SHIFT

Business Sellers

Cut through the complexity of selling your company

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

Thompson Rivers University

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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.

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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.

SHIFT

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.

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

Seller

StartupStockPhotos. (2015). Pixabay. Entrepreneur, startup, start-up, man, planning, business. Retrieved from http://pixabay.com/en/entrepreneur-startup-start-up-man-593352/ License: CC0 Public Domain / FAQ

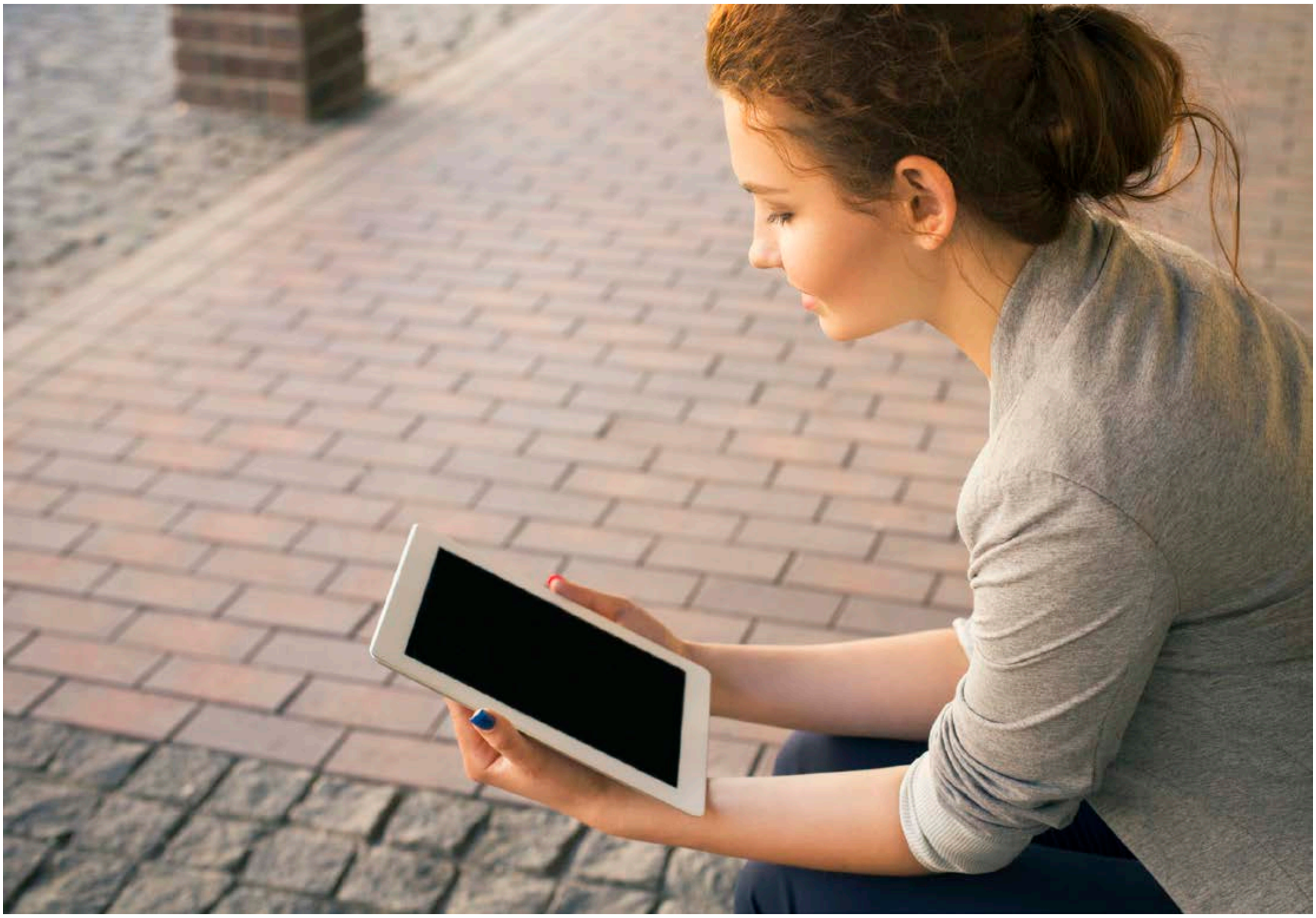
Over the next ten years many owners will be retiring and making the effort to sell their business. Selling your business can be a challenging and emotional process. Making sure the succession is smooth for yourself as the buyer, and your employees, is a top priority. The following trio of Seller section modules will discuss key issues for transferring ownership of your business, and help you to collect the necessary documents to prepare for an eventual sale of your business.

Please, feel free to work through the Seller 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.

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 Sell Your Business



Anna Demianenko. (n.d.) Retrieved from https://unsplash.imgix.net/photo-1427104227401-94b390b378b0?q=75&fm=jpg&w=1080&fit=max&s=36eaf8a793277f034613ae747649ed38. Creative Commons Zero

Overview

Over the next ten years many owners will be retiring and making the effort to sell their business. These modules will help that owner collect the necessary documents to prepare for the eventual sale.

Selling your business is not a new idea. Over the years you may have thought about selling your business but realize there are issues to consider first. **Preparing to Sell Your Business** discusses several key issues that a knowledgeable seller will need to consider. It is prudent to do your homework and be organized in order to show your business in the best light. A used car salesman would have a difficult time selling dirty cars for example. Therefore, you will want to polish key aspects of your business to enhance the likelihood of a sale.

Learning Outcomes

By the end of **Preparing to sell Your Business**, you will be able to:

1. Characterize and determine your company's share of the relevant market.
2. Practice and utilize Federal Government sources of data to compare with your business financial results reported on your annual tax return.
3. Define the legal implications of becoming a new small business owner.
4. Identify the impact of ownership transfer on existing contracts and fiscal responsibilities.
5. Assess the value of the current employees working for the business.
6. Define the Human Resource responsibilities of owning a small business.

All of these topics are of a mutual concern to both the buyer and the seller. Several of the topics covered in **Preparing to Purchase a Business**, in the Buyer section, are relevant to the seller.

Examining Business Market Share

Life-Of-Pix. (2014). Pixabay. Market, street, fruit, apples, oranges, pears, food. Retrieved from http://pixabay.com/en/market-street-fruit-apples-oranges-406858/ License: CC0 Public Domain / FAQ

Investopedia defines market share as "the percentage of an industry or market's total sales that is earned by a particular company over a specified time period. Market share is calculated by taking the company's sales over the period and dividing it by the total sales of the industry over the same period. This metric is used to give a general idea of the size of a company to its market and its competitors" (http://www.investopedia.com/terms/m/marketshare.asp, para. 1, 2015).

There are several things to consider when determining market share. The key aspect is determining a reliable measure of the market. Often this is the annual sales of competing businesses who provide similar products and services.

You have ready access to your own annual sales, but what is the best way to access data on your competitors? Innovation, Science and Economic Development Canada has developed six profiles of key areas in business on their Industry Profiles website at https://www.ic.gc.ca/eic/site/026.nsf/eng/h_00069.html. The industries included are:

- Apparel
- Furniture
- Recreational Boats
- Printing and Related Support Activities
- Sporting & Athletic Goods.

The data for each industry covers a recent five-year period (2007 to 2011) and includes:

» Statistical Summary
» Economic Overview
» Major Trends and Issues Facing the Industry and Associations

This report can be useful to support your own market share analysis. Take the time to investigate one of the other industry profiles.

Innovation, Science and Economic Development Canada also has detailed Financial Performance Data at http://www.ic.gc.ca/eic/site/pp-pp.nsf/eng/home?Open&src=mm2 for several industries including Contractors, Food Services and Professional Services. You can also drill down to provincial data for each specific industry. For example, if you click on "Create a Report" and browse for an industry, you can choose an industry category and see all the related industries. Under "Retail Trade" you can find the BC data on Used Car Dealers and create a report based on unincorporated companies, which provides a breakdown of revenue and detailed expenses collected from annual tax returns. The revenues are broken down into 4 quarters or quartiles, grouping similar-sized businesses together. This breakdown will enable the reader to extract data for each range of annual revenues and the associated expenses. When you switch over to the incorporated companies, the balance sheet data is also available. Further, the report includes “Quality Indicators” that evaluate the data as Excellent, Very Good, Good, Acceptable, and Use with caution.

Activity: Examining Business Market Share

Take the time to look up the incorporated data for Used Car Dealers. What do you notice? You might be surprised at the low net profits reported on the Income Tax returns.

This data is limited as it is available only at the provincial level, not at the community level. Overall, this tool can provide a measuring stick against all companies in your industry. The data is divided into four quartiles based on the annual sales. In the case of the incorporated used car dealers, the bottom quartile has annual sales between $30,000 and $200,000 while the top quartile has annual sales between 1,369,000 and 5,000,000 (Industry Canada, 2014). By knowing your sales data, you can look into the quartiles and see the average costs detailed down to wages, materials, amortization and so forth. Your tax return breaks down the costs in the same categories making it easy to compare your results to the average. Using the percentage of total revenue format makes a comparison to your business straightforward.

Take this opportunity to see what data is available for your business. You can anticipate that a knowledgeable buyer will want this information. Consider this part of your business documentation package.

Change of Ownership Considerations

Joshua Earle. (n.d.) Retrieved from https://ununsplash.imgix.net/46/bsrOzgDkQhGRKOVC7Era_9X6A3584.jpg?q=75&fm=jpg&s=7d91f92e93b8c17cffb7bc246ceb3d59 Creative Commons Zero

The current form of your business is important to the buyer.

- If your business is a Proprietorship, you are likely selling the assets, collecting the accounts receivable, and paying off the liabilities.
- If your business is a Partnership, you need to determine the impact a new partner will have on the existing partners. In this case, you will be selling your share of the business.
- If your business is a Limited company, you will be selling either the shares or the assets, and perhaps net of any receivables and payables.

The form of your business and its sale may have ramifications on retention of employees, customers, and suppliers. Employees become nervous when a business sale is being considered as fear of the unknown is natural. Customers may also become concerned as they want to continue buying the same products and would prefer not to change companies. Suppliers need long-term customers for their products and a change may be unsettling. Competitors may also be interested in attracting your existing customers.

Selling your business will be based on finding an individual that you believe will fit well with the existing culture. Ideally, this will be someone that you like and recognize has the necessary skills to build your business. The relationship between the buyer and seller needs to be strong in order to give the best chance for a successful transition in the long run.

An astute purchaser will have many questions for the seller that are worth examining beforehand. The most important question will be: Why is your business for sale? Have your answer ready and be specific with your reasoning. A motivated buyer *and* seller are required to complete any transaction. Often the purchaser will want to talk to the employees and your permission is needed. Realize that the buyer will want to confirm what you tell him about the culture of your business.

Another issue to consider is the level of assistance you are prepared to offer the buyer. This is often a key part of the negotiations as the buyer will want to fully understand the unique aspects of the business before the seller departs.

Early on, the buyer will want to know the financial aspects including existing obligations and collateral used for loans, lease commitments, contracts with customers, suppliers, and employees.

Finally, the buyer will want to know how you determined the price of the business. Having multiple copies of the revenue business valuations is a frequently used strategy. Having a non-disclosure document prepared ahead of time will keep you organized and professional when dealing with potential buyers.

Non-Disclosure Agreement (NDA)

Cognizant Technology Solutions. (26 June 2013). Cognizant quality engineering & assurance summit - Boston. Retrieved from https://www.flickr.com/photos/cognizant-worldwide/9292473096/in/set-72157634650721834 [CC-BY-2.0 (http://creativecommons.org/licenses/by/2.0)], via Flickr

Buyers and Sellers will often discuss business sensitive areas that are the private domain of the owner. One important protection that helps both parties is a Non-Disclosure Agreement (NDA). Once a Non-Disclosure Agreement is properly executed, both parties can be candid about all aspects of the business. The following data is from an American website—Formswift—that generates legal forms; however, the topics are generic and should be used as a guideline. Refer to legal advice to develop your own document.

A typical non-disclosure agreement should contain the following:

» Names of all involved parties.
» Definition of confidential information - List all items of information covered by the agreement, such as vendor lists, financial data, blueprints, etc.
» Terms - There should be two terms defined in your confidentiality agreement - the time period during which the information must be kept confidential and the time period during which the NDA is binding.
» Permissible forms of use - Define the way in which signers must treat confidential information, for example: to only discuss it with authorized persons when necessary, or to only use it for official purposes, etc.
» Exclusions - Clarify what types of information are not confidential. These generally include information that is already known to the public, known prior to the NDA, or disclosed to the signer by another source.
» Permissible disclosure - List instances, such as court orders or subpoenas, in which signers may disclose protected information.
» Signatures and dates.

(Formswift, 2014)

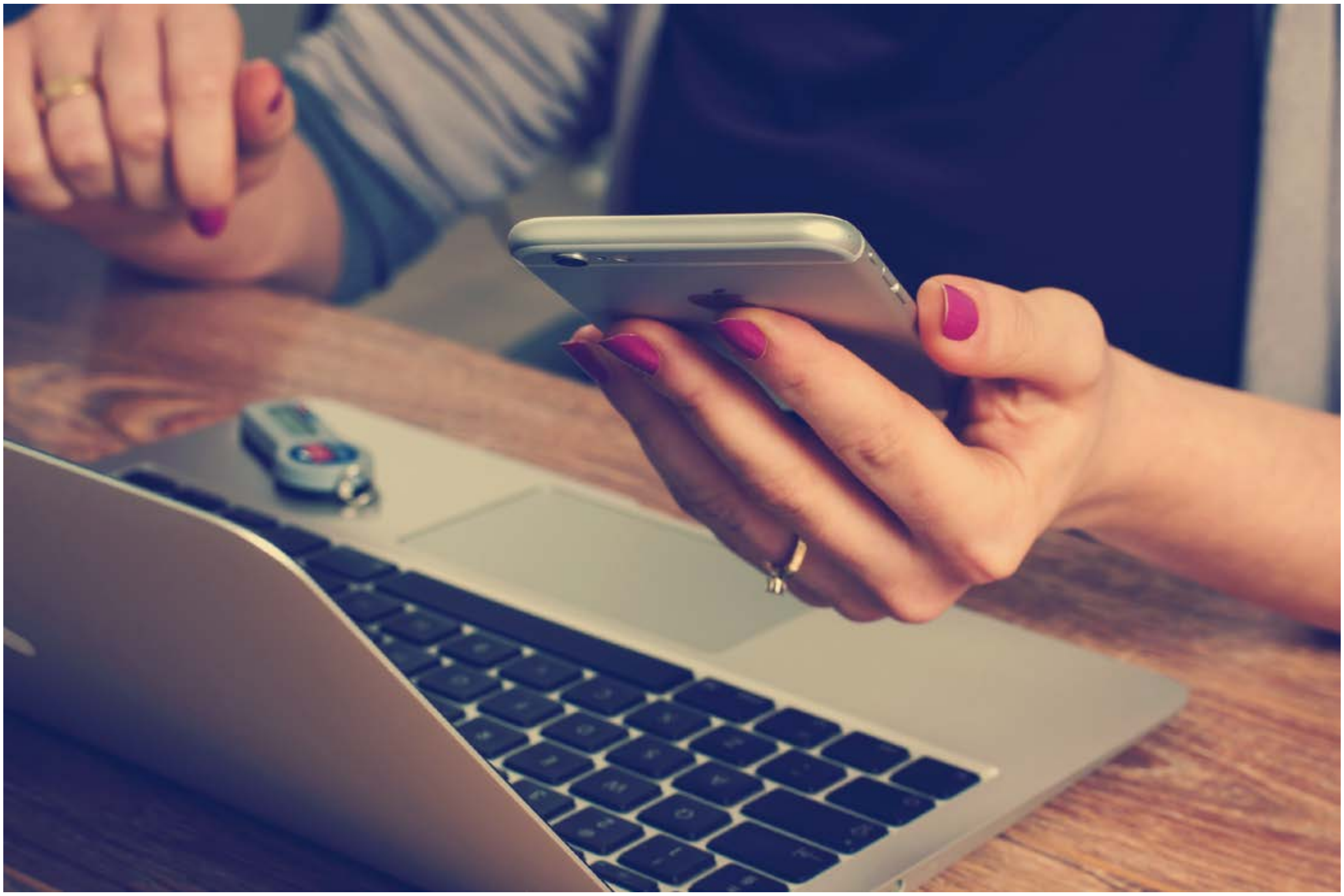
Activity: Non-Disclosure Agreement

You can review a sample of a non-disclosure agreement at http://www.foundersworkbench.com/document-driver/.

When considering your non-disclosure agreement, be sure to use legal advice. Consider going to www.youtube.com and search for “small business due diligence." One of the many available videos is Pacific Business Broker's Due Diligence: What is it and What to expect at https://www.youtube.com/watch?v=HZb6_IJMaUM. Use this video to augment your research.

Next, we will delve into the types of contracts and agreements that need to be disclosed to a buyer.

Contract and Fiscal responsibilities



William Iven. (n.d.). Retrieved from https://unsplash.imgix.net/photo-1423666639041-f56000c27a9a?q=75&fm=jpg&s=d36ce846cbb4e045f6f2d071b8df6590

A buyer will be most interested in any existing contracts, their cost, and expiration date. When a building is leased, the buyer will want to know if a change of ownership triggers a termination clause with the lease. This will force the new buyer to renegotiate the terms of the lease or relocate.

Most often, the business will have taken on financing and have pledged assets as collateral. You will need to provide:

» A list of loans showing the current balance, repayment terms and interest.
» A list of the assets.
» The net book value.
» A report of capital reinvestment over the past five years to confirm the level of reinvestment.
» A copy of the Capital Plan for the next year.
» A list of the inventories and most recent count data.
» Inventory turnover calculations to indicate the age of the inventory.
» A list of customers, credit terms and commitments sorted by size of annual purchases.
» An aged accounts receivable and bad debt experience.
» A general assessment of the customers to lend support to the quality of the customers and the potential retention.

- The financial statements for the past five years.
- The Income tax returns.
- Any notice of assessment and the name of the professional accountant that prepared the taxes in order to provide assurance that the statements fairly reflect the business situation.
- The insurance coverage, premium and claim history.
- Property taxes and assessments in order to lend credibility to prices for land and building.

When your company has Intellectual Property (IP) that is included in the sale, the Non-Disclosure Agreement must include what you are prepared to disclose without risking the loss of the property. This is tricky as you need to describe it and demonstrate it without delving into how it is made. Software programs are often the subject of IP sales, but releasing a copy of the program code should not be requested by the buyer.

In the event the business has had a professional evaluation, providing a copy would be appropriate.

At this point you might be getting nervous about the amount and detail of your company that is being disclosed. The non-disclosure document is key to being able to relax somewhat. Obtain legal advice on what action you can do if a potential purchaser violates the agreement.

While your initial reaction may be to withhold these documents, it could raise a major concern with your buyer.

Activity: Contract and Fiscal Responsibilities

The following three videos may provide an insight into documents generally expected. Many videos that were reviewed were promotions by business brokers; however, the information is valuable.

Kochie's Busines Builders' How to Sell Your Small Business at https://www.youtube.com/watch?v=3ylMM2kW25U

Financial Insider Weekly's Preparing to Sell a Business 2013 at https://www.youtube.com/watch?v=8Hpa8dBMkfc

Welch Group Consulting's Prepare & Position Your Company for Sale at https://www.youtube.com/watch?v=ZWFWEqCmDFc

Next, you will look at the employee contribution to the business.

Determining the Value of People Resources

DucDigital. (28 January 2009). La Salle 28/1 - chemistry lab. Retrieved from https://www.flickr.com/photos/ducdigital/3233965180/ [CC-BY-2.0 (http://creativecommons.org/licenses/by/2.0)], via Flickr

One major concern for a new owner will be the retention rate of employees following the sale. The more information you provide about the employees, the higher the level of comfort for the buyer.

An organizational chart depicting key employees gives a visual of the company. Microsoft has several PowerPoint templates that can be downloaded for free from their website. Templates can be found under “Diagrams” at http://office.microsoft.com/en-ca/templates/organizational-chart-examples-TC101875478.aspx.

Providing an employee list, which documents years with the business, promotions and potential promotions would help the buyer determine the quality of the staff. A one-page summary of each employee indicating their expertise, training, education, years with the company, and current wage will support a purchase decision about one of the company’s most valuable asset—one that is not on the books.

The following are examples of the human resource activities within your business that you may wish to share with the potential buyer:

» General personnel policies in place in the business.
» Established programs for developing and training personnel.
» An example of a key employee's current job description.
» The annual evaluation program design.
» Expectation of employees to see wage increases or an annual performance bonus.
» Summary of the employer-paid benefits and those partially paid by the employee.

Where a Collective Agreement is in place, a copy of that document and the implications of any change in the size of the business need to be examined. In small companies it is not likely there will be a union; however if there is a union, be sure to disclose this fact and all relevant aspects to a prospective buyer.

All of these documents will be requested at some point in the negotiations; being prepared will reinforce the professionalism in your business. In the event that the documents are out of date or non-existent, make it a point to generate current information. When you document a weakness in your company, think how to turn it into an opportunity for the buyer. This activity will help you understand your business from a buyer's viewpoint and provide an honest, complete assessment.

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 about before a buyer asks the question. 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=9TJQJVSNjHg

Recap of Documents for the Buyer

Documents for the buyer

1. Outline of the Business
2. Organization Chart
3. Reason for selling

William Iven. (n.d.) Retrieved from https://download.unsplash.com/photo-1421757295538-9c80958e75b0 . Creative Commons Zero

Documents for the buyer after a Non-Disclosure Agreement is in place:

1. Market Share assessment
2. Financial Statements – 5 years
3. Income tax returns – 5 years
4. Name of Professional Accountant
5. Contracts – Leased property
6. Bank Loans, Collateral and Bank Manager contact
7. Major Assets Original Cost and Book Value at previous year-end
8. Capital Reinvestment - recent 5 years
9. Capital Plan for next year
10. Inventories owned
11. Inventories on consignment
12. Customer List, credit terms, repeat customers
13. Insurance coverage, agent name, recent claim experience
14. Property Taxes, assessment notice
15. Professional Evaluation report, name of broker
16. List of “key” employees, position, responsibilities, wages, bonus programs
17. List of other employees, position, responsibilities, wages, expertise, years of service, promotions
18. Employee training programs sponsored by employer
19. Annual evaluation program and related expectation for wage increases
20. Methodology to determine the selling price range

Summary

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

In **Preparing to Sell Your Business**, several aspects of preparing a business valuation were reviewed. Each item will help prepare you for the day that you meet a potential buyer. By having key documents prepared ahead of time, you will impress that buyer and significantly enhance your opportunity to close the deal.

Determining the market share and how your business has grown over the past several years is likely one of the most important documents a buyer will want to see. Preparing yourself for many probing questions will confirm your decision to put the business up for sale. The questions will be challenging and may uncover opportunities that you had not considered; however, the main purpose is for the buyer to understand the business sufficiently well to make the decision to give an offer. A properly executed Non-Disclosure Agreement will provide protection for the seller to be more comfortable sharing business information, and will restrict the buyer from sharing the information with others.

Over the years many important contracts will be in place, such as loans with assets pledged in case of default. Lists of customers, suppliers, and assets are often shared documents. Leases and leasehold improvements are important contracts.

One challenging area is the value of the employees; this is likely the largest non-cash asset in a business. Identifying key employees, wages, incentive programs, and succession programs are very relevant to your purchaser.

Valuing any intellectual property and the method of determining that value is also important.

Overall, the goal is to have sufficient current documents available to share with the prospective buyer prior to meeting that individual.

As a seller it would be worth your time to read **Preparing to Purchase a Business,** in the – Buyer section, and make certain that you are prepared for the day when the right buyer meets you.

In **Positioning your Business for Sale,** you will review the importance of shareholder agreements, define goals and priorities, and review other professionals' contribution to the process.

References

Financial Insider Weekly. (2013). Preparing to Sell a Business 2013. [Video file]. Retrieved from https://www.youtube.com/watch?v=8Hpa8dBMkfc

Formswift. (2014). Create Non-Disclosure Agreement. Retrieved from http://formswift.com/non-disclosure-agreement.

Innovation, Science and Economic Development Canada. (2014). Financial Performance Data. Retrieved from http://www.ic.gc.ca/eic/site/pp-pp.nsf/eng/home?Open&src=mm2.

Innovation, Science and Economic Development Canada. (2014). Industry Profiles. Retrieved from https://www.ic.gc.ca/eic/site/026.nsf/eng/h_00069.html.

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Pacific Business Brokers. (2012). Importance of Tax Planning When Selling or Preparing a Business to Sell. [Video file]. Retrieved from https://www.youtube.com/watch?v=9TJQJVSNjHg.

Pacific Business Brokers. (2014). Inventory and Business Value. [Video file]. Retrieved from https://www.youtube.com/watch?v=vW4h4BGntuQ.

Pacific Business Brokers. (2014). What is EBITDA? What should you know about it? [Video file]. Retrieved from https://www.youtube.com/watch?v=l3zUce7A80w.

Welch Group Consulting. (2013). Prepare & Position Your Company for Sale. [Video file]. Retrieved from https://www.youtube.com/watch?v=ZWFWEqCmDFc.

Positioning Your Business for Sale

Overview

US Embassy Canada. (12 June 2013). Commercial attache Cindy Biggs discusses doing business in Canada. https://www.flickr.com/photos/us_mission_canada/9077102243/ [CC-BY-2.0 (http://creativecommons.org/licenses/by/2.0)], via Flickr

Welcome to **Positioning Your Business for Sale**, the second of three modules to help you sell your business. We have covered a range of material so far including:

1. The importance of having key documents up to date.
2. Determining market share and growth of the business.
3. A Non-Disclosure Agreement.
4. The contracts in place, including leases and loans.
5. A list of key employees, wages, incentive, and succession plans.
6. The methodology for valuing Intellectual Property.

Take your time to review and follow the links provided in **Preparing to Sell Your Business** before beginning **Positioning Your Business for Sale**.

Learning Outcomes

By the end of **Positioning Your Business for Sale**, you will be able to:

1. Appreciate the need for a Shareholder Agreement within a small business.,
2. Recognize the emotional impact of selling the business.
3. Consider the attributes of the “ideal purchaser.”
4. Inventory and price the assets that are included in the sale.
5. Consider the value of goodwill.
6. Review the business borrowing capacity to facilitate a sale, and
7. Consider the possibility of partially financing the sale.
8. Involve professionals in the sale of your business.
9. Be aware of the role of a business broker.

Understanding Shareholder Agreements

StartupStockPhotos. (2015). Pixabay. Entrepreneur, startup, start-up, man, planning, business. Retrieved from http://pixabay.com/en/entrepreneur-startup-start-up-man-593352/ License: CC0 Public Domain / FAQ

One business tool that is often overlooked is the Shareholder Agreement, also referred to as a Buy-Sell Agreement, which should be in place in every partnership. A Shareholder Agreement is a key legal document to protect business owners in the case of an unexpected change to the owners. Typical events include divorce, retirement, death, disability, or bankruptcy of an owner. This document controls future ownership of the business if one of these events occurs. The Shareholder Agreement dictates who buys the shares and at what price. Typically insurance is used to fund the death of an owner. Disability insurance is often included in the event of injury. Often the insurance policy is owned and paid for by the business.

Valuation is the most challenging area in a Shareholder Agreement, as it needs to be fair to all owners and be as close to market value as possible (Holleman). The Shareholder Agreement is sometimes known as a shotgun clause whereby one individual can offer a sale price to the partner at fair market value, or in turn the partner can exercise the shotgun and buy the business at the offered amount. The test in valuation is whether or not every partner would sell their share for the valuation amount. If not, the valuation will need to be revisited.

Sun Life prepared an extensive case study on two partners in *Business Continuation—Client Report—Sun Life Sample* and illustrated the various aspects of a Shareholder Agreement in *Business Succession Planning—A Guide for Business Owners*. You can find both of these resources on their website at www.sunlife.ca by entering “buy-sell agreement” in the search bar at the top right of the page and by following this link https://www.sunnet.sunlife.com/files/advisor/english/PDF/Buy_Sell_Client_report.pdf

Be certain to recognize the importance of 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?
- » Explore the materials provided by Sun Life regarding Business Succession. They share valuable information on financial security planning, retirement, taxes, and unforeseen events http://www.sunlife.ca/files/plan/english/pdf/810-2784.pdf

Getting Ready to Sell

Antranias. (2014). Pixabay. Bridge, web, away, path, decision, limit, opportunity. Retrieved from http://pixabay.com/en/bridge-web-away-path-decision-532077/. License: CCO Public Domain/ FAQ

The Emotional Impact

When a business owner decides to sell the business there may be a flood of feelings about letting go of something that has been a major part of one's life. The emotional bond with the business alone may make it difficult to reach the decision to sell. Recall the dedication and energy that was invested over the years to build a solid business to support the family, employees, customers, and suppliers. Emotions are very powerful and can get in the way of a successful sale if not managed ahead of time.

The Exit Strategy

As an entrepreneur, you have begun preparing your business for sale long before actually listing the business for sale. In fact, the success of the sale depends on this preparation. Preparing an exit strategy is essential: it outlines what you expect out of the sale and how these goals will move you forward into the next stage of life or even a new career. It is very important to involve family members in your exit strategy. They may have worked for the business and will undoubtedly know the staff. The loss of the business will also impact your family members so please make everyone confidentially aware once you have made the decision to sell.

SHIFT

Most likely you have become emotionally attached and defensive about your business; that is to be expected and planned for. Negotiating when emotions are running wild will risk a successful arrangement for the same reason that homeowners have real estate agents make the sale! It gets personal too fast. You should create distance between the purchaser and yourself by involving lawyers, accountants and appraisers. Another excellent resource is a group of peers that have actually gone through the process. A confidential peer group can be most helpful to sound out ideas and not let the word out that you are considering a sale. It is also most important to continue with the business at 100% effort during the “due diligence” process. If the sale falls through, and it might, then your momentum carries the business until the next prospect arrives.

The day of the sale could be anti-climactic. The new owner may have decided to make major changes within your businesses. It is no longer your right to interfere. Employees may be replaced with family members of the new owner, and products may be dropped or significantly changed. You need to be both aware of and accepting of change in your exit plan so you are not taken off guard. Once the sale is complete, you will be able to move forward to your next venture.

Moving Forward

Once you have made the decision to sell, you will soon want to decide what you are going to do with the rest of your life. Travel and golf may be your first thoughts but that may wear thin in short order. A more complete plan would include things to do during the various seasons that include some travel, sports and hiking activities that appeal to the new retiree. Remain flexible about working part-time. If you have worked more than sixty hours a week for many years, you may find the “retired” life tiring. The key is to think this change through with your family, as everyone will be impacted. Writing down your exit strategy and sharing your plan will ease everyone's concerns.

Skitterphoto. (2014). Pixabay. Golf, golfing, golfer, putting, sport, game, grass. Retrieved from http://pixabay.com/en/golf-golfing-golfer-putting-sport-384565/. License: CCO Public Domain/ FAQ

Once you feel you have finalized your exit strategy, your next big step is to consider a timetable to sell the business. Unlike houses that may take 90 days to sell once listed, a business sale could be much different. Everyone needs a place to live but not everyone is looking to buy a business so this sale may take longer.

Your degree of urgency will determine the size of the pool of potential buyers. An immediate sale will limit the number, while a flexible sale in one year will allow time to confidentially contact prospective buyers. The big issue is that when word gets out to employees, customers, suppliers and competitors, it can create unrest for you, the seller.

Consider the possibility of remaining active in the business as an advisor for a set amount of time to help the new owner with the transition.

Finally, you need to determine how important it is for you to receive 100% of your asking price or whether you are willing to provide partial financing to the new owner. By providing financing, with suitable collateral, you can remain involved with the new owner and see the transformation occur.

The Timeline

By Derek Key. (2013, April 10). (Flickr: Window and Clock - Musée d'Orsay). Retrieved from http://upload.wikimedia.org/wikipedia/commons/6/62/Window_and_clock%2C_Mus%C3%A9e_d%27Orsay_10_April_2013.jpg. [CC BY 2.0 (http://creativecommons.org/licenses/by/2.0)], via Wikimedia Commons.

Once you have decided to sell and a prospective buyer contacts you, changes begin. Under "ideal conditions" the best case scenario is for a sale to take a matter of months. A survey of business brokers show that most sales take 6 to 12 months with at least 10% taking longer (Handelsman, 2012). Unfortunately, not all businesses sell due in part to unreasonable prices, all cash demands, and a lack of financial, asset, and inventory documentation.

If at any point you believe—based on documentation the buyer has provided or information the buyer has communicated—that the buyer is unqualified, incapable, disinterested, or unwilling to negotiate, be prepared to politely end interactions. This call is entirely up to you as the seller; you don't have to interact with, or sell to, anyone who you are not comfortable dealing with (Handelsman, 2012). You may want to read Handelsman's article,"Timeline for the Sale of Your Business" at http://www.inc.com/mike-handelsman/timeline-for-the-sale-of-your-business.html for a complete outline of the steps involved.

Attributes of the Ideal Purchaser

Jean. (n.d.) Retrieved from https://unsplash.imgix.net/44/fN6hZMWqRHuFET5YoApH_StBalmainCoffee.jpg?q=75&fm=jpg&s=a12260b56d9ce7b961c8fe33498ce779. Creative Commons Zero

While you would prefer the largest selling price for the business, other factors may influence whom you sell to. As you develop a profile of the ideal purchaser, you will be considering the buyer’s reasons for buying. Buyers can be classified as either strategic or financial.

A strategic buyer will decide how closely the business fits with other businesses in his or her portfolio. Eliminating a competitor by purchasing the business is one strategy. Buying a business that has complimentary product lines, strong marketing, or intellectual property are all motives for strategic buyers.

Knowing the strengths of your business and your competitors will help determine potential buyers.

Selling your business to another individual is a very personal process. You will want to be comfortable with that person and believe the new owner will want to take your business to the next level.

Working with Professionals

Jeff Sheldon. (n.d.) Retrieved from https://ununsplash.imgix.net/photo-1416339684178-3a239570f315?q=75&fm=jpg&s=c39d9a3bf66d6566b9608a9f1f3765af. Creative Commons Zero

As you prepare to sell your business, you will be drawing on others to assist you. Your accountant will be helpful in many areas, including providing past financial statements, old tax returns and listings of assets. Clearly, you will need legal help to draw up sales agreements.

Determine which assets are for sale. This may sound obvious but a small business owner may want to keep certain assets and exclude them from the sale. A particular desk, antique mirror or company car may appear to the buyer as included in the sale. It is very important that you be explicit about what is excluded from the sale and document these items early on in the process.

Listing assets included in the sale is a necessary step as is establishing a replacement cost. The assets are listed on the balance sheet and may include investments, accounts receivable, inventory and fixed assets. Investments including common stock and bonds can be valued by your accountant and are likely updated at year-end. An aged accounts receivable listing can also be prepared by your accountant. The allowances for doubtful accounts needs to be reviewed to confirm it is realistic and reflects the credit policy in place.

Inventory that turns over quickly should have a value close to replacement while inventory that has sat on the shelf may be obsolete and of little value. Consider disposing of obsolete inventory as it has a hidden cost of storage, security and insurance. An inventory listing and value is often prepared by the staff and updated each year-end. A final inventory list is needed when a sale is completed.

The fixed assets include land, building, and machinery. Any vacant land owned by the business will need a value established by a professional property assessor. Land and buildings owned by the business will also need to be appraised if they are included in the sale. The machinery and equipment will also need to be inventoried and a replacement value established. You may require a professional advisor to complete this evaluation.

Leasehold improvements and leases will need to be examined. You will also need to discuss a potential sale with the lessor. Any impediments to a new owner taking over the existing lease must be discussed and resolved.

On the liability side of the balance sheet, the current liabilities need to be examined. Bank loans, leases and accounts payable are reviewed to confirm they are due within one year. Long-term liabilities including mortgages or other debts are also reviewed.

Often a company has goodwill on the books. The value may have been established at the time the business changed hands. When a purchase price is higher than the combined net book value of the assets, goodwill is the balancing figure. In the event that a buyer is not willing to pay for goodwill, then an expense should be considered to remove the goodwill. The accountant may be able to help with an adjustment.

Any warrantees from the sale of products may have a future cost associated with them. A provision on the books should be sufficient based on previous claims for warrantee. The accountant can review the history and determine a reasonable allowance.

A business has the capacity to borrow money. A discussion with the banker will determine the maximum the business can borrow. The bank will secure the loan with assets held by the business as well as a personal guarantee of the new owner.

A lawyer will be consulted to draw up the letter of intent to purchase the business, which the company lawyer will want to review. The actual agreement to purchase will also be reviewed by the company lawyer to confirm intention and protect the current owner. Any pending litigation will need to be disclosed by the company lawyer. If you, as the current owner, are willing to help with the financing, then the company lawyer will be needed to draw up a suitable agreement.

Clearly there are many documents to organize, update and understand. While a business owner could take on this work it would likely distract from the day to day running of the enterprise. For this reason, most owners elect to hire a professional broker to handle the listing, help establish the most likely sales price and maintain confidentiality during the sale.

Consider an Appropriate Broker to Sell the Business

Real estate brokers will list your business, put a saleable price on it and shepherd you through the process. However, a real estate agent, with extensive expertise in valuing commercial property, is better suited to determine the likely sales price than one with experience selling only residential listings. If you decide to use a broker, be certain to confirm the agent has a recent history of successful sales of small businesses.

The business brokerage industry recognized the need to update member skills by offering courses that lead to a Certified Business Intermediary (CBI) designation. You can learn more about this certification from the International Business Brokers Association's website at http://ibba.org/education. The CBI is a new designation held by brokers in BC. Pacific Business Brokers Inc. is a partner in the production of these modules and has several brokers with the CBI designation.

The broker adds confidentiality, experience, and expertise to the sale process. An initial evaluation fee is charged based on the expected selling prices. For example for a business with a value up to $2 million the fee may be $3,000 while a business between $2 and $5 million would be closer to $9,500. Once the sale is completed, the broker will collect fees on a sliding scale based on the actual selling price:

First $1 million	12%
Second $1 million	10%
Third $1 million	8%
Forth $1 million	6%

In total, a selling price just below $4 million would be in the range of 9%.

It is important, however, to seek the advice of a professional as various factors are taken into consideration when determining fees. These percentages are simply a general guideline.

As an estimate, legal fees would be in the range of $4,000 to $10,000 with accounting fees being less (A. Reale, personal communication, February 12, 2015).

The value that the broker brings to the seller includes:

» Qualifying the buyer.
» Maintaining confidentiality of the seller.
» Coordinating the information flow from seller to buyer.
» Allowing the seller to continue to focus on the daily operation of the business.

Finding a suitable purchaser while not alerting employees, customers or suppliers is difficult. That is where the value of the broker begins. Brokers are a logical place for a buyer to start the search for a suitable business. Once the broker qualifies the buyer's financial resources and business experience, a search of existing listings may determine a match. Working without a broker risks confidentiality and reduces your chance of finding a suitable buyer (Brown).

Without a broker, the owner must collect the business records, organize the business information, and run the business. The danger is that the business will not receive the focus needed and could deteriorate while the owner looks for a buyer. The broker takes on the work of selling which allows the owner to focus on the business.

Summary

Craig Garner. (n.d.) Retrieved from https://ununsplash.imgix.net/21/mac-glasses.JPG?q=75&fm=jpg&s=b071b2245118757fbfc6ff9f9dd9cb7c. Creative Commons Zero

In **Positioning Your Business for Sale**, we covered the importance of having a Shareholder Agreement to protect the owners in the event either experiences a significant change.

We continued with the preparation steps to sell the business. Consideration was given to the importance of keeping the pending sale confidential from employees, customers, suppliers and competitors.

We recognized the complexity of a sale, including the emotional aspects and the impact on the family. Strategic and financial buyers were discussed which lead to the aspects of an ideal purchaser.

The role of others included the accountant, lawyer, banker and professional property appraiser. We also discussed the balance sheet items that needed to be inventoried and valued.

We reached the conclusion that a great deal of effort is required to achieve the most realistic sales price. Because the selling process can distract you from the daily running of the business, you may want to consider hiring a professional business broker. The selection and hiring of a professional business broker would cost about 9% of the selling price for a business worth about $4 million. The fee will have to be balanced against the risk of employees, customers, suppliers and competitors discovering the business is up for sale. It becomes public that the business is for sale, over the estimated year-long period needed to prepare and find a suitable purchaser, the employees may have quit, customers may have been raided by competitors and suppliers may have reduced their credit terms so there is little business left to sell.

Looking ahead to **Preparing for a Transfer of Working Knowledge**, you will focus on transferring a working knowledge from the seller to the buyer. You will consider communication meetings with the purchaser, a timeline for the transition and as assessment of the new owner's skills. **Preparing for a Transfer of Working Knowledge** will introduce overcoming challenges, understanding limitations and building a succession plan. Finally, you will discover how to develop a mentoring program to help the business get to the next level with the new owner.

In **Preparing for Ownership** (see the Buyer section of this resource), the importance of human resource management was discussed. Strategies for recruitment and retention as well as supervisory leadership skills were introduced. Take the time to review **Preparing for Ownership** to identify the points a buyer will be looking for.

The main task the seller should now focus on is the assembly of the various financial documents and increasing the understanding and importance of each document to the buyer. Look for not only strengths in your business but also weaknesses. The weaknesses are opportunities for the new owner to strengthen the business. Be sure to spend time watching the videos on Pacific Business Brokers website at http://www.pacificbusinessbrokers.com/sell_a_business/seller_resources.htm. You will pick-up several tips, which will be well worth your time. Videos include:

Myths, Misconceptions and Realities about Selling a Business at https://www.youtube.com/watch?v=koiJr7oLxTM&list=UUPTnM_N-XBz7mKhHlRy_Oeg&feature=share

Who Should You Sell To? at https://www.youtube.com/watch?v=CoVSOo_eFwU&feature=share&list=UUPTnM_N-XBz7mKhHlRy_Oeg

What You Should Expect When Transitioning a Business at https://www.youtube.com/watch?v=OATdK1IunY0

Selling Your Business—Effects on Your Employees at https://www.youtube.com/watch?v=6ZOGJUarito

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Preparing to Transfer Working Knowledge

Andre Freitas. (n.d.) Retrieved from https://unsplash.imgix.net/photo-1418479631014-8cbf89db3431?q=75&fm=jpg&s=478a9a2196033db7c0bf3c8ba3707f4d. Creative Commons Zero

Welcome to **Preparing to Transfer Working Knowledge,** the final module created to help you to sell your enterprise. So far in the Sellers section, you have explored the following:

1. Looking at market share.
2. Reviewing contracts, leases and agreements.
3. Assessing the experience of the key employees.
4. Understanding buy/sell agreements.
5. Establishing your goals and priorities for the business.
6. Considering the value of a broker.
7. Developing a “dream deal” that would be acceptable.
8. Determining the most likely sales price of the business.

Learning Outcomes

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

1. Provide a timeline and communication path with a potential purchaser.
2. Develop an inventory of skills of your key employees.
3. Identify skills unique to the owner and create a plan to transfer the skills to employees or the purchaser.
4. Document key aspects of the business and review them with the purchaser.
5. Communicate any financial support available from the seller.
6. Identify a succession leadership development plan for current employees.
7. Facilitate relationships between experienced and inexperienced workers.

Assumptions regarding the Seller's Situation

At this point, we may assume:

1. The seller has "listed" the business in the market,
2. The seller or broker has met the buyer,
3. The buyer is qualified financially by the seller or broker,
4. The Non-Disclosure Agreement has been signed,
5. The buyer has viewed the business and is interested in buying it,
6. The buyer has reviewed the business documents and remains interested, and
7. The seller and buyer are comfortable with each other.

Setting Up the Communication Path

Galymzhan Abdugalimov. (n.d.) Retrieved from https://ununsplash.imgix.net/19/desktop.JPG?q=75&fm=jpg&s=b061e6f78a692b76efb861a35e901b21. Creative Commons Zero

Overall, it will likely take about one year from your initial decision to sell your business to your closing the sale. During that period, you will meet with several key people, including your banker, lawyer, accountant, landlord, employees and, if you decide to use one, broker. Each professional will have an area of expertise, knowledge about your business, and an expectation to be paid. If you use a broker you will have to pay them a sales commission. The broker and seller should be the main contacts for the majority of clarification required from the buyer.

You should meet regularly with the buyer and broker to resolve any questions *you* have. Keeping notes on questions and responses will prevent repeatedly going over the same queries and may be required if a dispute arises. Keep a book with all pertinent meetings, notes, and documents for reference. Start the habit of jotting down questions and exchanging them with the buyer so that the buyer can prepare a timely response for your next meeting.

Assess your unique knowledge of the business. What tasks are only *you* capable of doing? Develop a plan to transfer this knowledge to the rest of the employees if practical, or document the task so that the buyer can follow along after the sale. Be careful to include each task that you do and avoid assuming that anyone can do it. You have retained the task for a specific reason and the buyer will need to be aware of the work. Where you have a specific program, be sure to document it as well. An example might be a group purchasing program that includes sizable annual rebates. You will want to document specific marketing programs that have worked well, and include ones that failed, and the main reason for the failure. A list of key contacts that you find helpful will also support the buyer.

Prepare a Timeline

Determine when you would like to be finished the sale and any transition period. This date is important and all parties need to know that date and why it is important to you. Working backwards from that date you will be able to determine other critical dates needed for the acceptance of the offer, the due diligence period, the signing of the final documents and the completion of the closing process. An experienced broker can help develop the timeline. The timeline needs to be able to accommodate one or two delays but should have a sense of urgency to achieve a timely finish. The shorter the timeline, the better the transition will be for employees, customers and suppliers. A short timeline also reduces the opportunity for competitors to poach customers and employees.

While the sale is proceeding, you will need to focus on continuing the business. Be aware that not every deal is completed and the business needs to continue as if nothing has changed because nothing *has* changed, yet.

The due diligence period can be most chaotic as the buyer scrambles to verify the information you have provided. Managing the due diligence period will require both your and your employees' attention. A well-planned execution will be appreciated by the buyer.

Jeff Sheldon. (n.d.) Retrieved from https://ununsplash.imgix.net/photo-1416339698674-4f118dd3388b?q=75&fm=jpg&s=e9c6df03cae5fa7db7e86ed8272fd838. Creative Commons Zero

Assessing Skills

Lars Plougmann. (2008, August 8). (Flickr: Headshift business card discussion). Retrieved from https://www.flickr.com/photos/criminalintent/2744040362 . Attribution-ShareAlike 2.0 Generic (CC BY-SA 2.0)

One of a business' most valuable assets not easily represented on the books is the human experience of running the business. Over years of training and experience, the staff have usually gained the knowledge to make key decisions to keep the business running during short owner absences. A prospective buyer will want to know how competent each person is to do their job and the job above them. It is important to recognize the degree of support each person brings to the job and the amount of creativity each has to suggest improvements to the business.

An inventory of skills and experience can be based on written reports by the owner and supplemented by the employee. A resume format would cover the key areas of training, experience, positions held and improvements in the business. It is also important to include potential future training opportunities to prepare for advancement. Software exists to help businesses with a large number of employees; however, a small business with less than ten employees may find written reports satisfactory.

Position descriptions for each job are very helpful for several reasons:

1. The clarity of responsibility is documented,
2. Expectations and standards are communicated,
3. A measuring stick to confirm the job is correctly being done in a consistent manner is developed,
4. When work assignments change, the position description is updated, and
5. Position descriptions help determine relative pay levels.

Small business owners need to recognize the importance of position descriptions and confirm they are accurate, current and motivate continuous improvement in the business.

When the employee's inventory of skills is matched to the position description it is likely that a few gaps will be identified. This provides you with the opportunity to determine if it is appropriate to provide additional training for the employee or if the task should be re-assigned to another employee. In this way, the employee could be fast tracked towards a promotion. On occasion, the employee may be poorly suited for the position. The inventory of skills will point out what gaps exist and a frank discussion can ensue to see how best to close the gap, change positions or change employers.

Overcoming Challenges

During the selling process, several challenges with employees, suppliers, customers, competitors and the purchaser will arise.

Employees will be most nervous about their future employment and the future of the business. While there are advantages to telling employees about a pending sale, there are also disadvantages. Employees are resourceful and rumours may spread quickly with any new developments in the office. It is reasonable that an employee will find out about a sale at some point in time. When the information is shared, it should be on a confidential basis. Customers could be approached by your competition to leave your business. Suppliers may determine that your business is so small that it is not as important as other companies and may reduce the amount of time they spend with you. One strategy to consider is providing customers and suppliers with a written statement regarding your decision to sell and the efforts underway to find a suitable purchaser.

Once you have a suitable purchaser, they will require more attention. The purchaser lacks the number of years working in the business and will rely on you to fill in many of the knowledge gaps. One strategy is to have the key aspects of the business documented. This could be an introduction to the company which lists all the work that is needed from receiving a customer inquiry to supplying the product, including billing and collection of the account.

While there will be numerous challenges in this process, there will also be acknowledgement that you provided the best possible opportunity for a successful transition to the new owner. Often the seller will remain active in the business for a set time period to help with the transition. This skill transfer is important and the seller should be paid for this position.

Succession Leadership Development Plan

Austin Ban. (n.d.) Retrieved from https://unsplash.imgix.net/41/bXoAlw8gT66vBo1wcFoO_IMG_9181.jpg?q=75&fm=jpg&s=a760fd82863937c841f4b3870cdef011. 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.

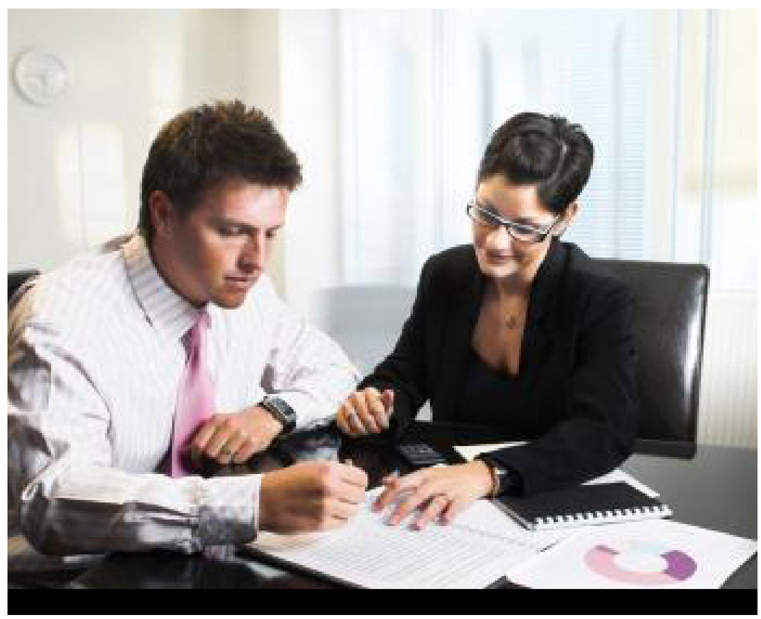
Designing succession plans in isolation from the employees is risky. Employees are a curious lot and want to know what opportunities exist and how well they fit in. While sharing succession plans raises the expectations of promotions, it can also help retain employees. When employees are involved they will understand how they can impact their own future 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 provide 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. You will also impress a potential buyer with your thoughts on succession planning, as it demonstrates the high value placed on your employees.

Facilitating Relationships between Experienced and Inexperienced Workers

A small business tends to have a lean organization due to its size. Hiring experienced staff may help the business grow, but experienced people expect to be paid more. Often a small business will choose to hire people with little experience but a lot of enthusiasm. Choosing people who can learn is often as important as choosing people with experience. Most small business tasks should take a week to learn and a month to master. Hiring inexperienced workers will initially require training by senior people.



Calita Kabir. (2 November 2010). What is needed first-incorporation or EIN?. https://www.flickr.com/photos/irsein/5139847759/ [CC-BY-2.0 (http://creativecommons.org/licenses/by/2.0)], via Flickr

Your succession plan will result in training junior employees to take on more responsible tasks. The training may have the unintended consequence of friction between the trainer and the trainee. The junior person may be seen as a cheaper alternative and, therefore, a threat to the senior staff. Both the old and (if possible) new owners should meet with staff individually to explain why there is an opportunity for training and how that can improve work assignments for each person within a new business plan. With careful monitoring of the training the owner will understand how it is progressing and if the training is meeting the objectives. Successful training will instill confidence in both the employees and the potential buyer. A healthy working atmosphere with confident and loyal employees strengthens the value of a business making it appear more desirable.

During the training period, the trainer will have to answer every question from the trainee. In some cases the trainer may not know the reasons for some tasks and will have to find out. The lack of knowledge may be disrupting for the trainer and no answer may be available. Being a trainer can be challenging as the training can slow work down, and yet it must still get done. Consider using quiet times of the month to accomplish training or move staff to replace the trainee so that a good effort can be made to learn and retain new skills. Also consider keeping the training to one week at a time. When you debrief your trainer and trainee individually, you will be able to confirm whether the goals are being met and, if not, then take steps to adjust the training.

Adults learn in different ways and at different speeds. The “show me” technique may work for some while others may prefer to document each step first, and then learn the process. Operational manuals that are up to date can be invaluable; however, they are more often obsolete and useless for most trainees.

Mentoring employees can result in excellent results as well. The mentor becomes a sounding board for ideas or concepts that may not be developed sufficiently to be exposed to the entire business. A strong mentor can ask the questions about “what, why, when, where and how” that the mentee may not have thought of. Discussing ideas prior to sharing them broadly with management may result in better ideas with improved features and better results. Resources for mentors can be located on Mentoring Canada’s website at http://www.mentoringcanada.ca.

An astute business owner may be aware that certain individuals isolate themselves from others. These individuals are likely performing below expectations. It is in the best interest of the owner to make certain all employees do their fair share of the work. The same fair standards for all employees will help build a favourable culture while resentment towards a few employees will destroy that culture. Once an individual is identified as being below expectations, the employer has several options to consider. You can start by having a private discussion to share your concern. Asking the employee to confirm what the issue is would be helpful. In some cases the issue can be resolved at the office but often the issue is based outside of the business. Now the employer can vocalize how an employee, working below expectations, impacts all the employees, customers and possibly suppliers. Together they must agree on a plan to remedy the situation to the employer’s satisfaction in a timely manner. Regular review of the employee’s work will confirm that improvements have occurred. Where no improvement occurs within a reasonable time, the employer has few options open other than a more stern warning, which could lead to termination.

Seller Summary

You have reached the end of the Seller section. A great deal of material has been introduced which will help you prepare for a successful transition of your small business to a new owner. You may have skipped over parts of the material the first time through. Now is a perfect opportunity to review the material as it applies to your unique business. Recognize that there will be challenges in selling your business. Being aware of where the challenges might lurk will help you prepare for them. The amount of information needed for the due diligence process may be overwhelming, but satisfying the needs of the buyer is key to completing the sale.

Reading through the Buyer section will help you grasp issues from the buyer’s perspective. That time would be well spent. We wish you every success in locating a suitable purchaser and completing the sale in an organized and timely manner.

Remember to review the case study to get a better understanding of the processes of business succession

References

Big Brothers Big Sisters of Canada. (2008). Mentoring Canada. Retrieved from http://www.mentoringcanada.ca/

Selling 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

All entrepreneurs who start new ventures have to plan for a harvest strategy at some point The best option is to have some kind of plan for harvesting and include it in the business plan itself. Even though this is recommended, a vast number of new entrepreneurs do not develop a business plan; however, it's necessary to think of succession or harvesting at some stage in an entrepreneur's life. In this case, 21 years ago, after having worked for a major retail chain for 12 years, Robert started Grimaldi Grocers.

For a detailed history of Grimaldi Grocers, read the background information in the drop down box below. This background will help you to understand the choices Robert faces as he considers the future of his business.

Grimaldi Grocer's Background

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.

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.

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.

SHIFT

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

The Future of Grimaldi Grocers

Robert realized that the time had come to either grow or to harvest the store. When he originally opened Grimaldi's the idea had been to have a business of his own with a stable income - a healthy mix of traditional small business and lifestyle firm. A host of favorable factors over the years resulted in the business transforming into a high-performance small business. Further, apart from growing the store in terms of sales, he had been able to buy the majority of the property.

Robert had gained a lot from the community and he wanted to give something back but wondered what and how? The opportunity to teach young people at TRU had provided that answer. Robert enjoyed teaching entrepreneurship. He seriously considered teaching full-time. He also wanted to pursue other hobbies but did not have the time.

On this cold winter night these thoughts ran through Robert's mind as he looked up at the store sign.

Read the information below for a thorough discussion of the options Robert debates when considering the future of Grimaldi Grocers. This information will be very useful as you consider Robert's options later and will help you make decisions about selling your own business.

Robert's Options

The Valuation of the Business

Before he could make his final decision, Robert wanted to have some clarity on a few nagging issues:

» What legal issues existed when transferring a business?
» What should be done about the premises?
» What is the value of Grimaldi Grocers?

Robert contacted a lawyer for additional support. According to the lawyer, the transfer of the business was a relatively simple affair as the business had been registered as a limited liability company.

In regards to the property, Robert was the largest shareholder; therefore, he could make an offer to buy the other two parts. Fortunately, even if the owners were not willing to sell their shares, Robert believed they would not have any objection in renting the place to a new owner on a long term basis.

Now, how to establish the value of the business? From his experience teaching entrepreneurship, Robert knew that valuing a business was an art and science. Often, value is established by comparing a business to similar existing businesses for sale. While these methods are fine for curiosity's sake, the valuation has to be more scientific in matters like selling a firm. Robert also knew that, even when using quantitative methods, one cannot rely on only technique. The most popular method is to use multiples of net annual profit. Firms are normally valued at 3 to 5 times their net profit. Going by that, Robert believed his business was worth between $330,000 and $550,000. Next, Robert worked out the Net Present Value (NPV) of the future earnings at a 10% growth rate per year for the next 5 years. The result supported his earlier estimation.

Robert also visited a number of websites that were offering information on valuing small business. He found one method called income method (www.canadaone.com, 2014) particularly interesting. This method took into account the average annual gross profit (or income) before depreciation, interest, and taxes to predict future earnings. When using this method, the gross profit needed to be adjusted for earnings or expenditures which differed from proceeds from the sale of an asset. After determining the income, he had to develop an appropriate capitalization rate. This involved computing the sum of the current interest rates on borrowings from banks or lenders' return on investment (ROI) which one should expect from their equity investment including a suitable adjustment for risk factor.

To simplify, Robert valued his business at $500,000 based on a variety of methods. Presuming that the potential investor would invest 50% of the amount and expect a return of 15% while borrowing the remaining $250,000 at 10% from a bank, adding the risk factor of 3%, Robert worked out the value of his business as follows:

Capitalization Rate

Bank Loan 50% @ 10% - 0.50 x 10 = 5%

Equity 50% @ 15% - 0.50 x 15 = 7.5%

Risk 3%

Total (100%) = 5% + 7.5 % + 3% = 15.5%. = 0.155

Adjusted average annual Gross Profit

= (116,500 + 108,100 + 115,800 + 118,900 + 123,800) / 5

= 116,620

Capitalization = Adjusted average gross Profit / Capitalization Rate

= 116,620 / 0.155

= 752,387.09

Robert also hired a small business valuation firm for help estimating the net worth of his business. The valuation firm studied various aspects of Grimaldi's, including past performance, future projected performance and goodwill. In the end, they also valued the business at $500,000. From all these efforts, Robert felt that at best he could reach a price range but never an exact figure.

Harvesting: The Alternatives

Robert decided to sit down and discuss the future of Grimaldi's with his father and brother. Robert's father was a pillar of support right from the beginning. He used to look after the store in the initial years when Robert was busy with his job at Safeway or during later years when Robert was pursuing his MBA. Even now he opens the store every day and performs the morning chores of cleaning and prepping the food counter. But, at 87 years old he was not in a position to take on a full-time role. Though his brother, who already had a full-time job, also helped Robert in the past when needed, he was not able to take on the role of full-time owner-manager either. Robert's children were in university pursuing different careers and the store did not figure into their career goals. After the discussion with his father and brother, Robert effectively ruled out business succession within the family.

Friends and colleagues advised Robert to exploit the possibility of developing franchises in small towns within BC and Alberta. Robert gave some thought to this idea as it appeared viable. Even with as few as 5 franchisees, he could start importing the food items directly from Europe which would likely improve sales and profits. He could then expect to get better deals and quantity discounts from the local suppliers. With all his expertise and experience Robert was sure that the probability of success would be very high. However, franchising required a large amount of initial investment, frequent travel and a heavy commitment on his part. This was not the original goal when Robert first conceptualized owning his own business. Franchising would also prevent him from realizing his future plans.

Another option was to open new branches of stores in the Sahali area in Kamloops and in Kelowna. This was another viable option but would require a lot of additional investment. Again, instead of getting time for his hobbies, this would tie him up more with the store. There would also be a significant element of risk involved.

The other option available to Robert was to make an outright sale and harvest his business venture. This seemed to be the best option according to some of his family members and friends. While it appeared to be a very reasonable idea, Robert was of two minds. The idea of sale of the store was making him emotional and uncomfortable. In his heart of hearts, he was not comfortable with the idea of selling his store to a stranger. The store had been the center of his life for two decades. He considered his employees. Would one of them be interested in buying and running the store? He was not sure. His most senior employee, who had been with the store for 21 years, was already 71 years old and not interested for obvious reasons. The majority of his remaining employees were TRU students, as Robert felt it was part his civic responsibility to hire TRU students. And, unfortunately for Robert, the students had different career goals post-university and lacked the finances to take over the business.

The last available option to Robert was to take a partner. Ideally, the new partner could be an understudy for a year or two and then operate the business himself. Possibly, the new partner could help open new stores and grow the business further. Or, he may be able to help in developing the franchises. This option would also alleviate some of the emotional issues involved with outright sale of the firm.

Case Study Questions

Consider the following questions. This will help you in your own decision-making as you sell your own small business. Once you've decided upon your own responses to the questions, review the answers provided.

Question 1:

Should Robert consider harvesting such a successful business which he built with so much hard work?

Question 2:

Would you agree with Robert's Analysis?

Question 3:

Which of the above harvesting options would you select? Explain your choice.

Question 4:

Would you prefer to take a partner or sell the business outright? Why?

Question 5:

If you choose to take a partner should you be pursuing growth through franchises or through opening additional stores?

Question 6:

Do you think Robert has evaluated his business's value properly?

Question 7:

Different approaches put the value of Robert's business between $300 000 and $700 000. Could Robert have done something to arrive at a more definite figure rather than a range?

Question 8:

When dealing with potential buyers what figure should Robert quote?

Question 9:

Should Robert quote a higher figure and make the price negotiable or should he quote a more appropriate figure and stick to it?

Question 10:

Instead of thinking about harvesting now do you think Robert should have thought about it while making the business plan in fact before he started the business?

Case Study Answers

Question 1:

Should Robert consider harvesting such a successful business which he built with so much hard work?

This is the question that all successful entrepreneurs face at some point in the long and arduous journey of making a new venture successful. Entrepreneurs are highly motivated individuals who spend their energy, money, time and effort to make their dream a successful reality. During this process they face many challenges and achieve many successes. Success in any new venture comes at a great cost and as a result of the many sacrifices that entrepreneurs make. Every entrepreneur who creates a successful venture would like his creation to go on and on forever, but the reality is it may not be possible. Many entrepreneurs become highly emotional at the very idea of harvesting the successful business they created. In many cases it is very difficult to break the emotional bonds the entrepreneur has developed with his business and customers.

However, entrepreneurs also have to be pragmatic. A highly successful entrepreneur must also be aware of when it is the optimal time to harvest the business. If you don't decide to sell at the right time, the business may also lose value. In harvesting the business, there is also a window of opportunity. Entrepreneurs should be pragmatic enough not to lose sight of this window. There are thousands of examples of successful small businesses missing the boat by not taking appropriate action at the right time.

We think Robert is making the right decision to sell the business. While sales are still growing and the profits are still increasing, there are also some limitations on growth rates. Taking into account all these factors, selling is the right decision.

Question 2:

Would you agree with Robert's Analysis?

We agree with Robert's Analysis. Robert has gone about his harvesting strategies in a logical manner. Like any other successful entrepreneur, he wanted to keep the business in the family. That is why he discussed the issue with his father and brother to get their perspectives. But the reality is that Robert's father is aging and his brother is employed full-time so neither are in a position to take on the full-time commitment of the business. The next generation are at university and each one of them have their own personal ambitions which do not include running the family business. Robert clearly understands that succession in the family is not a possibility, however much he may want it to be. Hence, he is now looking at options outside the family.

Question 3:

Which of the above harvesting options would you select? Explain your choice.

All the harvesting options that Robert analyzed are worth pursuing. The options are to try and expand this business by offering franchises, to sell it to an employee, to take a partner by selling part of the ownership or to sell the business outright. Each one of these options has advantages and disadvantages. The final decision will depend on finding an option that satisfies economic realities and emotional needs.

No one can provide a clear cut answer for these kinds of decision as the importance of the various factors will vary from person to person. The aim of this question is to get you to consider the issues that are important while making such important decisions.

Question 4:

Would you prefer to take a partner or sell the business outright? Why?

Taking an equal partner means giving up 50% control. In this case, the business owner will have the psychological satisfaction that he is still carrying on with the business. That means he will be able to satisfy his emotional needs. However, a partner will expect his views on all important issues to be considered. This creates another problem for the business owner who was used to making all decisions himself. His experienced views and the new innovative ideas of his partner may also be in conflict. The secret of successful partnerships is a great understanding between partners and respect for each other's views. A large number of partnerships fail at some stage, even among people who are good friends. Taking a new partner at this stage is risky and has only about a 50% chance of success.

On the other hand, an outright sale would result in a clean break. This would also reflect mature and detached thinking on the part of the business owner. The only issue here is to convince oneself that it is only natural to harvest a business.

Question 5:

If you choose to take a partner should you be pursuing growth through franchises or through opening additional stores?

This choice again depends on many factors. The most important ones are the finances available and expertise in these areas. Many business persons tend to think that developing a franchise network is very simple, but the reality is otherwise. Developing a franchise requires a number of steps, such as developing legal documents for franchises clearly delineating the obligations and responsibilities of franchisor and franchisees. One of the important issues is standardizing the business processes. Then decisions have to be made about store layout and location. Many other issues like hiring employees and setting an advertising budget also play a major role. Hence, when a business owner thinks of franchising, he should be able to consider all the issues involved. Most importantly, he should consider his ability to employ people with expertise in this area and to clearly identify all the risks.

If a business owner plans to open up new stores by himself with a partner, he will have complete control over expansion and business operations, but this decision also exposes unlimited risk of failures. There will be a great need for financial resources and the success of this idea is primarily dependent on the ability of the business owner to muster the required funds or arrangements for loans. This option also needs to be looked into from the point of view of management and control of the local stores and employees. Owners are 'vicariously' responsible for their employee's actions. Being an absentee owner can involve its own risks.

However, the business owner has to consider another important issue for both options - supply chain management. The ability to maintain reliable supply chains is necessary for success.

Question 6:

Do you think Robert has evaluated his business's value properly?

Yes. Robert used different approaches to value his business. It is important to note that different quantitative approaches will result in different outcomes. When trying to sell a business, it is crucial to determine the most appropriate price.

Question 7:

Different approaches put the value of Robert's business between $300 000 and $700 000. Could Robert have done something to arrive at a more definite figure rather than a range?

No, because different approaches have different assumptions leading to the expected value. Those assumptions may be applicable to the present business or not. In most cases, it is difficult to arrive at a definite figure. The best approach is to evaluate the value of the business from a number of quantitative approaches, as Robert did, and take an average of the outcomes. That number, in all likelihood, will be very close to the real value.

The seller expects the higher limit of the range, whereas the buyer looks at the lower limit of the range. To be able to arrive at a mutually acceptable figure, both buyer and seller must be willing to reach a more acceptable figure somewhere in the middle ground. That again depends on the negotiation skills of each party.

Question 8:

When dealing with potential buyers what figure should Robert quote?

Usually, Robert should quote the higher figure of $ 700,000. If there is an urgency to sell the business, then Robert may want to quote the average price of $ 500,000.

However, if it is a distress sale, then Robert may be compelled to offer the lowest figure of $300,000.

Question 9:

Should Robert quote a higher figure and make the price negotiable or should he quote a more appropriate figure and stick to it?

If the business and its products are in great demand, Robert can quote a higher price and then negotiate. However, if that is not the case, quoting a higher price may deter potential buyers from making a proposal.

If Robert quotes a more appropriate figure, he may have a higher chance of successfully selling the business. One has to remember that the buyer is also evaluating the business, using more or less the same techniques and market values.

Question 10:

Instead of thinking about harvesting now do you think Robert should have thought about it while making the business plan in fact before he started the business?

Ideally, you should make decisions about harvesting the business when you make your initial business plan. Having said that, this may not always be practical. A vast majority of small business owners do not have a business plan and hence may not have a clear harvesting strategy. A dynamic business can change for better or worse as time passes by. Many issues, such as changes in family or financial circumstances, may necessitate changes to that policy.

Unfortunately, there was not much information available to entrepreneurs in the past and not many universities offering courses in entrepreneurship. That has changed now and a lot of information is available on Internet and entrepreneurial training is available from many sources.

Robert ideally could have made decisions about harvesting when he wrote his business plan, but may have been handicapped by a lack of information. However, it is recommended that new entrepreneurs incorporate a harvesting strategy in their business plan and follow it.

Conclusion

Harvesting a successful business venture can be a very complex project, even at the best of times. Many issues become involved in this process. Financial and emotional issues compete with each other. Many successful business owners become emotionally attached to their businesses. While this is a perfectly natural and normal phenomenon, it hinders the objectivity that is required in selling a new business. The first step in selling a business is to overcome these emotional issues.

Once the successful entrepreneur is able to overcome the emotional issues, then it is time to make some pragmatic decisions regarding what to do with the business. The first option is to see if there is anyone in the family who can carry on the family business. The second is to look for a loyal and capable employee with entrepreneurial ambitions. The third option is make the firm a public one by offering an IPO. The fourth option is to take a partner. The fifth option is an outright sale. Which option one takes depends on individual characteristics and external factors.

Before taking any of the above options (except the first), the owner has to establish the value of his business in a scientific manner. There are a number of ways of doing this as explained in the case.

Once a value has been established, realizing the actual potential value of the business depends on the negotiation skills of the business owner. We strongly recommend having a harvesting strategy as part of the business plan.

References

1. Katz, J. & Green, R. (2012), Entrepreneurial Small Business, 3rd McGraw-Hill Irvin, pp 641.
2. canadaone.com, (2014), Valuation Formulas, The Income method, Retrieved on 30 March 2015 from http://www.canadaone.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

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