

Co-operative Business Succession

Small Business Succession: A Challenge and an Opportunity

Many aging small business owners in Canada are facing a dilemma: How do I afford retirement if I leave my business?

Statistics show that three-quarters of small business owners don't have a business succession plan.¹ And, while nine out of ten owners of family businesses believe that their family will succeed them, only 30% of family businesses survive into the second generation and only 12% are still viable by the third generation.²

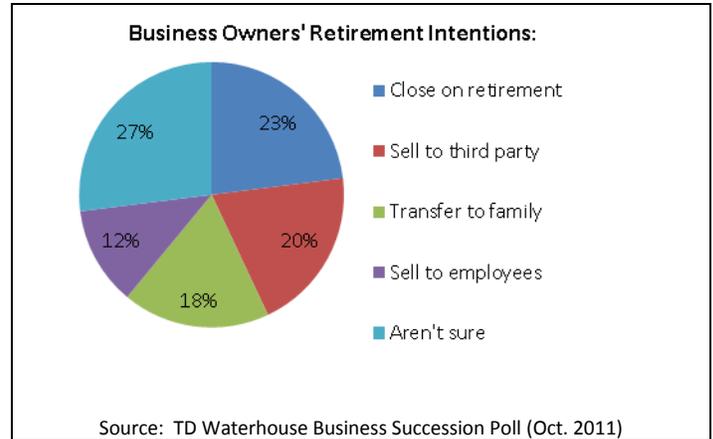
Baby Boomers Need a Plan

Combine these sobering business succession numbers with Canada's demographic reality and the problem grows:

1. One in three (9.6 million) Canadians are baby boomers – those born between 1946 and 1965 – nearing retirement.³
2. One-fifth of small businesses (250,000 small businesses) with employees have owners aged 55 and over. This number has risen by 4% a year over the past decade, more than doubling the historical rate.⁴
3. Close to 30% (or 310,000) of current small business owners will want to exit their businesses by 2017. Within a decade, 50% (550,000) will want to exit.⁵

So, as they have throughout their lives, baby boomers will have a major impact, in this case on the transfer of small business assets: an estimated \$3.7 trillion from 2013 to 2022 (two-thirds of the annual GDP contributed by small businesses).⁶

Why do three quarters of small business owners not have a succession plan? Because they're still trying to figure out their plan (45%) or they haven't gotten around to it yet (31%).⁷



A Co-operative Solution

As shown in the pie chart, 12% of small business owners are considering selling their businesses to their employees. This is a win-win solution because the retiring owner is able to monetize value, the business survives and employees retain their jobs.

Another co-operative alternative: people in the community jointly purchase the business and continue offering its services.

By using the co-operative business model, employees and/or community members improve their chances of success:

1. Working together eases the transition.
2. Ownership costs are shared.
3. Co-operatives are a proven model and a democratic legal entity.
4. Co-operatives have twice the success rate of regular businesses.⁸

Co-operative businesses not only succeed at a high rate, but succession is often sustainable. That's not the case in the private sector: approximately one-third of all business closures are due to succession failures and the lack of preparation.⁹

The Necessary Conditions

There are five conditions required for a co-operative succession strategy:

1. The current owner must be supportive of the idea.
2. There must be a sufficient number of employees and/or other community members who want to buy the business.

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3. The business needs to be a going concern, or have a strong turn-around strategy with good prospects for the future.
4. The current owner and the potential buyers must have a good relationship based on open communication and trust.
5. All parties need to understand the importance of win-win negotiations, be willing to share information openly, and take the time required to negotiate an outcome that is fair to all parties.

The 18 Step Process

Eighteen steps have been identified for the successful transfer of a privately-owned business to a co-operative. There are also four **GO/NO-GO** points where the parties need to consider whether or not to continue. Tools such as the Co-operative Sustainability Scorecard¹⁰ and the Flourishing Business Canvas¹¹ may be used in to improve the understanding and communications between all parties. The scorecard is focused on the financial, social and environmental impacts, while the canvas focuses on the elements of the business model that create those impacts.

1. Make the seller aware of co-op options.
2. Obtain all necessary information from the seller (sign a Non-disclosure Agreement).
3. Assess the risk of transferring the business, including an opportunity-gap-risk assessment using the Co-operative Sustainability Scorecard and Flourishing Business Canvas.

GO/NO-GO

4. Develop a transfer plan with the seller.
5. Set up a steering committee for the co-op, and use the scorecard and canvas to inform potential co-operative members about the business.
6. Consider the type of co-operative (employee, producer, consumer, etc.).
7. Sign a commitment letter between the seller and the steering committee.

GO/NO-GO

8. Steering committee develops a business takeover plan: Identify new business model elements using the canvas and set targets for scorecard targets.
9. Co-op training for steering committee.
10. Parties agree on the business valuation.

GO/NO-GO

11. Steering committee develops a draft co-op business and financing plan based on scorecard targets and revised business model design.
12. Negotiate the terms and conditions of the purchase and sign an offer to purchase.
GO/NO-GO
13. Ensure the seller has an asset management plan and the necessary professional advice.
14. Develop a knowledge transfer plan.
15. Finalize the co-operative organizational structure, incorporate and develop bylaws based on business model.
16. Sign up members and hold the first AGM.
17. Co-op assumes day-to-day management with support for good governance, education and training for directors and members.
18. Guide the knowledge transfer to the co-op and the seller's participation in managing.

Flourishing Enterprise Joins Co-op Community

Resources

There are many resources available regarding co-operative business succession:

<http://www.canada.coop/en/values-principles>
<http://canadianworker.coop/starting-a-worker-co-op/co-op-conversions/>
http://www.ontario.coop/cms/documents/1/Co-op_Biz_Comparisons_and_egal_combined_April2012.pdf
<http://www.cicopa.coop/Cooperative-Saves-Local-Theatre.html>
<http://www.cooperativedifference.coop/tools/>
<http://www.flourishingbusiness.org>

¹ TD Waterhouse Business Succession Poll, October 2011.

² Family Business Institute, July 2013.

³ Statistics Canada 2011 Census.

⁴ CIBC In Focus, November 12, 2013.

⁵ *ibid.*

⁶ *ibid.*

⁷ TD Waterhouse Business Succession Poll, October 2011.

⁸ Quebec Government (2008), BC - Alberta Social Economy Research Alliance (2011).

⁹ DTI - Passing the Baton: Encouraging Successful Business Transfers (2004).

¹⁰ Christianson, Russ (2015). The Co-operative Sustainability Scorecard. In *Co-operatives for Sustainable Communities: Tools to Measure Co-operative Impact and Performance* (pp. 80-86). Centre for the Study of Co-operatives.

¹¹ Jones, P. H., & Upward, A. (2014). Caring for the future: The systemic design of flourishing enterprises. *The Third Symposium of Relating Systems Thinking and Design (RSD3)*, Oslo, Norway. .3(1) 1-8. www.academia.edu/14497937