Pathway to a Successful Business Purchase

Adapted Buyer's Workbook for Non-Profit and Charitable Organizations

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INTRODUCTION

Purpose of this Workbook

The purpose of this workbook is to assist non-profits and charities to purchase existing businesses and transition them iinto social enterprises. Buying a business is a complex process, but the results, in terms of revenue and impact, can make it worthwhile. Non-profits have additional considerations that can lengthen the timeframe to make a successful purchase. This workbook will assist your organization (you) to move through the purchase pathway to a successful conclusion.

For the purpose of this workbook, we use the term 'non-profit' to include both charitable and non charitable non-profits.

The Pathway to a Successful Business Purchase (PSBP) is designed to be an interactive tool. It is a place to write down findings, ideas, and to keep track of your progress. It is a place to write down findings and ideas, and to keep track of your progress. It is a reference tool for resources, advice and tips on how to work through the six acquisitions steps of Plan, Search, Assess, Invest, Launch and Sustain.

Who is this workbook for?

This workbook is for non-profit boards and leadership who have already identified social enterprise and revenue generation as part of their organizational strategy, and are contemplating business acquisition. Any social enterprise development or acquisition process requires dedicated time and energy, board and staff readiness, and resources allocated to the process.

Market Opportunity

98% of all businesses in BC are small businesses, creating 57% of private sector employment. The majority of business owners are older and are thinking of retiring soon. It is expected that around 40% of BC owners will exit their business in the next 5 years. That's a lot of businesses that need new ownership, far more than buyers who are looking for a business to purchase.

At the same time, the non-profit sector in Canada is facing an increasingly challenging funding environment and pressure to do more with less. In response to these pressures, many non-profits seek to generate revenue from operating a social enterprise. Most social enterprises tend to be start-up, which can take years to become financially sustainable. What if non-profits considered acquiring existing businesses as a social enterprise strategy?

A social enterprise is a business that directs profits back to support a social, environmental and/or cultural mission and mandate. Many social enterprises are owned and operated by non-profits.

This is an adapted version of the original Business Buyers Workbook, developed by Venture Connect

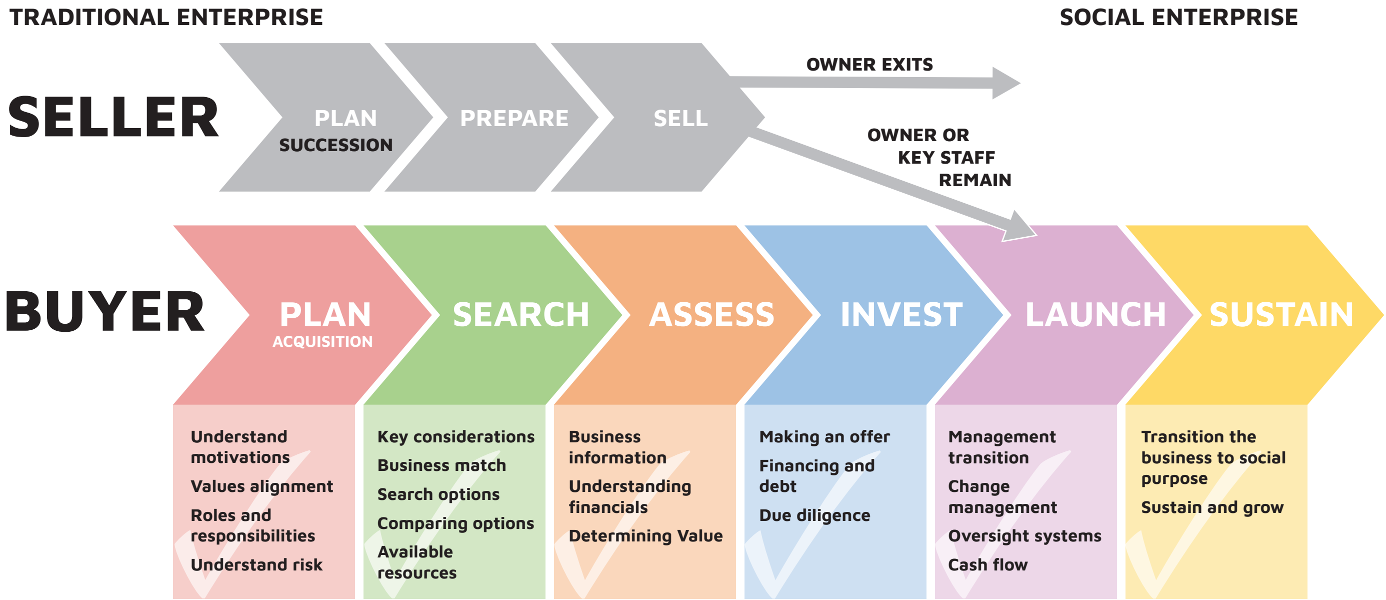
There is a significant opportunity for non-profits to acquire existing businesses and convert them to social enterprises. This would help to address the succession problem faced by small businesses and help non-profits to leapfrog the start-up phase at the same time.

If you are looking to go into business for the first time, there are a lot of advantages to buying an existing business over starting your own. You can get going a lot faster if you buy into a business that is already up and running. There is a track record, a defined product or service, employees, a market with real customers, a network of suppliers, an established distribution channel and an income. You do not have to figure out how to create any of this, as you do when you start your own business. Instead, you can spend your energy on maintaining and improving the business. Sellers are usually happy to provide training and transition support to buyers, particularly when they are retiring. Perhaps the most appealing factor of all is that you don't have to come up with all the money on your own. Financing is usually available (in a number of different forms) when you buy a business that's operating successfully. That's because you have money to pay a loan back from day one, and lenders know that a business purchase has a much greater chance of success than a start-up.

Pathway to a Successful Business Purchase (PSBP) Workbook

This workbook has six key stages: Plan, Search, Assess, Invest, Launch and Sustain. Every business purchase happens by moving through the middle 4 steps, and non-profits have additional considerations in terms of Planning and Sustaining. This workbook is designed to assist your organization to move with confidence through the steps to a successful purchase. With the assistance and support of knowledgeable service providers and professionals, you will be able to retain control of the purchase process and successfully navigate your way to business ownership. A well-developed strategy, in combination with your commitment to the process, will help to define your target business and focus most effectively on how to acquire it. You have a choice as to when and how to engage professionals to assist you in this process.

6-STEP PROCESS:



Story of a Community Acquisition: Community Futures Alberni-Clayoquot acquires Coombs Country Candy (Port Alberni, BC)

Why non-profits purchase businesses?

Community Futures Alberni-Clayoquot (CFAC) purchased Coombs Country Candy, a candy-making business with 8 full-time and 8 part-time staff, that has been operating in the Alberni Valley for 26 years. The organization already owned a business (Venture Connect) which delivers contracted services to public sector organizations. The purchase of a candy business was seen by senior management, and the board, as an opportunity to generate a new revenue stream to support the expansion of CFAC's work in the community. The seller was seeking to transition ownership and retire. The seller wanted to preserve the legacy of their business, and liked the idea of selling the business to a community enterprise.

"For many non-profits, one of the things we do at Venture Connect is to encourage people that are thinking of starting businesses to look at buying a business instead, because you can get to your goals faster. And if there's already a track record, you can finance it. It's a far better approach than putting $50,000 into a start-up, which then takes a long time to come around and drains the time of people in the organization far more than taking something over." **-Darrell Goertzen, Venture Connect**

STEP 1: PLAN

Acquiring and operating a business requires knowledge of the acquisition process, access to appropriate advice and financing, and a well thought out transition plan. Your organization has a base to build on with your own existing management, operations and organizational capacity. You can transfer this knowledge to business management, and strengthen the enterprise through your existing operational expertise. The key is to have a plan and strategy. Step 1 is all about planning.

Understand Motivations

Non-profits have different social, organizational, and financial objectives that will determine the types of businesses that would make a good match. A business might be attractive to one non-profit, but a 'no-go' for another.

There are some criteria on which all organizations would agree: good margins and growth potential, solid reputation in the community, and a futureproof business model. Indeed, a business that has razor thin margins, a reputation for causing significant social or environmental damage in the community; or that is at risk of being replaced in the digital economy, would make a poor investment. But other considerations like mission alignment, and risk and reward profile, will mean different things for different organizations. In these cases you will need to assess the trade-offs and potential implications. The sections and worksheets below will help you to do this.

By understanding your organizations motivations for acquiring a business, you can target your search to businesses that meet your overall objectives; and be prepared to respond quickly when the right opportunity comes along.

Values Alignment

Our non-profit brand and mission are core to your credibility and purpose—any business acquisition should enhance, not detract from this work.

Some businesses may directly contradict your organization's social mission and should be screened out from consideration. For example, non-profits with a mission to promote health and prevent diseases, like diabetes or cancer, may not be comfortable owning a soda pop manufacturing business. Similarly, an environmental non-profit would likely not be comfortable owning a business that generates substantial pollution.

Alternatively, your organization may also be interested in the potential for using the business to advance your mission, and achieve positive social impacts. Local businesses generally provide positive social and community level impacts, such as providing decent employment, and critical goods and services. There is an opportunity to acquire businesses that are already providing positive impacts in the community and enhancing these impacts.

In many cases, business opportunities will require thinking through the alignment of the business with your organization's social mission, and the implications for your organizational and financial objectives.

Assess your organization by assigning 1-3 (1=weak, 3=strong)

Are the core values of your organization clearly outlined?	
Do you have a good understanding of your organizational strengths and capacity gaps?	
Can you envision what types of businesses will advance your values, mission and organizational objectives?	

Table 1: Values Alignment Assessment

If your answers are mostly 1, you may find yourself at the 'cooler' end of the temperature check? Here are suggestions to help move you towards acquisition readiness. If mostly 3, then you are acquisition-ready.

TEMPERATURE CHECK

Board is unsure of, or not supportive of, the business acquisition and views it as too risky.

To move up: spend time with Board and staff to clarify your core values and what types of businesses will extend your mission, reach and mandate.

Your organization is clear on your mission, goals and core strengths, but not sure how these will mesh with a business acquisition

To move up: review strategic planning goals, and identify where social enterprise will help to meet mission and mandate. Look around your community for specific business examples.

You are clear on how a business will align with and further your organizations goals and can visualize what types of businesses could align.

You are acquisition-ready!

Next steps: develop clear considerations to be able to assess potential businesses (next step in workbook)

Roles, Responsibilities and Decision Making

Successful acquisitions require a supportive board that sees the potential for business acquisition meeting organizational mission and revenue objectives. It is helpful to have board members that bring solid business acumen and are comfortable with a certain level of risk. It is also critical to have a board that can look at how social enterprise and business acquisition can help your non-profit better achieve its mandate and build financial resilience.

Social enterprise is an increasingly important opportunity to achieve dual objectives by keeping businesses local and providing new revenue generating opportunities for the charitable sector.

Unlike a traditional business acquisition, where one or two buyers are typically involved in the decision-making, non-profit decision-making often involves many people. The slower pace of decision-making can cause non-profits to lose out on good acquisition opportunities. Clarifying support, guidelines, decision making processes and communications is an important planning step to keep the acquisition process on track.

Assess your organization by assigning 1-3 (1=weak, 3=strong)

Is there board support for owning and operating a social enterprise?	
Is your board willing to set aside time for the acquisition process?	
Is your board willing to dedicate staff time to the acquisition process?	
Do you have a decision making framework that outlines what decisions require board approval and what can be made at the staff level?	
Are there clear communication channels between staff and board leadership, with regular check-ins?	

Table 2: Acquisition Decision-Making Assessment

"During the acquisition, we asked the board to play a very different role, we had to work through many questions. Why are we buying a business? Why can't you just let another entrepreneur buy the business? I think these sorts of questions would have been dealt with if it had been a strategy discussed well in advance." – **Lori Camire, Executive Director, Community Futures Alberni-Clayoquot**

TEMPERATURE CHECK

Board is unsure of or not supportive of the business acquisition, viewing it as too risky.

To move up: engage the board on how business acquisition presents an opportunity for mission advancement; set clear criteria against which to assess potential opportunities.

Board is supportive in principle but has concerns about the process, risk and outcomes.

To move up: set up a sub-committee to explore and guide the process; agree to allocate staff time to the process; report back on possibilities.

Highly supportive board, willing to diversify revenue streams.

You are acquisition-ready!

Next steps: develop a decision-making framework with regular communication and sign off processes in place.

Understand Risk

Non-profits tend to be risk averse. This risk aversion can feel safe, but it also can limit organizations from being innovative, generate resistance to change, and lead organizations to dismiss opportunities that could lead to greater impact and mission fulfillment. Business acquisition requires leaders that are able to identify goals, clearly understand and outline key risks, assess opportunities against key risks, and (if you choose to move forward) have mitigation strategies to manage risks.

Purchasing a business is often less risky than starting one from scratch; however, there are still risks to consider. It is important to outline your organizational and financial objectives for acquiring a business. Once you are clear on these objectives; your board can have an informed discussion on how much risk you are willing to take to achieve them.

Setting up an acquisition sub committee is an efficient way to move forward the process and maintain good communication. The committee works best with 3-5 people, representing both board and staff leadership with clear decision making and reporting processes. Populate the sub-committee with people who have skills in financial analysis and management, risk assessment and, if possible, business operations or industry experience. Trusted advisors can act as a sounding board. Identify who within the organization will be the spokesperson, and be responsible for managing the negotiations.

Assess your organization by assigning 1-3 (1=weak, 3=strong)

Does your board, and leadership, aim to continually explore opportunities to further your mission and mandate?	
Does your organization have an entrepreneurial mindset; in terms of identifying opportunities and supporting innovation?	
Is your board and leadership comfortable with uncertainty? Are you comfortable not knowing the outcome before you start, but willing to learn and improve?	
Have your board and leadership identified different risks and benefits associated with social enterprise? Have you considered metrics around what level of risk is acceptable in order to achieve which benefits?	

Table 3: Risk Acceptance Assessment Table

TEMPERATURE CHECK

Strong risk aversion towards the acquisition process, due to a lack of a risk assessment framework and a lack of clarity.

To move up: build a proper risk assessment protocol and identify critical zones.

Limited risk analysis capacity; unclear on how to identify and measure various risks and potential impacts.

To move up: strengthen your risk assessment process, identify key dimensions and add mitigation strategies.

Strong risk assessment system in place, with matching mitigation strategies.

You are acquisition-ready!

Next steps: communicate on mitigation strategies with key stakeholders, and monitor their implementation, the business and the non-profit, in terms of impact goals and branding.

Management and Staff Capacity

Your organization will benefit from the right skill set and organizational capacity to undertake the acquisition; from identifying the right business to completing the purchase, and only after having performed all of the required due diligence.

Key skills for business acquisition include:

- Market analysis
- Financial analysis
- Negotiation and conflict resolution skills
- Communication skills
- Ability to access advisors to fill knowledge gaps
- Experience or knowledge in operating a commercial entity

Assess your organization by assigning 1-3 (1=weak, 3=strong)

Do you have the right skill set within your leadership team to manage the acquisition operation?	
If you are missing skills, can you identify how you can access this expertise?	
Does your key staff have time to dedicate to the acquisition process?	

Table 4: Acquisition Skills Assessment

TEMPERATURE CHECK

Very limited staff capacity and/or key skills missing at board/management levels

To move up: if an acquisition is contemplated, explore options to secure the right skillset at board/management/operations levels

Team is missing some key skills

To move up: identify missing skills and evaluate if the expertise can be secured by hiring or outsourcing

Full range of required skills, with a qualified dedicated team

You are acquisition-ready!

Next steps: define clear roles & timeline

STEP-2: SEARCH

Key Considerations

When looking for the ideal fit, a good first step is to start mapping businesses that appeal to you, deliver essential goods or service, and generate positive revenues.

Four key considerations should be considered when looking at which business to acquire:

- Strategic alignment with the non-profit: how do the business activities further your organization's goals or mandate? (you have considered this in your planning step)
- Business model: how viable is the business model and is there growth potential?
- Management capacity: what management capacity is required to operate the business?
- Community engagement potential: how is the business viewed by the community, and does it enhance your organization's reputation or brand?

STEP 2

Here are some specific considerations to help assess how businesses could meet your operational requirements and strategic alignment. Identify your top 3 most important criteria and sort the remaining considerations into second tier or not applicable/not important.

Consideration	Most Important (choose 3)	Next important	N/A or Not Important
Synergy with the non-profit mission			
Strong impact outcomes			
Synergy with your existing management skills			
Low start-up costs			
Good profit margins			
Low complexity to operate			
Low ongoing capital costs			
Strong existing business reputation			
Business is core to the community- meets a core need			
Purchase price does not require financing			
Growth potential			
Current management transitions with the business			
Current management transfers the capacity through training			
Low involvement in day-to-day operations by non-profit			
Other			

Table 5: Operational Requirements, and Strategic Alignment Assessment

STEP 2

Developing Key Considerations

Fernwood NRG is a social enterprising non-profit organization run by and for the residents of Fernwood, a neighbourhood in Victoria, BC.

Fernwood NRG has purchased a couple of different businesses. The Executive Director drafted a solid business plan, advocated for the merit of the acquisition and demonstrated how the business was the right fit for Fernwood.

Key considerations for business purchase were:

- Will operating the business deepen our relationship with the neighbourhood?
- Are the business activities aligned with our values?
- Is the business relatively low complexity?
- Does the business have relatively low start-up costs?
- Does the business have relatively low ongoing capital costs?
- Does the business have relatively high operating margins (10+%)?
- Can the business operate in a space we own and control?
- Is there potential to grow the business?

What's Our Business Match

"I think for many non-profits, the challenge will be how to evaluate what's a good purchase, and what isn't. So, when this came along it was a real fit. And she knew it. And I knew it because we had discussed the things that weren't a fit, so I think for many non-profit directors, they're going to have to go through that process of understanding what's a good business for them and what isn't, and why."
– Darrell Goertzen, Venture Connect

Don't limit yourself to an exact match to your experience. In all but the most specialized types of businesses, sellers are usually willing to train buyers in the details they need to know. Focus on the similarities and not on the differences.

One advantage that non-profits have is their existing management experience and capacity. Non-profits can consider companies with more employees and can use their management experience to rely on the acquired business' staff to provide the technical knowledge that is required to operate the business.

Questions to get your search started!
What are your social impact objectives for the enterprise? This may include your objectives for clients, employees, your local community, and the environment.
What individuals and/or groups do you want to directly impact through the enterprise?
What types of business are you interested in owning?
What kind of financial down payment can you make?
What is the targeted revenue you need the business to generate?
Which region or community are you interested in?
Does it matter how many employees the business has?
Are you interested in owning a seasonal business?

Table 6: Initial Search Questions

Understanding Sellers

Sellers are often pessimistic about buyers. They worry that:

- Buyers don't have the money
- Buyers don't want to work hard
- Buyers won't understand their business

Sometimes it makes it difficult to deal with sellers, causing the buyer to question whether the seller actually wants to sell their business. The best way to succeed in a business purchase is to provide the owner with what they want out of the sale of their business. That might be:

- Money
- Terms they want
- Transition they want
- Future for their employees
- Legacy of a flourishing business or service in the community.
- Seeing their business in the hands of someone who will love and cherish it.

As a buyer it's in your best interest to ask some questions about what the seller wants from the sale of their business. They often won't be able to provide a clear answer so you may have to ask a few questions in different ways to get a good picture of what they truly are looking for.

What are the Search Options?

Once you have a better idea of what you're looking for it's time to get started. There are many ways to find business for sale opportunities; here are some suggestions:

1. Start Online: There are many options and places to look online, in today's market this is the most likely place to look for your business opportunity.
2. Use Community Networks: Sellers in smaller communities may be reluctant to use real estate listings or formal advertisements. The news that a business is up for sale may cause unease among employees or suppliers. Many sellers will simply use their network of contacts to get the word out. These include Industry groups, Chambers of Commerce, community service providers (accountants, bankers, etc.) trade groups and industry associations.
3. Hire an Intermediary: Realtors/Brokers will work with buyers to help them find businesses that meet their requirements. To avoid bad experiences, ask your contacts for the names of reputable companies and look at websites to review their expertise.

4. Do a Passive Search: Register with intermediaries/organizations as a potential buyer. Typically, they will ask you about yourself and the type of business you're seeking. You can also approach suppliers or distributors active in the type of business in which you are interested. Let them know you are in the market to buy a business and ask them if they know of any opportunities. In some cases, you may know of a specific business that represents exactly what you are looking for. If you do, there is nothing to prevent you from approaching the owner directly and asking if he or she is interested in selling.

Type	Web Address	Consideration
Kijiji and Craigslist	kijiji.ca / craigslist.ca	Not business focused, listings can be very hard to find. Generally only used for low-cost businesses.
Commercial Real Estate	realtor.ca	Site contains many commercial buildings, for lease, land and businesses so can be tough to search easily
Government	britishcolumbia.ca/ invest/opportunities	Good site for investment opportunities, smaller businesses can get lost.
Local	ventureconnect.ca	Site for businesses for sale in BC. Varity in types and size, including for sale by owner and realtor/broker.
Brokers	Various	Each business broker will promote their own listings, many with limited information until you make contact.
Other Sites	businessforsale.com businesssellcanada.com businessbuysell.ca	Business for sale sites, Canada or North American wide.

Table 7: Pathway to a Successful Business Purchase

Compare Multiple Business Opportunities

When you find several businesses that interest you, use this scorecard, adapted from the Canadian Social Enterprise Guide, to assess strength and fit of the business acquisition opportunities you are exploring.

Rate the business(es) against criteria below using your best judgment to justify each rating.

Use the following ratings:

0 = Poor 1= Somewhat Good 2= Good 3=Very Good	Score			
ASSESSMENT CRITERIA	0	1	2	3
Business model viability and growth potential				
How are the business' profit margins?				
What is the level of difficulty for competitors to enter the market?				
Is there potential to grow the business?				
TOTAL BUSINESS MODEL SCORE				
Strategic alignment with your organization				
How well does the business fit with your organization's values, mission and culture?				
How well does the business model fit your identified criteria?				
What is the potential for the business to expand your organization's impact?				
TOTAL STRATEGIC ALIGNMENT SCORE				
Management capacity				
How synergistic is the management model with your organization's management skills?				
How well will your organization be able to leverage existing resources to oversee the business?				
How well is your organization positioned to fill skill gaps?				
What is the potential for the business to add its existing strengths to your organization, and/or help develop new ones?				
TOTAL MANAGEMENT CAPACITY SCORE				
Community engagement				
What is the social and/or environmental impact of the business in the comunity?				
What is the reputation of the business in the community?				
What impact would owning the business have on your organization's reputation within the community?				
What is the potential for the business help to develop or expand partnerships in the community?				
TOTAL COMMUNITY ENGAGEMENT SCORE				
TOTAL SCORE				

Table 8: Business Comparison Criteria

Score	Recommended Actions
Between 36 and 45	This is probably a good option - Move to the next step in the guidebook
Between 20 and 35	Do more research to understand if this is the right opportunity for your organization
< 20	Keep looking – this is probably not a good fit
If you score < 4 in one or more of the four assessment categories	Keep looking - this is probably not a good fit

Table 9: Acquisition fit assessment score interpretation

Available Resources

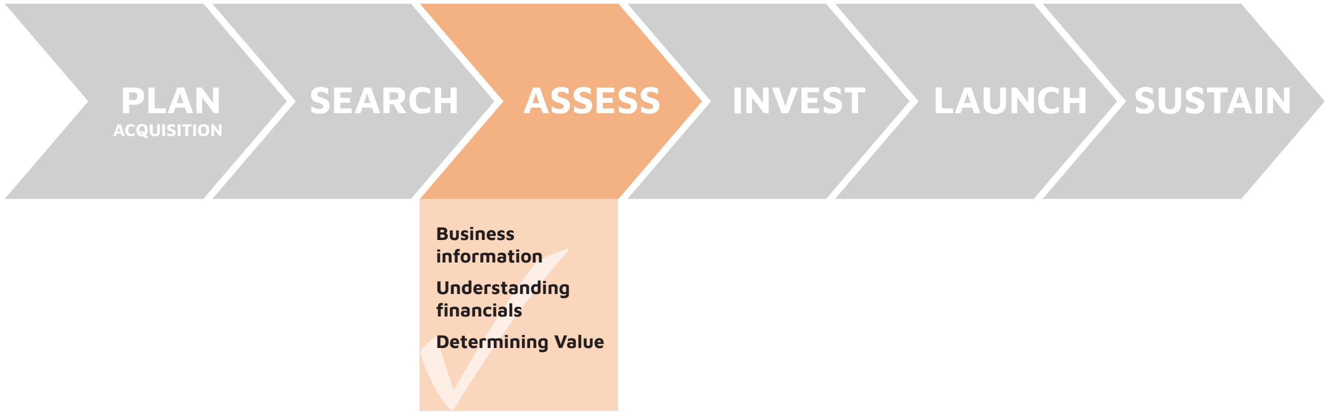
At this step many buyers are quite confident working without many outside resources. If you are capable at searching online and diligent about staying aware of what's out there, the odds are good that you will find opportunities that stir your interest. Once you identify those, then in the next step you will begin to connect with resources and have conversations. This may include Realtors, Brokers, Business Advisory firms and possibly Sellers themselves.

If you use any of the resources mentioned in this step here are some tips to remember:

- Most Realtors/Brokers will represent either the seller or the buyer in a transaction but not both. Be sure to ask who they will be representing in your relationship.
- It's not always best or even possible to use a local resource for your search in smaller communities, but in order to find all opportunities, it is important that your resource professional has networks in rural communities. Find out if your contact has access to any local networks before committing to working with them.

STEP-3: ASSESS

Congratulations, you have found a business for sale that holds interest for you! Now how do you determine if it is a good opportunity or not? What can you do to assess the business objectively?



Gathering Business Information

The first step is to gather more information about the business so you can look at it with your head as well as your heart. If the seller is well prepared, they will have an information sheet or some material prepared that provides much of the information you need. But not all sellers are well prepared, or they may simply be hesitant to volunteer information until they get a sense of whether you are serious or not. Knowing the right questions to ask can help you to look prepared and capable of running their business, which is positive in building trust with the seller. Here are some questions to ask to make sure you gather the information you need to properly assess the business:

Revenue

1. How does the business make money?

2. Are there multiple revenue streams (parts & service, retail & service, sales & installation, etc.)?

3. Are sales trending up, down, or stable?

Customer Information

1. Do customers come from different areas?

2. What % of business comes from repeat customers?

3. Are there any customer contacts?

Facilities Information

1. What size is the facility (sq ft, parking, security, more than 1 location)?

2. Is there a lease? When does it expire?

3. What kind of shape is the facility in? Kept up? Recent investments? Need work?

Asset Information

1. Is there an asset list? Is it complete, everything included in the sale? Up to date? Show current market value?

2. Is the business incorporated?

3. If it is incorporated, is the owner looking for a share sale or asset sale? (More on this later)

Notes:

Employee Information

1. How many employees are there? ______________________
2. How long have they been employed? ______________________
3. Are there any particular skills/experience required for any of the roles? ______________________

Potential Opportunities

Owners usually have a good grasp of local opportunities that they haven't acted on, usually because they are tired, may require investment, have longer term payoff, or require other skills.

Ask the owner what the 2 best opportunities for the business to grow:

1. ____

2. ____

Financial Information

1. Are the last 3 years of financial statements available? ______________________
2. Have they been prepared by a reputable accountant? ______________________

Visual Information Pictures tell the story better than words.

1. Are there good pictures available on the website or elsewhere showing the business? __________

Take some pictures of your own as you walk through to help jog your memory about assets, state of the furniture, physical space, etc. It's not easy to remember everything after you leave, pictures help.

Understanding Financials

It is common practice to sign a non disclosure agreement prior to the seller providing any asset or financial information. Sellers always worry that buyers will contact employees or talk about confidential details about the business. As a buyer it serves as a good reminder to be careful not to talk too freely about the business, even to friends, but to remember that the information provided is confidential and it's important to treat it as such.

So now you have received the business' financial statements, great, what do you do with them? Most buyers (in fact most sellers as well) are unable to make sense of financial statements. Buyers are often shocked at how little profit the business is showing. That isn't necessarily a good indicator of whether the business is a good opportunity or not. It's important to remember that small business owners are notoriously averse to paying taxes and often run their companies with the primary aim of minimizing taxes.

As a business owner there are many avenues you can use to reduce tax and usually financial statements need to be restated (revised) by a professional in order to make clear what the true financial picture is. If there are any concerns when you look at the financial information, particularly with year to year swings or trends, then you should ask for more information, your first step could be to go back five years instead of just three.

Items to consider when reviewing financials

Consideration	Yes / No	Notes
Do you have 3 most recent years of financial statements?		
Are you comfortable with the sales trend (growing or stable, not declining, or significant swings year to year)?		
Is the margin ratio (%) consistent or improving?		
Does the amount paid in wages seem reasonable for the number of staff the business has?		
Is the owner paying themselves or family through management fees or salary? If so, is it reasonable for the work they do for the business?		
Are there any big changes in expenses from one year to another?		
Do the financial statements include balance sheets?		
Does the value or assets on the balance sheet look anything like what the owner says the assets are worth?		
Do the receivables and payables seem consistent year to year?		
If the business is incorporated, is the owner looking for a share sale?		

Table 10: Reviewing Financials

Share Sale vs Asset Sale:

In a share sale all parts of the incorporated business are sold, including the name of the business. For tax reasons this type of sale is usually favoured by sellers. However, if the business has been involved in any issues (tax or legal), the buyer will also assume these. The buyer also "purchases" everything on the balance sheet, including accounts receivable, payables, bank accounts and loans or other obligations.

In an asset sale the buyer only purchases specific assets of the company (tangible and intangible) and may choose to purchase only some of the assets, not all. Purchasing assets lets the buyer avoid any possible corporate liabilities, including employee contracts and leases.

It's important to remember in a sale that neither option is black and white. There are potential tax implications that change down the road for you based on what you choose, but every offer can be written to reduce or manage concerns, regardless of the type of sale you choose. As a general rule smaller businesses are handled more simply as an asset sale while larger ones are more likely to go through a share sale. As a buyer, just be prepared that you may find sellers to be very stubborn in demanding a share sale, usually based on their accountant's advice. It's also important to remember that this choice only applies if the business is incorporated. Proprietorships are sold as assets.

How your organization purchases a business is one of the areas where the implications might be different for a non-profit versus a charity. Non-profits need to operate enterprises that directly align with their mandate, as the rules around subsidiary ownership are unclear. These implications will likely determine whether you choose an asset sale or a share sale—please get your own legal advice.

The rules for ownership of profit generating assets are different between non-profits and charities. The quick summary is that charities have much more clarity from CRA around owning taxable subsidiaries—it's allowed where provincial laws and regulations permit. It is less clear for non-profits without charity status and may warrant different considerations where provincial laws and regulations permit.

Determining Value

How do you find out what the value of the business is? Value is different than price. Value is determined by taking into account all the relevant facts and circumstances of the business. It is merely an opinion expressed by the person determining the value. That person may be the buyer or the seller and they may not be qualified to determine value. Every buyer and seller can benefit from having an independent valuation completed by a professional, preferably an independent opinion.

A professional business valuation uses a process and set of methodologies which take into account three key perspectives on the business, including: asset values, income value and market value. A good business valuation is based on market factors such as location, economic conditions, and sales of comparable businesses, locally, provincially and possibly nationally. Market based business valuation must consider the buyer. Every business has a different value for different buyers, so as a buyer you need to keep in mind that other buyers may value the business you're looking at differently, either higher or lower than you do.

An owner-operator wants a job they are comfortable with/interested in, while an investor may be more concerned with surety of return and low maintenance operations. The price you are comfortable with may be different than how others see the business and also may be impacted by the terms of the transaction. Of course, the most important factor long term is financial return, but other factors contribute to buyer perception of value as well.

Value Assessment Grid

The following assessment is provided to assist you in reviewing some of the key factors that affect the value of the business you are looking at. Each of these factors has an effect on a buyer's perception of the value of the business. As a buyer you are looking for the future cash flow and profit from the business. Past performance is an indicator of what that will be, but risk for future income slippage should also be considered. Answer each question with what you know about that factor, and in the last column rate it as a positive (+) or negative (-) for the value of the business.

Question	Comments	Rate +/–
Financial Performance Factors		
Does the business provide enough cash flow to support you and repay any loans you'll need?		
Are there expenses that could be reduced to improve profitability?		
Are there multiple revenue streams that the business can grow?		
Does the business provide anything special that gives it a niche in its marketplace and protection from competitors?		
Does the business have an established track record over an extended period of time?		
Is the business reliant on the owner to any degree that will create risk when they leave? Is there a plan to ensure the risk is managed?		
Potential Opportunities		
Are there 1 or 2 good opportunities that you can see yourself taking advantage of to grow the business quickly?		
Will better marketing improve results?		
Investment Required		
Has the seller let things slide and will new energy make a difference in sales?		
Will you need to invest more money in order to grow or maintain the business?		
Customer Information		
Is there a customer list, any contractors or way to predict ahead of time who will purchase from your business?		
How much of the business comes from repeat customers and what determines if they come back?		
Do any 1 or 2 customers make up a large percent of the business revenue or profitability?		
Predictability		
Have the results been consistent?		
Is there a specialized product or service that brings customers to the business?		
How strong is local competition?		

Table 11: Value Assessment Grid

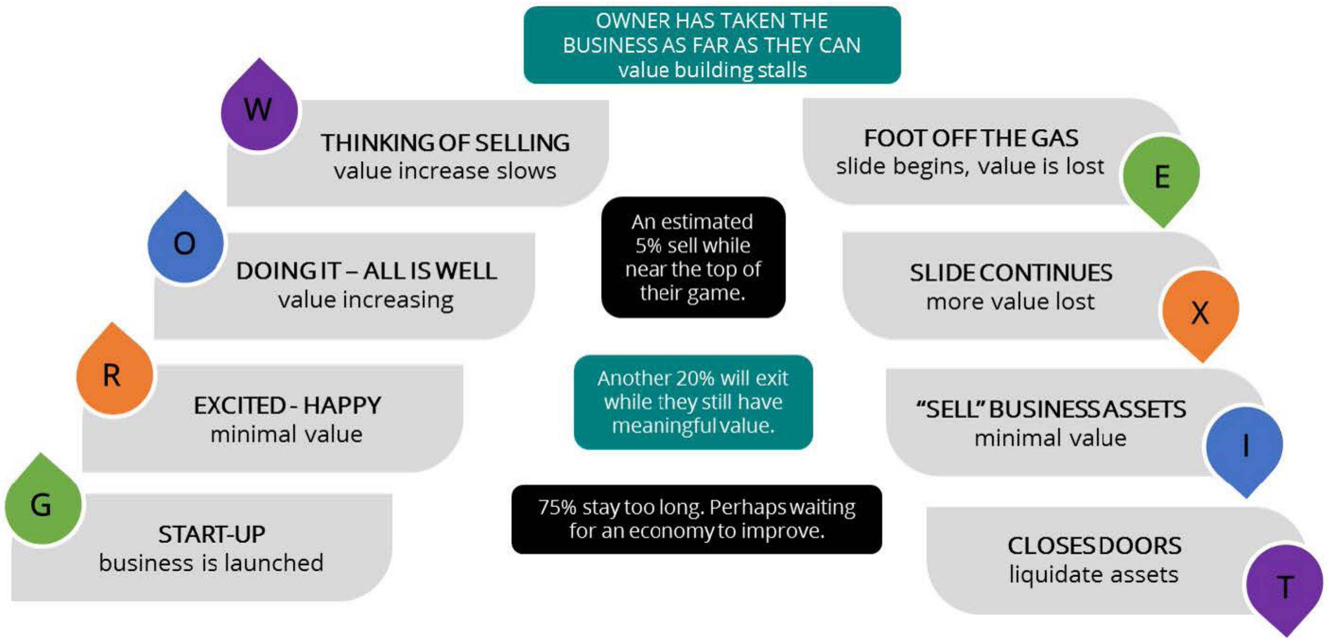
EBITDA vs SDE

EBITDA stands for Earnings Before Interest, Taxes, Depreciation, and Amortization and is a measure used to evaluate a company's operating performance. It shows the earnings of the company without other items like taxes and investment costs. EBITDA is almost always used as a basis to determine value when looking at a large company.

SDE stands for Seller's Discretionary Earnings. It is a less formal business valuation method that is more often used for owneroperator business purchases. It is basically the Total Owner Benefit a business produces, which equates to profit plus other benefits like vehicle, travel, and other costs that the business pays on behalf of the owner.

Another important consideration when determining a business's operating performance and capacity for growth, is understanding the skills and capacity the seller brings to the business, and where in the lifecycle the business sits.

The visual below shows the general life cycle of a business, starting with launch and grow, to the peak value, and then towards exit. A business can be sold because the owner took it as far as they can, but be cautious of businesses that have lost their value.



Available Resources

At this step it is extremely important to use a professional to assist you in determining (or confirming) an appropriate value range for the business you are considering. There are several different options including:

- Accountants - they are often the choice for sellers, as they may be familiar with the business financials (which means no information needs to be shared with outside parties). However they are not completely objective as the seller is their client. They may also not have great familiarity with recent sales of this type of business.
- Brokers/Realtors - if they specialize in business sales, they should have the training and experience to do a decent job, but again you need to ensure that they have appropriate experience with similar business sales and are objective in their approach. They are often working for the seller and not the buyer's interest.
- Business Advisors - level of experience, market familiarity again is extremely important.
- Venture Connect - Focused on business retention and succession for small businesses, providing affordable and understandable guidance.
- Costs can range from $500 up to $10,000 for a business valuation. More is not always better, it may come in a slicker package but not really tell you anything different than a "meat & potatoes" version.
- Don't be concerned if a resource is not "local" to the community you are focused on. Experience and market knowledge matter more than geographic location, it's difficult to be an expert on rural BC business sales unless work is done in all areas of the Province

⚠ Governance and Legal Considerations for Non-profits and Charities

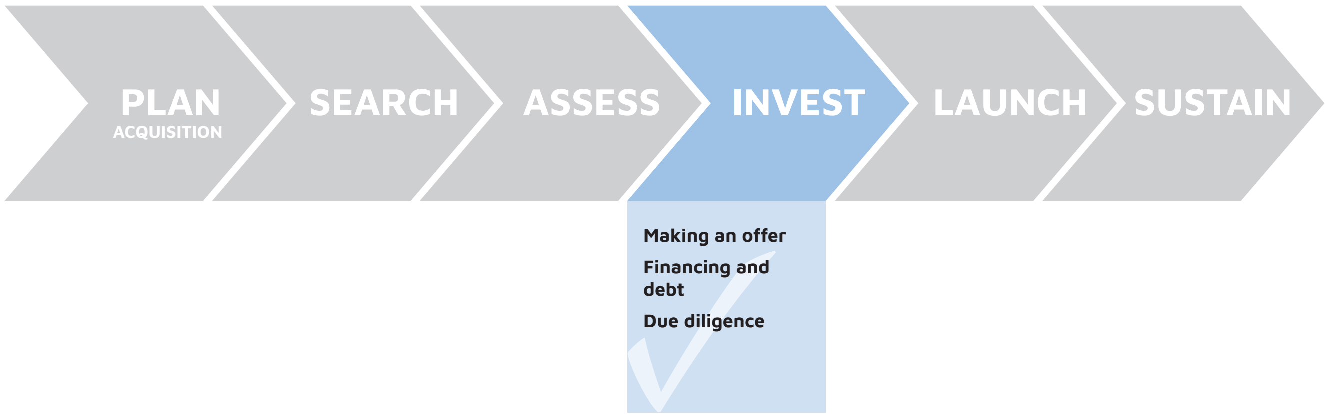
Both charities and non-profits need to get legal advice to make sure you are following CRA rules, and that the ownership and governance of the business does not put your status at risk.

For example, for charities, one practice is to create a subsidiary corporation to acquire and hold the business or asset, which is structured so that the charity is the sole shareholder in the corporation. This could be different for non-charitable non-profits, as the guidelines from CRA are less clear. **Legal advice is highly recommended to secure the process, with a lawyer who has experience in charity law and/or non-profit law as applicable.**

Generally, keeping things separated between the organization and the operated business clarifies the legal and financial relationship between the two entities. Do not hesitate to keep everything (governance, accounting, legal, banking, staff) clearly separated through different structures and/or have clear contracts that outline the relationship between different entities.

For more information about legal structuration and options to hold the acquired business, Chapter 7 of The Canadian Social Enterprise Guide is extremely helpful and still up to date, even though it is not a substitute for legal advice.

STEP-4: INVEST



Making an Offer

You have gathered more information on the business and now you're ready to move ahead and see if you can make a deal. The seller may have given you some indication of what they are looking for, in terms of timing, and how eager they are to make a deal. So now it's time to make an offer and show the seller that you are serious about purchasing their business.

There are several ways to go about making an offer for a business. If you are working with a Realtor or Broker, they will have forms that they use for this . But the most common way to make an offer is by creating a Letter of Intent (LOI). A LOI is a document outlining the key terms and expectations of buyer and seller in a business purchase. The LOI can be binding or non-binding. A binding LOI is the most straightforward way to get to a deal. Both parties agree on terms, sign and then the agreement can be executed by a lawyer or notary, depending on its complexity. Binding LOI's still have subjects, which can give the buyer time to complete specific due diligence and financing arrangements.

A non-binding LOI gives the terms to which buyer and seller agree at this point in time, but terms may be renegotiated by either party until another document (definitive agreement) is completed. This only happens after all concerns have been investigated and satisfied for both parties. Non-binding LOI's are common for more complex business sales, but slow the process, add cost and are rarely necessary for simple small business purchases. Even a non-binding LOI has a moral obligation as to your intent to purchase, so this should only be taken in good faith.

Either type of LOI is very positive for building deal momentum. It consolidates the core areas of agreement, establishes preliminary timelines and identifies issues or potential conflict items. It helps move the deal from a conversation where you talk in generalities or ranges to the true deal specifics. It is an essential in a purchase and boosts confidence for the seller that you as a buyer are serious. Sellers will rarely make any concessions on price or other issues until a buyer takes this.

What's included in a Letter of Intent?

The following checklist gives some examples of what may be included in a properly written basic LOI:

LOI Checklist	Required	Included
Names of company, buyer(s), seller(s)		
Share or Asset sale		
Binding or non-binding		
What's included/excluded in the sale		
Price and terms (how much and how it is paid)		
How liabilities are to be handled if any exist		
Subjects – like financing, due diligence, lease arrangements, etc.		
Dates of subject removals, sale closing		
Is there a deposit? Amount? Due date?		
Confidentiality, communication of ownership change		
Employee communication		
Any other agreements that need drafting (partnership, transition, leases)		
Non-compete terms if required		
How inventory is managed/accounted		
Any training and/or transition support provided by the seller		
Supplier and customer communication (usually part of transition support)		
Duration of any negotiation exclusivity		
Who pays for what costs in the sales process		

Table 12: LOI Checklist

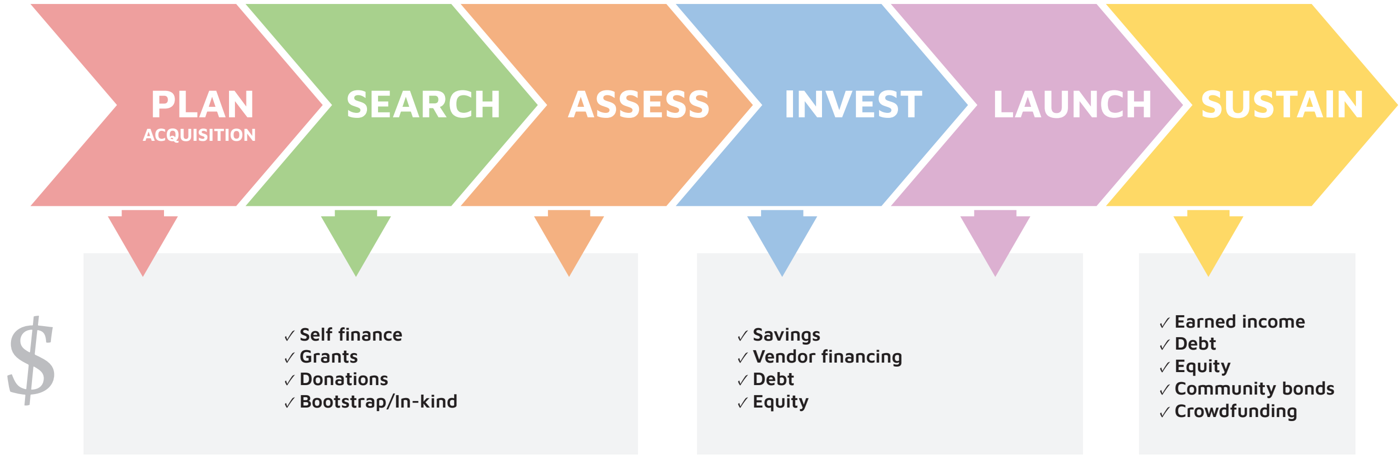
Can a business owner donate their business to a charity for a tax receipt?

CRA has guidelines for receiving donations related to businesses. A charity can issue an official donation receipt for the fair market value of donated shares. Asset donations are also possible and are subject to valuation and taxation, such as capital gains.

Financing Your Purchase

One of the key reasons to purchase a business rather than start a new one is for the ready-made product/service, customers and cash flow that an existing business has in place. This can provide some security and motivation to access financing to purchase the business. However, since access to financing may present a barrier, you will want to explore different financing options as much in advance as possible.

Here are the different types of funding financing that non-profits and charities may be able to access to assist with purchase. The visual below matches the financing to the step where it is best suited.



1. **Bootstrap/In-kind:** This type of financing tends to rely on your internal capacity and resources.
2. **Grants:** Most funders will not provide grants for acquisition of assets; and most grants are not large enough to finance a purchase. However, grants may be an option for financing the planning and exploration phases. You may be able to access grants to social enterprise development and planning, or to hire consultants to assist with the process.
3. **Donations or capital campaign:** Capital campaigns are a traditional avenue to raise funds for real estate purchases or development; why not to acquire a business? Here's why: a public capital campaign lets the community know about the business transaction, including the price. This often steps outside the non disclosure agreements common in the business acquisition process. Targeted outreach to select donors may be a better approach.
4. **Savings:** Many non-profits have savings in low return vehicles, like GICs. This is a good time to ask- are these savings helping us increase our revenues and better achieve impact? A business acquisition may provide a better return on investment for your savings.
5. **Vendor financing:** Another source of financing in the purchase of a business is the seller themselves. In some cases, the seller may be willing to help finance the deal by taking a mortgage or accepting a promissory note for part of the purchase price. If land or a building are included in the sale, they may agree to lease rather than sell those assets. This kind of arrangement will give the seller a steady income rather than a lump sum payment, which may be acceptable. It is a good method of ensuring

that the seller is motivated to ensure the business continues to thrive through the transition, as they will often continue to be involved in the business in some capacity during this earn-out period.

6. **Debt:** Non-profits should prioritize financial partners with knowledge of the sector and a higher risk tolerance profile such as credit unions, Community Futures and impact investment funds. Ideally, you can access debt that is flexible and patient. This includes:
   - Long term loans, with flexible terms and low collateral requirements
   - Debt that lets you pay-as-you-grow, such as Revenue-Based Financing (you pay back based on your growth and revenues; focused on shared success, with flexibility in payment)
7. **Earned Income:** If your organization already owns and operates an asset or sells goods and services, you may want to leverage that income or asset as a method of financing the acquisition of another community asset. And if the purchased business has a good profitability profile, you may be able to finance your working capital as you grow with the revenue you generate- limiting the initial capital need to the down payment and upfront investments required for a successful acquisition.
8. **Equity:** If the business that you want to purchase is a for-profit, and will stay a for-profit subsidiary of your organization, you could access equity. Equity is an investment made in return for a portion ownership of the company, and/or repayment based on financial performance.
9. **Crowdfunding/ Community Bonds:** Similar to capital campaigns, community bonds are a public way to raise funds. Your non-profit can issue bonds and sell these to your community in order to raise capital. The bonds have terms regarding repayment. These are complex instruments that require research and investigation, but when done well, can be an alternative way to finance improvements and growth of your acquisition.

Potential sources of funding and financing vary in terms of ease of access and risk to your organization. The appropriate type of financing for an acquisition depends on your organization, the business, the industry, the lifecycle step, and the market context. Most organizations mix models by using a combination of government grants, private donations, earned revenue, vendor financing, and loans to finance and sustain their acquisition.

Accessing Traditional Debt

Debt is the most common way to finance business acquisition. It's important to remember that each lender has its own criteria and loan approval process. They can be time consuming, and buyers often become discouraged through the process. In order to succeed in gaining financing you will need to show lenders:

1. You have the capacity to operate the business successfully.
2. The business can generate enough income to support your needs and repay the loan in a reasonable amount of time.
3. That there is some security in case things go badly so the lender can recoup their money.

This 3rd requirement is often the barrier for non-profits. If you have an asset that can act as collateral, then this will help put lenders at ease. Some lenders might ask Board members to put up collateral- this is not recommended. Be prepared to demonstrate your organization's track record and financial good standing.

Each lender will require you to complete an application form. You won't be able to complete the application without substantial information about the business, so it is helpful to have terms already negotiated and information in hand before getting too involved in the financing process.

A typical transaction for a $250,000 business purchase may look like this: the buyer has $50,000 down payment, the seller agrees to finance $50,000 of the purchase, and a lender agrees to finance $150,000.

It is also important to realize that business financing is more costly and shorter term than home mortgages. The interest rates will be higher than a conventional home mortgage or home equity line of credit, and lenders expect to be paid back sooner than 25 years.

IF you are having difficulty accessing traditional debt, there are other options for accessing financing:

- **Foundations** - community and private foundations may be willing to provide flexible loans, if the purchase aligns to their objectives and goals as well.
- **Family Offices** - high net worth individuals often have offices that help them manage their finances, including their donations and investments. They may be interested in supporting a community acquisition.
- **Community Futures** - non-profit business lender with 34 community run locations in BC. Community Futures offer more flexible lending criteria.
- **Impact investors** - there is a growing number of investors and funds with goals to realize both impact and financial goals. They tend to be more risk-tolerant and provide flexible capital.

Due Diligence

Now that you have an agreement in place it's time to make sure you're comfortable with the sale and the business itself. You'll need access to confidential information and you might not be certain what you should ask for or look at. Here is a simple checklist which might be used for a small business, asset sale, where you feel quite comfortable about how the business works.

Simple Due Diligence Checklist	Received	Reviewed
Financial Information		
Copies of financial statement reports for the current year to date period and at least 3 most recent fiscal years	☐	☐
Detailed asset list (includes serial numbers if applicable)	☐	☐
Tax returns for 3 most recent fiscal years	☐	☐
Customer/Supplier Information		
List of all suppliers with contact details & what they supply to the business	☐	☐
Copies of any contracts with customers, suppliers, leases, etc.	☐	☐
Any customer lists available	☐	☐
Any employee agreements or information	☐	☐
Operational Information		
Copy of all insurance policies and claim experience summary	☐	☐
Any operation manuals or process guides	☐	☐
Additional Information		
Other	☐	☐
Other	☐	☐

Table 13: Simple Due Diligence Checklist

Make sure that the list of assets prepared by the seller details all of the equipment and furniture involved. Find out if any of the equipment is leased. Is any of it still covered by warranties? Will you have exclusive rights to the business name, trading style, logos, or other trademarks?

How much time is left on the lease and will you be able to renew that lease on favorable terms? What about any long-term purchasing arrangements with suppliers, distribution agreements or contracts with employees?

These agreements have a direct bearing on the value of the assets you are buying. Make sure you understand the agreements and what happens to them when the ownership changes.

If you are purchasing the shares of a corporation you also need to pay attention to all of the business' liabilities. That starts with accounts payable to suppliers, but also includes government and employee accounts, and making sure there are no issues with taxes or legal actions.

Available Resources

This step requires the use of multiple professionals to assist you to move through this step successfully. Even experienced entrepreneurs use help to draft letters of intent. It's always better to have another perspective as well as your own involved in this process. Some of the things to consider in your choice of service provider are:

- **Lawyers** - a lawyer is the right choice if you are drafting a definitive legal agreement. However, they may not be the best choice to help you reach a deal. The lawyer's job is to protect their client's interests, not necessarily to make a deal. Negotiating involves give and take, having lawyers on both sides is not always a great way to get to a deal. A lot of back and forth will become very expensive and take a long time. A lawyer or notary will be involved to execute the deal in the end. However, it is usually better to have a documented Letter of Intent before you engage a lawyer.
- **Brokers/Realtors** - if they specialize in business sales, then they will be trained in using their purchase forms to negotiate to a deal that you can then take to your lawyer.
- **Business Advisors** - if they have the right skills and experience, then they may be able to advise you in documentation and negotiation ideas
- **Venture Connect** may act in a mediation role, answering questions, making suggestions and discussing options with both buyer and seller in assisting them to come to an agreement that both parties are comfortable with.

Costs can range from $500 up to $5,000 or more for purchase documentation. Moving through the Letter of Intent first to have the details in place, prior to engaging your lawyer, will save you time and money in getting to your goal of becoming a business owner.

STEP-5: LAUNCH

Now you've completed your sale and you're ready to take over the business, congratulations! You are going to transition and launch this enterprise as your own.

Your organization can prepare for a smooth transition by:

- Transitioning skills and capacity
- Anticipating and managing resulting change to staff and culture
- Setting up systems for oversight
- Planning your first year of financial management

Management Transition

A resource that can be of tremendous assistance to you in this step is the knowledge and experience of the seller. Transition support from the previous owner can save you a lot of time and headaches, and it's affordable! Help transfer the business operations by structuring the deal to include a management contract with former owner or key staff. This is even more relevant where the current owner holds most of the goodwill or brand of the business -- gradual transition will help to transition the community goodwill as well.

That said, do not underestimate the time that is required to ensure the proper training and support needed to take over management of business.

It is recommended that, unless your organization already operates a similar business, that the owner or key staff stay on board for a successful transition.

Here is a checklist on key transition considerations.

Assess your organization by assigning 1-3 (1=Weak, 3=Strong)

Considerations	1-3
Does your organization have experience in the sector OR is the previous owner or key staff staying on board through a management contract?	
Does this contract come with terms that ensure a viable capacity transfer to the organization?	
Does your management team have the skills and capacity to oversee the acquired business once the acquisition is performed?	
Are you planning to associate key persons in your team to plan the integration in terms of human resources, branding, financials, etc...?	
Have you thought about important bylaws you wish to implement to regulate the future relationships between your organization and the acquired business? (admin, financial transfers, reporting...)	

Table 14: Transition Checklist

TEMPERATURE CHECK

Very limited staff capacity and/or key skills missing at board/management levels

To move up: if an acquisition is contemplated, explore options to secure the right skillset at board/management/operations levels

Team is missing some key skills

To move up: identify missing skills and evaluate if the expertise can be secured by hiring or outsourcing

Full range of required skills, with a qualified dedicated team

You are acquisition-ready!

Next steps: define clear roles & timeline

Buyers usually will ask for a minimum of 1 month of the seller working in the business full time following the closing date. In longer transition periods there generally are phases where the level of support diminishes. For example, the seller may work full time for 3 weeks, then ½ time for another 3 weeks, then come in once a month for another 3 months, or simply be available by phone or email to answer questions. There may be other situations where the seller agrees to continue to work, on a contract basis, for the buyer; this may go on for a year or more. In those cases it needs to be defined when the "included in purchase price" transition assistance ends, and the paid support begins. As well as the payment terms and type of work they would be providing. Be sure to include an 'escape clause' if you want to exit the management arrangement earlier than planned.

The following grid offers additional ways buyers might decide to take advantage of the seller's experience in the business.

Type of Business	Support	Time Frame
Service	Customer relations/proposals	Up to a year
Restaurant/Food	Recipes, preparation training	3 months
Retail	Buying cycles/orders/trips	Up to a year
Construction	Customer commitments	Up to a year
Manufacturing	Production advice	Up to a year
Tourism	Tour guide/consultant	Year or more
Repair	Guidance on specialized projects	Year or more

Table 15: Examples of Sellers Support

Don't underestimate the value that this assistance can provide, and even if you get along with the seller you need to make sure that the transition support is spelled out and agreed on the letter of intent.

Change Management

Overseeing the newly purchased business, with close supervision, in the early days past the acquisition step is critical. Change is difficult, and a business acquisition means change to both the parent organization and the acquired business. A business acquisition brings a certain level of stress on existing staff and require skills in change management.

Organizational (non-profit) staff may have questions about what this means for their jobs, organizational reputation, and what the community will think. It is important to communicate early and openly, leading with the 'why' this decision was made, 'how' it will help advance the mission and mandate of the non-profit, and 'what' the operational relationship to the non-profit will be. Connect to your organization's strategic plan and direction - why this acquisition aligns with your overarching goals. Be honest about any conflict or extra requirements this will place on existing staff, and provide them with clear communications so they can answer questions to the general public if asked.

Be clear with the **acquired business staff** about the impact the acquisition will have on their jobs, and how being a part of your organization helps bring a different purpose to their work. Provide them with clear communication and public talking points so they can become ambassadors for your non-profit.

Here are some tips to manage the change process:

- Foster good communication with staff and plan regular meetings to monitor workload management and discuss main challenges.
- Communicate openly and frequently and allow for time for adjustment.
- Avoid micromanagement and make sure the employees with skills and sector knowledge have freedom and space to run the business.

Sometimes, business acquisition can touch upon perceptions of what the role of non-profits should be, and questions of whether non-profits are competing with private businesses. Be clear as to the value this provides back to community and designate one person to be the community spokesperson.

Systems for Oversight

Whether you own the enterprise as a subsidy, or have absorbed it into your organization, you will need to set up systems to oversee and manage the operation. There are many systems that your non-profit may already have that could also serve the enterprise - such as bookkeeping, payroll, human resources, and marketing. One of the benefits your organization provides is professional management (because you already operate an organization) and there can be cost savings for both entities through economies of scale. The key is to set up your shared systems with some separation - this helps you see the complete operations of the enterprise. In addition to being able to have the business compensate the non-profit for administrative services (and visa versa).

Here are other best practices for effective oversight and management:

1. Attract and retain capable enterprise management (ideally, with a sense of ownership).
2. Align the interests of management through fair compensation.
3. Focus on revenue growth up to the limits of the physical space or systems.
4. Both management and your organization understand and agree on operating ratios targets.
5. You hold the management accountable only for operating ratios under management's control.
6. You provide regular feedback on operational performance.
7. Your organization and business management meet regularly, and undertake corrective action as required.

"Starting a business for a charity like Fernwood NRG would have been seen as really risky, as opposed to finding a business that already exists in our neighborhood, is already successful and is already operating in our own space- and then just offering to purchase it. If you can have a company with significant revenue, have an in-house manager and everybody is competent and does their job it can actually make a profit which can support your charity. And it helped strengthen the neighborhood economy, which was an important goal of our mandate." **Lee Herrin, former ED Fernwood NRG**

Cash Flow

Non-profit revenues tend to come in in big chunks - as a result of grants, donation campaigns, and contracts. This can be fairly steady income that you can plan a year or more ahead. Businesses live on a much tighter cycle - daily, weekly and monthly cash in, and cash out. Cash flow represents the lifeblood of any business. But it is not the same as profit. Profitable companies can go out of business because they run out of cash due to negligence or inattentiveness on the part of the owner.

Your first year of business will be learning about how the cash flows. Manage your cash well, or be prepared for a bitter fate. If a business fails, most likely cash flow challenges will be the reason.

If you're buying a seasonal business, the temptation often is to take over in slow season, it's easier to learn the business and the seller will want this, but it creates a cash flow problem. Look for a compromise, perhaps train at the start of shoulder season instead so you're not taking over right when sales go down.

"Fernwood NRG had no desire or interest to operate a hair salon or a yoga studio on a day to day basis. We required floor management and / or in house leadership of operations. What we provide is general management services so we are dealing with all the suppliers, paying bills... The floor manager may have to take the money to the bank and deposit it as if they were an owner, they may have to submit reconciliation up to the ownership but they don't have to worry – apart from having to meet targets around expenses and hopefully around revenue growth". **– Lee Herrin, former ED Fernwood NRG**

Strategies to improve cash flow:

1. Collect your accounts receivable on time. Keep track and don't let clients take a long time to pay you, even if they are important clients.
2. Keep your inventory at a manageable level for your cash flow. Don't buy too much too soon.
3. Check your cash at least once a month.
4. Make sure you either have a cash flow tracking spreadsheet or use an accountant who can do this for you.
5. Have some cash set aside or additional line of credit.
6. Maintain a good relationship with your business lender in case you suddenly need a little extra.

As a buyer what you are really purchasing is the future cash flow of the business. The recent history shows you what the business is currently producing, but as a new owner you may have ideas to increase the revenue and profit of the business. Most owners come into a business full of new ideas and thoughts, which is great, but it can lead to trying to do too much too soon, with negative results. As a new owner the best way to succeed is to focus on the 1 or 2 best ideas for growth for your business and save the rest for later. A good way to look at your opportunities is to think short term / low cost, and longer term / higher cost or effort.

As most business sellers are retirement age, usually the easiest and quickest way to give your new business a boost is to focus on technology. Internet presence and social media use are often greatly under utilized and present an excellent opportunity for a low cost short term boost in interest in the business. Older owners often don't want to work long hours so extending business hours to some degree can also boost results without doing anything dramatic.

STEP-6: SUSTAIN

Sustaining and Growing Your Social Enterprise

After you've addressed the quick short-term stuff, it's time to really get serious about expanding your business. Long term business owners have often reached a point where they offer what is easiest for them to provide, without much concern for market factors. As a new owner it's important to analyze the needs and market opportunities in your community and area and tweak or add products and services that are in demand. This is true for all types of businesses, some examples might be:

Industry	Product/Service	Growth Potential
Food Service	Restaurant	Theme nights, catering, occasional live events
Food Processing	Limited Product Line	Offer processing for other local producers
Retail	Bed & Bath store	Add kitchen items (not available locally)
Boat Tours	Fishing or Wildlife tours	Add water taxi service or dining cruises
Manufacturing	Wood product	Create products from reclaimed or unused material
Landscape	Garden Maintenance	Snow removal, garden landscaping

Table 16: Business Expansion Examples

Some expansion will require additional investment, a landscaping company adding snow removal services will need new equipment for example. If you are able to budget additional investment funds in your original purchase (leaving some operating capital available for expansion) that is extremely helpful. If that's not possible, you still could find expansion funding from a variety of local agencies once you've demonstrated that you are running your new business capably. It just may take a bit of time to show the business has continued to prosper under your ownership to build confidence in lending partners.

STEP 6

"Staff who are staying will want to know, who are the new owners, and are they nice? When the time is appropriate, meet with the staff. They [the staff] actually love our ideas. That's why we were able to get products online in a month [of purchasing the business]. They were excited to do it and they didn't have the capacity beforehand." **– Lori Camire, ED CFAC**

Looking beyond your immediate community, and focusing on markets further afield, can provide significant growth potential for the right type of business. As a social enterprise, you will want to take into consideration how business growth helps achieve both mission, and revenue goals. Growth can place the business needs ahead of mission goals. This may be OK in the short term - but be careful to note if and when mission drift becomes a challenge, and have a plan to keep the business serving your mission.

As a new owner you need to figure out a plan before moving ahead; so that you've thought of everything you can. Local resources are available to assist you with planning, and in the right circumstances, expansion financing may need to be accessed.

Growth can be hard on cash flow. If you are growing you can run out of cash even if you are running a profitable business. Waiting for people to pay you, paying for marketing, additional equipment, inventory, and employee wages all put a strain on the cash reserves in your business. Often the faster you grow the more you can put a dent in your cash flow.

Ultimately your acquisition is an opportunity to deepen values alignment with the acquired business, and increase social impact. As you become more familiar with the business, you can consider values, alignment shifts such as living wage, sustainable suppliers, and achieving inclusive and diverse employment outcomes. You can also start integrating donation campaigns and customer engagement that raise awareness of your non-profit = win-win!

Key Impact Considerations

There are three key steps to transitioning your business into a social enterprise with a focus on values and goals alignment.

The first step is to review and consider the impact of your business' activities on key stakeholder groups. This requires you to revisit the assessment criteria you established in the search phase, and deepen your understanding of the impacts - both positive and negative - your business has on its employees, customers, the local community, and other stakeholders. Some guiding questions are provided in the table below.

The next step is to assess opportunities for making improvements to your business that align with your impact goals. It is important that these decisions are guided by reference; not only to your social impact goals, but also to the impact these changes would have on your business' financial sustainability. For example, paying your employees a living wage will not always be feasible, and depends on the industry in which your business operates. In other cases, introducing improvements designed to enhance your business' social impact will also strengthen the financial sustainability of your business by reducing risks or harnessing synergies. Some guiding principles are provided below.

The third step is to take action to transition your business. This should be done once you have a clear picture of the opportunities and risks of transitioning your business toward greater impact, and includes a solid understanding of how these changes will impact your operations. For example, making changes to your supply chain is not always advisable if doing so could cause major disruptions to your supply chain, or significantly increase your costs. The table below provides some suggestions for the types of actions you could consider as you transform your business for impact.

Stakeholder group	Questions to ask	Actions to consider
Employees	Are your employees compensated fairly? Does your business offer opportunities for employee growth and advancement? Does your business have proper health and safety protections for its employees? Does your business have an Equity, Diversity, and Inclusion for employees (EDI)?	Adopt a living or fair wage (if it makes sense in the sector your business operates) Review benefits for employees Consider mentorship and training opportunities for your staff Audit current health and safety practices (e.g.,) and update policies Adopt an Equity, Diversity, and Inclusion policy for your employment practices.
Suppliers	What is the current impact of your business' supply chain on society and the environment? Are there opportunities for supporting local business, introducing more environmentally responsible and ethical suppliers?	Complete a supply chain sustainability audit to identify risks and opportunities Adopt a sustainable and social procurement policy Identify opportunities for integrating more local business into your supply chain.
Community	How does the business currently serve your community? Who does it serve? Who doesn't it serve? Are there opportunities for enhancing the opportunities for serving the community through your business (e.g., hiring persons facing barriers to employment, strengthening the local economy)?	Adopt an EDI policy for your business Hire people facing barriers to employment in your community Offer new products or services that address underserved needs in your community
Customers	What relationship does your business have with its customers? Are there opportunities for deepening your engagement with customers?	Engage with customers to educate them about your nonprofit's social mission Provide opportunities for customers to support your non-profit activities
Non-profit clients	What are the current synergies between your non-profit clients or constituents and business?	Assess opportunities for using your business to better serve your non-profit clients (e.g., hiring from this population, create internship opportunities for youth)

Table 17: Business Activities Impacts on Stakeholders

Next Steps

This workbook is a living breathing document that will be updated to reflect lessons learned as more non profits acquire existing businesses and transition them to social enterprise. There are several resources that can assist you in this journey:

venture connect	Community Futures British Columbia	SCALE COLLABORATIVE
ventureconnect.ca	communityfutures.ca	www.scalecollaborative.ca
1-778-421-0082	1-888-303-2232	778-679-4920
info@ventureconnect.ca	info@communityfutures.ca	kfmader@scalecollaborative.ca
Providing:	**Providing**:	**Providing**:
Business services for business sellers and buyers.	Small Business Loans, Training & Coaching	Capacity building and coaching for non profits and charities.

About Venture Connect

Venture Connect is a subsidiary of 6 Island Coastal Community Futures offices and a working partner with the remaining Community Futures offices throughout BC. With priority on rural BC, the subsidiary's focus is business retention in BC during unprecedented demographic shifting and business transitions.

With economic development as our foundation, Venture Connect occupies a very unique space within the business buy and sell marketplace. We recognize the importance of local knowledge and experience and utilize our collaborative relationships with Community Futures, Economic Development Agencies, Immigration Consultants, Real Estate Agents, Brokers and Government to achieve mutual goals.

We assist:

- Business owners to prepare for the sale of their business and understand their position in the buy/sell marketplace
- Business buyers, both local and foreign, to identify and acquire appropriate businesses
- Listing agents, business sellers and economic development agencies to expose their opportunities and connect them with buyers
- Economic development agencies and government by gathering and analyzing data and providing trends in the rural business landscape

About Community Futures

Community Futures is the only organization throughout rural BC with a mandate for small business and community economic development. Our experts offer local assistance from 34 offices throughout rural BC. Community Futures offers a variety of services and tools to help entrepreneurs and small business owners achieve their goals, including business support services, business planning advice, loans and self employment assistance.

Community Futures provides financing alternatives to small and medium enterprises when access to credit is a challenge to starting or growing their business. Different than a bank, Community Futures uses different lending criteria, focusing on rural development and providing business financing to small local businesses. We also work in partnership with other business lenders, educational institutions, not-for-profits and community governments to grow and diversify the local economy.

We would like to recognize the advisory support and guidance from the following Community Futures:

- Community Futures Alberni Clayoquot
- Community Futures Cariboo Chilcotin
- Community Futures Central Island
- Community Futures Cowichan

About Scale Collaborative

Scale Collaborative's mission is to create a thriving, connected, and financially resilient social change sector on Vancouver Island and beyond. Founded in 2014, Scale Collaborative explores how non-profits could become more independent, resilient and impactful. Financial independence and diversification are key to resilient organizations that are then able scale innovation and increase their impact.

Since their inception, Scale has worked with hundreds of organizations and have convened initiatives such as Social Enterprise Catalyst (partners), Coastal Communities Social Procurement Initiative (members), Thriving Non Profits (alumni) and BC Social Procurement Initiative. In response to COVID-19 and in partnership with community allies, Scale supported 50+ non-profits and charities through 'Survive & Recover' with a focus on financial resilience. Scale manages theDock - Centre for Social Impact, a community space for social entrepreneurship, coworking and community gathering, innovative programs and events. In June 2021, Scale launched Thrive Impact Fund, a place based fund to invest in impact organizations, by providing flexible and patient loans.

Project Funders

The Business Legacies Toolkit was supported in part by funding from the Social Sciences and Humanities Research Council.

Conseil de recherches en sciences humaines du Canada

Social Sciences and Humanities Research Council of Canada

Canada

Project Advisory Group

This workbook has been adapted from Venture Connect's 'Pathway to a Successful Business Purchase' by Scale Collaborative and Royal Roads University.

We would like to acknowledge the support of the Business Legacies Advisory Committee:

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