Your Own Business

Advantages

- » Start with a clean slate
- » Much cheaper to start a new business than acquiring an existing business
- » No burden from past reputation and history
- » Can develop a new niche in the market
- » Can develop a team of your choice
- » If you wish to trade under a different name it is better to start your own new venture
- » Can develop a detailed business plan (blueprint)
- » Can have state of the art equipment and technology that can reduce operating costs

Disadvantages

- » May have a long gestation period to become profitable
- » Startups are normally not expected to make money for the first three years
- » High rate of failure for new businesses
- » Getting investors (financing) can be very difficult
- » Business risks of starting a new business are very high
- » You need to develop relationships from scratch; relationships are not built in day

Question 2:

Should he go for outright purchase or take the other offer of joining Robert as a partner?

This issue requires very serious consideration. Outright purchase gives David full control of the business. On the other hand, this also results in a large financial outflow and places the entire risk on David.

Joining as partner might not give David full freedom to plan and grow the business the way he wants. Partnership comes with some legal obligations too. Each partner is bound by the other partner's actions. The role each partner would play, unless made explicit with a contract, could lead to other problems.

Robert is known as a very honest man in the community and has a great standing and hence David may not worry in this case. In fact Robert can be a valuable asset, because of his long and time-tested relationships with suppliers and customers. Their expertise and knowledge can complement each other. David can supervise the business growth while Robert can take care of the logistics.

However, buyers must know here that this is a very complicated decision that only the buyer can make. There are many examples of failed partnerships. The buyer must be very careful.

Question 3:

John's advice is that a business can be normally valued at 3 to 5 times the annual net profit adding that a multiplier of 3 is the safest. However it is unlikely that Robert would be willing to sell a well-established and profitable business for \$300 000. What should be the ideal offer for a win-win situation?

Every buyer will face this situation. Buyers want to buy the business as cheaply as possible while the sellers want to maximize their gains. This is the place where the negotiation skills of the buyer are put to the test. Offering too low a price will not elicit any response from the seller. If the sale is a distress sale, the seller may agree to an unusually low price, but not in normal circumstances. The buyer and seller must be able to meet each other halfway. If the seller is not willing to compromise on his sale price, and if the buyer feels that it is too high, the buyer must withdraw after making his final bid.

No prudent buyer should get emotional and increase their offer, solely with the aim of getting the business they want. The offer must be based on numbers not emotions.

In this case, David might offer up to \$400,000 and no more.

Question 4:

If Robert is not willing to come down on the price and David agrees to pay \$500,000 to purchase the business outright using his \$250,000 in savings and borrowing \$250,000 from the Business Development Bank of Canada at 10% interest what would David's net earnings on his investment be in the next 5 years at the present rate of net profit?

The buyer has to crunch the numbers and see if the business is profitable at this price.

Use Microsoft Excel and find the answer for this question.

Year	Investment	Loan	Opportunity Cost (%)	Total Opportunity Cost (\$)	Bank Interest (%)	Total Bank Interest (\$)	Total	Net Profit	Profit Available to David
2015	250000.00	250000.00	10.00	25000.00	10.00	25000.00	50000.00	111420.00	161420.00
	100000.00	400000.00	10.00	10000.00	10.00	40000.00	50000.00	111420.00	161420.00
	200000.00	300000.00	10.00	20000.00	10.00	30000.00	50000.00	111420.00	161420.00

The buyer can work out the profit for the other years, first assessing the sales.

The buyer can also change the amounts of the down payment (\$100,000 or \$200,000 for example) and the loan (\$400,000 or \$300,000 for example) and see the implications of his choice of financing and his decision to pay \$500,000. Working out the various permutations and combinations will provide different perspectives to the buyer.

Question 5:

David is confident that he will be able to increase the sales and net profits by 10% a year in the future. If he can achieve this what would be his returns over the next five years?

The buyer must use Microsoft Excel and find the answer to this question. We advise the buyer should also adjust these percentages to 5%, 15%, and 20% and compare the results.

Year	Investment	Loan	Opportunity Cost (%)	Total Opportunity Cost	Bank Interest (%)	Total Bank Interest (\$)	Total	Net Profit	Increase in Profit (%)	Total Increase in Profit (\$)	Profit Available to David
2015	250000.00	150000.00	10.00	25000.00	10.00	15000.00	40000.00	111420.00	5.00	5571.00	150991.00
	250000.00	150000.00	10.00	25000.00	10.00	15000.00	40000.00	111420.00	10.00	11142.00	162562.00
	250000.00	150000.00	10.00	25000.00	10.00	15000.00	40000.00	111420.00	15.00	16713.00	168133.00
	250000.00	150000.00	10.00	25000.00	10.00	15000.00	40000.00	111420.00	20.00	22284.00	173704.00

Question 6:

If Robert agrees to sell for \$400,000 and David borrows \$150,000 from BDC at 10% what would be the scenario for the following 5 years?

The buyer must use Microsoft Excel to find the answer for this question. We advise the buyer should also adjust these percentages to 5%, 15%, and 20% and compare the results.

Year	Investment	Loan	Opportunity Cost (%)	Total Opportunity Cost	Bank Interest (%)	Total Bank Interest	Total	Net Profit	Profit Available to David
2015	250000.00	150000.00	10.00	25000.00	5.00	7500.00	32500.00	111420.00	143920.00
	250000.00	150000.00	10.00	25000.00	10	15000.00	40000	111420.00	151420
	250000.00	150000.00	10.00	25000.00	15	22500.00	47500	111420.00	158920
	250000.00	150000.00	10.00	25000.00	20	30000.00	55000	111420.00	166420

Question 7:

If David joins Robert as partner what would be his returns in the next 5 years?

The buyer must use Microsoft Excel to find the answer to this question. In this case, David will only be investing \$250,000. He could use \$125,000 of his own savings and borrow \$125,000 from bank. The profit he is likely to receive will also be 50%.

Year	Investment	Loan	Opportunity Cost (%)	Total Opportunity Cost (\$)	Bank Interest (%)	Total Bank Interest (\$)	Total	Net Profit	Dauids Share (50%)	Profit Available to David
2015	125000.00	125000.00	10.00	12500.00	10.00	12500.00	25000.00	111420.00	55710.00	30710.00

Question 8:

If David joins Robert as a partner and uses only \$150 000 of his own funds and borrows \$100 000 from BDC so that he can use his funds for the proposed expansion what would be his gains in the next 5 years?

The buyer must use Microsoft Excel to find the answer to this question.

Year	Investment	Loan	Opportunity Cost (%)	Total Opportunity Cost (\$)	Bank Interest (%)	Total Bank Interest (\$)	Total	Net Profit	Dauids Share (50%)	Profit Available to David
2015	150000.00	100000.00	10.00	15000.00	10.00	10000.00	25000.00	111420.00	55710.00	30710.00

Question 9:

What if things go wrong and business shrinks by 10% in the next year?

The buyer must use Microsoft Excel to find the answer to this question.

Year	Investment	Loan	Opportunity Cost (%)	Total Opportunity Cost	Bank Interest (%)	Total Bank Interest	Total	Net Profit	Dauids Share (50%)	Decrease in Profit (%)	Total Decrease in Profit	Profit Available to David
2015	150000.00	100000.00	10.00	15000.00	10.00	10000.00	25000.00	111420.00	55710.00	10.00	5571.00	25139.00

What if the sales and profit shrink 20% for the next two years?

Year	Investment	Loan	Opportunity Cost (%)	Bank Interest (%)	Total Bank Interest (\$)	Total	Net Profit	Davids Share (50%)	Decrease in Profit (%)	Total Decrease in Profit (\$)	Profit Available to David
2015	150000.00	100000.00	10.00	10.00	10000.00	25000.00	111420.00	55710.00	20.00	11142.00	19568.00
Davids Net Profit from Previous Year											
19568.00	20.00	3913.60	Profit Available to David in Year 2								
			15654.40								

David in that case will only be making \$39,136 for the year 2015.

1. Katz, J. & Green, R. (2012), *Entrepreneurial Small Business*, 3rd ed. McGraw-Hill Irwin, pp 641.
2. www.canadadone.com, (2014), *Valuation Formulas, The Income method*, Retrieved on 30 March 2015 from http://www.canadadone.com/tools/buy_a_biz/section2f.html
3. Interviews with Robert
4. Interviews with Krishna.

Resources

BC, Ministry of Jobs, Tourism and Skills Training: <http://www.labour.gov.bc.ca/esb/>

BCStats: <http://bcstats.gov.bc.ca/Home.aspx>

Look under:

- » Publications ->Analytical Reports
- » Statistics by Subject
- » Search for: *National Household Survey*

E-Myth Revisited, Available at <http://michaelegerbercompanies.com/web/>

Innovation, Science and Economic Development Canada: <https://www.ic.gc.ca/>

Look under:

- » All topics pull-down
- » Industries and business

International Business Brokers Association's: <http://ibba.org/education>

International Federation of Accountants (IFAC): www.ifac.org

Look Under:

- » Publications & Resources,
- » Search for:
- » *Good Practice Checklist for Small Business, Second Edition*

Law Society Of British Columbia Practice Checklists Manual:

1. Asset Purchase Agreement Drafting: <http://www.lawsociety.bc.ca/docs/practice/checklists/B-2.pdf>
2. Share Purchase Agreement Drafting: <http://www.lawsociety.bc.ca/docs/practice/checklists/B-4.pdf>

MentorshipBC: <http://www.mentorshipbc.ca/Pages/default.aspx>

Personality Assessment Tools

Keirsey Temperament Sorter®-II (KTS-II) at www.keirsey.com, or the

Meyers Briggs Personality Types at www.myersbriggs.org.

<http://personality-testing.info/tests/OEJTS/>.

Purchase and Sale of Privately-Held Businesses. 3rd Ed. Toronto : Canadian Institute of Chartered Accountants. by:

W.P.Albo, A. Bryk, A.D. Pigott. Available at:<http://www.castore.ca/product/purchase-and-sale-of-privately-held-businesses/129?newLang=en>

SHIFT

SWOT Analysis

Forbes' *How to Conduct a Personal SWOT Analysis*: <http://www.forbes.com/sites/lisaquast/2013/04/15/how-to-conduct-a-personal-s-w-o-t-analysis/>

Nancy Dube and Michelle Fontaine's slide presentation: *S.W.O.T. Analysis for Entrepreneurs*, at <http://www.slideshare.net/LAMICHProductions/swot-analysis-for-entrepreneurs>.

Statistics Canada: <http://www.ic.gc.ca/eic/site/icgc.nsf/eng/home>

Look under:

- » Just for Businesses pull-down
- » Forms, reports, guides pull-down

Revenue Canada: <http://www.cra-arc.gc.ca/>

Look under:

- » Businesses

WorkBC: <https://www.workbc.ca/Statistics.aspx>

Look under:

- » Statistics

Small Business BC's: <http://smallbusinessbc.ca/>

Look under:

- » Free tools