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Small business owners aren't planning ahead

Many lose out by failing to find a successor, report says

By Michael Kane
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David Van Seters is one of the majority of successful business owners in Canada - he doesn't have an exit strategy.

That means he runs the risk of not getting full value for his company when the time comes to move on, potentially shortchanging both his family and employees.

Van Seters, the president of SPUD - Vancouver-based Small Potatoes Urban Delivery - can be excused for feeling he still has time to develop a succession plan. He's a relatively young 48.

In contrast, 62 per cent of private companies surveyed by PricewaterhouseCoopers have an owner or CEO between the ages of 51 and 70, one in three of whom will retire in five years or less.

PwC survey findings released Tuesday show that 54 per cent of business owners do not have a plan outlining the future ownership of their business. That climbs to 70 per cent of the owners of companies with revenues less than $10 million.

In the past 10 years, Van Seters has been busy expanding his organic food delivery company from nine customers to 6,000, and four staff to 110. He has plans to roll the SPUD brand across North America.

"I am going to more actively consider developing a succession plan," he said in an interview Tuesday. "I certainly have it in mind."

Business owners typically get caught up in their businesses, dealing with everything urgent while putting important matters to one side, said Don Sihota, a business succession specialist with the Vancouver law firm Clark Wilson.

"Then in some cases, it becomes urgent because of a health issue, or some other triggering event, and that's not the time to be making complex plans," Sihota said in an interview.

Surveys by the Canadian Federation of Independent Business show that the majority of owners plan to leave their businesses with the next 10 years, yet most don't have a succession plan. That has major implications for the economy and jobs, since the small business sector contributes about 45 per cent of Canada's output, and employs almost 60 per cent of Canadian workers.

Some business owners defer succession planning until they are in their 70s or 80s when, if they have all the knowledge in their heads, it is much harder to transfer ownership because of the increased risk faced by potential buyers, Sihota said.

"So what happens is that they don't do anything, there is no planning, and the unfortunate thing is that their family and employees suffer."

A robust succession plan often requires a multi-year time frame, so it's imperative that companies address the issue sooner, not later, Carla Eisnor, a partner with PricewaterhouseCoopers, said in a release.

"If you don't plan and understand where potential future opportunities exist, then you run the risk of not maximizing the cash that can be made on exit of your company."

Sihota lists five ways to transfer a business:
- Pass it on to your children.
- Pass it on to employees or management.
- Pass it on to a third party such as a purchaser.
- Take it public.
- Close it down.

"That last option actually happens sometimes when people don't plan," he said. "That's a shame because any business has some goodwill and you could at least get something out of that."

PwC surveyed 293 business owners, with findings described as accurate with 90 per cent confidence.

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