

imcoac

Improving Counterparty Access

A diagnosis on succession
planning for Canadian small and
medium enterprises

September 2019

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Context

In March 2019, Statistics Canada released revised data from its *Survey on Financing and Growth of Small and Medium Enterprises*. Data from the survey profiles and reveals many trends in the Canadian SME sector, along with important insights on exit plans of business owners.

Similar studies have been undertaken in the last two years by each of the Canadian Federation of Independent Business (CFIB), and the Business Development Bank of Canada (BDC).

In this report, we present select findings from a combination of the above three studies, and draw insights pertaining to exit and succession planning in the SME sector.

A small and medium enterprise (SME) is defined as a business **employing between 1 and 499 people and generating annual revenues of at least \$30,000.**

SME Facts

There are ~1.2 million SMEs in Canada.

They account for ~52% of Canada's GDP.

They account for ~57% of total Canadian employment.

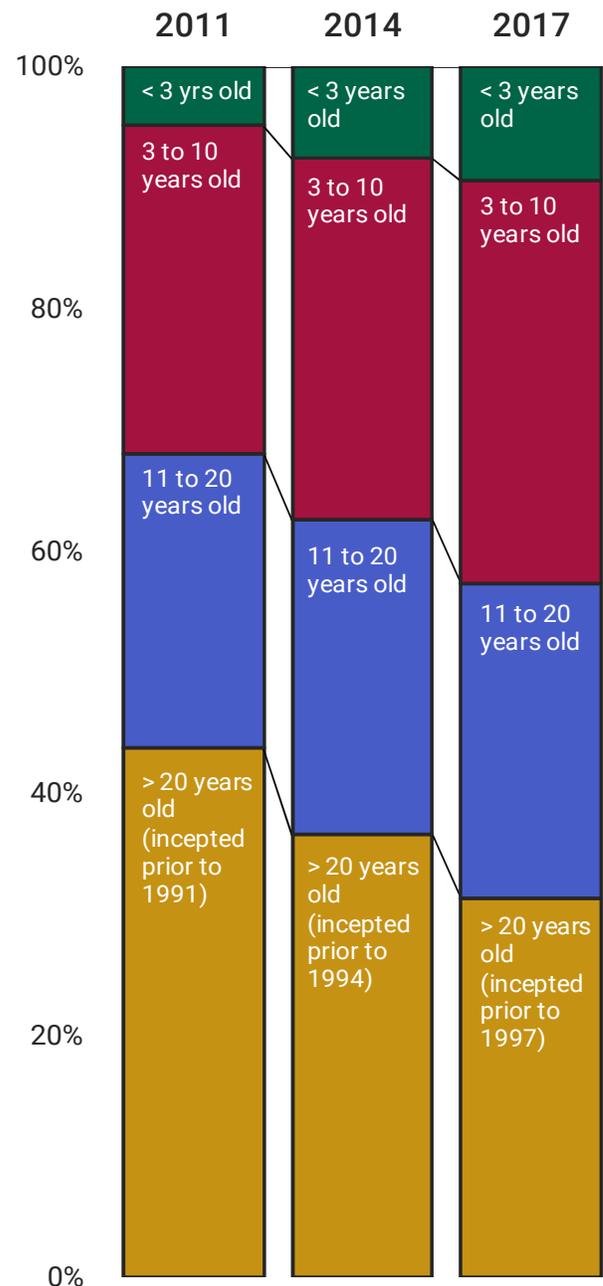
The Materiality of Age

Businesses formed in the 1990's and prior are being replaced as technologies continue to reshape sectors.

- In 2011, 44% of all SME businesses were at least 20 years old (incepted before 1991)
- By 2017, only 31% of all SME businesses were at least 20 years old (incepted before 1997)

Innovations ranging from digital marketing to automation software to new age machinery have created opportunities for new entrants to challenge incumbent business models. Small businesses are increasingly required to 'innovate or die', and those incepted in the 1990's or prior – before the advent of high speed internet – have had outsized difficulties adapting.

Age distribution of SMEs over time
 Years since inception of business
 % of all SMEs in Canada



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*

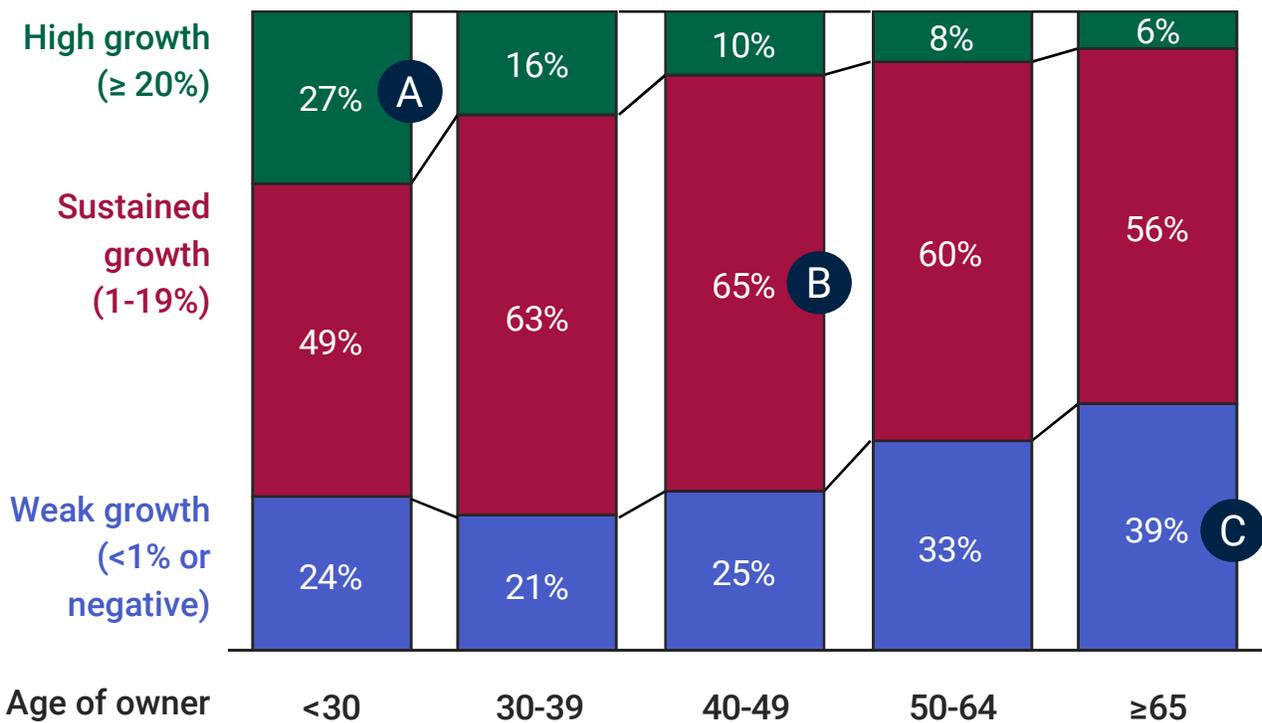
Younger business owners achieve higher revenue growth compared to older business owners.

- A** Business owners under the age of 30 are more likely than any other age group to achieve revenue growth of 20% or more.
- B** Business owners between the ages of 40-49 are more likely than any other age group to have revenue growth between 1% and 19%.
- C** Business owners over the age of 65 are more likely than any other age group to have revenue growth of 1% or lower.

Average yearly growth in sales/revenue for Canadian SMEs, by age of owner

Average annual revenue growth rate over last three years

% of SME population



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*

A large subset of Canada’s population was born between the mid-1940’s and mid-1960’s – a generation dubbed the “baby boomers”, which is now between the ages of ~55-75.

→ As of 2018, 38% of Canadians were over 50 years of age, and 17% were over the age of 65.

Age of business owners remains near historic highs due largely to an aging demographic profile of the country.

→ In 2004, 47% of SME owners were over 50 years old.

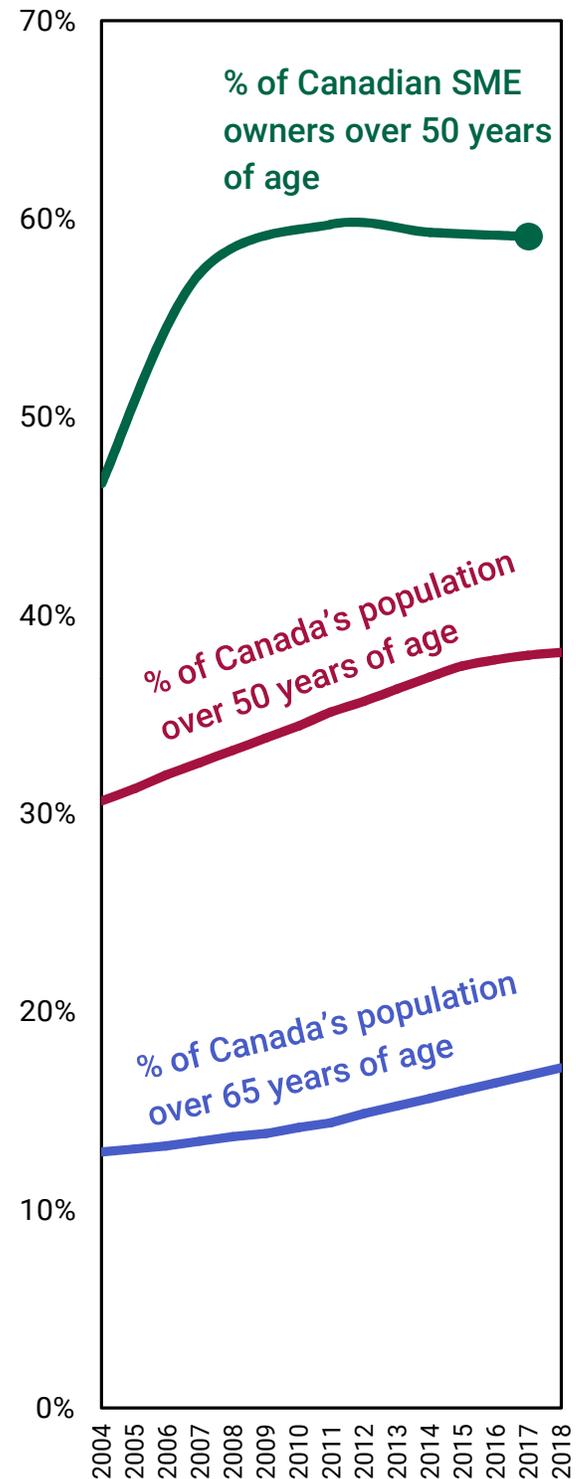
→ In 2017, this figure climbed to 59%

In 2011, the percentage of business owners aged 50 or older reached a historical peak at 60%. By comparison, only 33% of all Canadian workers are above the age of 50.

Since then, this statistic has experienced a plateau due to the need for business owners to retire, and new entrants with tech-enabled business models challenging older incumbents.

Age distribution of SME owners vs. population over time

% of populations



Source: Statistics Canada. Table 17-10-0005-01 Population estimates;; Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*

Taking Stock of Exit Plans

Exit planning intentions are at historically high levels among SME owners.

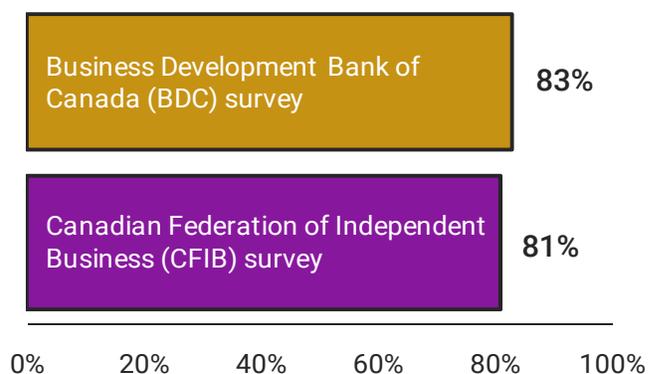
- At the low end of exit interest, in the StatsCan survey, 29% of SME owners reported that they “intend to sell, transfer, or close the business in the next 5 years” as of Spring 2018
- At the high end of exit interest, in the CFIB survey, as many as 49% of SME owners reported that they “expect to sell” in the next 5 years as of Spring of 2018. Moreover, 72% of respondents expected to sell in the next 10 years.
- Based on the CFIB survey, interest in exiting within a 5 year horizon has materially risen, from 38% in 2011 to 49% in 2018.

Retirement is the predominant reason for exit planning.

- In the CFIB survey, 81% of respondents cited retirement as a reason for exit planning.
- In the BDC survey, 83% of respondents reported the same.

Respondents citing retirement as key motivation for exit plan, by survey

% of all respondents

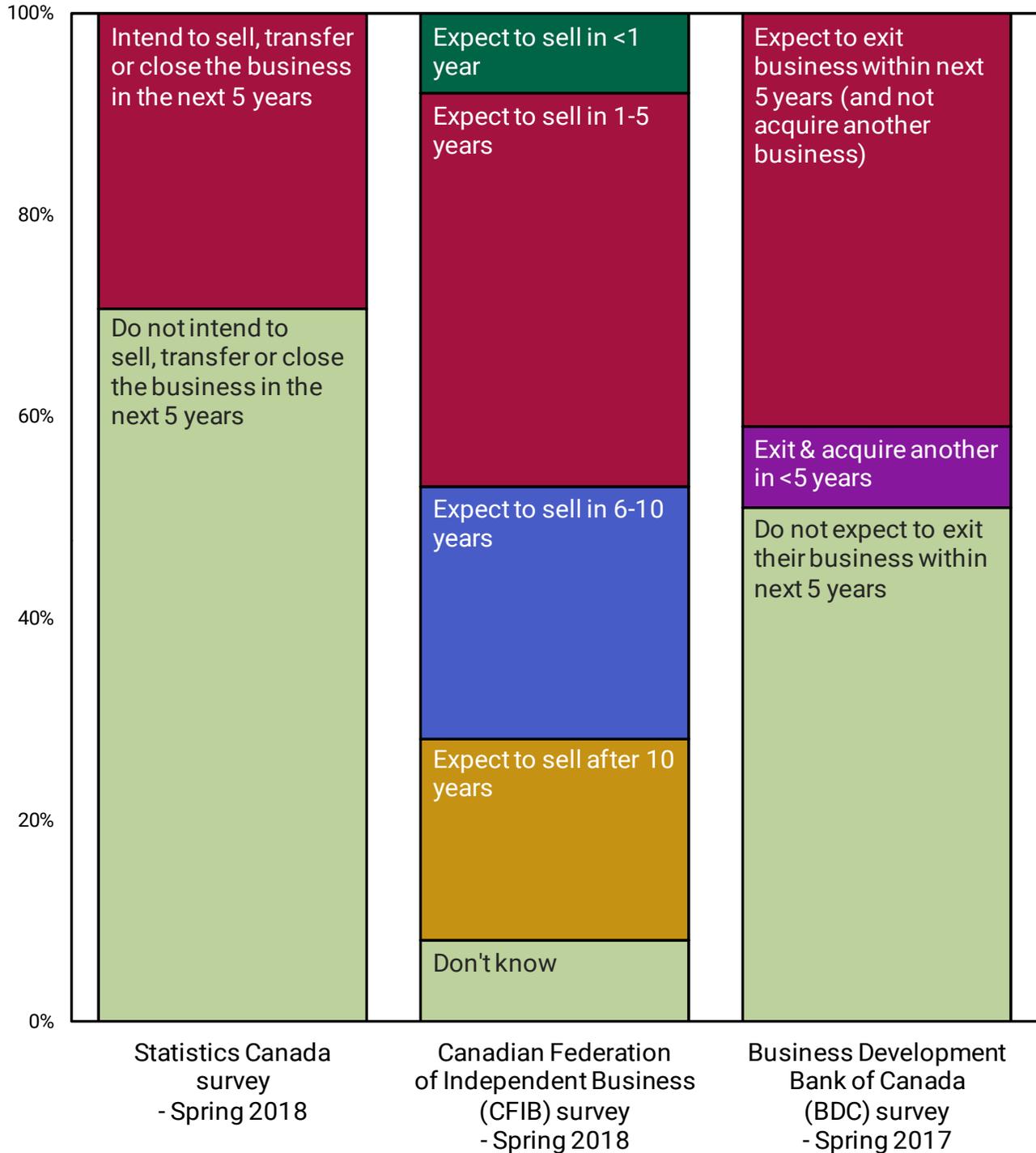


Source: BDC; *The Coming Wave of Business Transitions in Canada*; CFIB, *Getting the transition right: Survey results on small business succession planning*.

Intended exit planning timeline, by survey

Summary of survey responses from SME owners

% of all respondents



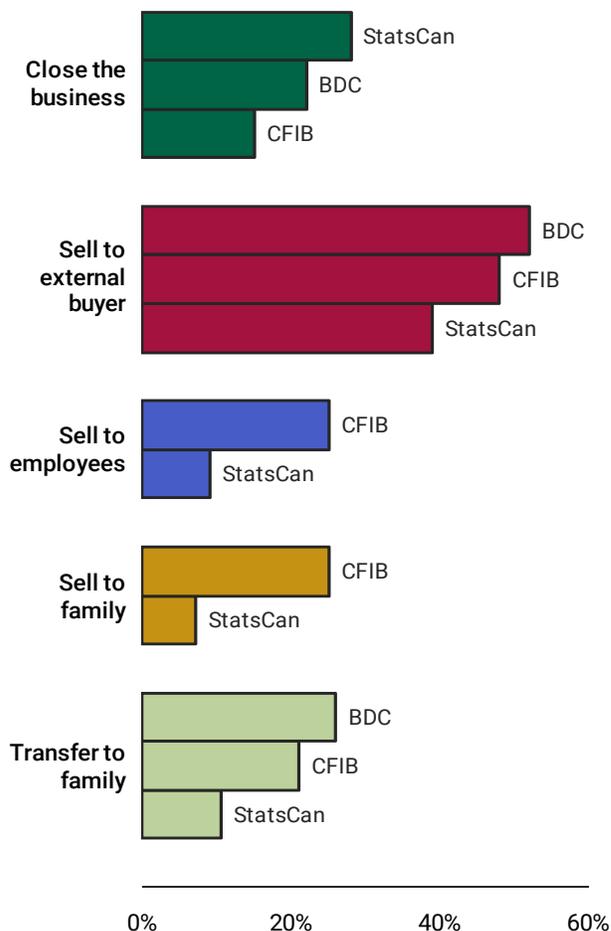
Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*; CFIB, *Getting the transition right: Survey results on small business succession planning*; BDC, *The Coming Wave of Business Transitions in Canada*.

The most common exit plan is to sell the business externally.

- Between 39% (StatsCan – low end) and 52% (BDC – high end) of SME owners that were exit planning said they intend to sell the business to an external buyer
- Based on the BDC survey, interest in selling the business to an external party has increased, from 48% in 2011 to 52% in 2017
- While CFIB’s survey found 15% of respondents intended to close their businesses, BDC’s comparative figure is 22%, and StatsCan’s is 28%

Exit intentions by type

Survey responses from SME owners
% of all respondents



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*; CFIB, *Getting the transition right: Survey results on small business succession planning*; BDC; *The Coming Wave of Business Transitions in Canada*.

More businesses are at risk of closing down.

“Between 2012 and 2018, the number of businesses who just planned to close outright, rather than sell, tripled, from five per cent to 15 per cent... What worries us is that they’re not finding buyers, and then their only option may be to shut down.”

— Corinne Pohlmann, Senior Vice-President, National Affairs, CFIB

The Globe and Mail, Mar 6, 2019. Matthew Halliday, *“A flood of small business owners are ready to sell. Most are not prepared,”*

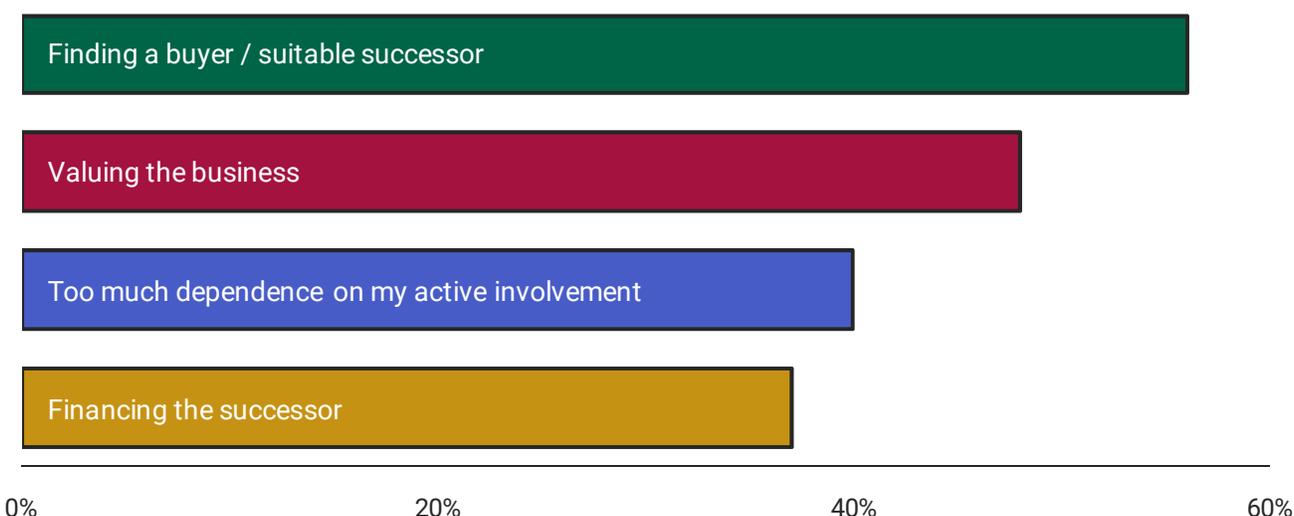
Improving SME Transitions

For business owners, the leading barrier to succession planning is finding a buyer / successor.

Key barriers to succession planning

Survey responses from SME owners

% of all respondents



Source: CFIB, *Getting the transition right: Survey results on small business succession planning*

→ 56% of SME owners reported that finding a buyer/suitable successor was the key barrier to succession planning

There is growing interest from young, financially-backed business leaders to search for and acquire SMEs. For these professionals, finding the right business to acquire is just as much of a challenge. Consulting firms specializing in these transactions look for larger deals (i.e. >\$15 million transaction sizes) for economic reasons. Matchmaking for small and medium enterprise transitions is inefficient, and often relies on family professionals (such as lawyers and accountants) and brokers.

imcoac – or Improving Counterparty Access – aims to make the process of connecting business owners with business buyers more efficient. Here's how.

High quality SMEs



High quality SME acquirers

- imcoac curates a network of community alliances, including local chambers of commerce and trade associations
 - Businesses and owners that are members of these groups can access the imcoac form
 - The form (found at www.imcoac.com) allows SMEs to share information about the business, which is then matched with acquirers
 - The service is cost free, commitment free, and confidential
- imcoac curates a network of business acquirers that demonstrate most if not all of the following attributes:
 - Financial backing
 - Acquisition and operational experience
 - Active, growth-oriented management approach
 - Training from leading business schools
 - Region-specific acquisition mandate

- 1 SMEs and acquirers are matched based on attributes and preferences
- 2 Both counterparties are prompted of the match through email
- 3 When both agree to be connected, an introduction is made via email