

GUIDE FOR  
THE BUYER

BUSINESS TRANSFER

Desjardins & Co.



**Desjardins**

Cooperating in building the future



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## BUSINESS TRANSFER APPROACH

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# DESJARDINS BUSINESS TRANSFER APPROACH

## How can the Desjardins business transfer approach help me?

- Because transferring or setting-up a business is a complex and painstaking process that you will most likely experience only once in your lifetime. Therefore, your room for error is more limited. Using this approach will reduce the risk and give you comfort to bring this process to its successful completion.
- Because, without support, you are putting your financial security, your family estate and your future business at risk. By using the Desjardins business transfer approach, which gives you access to all of our services, you'll be able to get the help and advice you need, improve your business transfer knowledge and know-how, and ensure your transfer is successful.
- Because the successful transfer of your business needs to be thought out carefully. This will enable you to clarify your vision, motivations, intentions and needs. Once clarified, these elements will be incorporated into a property transfer plan, a management transfer plan, and an appropriate and sustainable strategic plan. As a part of our business transfer approach, guided exercises will support your actions throughout the transfer process.
- Transferring a business can take two to five years or more; therefore, it is key that you follow a structured approach with clear and realistic timelines, so as not to lose sight of the goal. Desjardins' business transfer approach enables the owner and his successor to keep an eye on the goal while accounting for unforeseen events. This structured approach ensures greater security for the business owner, his family members and the successor(s).

In closing, did you know that too often:

- the vast majority of transfers take place without a plan;
- the business has very little equity, since the financing of the transfer was poorly planned;
- conflicts break out between shareholders, family members or key employees, since there is no effective communication process in place;
- one or more key employees quit the business because they feel excluded from the process or because they were given misinformation (e.g. possible closure of the business).

To avoid these problems and protect your assets, use the Desjardins business transfer approach to ensure your transfer is completely successful.

## How does the Desjardins business transfer approach work?

The Desjardins business transfer approach is a reflection guide, decision-making guide and support tool for required actions. It can be consulted at any time. You will find it helpful, right from the moment you begin thinking about the transfer of your business. You can also share this guide with your family members, so that they can better understand what exactly a business transfer entails.

To get even more out of this guide, take a look at the diagram on the next page, which illustrates the seven steps of our business transfer approach, more specifically, all the steps involved in the transfer process.

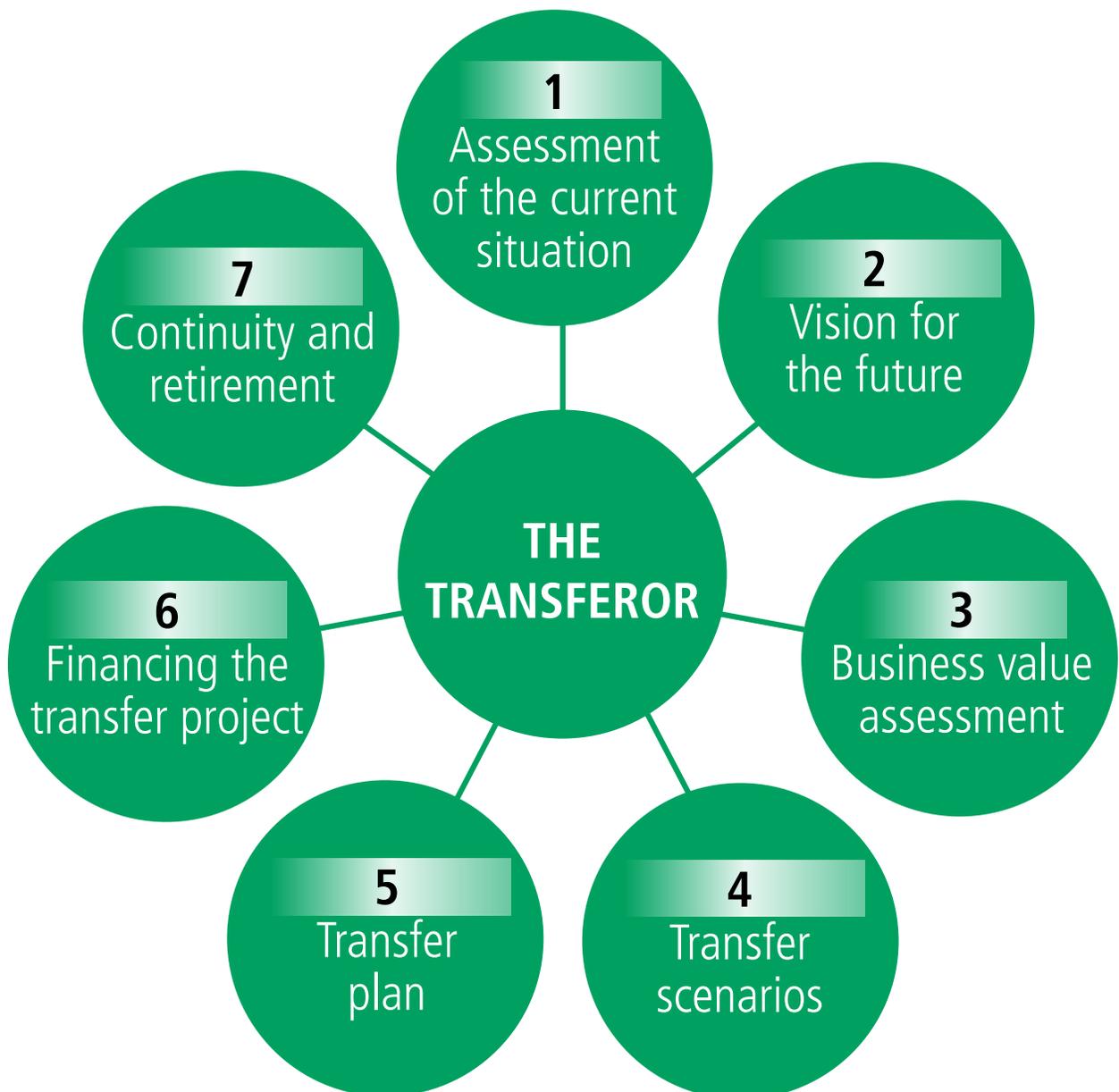
Then, we suggest you read the descriptions of each step so as to gain an overall perspective of the program. We also recommend you write your questions down, and don't hesitate to ask our advisors who will guide you through the process. This will enable you to increase your general business transfer knowledge. For the first reading, we recommend that you skip over the prescribed exercises, which will be covered later.

Once you have an overview and your questions have been answered, you can start reviewing each of the steps and doing the reflection exercises, in chronological order. Each exercise is followed by its clarifying objectives, including instructions on how to complete it. Additional instructions may be provided during an exercise. Feel free to consult your Desjardins advisor at any time.

Finally, once you have become familiar with the contents of this guide, you can use it as needed, to help clarify some of the situations you may encounter during the transfer process.

## THE DESJARDINS BUSINESS TRANSFER APPROACH

A systemic vision and closely related steps



## 1. ASSESSMENT OF THE CURRENT SITUATION

The **Assessment of the current situation** positions the entrepreneur in relation to the various steps in the transfer process.

### **The purposes are to:**

- provide you with an accurate vision of the factors to consider to ensure the success of your transfer;
- inform you of the steps and actions involved in the transfer process;
- provide you with a sense of security and stability during the implementation of your transfer project;
- guide you in making key decisions throughout the course of the transfer project;
- help you determine the next steps in the transfer project.

### **Weighting of the assessment:**

- Personal profile
- Economic profile
- Family profile
- Socioeconomic profile

## 2. VISION FOR THE FUTURE

A vision gives a person or business a purpose (*a raison d'être*) and a will to learn. At this step, you can renew your personal and professional *raison d'être* and clearly identify your needs. This will help clarify your vision and define how you envision your business transfer. You can share it with your family members, and, as such, avoid conflicts or misunderstandings and alleviate any insecurities.

### **The objectives are to:**

- start your reflection in view of preparing the transfer;
- clarify your expectations to avoid disappointments, misunderstandings and conflicts;
- define your personal goals and take measures to meet them;
- define your business goals.

### 3. BUSINESS VALUE ASSESSMENT

Small- and medium-business owners usually have a fairly good idea of the value of their business. However, in the context of a business transfer process, it is essential that this value be supported by an independent validation of the market value of the business. This validation will help readjust expectations and prevent conflicts, particularly in the case of a transfer to family members.

Determining the fair market value of a business requires the skills of a business valuation expert. Valuing a business is not an exact science, and there is no standard formula. Each business is unique.

Engaging the services of a business valuation expert will enable you to establish a realistic selling price.

### 4. TRANSFER SCENARIOS

Given the broad range of business transfer scenarios, this section provides only a brief overview. As it would be difficult to cover every angle of each transfer scenario, we suggest that you ask a business transfer consultant to help you choose the most appropriate scenario.

Each scenario has different issues to be evaluated, and many are similar in terms of the required actions and factors to be considered.

The most common transfer scenarios include:

- transferring to a family member;
- selling to management or to employees;
- selling to a third party;
- selling to a business partner;
- gradually winding down business operations.

## 5. TRANSFER PLAN

The Desjardins business transfer plan is a specialized tool designed to simplify the transfer process and to create winning conditions for your success in this most probable once-in-a-lifetime experience. It is a plan based on open discussions with your family members, discussions with experts, and on the overall support provided by our advisors.

### **The purposes of the Desjardins transfer plan are to:**

- ensure the staff have a common vision;
- maximize the value of your business;
- minimize your tax implications;
- clarify the legal and succession-related aspects inherent to the transfer;
- expand your credit facilities and sources of financing;
- maintain harmony within the family;
- reassure all stakeholders in the business;
- define the distribution and use of financial, physical and human resources according to the set objectives.

## 6. FINANCING THE TRANSFER

The financing set-up for a transfer differs from one business to another. Contrary to popular belief, there is no universal financial product for business transfers. Accordingly, Desjardins offers advantageous consulting services for the financing of your business transfer, at very low rates. Our advisors will assess your financial and business needs, and propose appropriate financing strategies and financial products.

## 7. CONTINUITY AND RETIREMENT

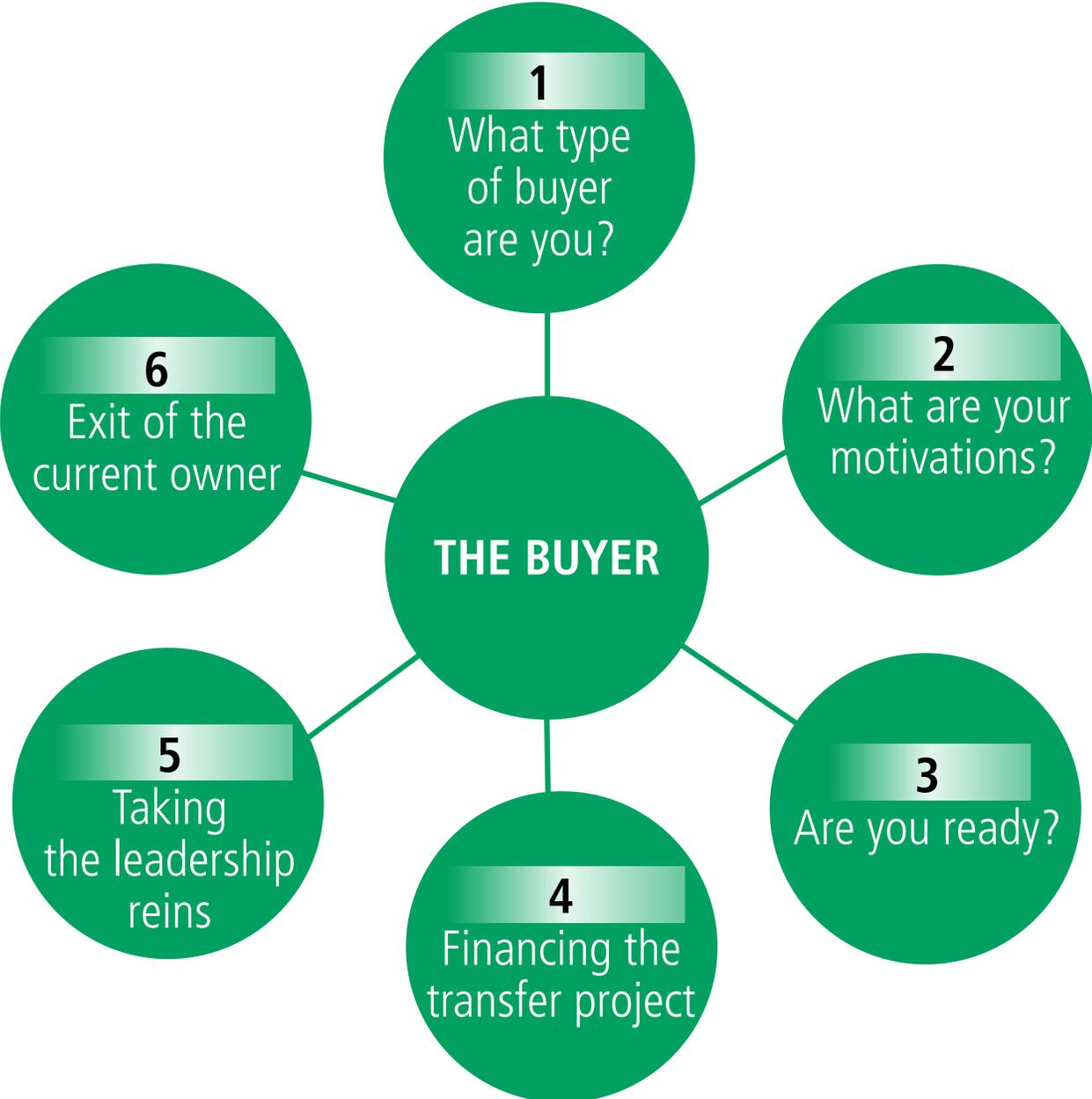
A business continuity action plan must be planned and implemented, under the following guidelines:

- clearly identify the business needs;
- set the business priorities, in order to meet its diverse needs and requirements;
- take the appropriate action (based on priorities);
- have a good understanding of the market;
- surround yourself with a strong team and stay positive;
- promote employee development and involvement in decisions and future direction;
- ensure cost control is fair and appropriate;
- surround yourself with a team of competent and trustworthy advisors.

Below is an adapted version of our business transfer approach designed to help you effectively apply each step, while taking into consideration the reality of individual buyers. This will ensure you are fully prepared to undertake your transfer project.

DESJARDINS BUSINESS TRANSFER APPROACH ADAPTED FOR THE BUYER

Preparation is the key to success.





WHAT TYPE OF BUYER  
ARE YOU?

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# 1 WHAT TYPE OF BUYER ARE YOU?

## The objectives

To draw this portrait, we suggest that you fill out the questionnaire below. Knowing what type of buyer you are will allow us to effectively guide you through the acquisition process.

## Tools:

Checkmark next to each statement that best represents you or your situation:

### 1. Family-member - as successor

- I've just started working in the family business and am learning the ins and outs of its operations. I would like to eventually take over the business.
- I've been working in the family business for several years; I know how it works and would like to eventually take over the reins.

### 2. Manager who works in the business - as successor

- I've been with the business for several years. Nobody close to the owner appears interested in taking over the business. I've thought about it, and I'm the only one considering the possibility.
- I've been with the business for several years. Nobody close to the owner appears interested in taking over the business. I've thought about and discussed the idea with the other managers, who are also interested in taking over the business.

### 3. Manager who works in the business and family member(s) - as successor

- I and one or more family members have been employees for some time and would like to take over the business.
- We (the managers) and a family member have been employees for some time and would like to take over the business.
- We (the managers) and several family members have been employees for some time and would like to take over the business.

### 4. Entrepreneurial-type individual who wants to acquire an SME

- I want to acquire and manage my own business. I want to be in business for myself.
- We want to acquire and manage our own business. We want to be in business for ourselves.





## WHAT ARE YOUR MOTIVATIONS?

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## 2 WHAT ARE YOUR MOTIVATIONS?

The first step in a business transfer is to identify and examine the motivations of both the transferor(s) and the successor(s).

### The objectives:

Motivation is what gets us started, what keeps us moving forward during difficult times, what fuels our creativity and what drives our desire to learn and grow.

### Tools:

To help us understand your motivations and provide you with effective guidance, circle the statements below that best describe your reasons for wanting to acquire a business:

1. I want to continue the legacy started by my father, my mother, my relatives, my business partners.
2. I want to be my own boss.
3. I want to achieve my full potential.
4. I don't want to disappoint the family.
5. I want recognition from the people around me.
6. I've always wanted to own a business.
7. I like to be in charge and decide what needs to get done.
8. I want to create my own work team, because I believe in the importance of a management team.
9. I don't have a job so it's a good way for me to be employed.
10. I'm a risk taker.
11. I want to make money and I know I'll work hard.
12. I like challenges.
13. Buying a business is a way to leave a valuable legacy to my children.
14. I want to develop and grow the business in which I'm involved.
15. I want to contribute to economic development in my region.
16. I'm dynamic, determined and full of energy. I may as well build something for myself.
17. I have money that I'd like to invest in an SME.
18. I want to make money without working hard.
19. I'm willing to make sacrifices to succeed in business and work for myself.
20. I want to innovate, create and build something new.
21. Other motivations : \_\_\_\_\_

## Interpretation of the results:

### **A. You are highly motivated to become a business owner.**

If your score is between 16 and 20 points, there is a good chance that your internal motivations (nos. 1, 2, 3, 6, 7, 8, 10, 11, 12, 13, 14, 15, 16 and 19) and external motivations (nos. 4, 5, 9, 17, 18 and 20) will reinforce your determination to achieve your goal of becoming an entrepreneur.

The challenge will be to maintain your motivation throughout your career as an entrepreneur, if that's the path you choose to take. Being an entrepreneur is not necessarily difficult, but it can sometimes leave little time for other activities. You must be a risk-taker, be physically healthy and have a vision for business growth. You need to surround yourself with the right people and ensure you have unconditional support from family members.

If your motivation is to make loads of money quickly and with minimum effort, we suggest that you reassess your motives. The popular belief that entrepreneurs earn a lot of money without working hard is often a skewed perception of reality; most entrepreneurs work long hours and make great sacrifices to achieve their goals.

### **B. You are somewhat motivated to become a business owner.**

If your score is between 10 and 15 points, you need to find a way to boost your motivation. Sustained motivation is crucial to the success of your transfer and to overcoming the obstacles that will inevitably be encountered.

To determine whether you have the motivation required to become an entrepreneur, you must have circled the following points: nos. 2, 3, 6, 7, 8, 10, 11, 12, 14, 15, 16 and 19. These elements (more intrinsic in nature) are indicators of your potential success as an entrepreneur.

In general, when confronted with difficulties or major challenges, a somewhat motivated person will lose enthusiasm and drive. A business with no leadership or direction will have difficulty reaching its full potential.

You are responsible for your own actions and personal motivation. To help keep you focused and motivated, consider using the services of a coach, who will help raise your self-awareness, or a mentor, who fully understands the importance of and knows how to build motivation.

### **C. You are not very motivated to become a business owner.**

If you circled less than 10 points, your motivation to become a business owner is low, we suggest you continue your reflection without necessarily abandoning the idea. Stay open to learning, but make sure you grasp, understand and feel what really motivates you in life. Remember that whatever you choose to pursue, you will always be a winner.



ARE YOU READY?

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### 3 ARE YOU READY?

Once you have identified what type of buyer you are and why you want to be a business owner, it is important to determine just how prepared you are to move forward. Your level of preparedness will be affected by your profile as a buyer.

We suggest that you begin by analyzing your thoughts and assessing how much progress had been made on the project.

To do so, we suggest that you fill out the *My assets assessment* questionnaire

#### **Four key factors to ensure maximum preparedness:**

- **Knowledge** of the transferor's vision, intentions, expectations and needs, as well as your knowledge of the business and how it operates, its strengths and weaknesses, and its financial position.
- **Skills** at the technical, managerial, leadership, business management and governance levels.
- **Acquisition process and distribution of roles, responsibilities and powers.**
- **Financial set-up** of the transfer.

Below is a list of factors that will serve as a guide and a self-reflection tool.

#### KNOWLEDGE

##### **The purposes at this step are to:**

- understand the owner's intentions, expectations, needs and vision with respect to property transfers, the transfer of power and knowledge, and the future growth of the business;
- understand the points of view and opinions of the other family members, if applicable;
- clarify your intentions, expectations, needs and vision for the future growth of the business;
- make a list of what you know about the business;
- determine what you need to learn about the business.

##### **Basic questions you must ask yourself and that will significantly impact what happens next:**

- What are the owners' intentions, needs and expectations?
- Why do they want to transfer their business?
- To whom do they want to transfer it?
- How do they want to do it?
- When do they want to do it?
- What role do they want to play in the business following the transfer?
- How do they envision the future growth of the business?
- What retirement projects do they have planned?

We now suggest that you fill out the *Successor - Acquisition of key knowledge* tool.

To quickly gain in-depth knowledge of the business, it is important to examine the strategic plan—the roadmap for ensuring that the business continues to grow. It is an essential work tool for owner-transferors, successor(s), consultants and financial advisors.

**A simplified strategic development plan normally includes the following items and covers a three-year period:**

- vision of the business (future of the business);
- mission of the business (define its socioeconomic *raison d'être*);
- values of the business (determine the behaviours required to achieve the vision);
- a description of the roles and responsibilities of key employees;
- an analysis of products, services, clients, suppliers, etc.;
- an analysis of the business's strengths and weaknesses;
- an analysis of its market, trends, threats and opportunities;
- a reflection on its current and future needs (labour force, finances, equipment, etc.).

Finally, the plan must include a timeline for the actions proposed in relation to the components of the plan.

We've prepared an outline of what the strategic business plan should include. The development of a strategic plan by the owners and buyers would serve as an excellent blue-print for a successful transfer of knowledge.

We now suggest that you fill out the *Strategic business development* tool.

Depending on how well your transfer project is progressing, you will eventually need to complete or update (if it already exists) the strategic plan.

## SKILLS

### **The purposes at this step are to:**

- identify the skills needed to run your existing business;
- determine what skills you need to acquire;
- develop an action plan to acquire these skills.

Given the importance of acquiring the technical, administrative, managerial and personal skills and abilities needed to be an effective business owner and manager, you must complete a skills assessment.

If possible, you should also consider completing certain psychometric tests that would help you identify and assess your leadership style, level of entrepreneurship, relational skills and psychological profile. These tests must be developed and administered by professionals.

### **You can acquire the necessary knowledge and skills:**

- with the help of the owner, who assumes the role of coach;
- from an in-house mentor designated to support you;
- by taking technical training courses specific to the activity sector;
- with the support of a management consultant specializing in business transfers;
- through conferences, seminars, conventions and specialized publications
- with support from Emploi-Québec, which promotes workforce training and which can cover certain parts of the fees.

To learn more about the key skills and abilities needed to succeed, simply read and fill out the *Key successor skills and abilities* tool.

### **This tool will help you:**

- identify the skills you need to one day run the business;
- draw up a list of skills to acquire;
- develop an action plan to acquire these skills;
- secure the necessary support at this stage of the business transfer.

## ACQUISITION PROCESS AND DISTRIBUTION OF ROLES, RESPONSIBILITIES AND POWERS

### **The purposes at this step are to:**

- determine (if possible) the retirement date of the current owner;
- clarify your role and responsibilities in the business (present and future);
- identify each employee's duties and responsibilities;
- determine what type of power you want management to have.

You must now determine what your role will be once the transaction is completed. If you are not an actual employee, you must develop a business integration plan in cooperation with the managers. At this stage, you should know what each employee's duties and responsibilities are.

### **The required actions to create the plan for the transfer of powers and knowledge mainly include:**

- taking an inventory of the powers to be transferred;
- taking an inventory of the strategic knowledge;
- reviewing the organizational structure;
- distributing the roles and responsibilities within the new structure;
- choosing strategies and activities associated with the transfer of knowledge and powers;
- establishing a timeline for the transfer;
- deciding when progress will be measured.

### **You will also need to answer the following questions:**

- What is the current portrait?
- What are its strengths and weaknesses?
- What are your thoughts on it?

We now suggest that you fill out the *Distribution of roles, responsibilities and powers* tool.

### **This plan will help you to:**

- determine your role in the business once the transaction is completed;
- identify each employee's duties and responsibilities.

## FINANCIAL SET-UP OF THE TRANSFER

### **The purposes at this step are to:**

- outline the personal financial risks of the transaction;
- clarify the risk-sharing structure, if applicable;
- examine the business's finances;
- determine the type of financing set-up required to conclude the transaction.

Have you thought about how to finance your transfer project? The questions below will help put you on the right track toward fully understanding this key issue:

- How much is the business worth?
- How much am I willing to pay?
- What is my financial situation?
- Will I be the sole buyer?
- If I buy the business with other partners, how much do each of us pay?
- Is the current owner willing to finance part of the transfer? In what way?
- If applicable, how will the shares be divided?
- What types of financing are available to me?
- What would be a fair and appropriate financing package?

Your advisors (accountant, tax specialist), accounts manager and financial planner will help you to quantify and assess the financial risks of the transaction and to create a financing package that meets your needs and expectations.

### **Conclusion**

You have now completed this step. For a brief overview, we suggest that you fill out the *Summary* tool.

# My assets assessment tool

The **My assets assessment** tool is a series of statements covering all activities involved in a business transfer project .

## The purposes of this tool are to:

- make you aware of the various factors you must consider during a business transfer;
- help you identify your main concerns regarding the transfer;
- help you assess your preparedness for the acquisition;
- enable you to make a list of key steps, decisions and actions to take during the process;
- encourage you to plan this important step.

## Instructions:

1. Read each of the following statements, and carefully consider your current situation. Write down your concerns.
2. Add the total number of Yes's and No's. Enter the results in the Overview of my assessment section. Calculate the difference between the two results. This difference is simply an indicator to help you understand your current situation with respect to your business transfer.
3. Taking into account your assets, assess your level of preparedness (low, average, high) in the section My preparedness for and understanding of the transfer process.
4. After completing the exercise, examine your results and fill out the section What are my three main concerns?
5. Finally, fill in the table entitled Action plan to reduce/eliminate my concerns, and use the plan to guide you in the process, being sure to stay on schedule.

You can share the results of this exercise with the transferors.

## My assets assessment

FACTORS AND ACTIVITIES INVOLVED IN A BUSINESS TRANSFER	YES	NO
1. I've prepared an acquisition plan (transfer).	<input type="checkbox"/>	<input type="checkbox"/>
2. I am aware of the importance of properly planning the entire transfer process.	<input type="checkbox"/>	<input type="checkbox"/>
3. I am familiar with all the components of a transfer plan.	<input type="checkbox"/>	<input type="checkbox"/>
4. I take part in the discussions regarding the business transfer plan.	<input type="checkbox"/>	<input type="checkbox"/>
5. I have extensive training that will prepare me to manage the business.	<input type="checkbox"/>	<input type="checkbox"/>
6. I manage several operational tasks in the business.	<input type="checkbox"/>	<input type="checkbox"/>
7. I participate in major business decision-making discussions.	<input type="checkbox"/>	<input type="checkbox"/>
8. I have open discussions about the transfer with my family members.	<input type="checkbox"/>	<input type="checkbox"/>
9. I have already begun working with a <i>centre local de développement</i> (CLD) or a human relations professional.	<input type="checkbox"/>	<input type="checkbox"/>
10. I have a clear idea of which improvements need to be made in order to better position the business following the transfer (investments, productivity, efficiency, etc.).	<input type="checkbox"/>	<input type="checkbox"/>
11. I have read the strategic development plan, and I understand it well.	<input type="checkbox"/>	<input type="checkbox"/>
12. I have a clear idea of the transfer scenario (one-time transfer, progressive transfer, gradually selling off assets, other).	<input type="checkbox"/>	<input type="checkbox"/>
13. I know the fair market value of the business.	<input type="checkbox"/>	<input type="checkbox"/>
14. I have a good idea of the selling price in the case of a transfer to a family member.	<input type="checkbox"/>	<input type="checkbox"/>
15. I have a good idea of the debt load that the farm can withstand without risking its continuity.	<input type="checkbox"/>	<input type="checkbox"/>
16. The current financial structure of the business is optimal.	<input type="checkbox"/>	<input type="checkbox"/>
17. I have already studied all of the financing options related to the transfer.	<input type="checkbox"/>	<input type="checkbox"/>
18. I'm aware that my parents or the owners might have to finance part of the transaction.	<input type="checkbox"/>	<input type="checkbox"/>
19. I am aware of the various government succession assistance programs.	<input type="checkbox"/>	<input type="checkbox"/>
20. The current tax planning for the business is optimal.	<input type="checkbox"/>	<input type="checkbox"/>
21. I have assessed the insurance needs in order to protect the continuity of the business in case of unforeseen events.	<input type="checkbox"/>	<input type="checkbox"/>
22. I know what role I want to play in the business once my parents or current owners retire.	<input type="checkbox"/>	<input type="checkbox"/>
23. I can rely on the support of a group of competent business transfer specialists who work as a team.	<input type="checkbox"/>	<input type="checkbox"/>
24. I am aware that Desjardins can help me and guide me through the entire business transfer process.	<input type="checkbox"/>	<input type="checkbox"/>

# My assets assessment

## Overview of my assessment

My assets = \_\_\_\_\_

My liabilities = \_\_\_\_\_

The difference between my assets and my liabilities = \_\_\_\_\_

## My preparedness for and understanding of the transfer process

Checkmark the statement corresponding to your assets assessment

Low 0-8       Average 9-16       High 17-24

## What are my three main concerns?

Here is an example:

1. What is the business's ability for repayment after the final assets transfer step?
2. How will I approach my new role in the business and maintain harmony among family members?

## ACTION PLAN TO REDUCE/ELIMINATE MY CONCERNS

CONCERNS	ACTIONS	TARGET DATES	PERSONS INVOLVED	FOLLOW-UP DATES
1) Earn a college degree	Register by next fall	May		
2) Master the intricacies of strategic planning				
3) Will I earn enough money during the co-management period?				

# Successor - Acquisition of key knowledge tool

The **Successor - Acquisition of key knowledge** tool will encourage dialogue, internal reflection and open discussions with the stakeholders involved in the transfer process.

## The purposes of this tool are to help you to:

- learn to recognize the owner's intentions, expectations, needs and vision with respect to property transfers, the transfer of power and knowledge, and the future growth of the business;
- recognize the points of view and opinions of the other stakeholders, if applicable;
- clarify your intentions, expectations, needs and vision for the future growth of the business;
- make a list of what you know about the business.

## Instructions:

1. To begin your reflection process, write down your personal information in the appropriate sections.
2. Pay careful attention to each element.
3. Discuss your thoughts with the people involved.
4. Prepare a knowledge acquisition plan that will enable you to run the business smoothly and efficiently.
5. You can discuss your concerns regarding knowledge transfer with your Desjardins advisor, who will ensure you have access to qualified professional resources, as necessary.

# Successor – Acquisition of key knowledge

## A. THE OWNERS' POSITION

As the buyer, you must discuss the following points with the owners in order to identify and understand their vision, expectations, needs and role in the transfer project.

### **Questions to help in your reflection**

Why do they want to transfer their business?

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To whom do they want to transfer it?

---

---

---

How do they want to transfer it?

---

---

---

When do they want to transfer it?

---

---

---

What role do they want to play in the business after the transfer?

---

---

---

How do they envision the future growth of the business?

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---

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## Successor – Acquisition of key knowledge

What retirement projects do they have planned?

---

---

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### B. THE OTHER STAKEHOLDERS' POSITION (FAMILY MEMBERS, MANAGERS)

As a buyer, you must talk with the other family members and managers concerned in order to understand their opinions, thoughts and concerns regarding the business transfer.

STAKEHOLDER'S NAME, AGE AND ROLE	OPINIONS, THOUGHTS AND CONCERNS

# Successor – Acquisition of key knowledge

## C. YOUR POSITION WITH REGARD TO TAKING OVER THE FAMILY BUSINESS

Reflection aid table

FACTORS TO CONSIDER	BRIEFLY DESCRIBE YOUR VIEWPOINT
My personal goals	
My goals for the business	
My career path within the business	
My values	
My learning needs	
My personal needs	
The role I want to play in the business	
What I expect from the management staff	
My apprehensions, doubts and fears	
Other topics	

## Successor – Acquisition of key knowledge

Example of a reflection aid table

Context: a product distribution business

ELEMENTS TO CONSIDER	BRIEFLY DESCRIBE YOUR VIEWPOINT
My personal goals	Take over the business within two years. Learn the ins and outs of the business's management and sales. Have a child in three years.
My goals for the business	Acquire the distribution rights in Canada for product xyz, manufactured by a business with a solid reputation and whose product lines complement our existing business.
My career path within the business	I currently oversee purchasing activities. I would like to be replaced in Purchasing and try my hand at sales (working with either the Sales Director or on the road).
My values	Harmony in the family. Teamwork. Professional ethics. Respect for others.
My learning needs	Complete my training on the products we distribute. Better understand the market fluctuations and learn the administrative aspects of running the business.
My personal needs	Ensure my family's financial security. Earn my father's approval. Take care of my health. Watch my child grow and develop.
The role I want to play in the business	Become President-CEO (within five years), after learning all about the business's operations.
What I expect from the management staff	That they give me accurate information and are open and honest with me. That they share their vision with me about the future growth of the business. That they have faith in my abilities and support me in my learning. That they encourage and motivate the employees.
My apprehensions, doubts and fears	That my father doesn't trust me. That I fail to grow the business and disappoint my father. That we have to face another recession.
Other topics	My work schedule is a source of conflict with my spouse. I don't want to jeopardize our relationship.

# Strategic business development plan tool

The **Strategic business development plan** tool will help ensure that your business continues to grow. It is an essential work tool for owner-transferors, successor(s), consultants and financial advisors.

## The purposes of this tool are to help you to:

- clarify the needs of your business from a global perspective;
- define your visions of the future of the business;
- review the *raison d'être* of the business;
- review the distribution of roles and responsibilities within the business;
- inspire employees to share a common vision;
- set business development priorities;
- discuss the future of the business with your successor(s);
- reduce the gaps between your vision of business development and that of your successor(s);
- provide a business development framework.

## Instructions:

1. Draft the strategic development plan on your own.
2. Ask the people you are considering as potential successor(s) to do the same exercise.
3. Individually determine the financial resources required by the development plan.
4. Share your respective plans.
5. Make a list of priorities based on your discussions.
6. Implement a follow-up schedule.
7. Review this plan as often as possible.

# Strategic business development plan

## STRATEGIC BUSINESS DEVELOPMENT PLAN

### **Business vision**

What will the business look like in five years?

Sales figure: \_\_\_\_\_

Location: \_\_\_\_\_

Number of employees: \_\_\_\_\_

Business positioning: \_\_\_\_\_

Other aspects: \_\_\_\_\_

### **Business mission**

Why does the business exist?

What are its *raison d'être* and its contribution to society?

The mission of the business is: \_\_\_\_\_

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### **Values**

Which behaviours and attitudes does the business promote?

The values are: \_\_\_\_\_

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# Strategic business development plan

## Products or services

Which are offered to clients?

Products: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Services: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## Products or services

Which are offered to business partners?

Products: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Services: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## Current work organization

How are tasks divided among individuals (who does what)?

NAME	POSITION	ROLE AND RESPONSIBILITIES

# Strategic business development plan

## Target market

What is the profile of the target clientele?

Description: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## Clientele

Who are the main clients?

MAIN CLIENTS	NEEDS IN TERMS OF PRODUCTS OR SERVICES
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Geographical distribution

Local: \_\_\_\_\_

Regional: \_\_\_\_\_

Provincial: \_\_\_\_\_

National: \_\_\_\_\_

U.S.: \_\_\_\_\_

International: \_\_\_\_\_

# Strategic business development plan

## Strengths

What sets this business apart (internally and externally) and enables it to maintain its positioning?

Distinguishing strengths (internal and external): \_\_\_\_\_

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## Weaknesses

What are the business's weaknesses (internal and external)?

Weaknesses, internal and external: \_\_\_\_\_

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## Business opportunities

Current or foreseeable business opportunities (market, competition, etc.)?

Opportunities identified: \_\_\_\_\_

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# Strategic business development plan

## Threats

What are the existing or foreseeable threats in the business environment (workforce, competitor, currency fluctuations, etc.)?

Threats identified: \_\_\_\_\_

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## Trends

What trends appear to be gaining ground and will require follow-up or adjustment?  
What trends could the business set?

Revealing trends: \_\_\_\_\_

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# Strategic business development plan

## PRIORITIES STEMMING FROM THE STRATEGIC PLAN

Taking into account the preceding statements, what priorities are key to the development of the business?

Priorities:

- 1. \_\_\_\_\_
- 2. \_\_\_\_\_
- 3. \_\_\_\_\_
- 4. \_\_\_\_\_
- 5. \_\_\_\_\_

Timeline for achieving these priorities and the person responsible for the follow-up

PRIORITY	TARGET DATE	PERSON IN CHARGE
1.		
2.		
3.		
4.		
5.		

# Key successor skills and abilities tool

The **Key successor skills and abilities** tool is a reflection guide to help you identify the qualities that you have or the ones you need to acquire.

## The purposes of this tool are to help you to:

- recognize the qualities and skills that you possess;
- identify your training needs;
- clarify your vision of leadership;
- identify the leadership qualities that you possess.

## Instructions:

1. Step 1: Checkmark the items that best correspond to the qualities you **value** and possess.
2. Step 2: Checkmark the items that best correspond to the qualities you **would like** to develop.
3. Based on the information in the preceding tables, write down the skills you will have to **acquire** before assuming the management of the business.

## Key successor skills and abilities

### ÉTAPE 1 : QUALITIES VALUED

Checkmark the items that best correspond to the qualities you **value** and possess.

<p><b>PERSONAL QUALITIES AND SKILLS</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Experience</li> <li><input type="checkbox"/> Education</li> <li><input type="checkbox"/> Self-confidence</li> <li><input type="checkbox"/> Maturity</li> <li><input type="checkbox"/> Integrity</li> <li><input type="checkbox"/> Perseverance</li> <li><input type="checkbox"/> Loyalty</li> <li><input type="checkbox"/> Honesty</li> </ul>	<p><b>MANAGEMENT SKILLS</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Decision-making</li> <li><input type="checkbox"/> Risk management</li> <li><input type="checkbox"/> Stress management</li> <li><input type="checkbox"/> Delegation skills</li> <li><input type="checkbox"/> Unifier</li> <li><input type="checkbox"/> Planning and organization</li> <li><input type="checkbox"/> Support and advice</li> <li><input type="checkbox"/> Fairness</li> </ul>
<p><b>KNOWLEDGE OF THE BUSINESS</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Experience in the business</li> <li><input type="checkbox"/> Commitment to the business</li> <li><input type="checkbox"/> Vision of the future of the business</li> </ul>	<p><b>EMPLOYEE LEADERSHIP</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Employees have a high opinion of the successor(s)</li> <li><input type="checkbox"/> Employees listen to the successor(s)</li> <li><input type="checkbox"/> Employees have respect for the successor(s)</li> </ul>
<p><b>COMMUNITY SPIRIT</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> I am concerned with the welfare of employees and community members.</li> <li><input type="checkbox"/> I want to contribute to the economic development of the region.</li> </ul>	<p><b>LEADERSHIP AMONG FAMILY MEMBERS</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> The family members have a high opinion of the successor(s).</li> <li><input type="checkbox"/> The family members listen to the successor(s).</li> <li><input type="checkbox"/> The family members have respect for the successor(s).</li> </ul>

## Key successor skills and abilities

<b>TECHNICAL SKILLS</b>	<b>ADMINISTRATIVE SKILLS</b>
<p>E.g. ability to draw up estimates and plans, use of various software, technical knowledge of a product, etc.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Excellent</li> <li><input type="checkbox"/> Good</li> <li><input type="checkbox"/> Fair</li> <li><input type="checkbox"/> Poor</li> </ul>	<p>E.g. interpretation of financial statements, setting of costs, assessment of losses, control of expenses, etc.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Excellent</li> <li><input type="checkbox"/> Good</li> <li><input type="checkbox"/> Fair</li> <li><input type="checkbox"/> Poor</li> </ul>
<b>GENERAL SKILLS</b>	<b>EMOTIONAL INTELLIGENCE</b>
<p>E.g. ability to lead work groups, ability to solve problems, ability to resolve conflicts, etc.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Excellent</li> <li><input type="checkbox"/> Good</li> <li><input type="checkbox"/> Fair</li> <li><input type="checkbox"/> Poor</li> </ul>	<p>E.g. controls his emotions, is respectful toward colleagues, manages stress, demonstrates self-control.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Excellent</li> <li><input type="checkbox"/> Good</li> <li><input type="checkbox"/> Fair</li> <li><input type="checkbox"/> Poor</li> </ul>

## Key successor skills and abilities

### ÉTAPE 2 : DESIRED QUALITIES

Checkmark the items that best correspond to the qualities you **would like** to develop.

<p><b>PERSONAL QUALITIES AND SKILLS</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Experience</li> <li><input type="checkbox"/> Education</li> <li><input type="checkbox"/> Self-confidence</li> <li><input type="checkbox"/> Maturity</li> <li><input type="checkbox"/> Integrity</li> <li><input type="checkbox"/> Perseverance</li> <li><input type="checkbox"/> Loyalty</li> <li><input type="checkbox"/> Honesty</li> </ul>	<p><b>MANAGEMENT SKILLS</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Decision-making</li> <li><input type="checkbox"/> Risk management</li> <li><input type="checkbox"/> Stress management</li> <li><input type="checkbox"/> Delegation skills</li> <li><input type="checkbox"/> Unifier</li> <li><input type="checkbox"/> Planning and organization</li> <li><input type="checkbox"/> Support and advice</li> <li><input type="checkbox"/> Fairness</li> </ul>
<p><b>KNOWLEDGE OF THE BUSINESS</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Experience in the business</li> <li><input type="checkbox"/> Commitment to the business</li> <li><input type="checkbox"/> Vision of the future of the business</li> </ul>	<p><b>EMPLOYEE LEADERSHIP</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Employees have a high opinion of the successor(s)</li> <li><input type="checkbox"/> Employees listen to the successor(s)</li> <li><input type="checkbox"/> Employees have respect for the successor(s)</li> </ul>
<p><b>COMMUNITY SPIRIT</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> I am concerned with the welfare of employees and community members.</li> <li><input type="checkbox"/> I want to contribute to the economic development of the region.</li> </ul>	<p><b>LEADERSHIP AMONG FAMILY MEMBERS</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> The family members have a high opinion of the successor(s).</li> <li><input type="checkbox"/> The family members listen to the successor(s).</li> <li><input type="checkbox"/> The family members have respect for the successor(s).</li> </ul>

## Key successor skills and abilities

<b>TECHNICAL SKILLS</b>	<b>ADMINISTRATIVE SKILLS</b>
<p>E.g. ability to draw up estimates and plans, use of various software, technical knowledge of a product, etc.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Excellent</li> <li><input type="checkbox"/> Good</li> <li><input type="checkbox"/> Fair</li> <li><input type="checkbox"/> Poor</li> </ul>	<p>E.g. interpretation of financial statements, setting of costs, assessment of losses, control of expenses, etc.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Excellent</li> <li><input type="checkbox"/> Good</li> <li><input type="checkbox"/> Fair</li> <li><input type="checkbox"/> Poor</li> </ul>
<b>GENERAL SKILLS</b>	<b>EMOTIONAL INTELLIGENCE</b>
<p>E.g. ability to lead work groups, ability to solve problems, ability to resolve conflicts, etc.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Excellent</li> <li><input type="checkbox"/> Good</li> <li><input type="checkbox"/> Fair</li> <li><input type="checkbox"/> Poor</li> </ul>	<p>E.g. controls his emotions, is respectful toward colleagues, manages stress, demonstrates self-control.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Excellent</li> <li><input type="checkbox"/> Good</li> <li><input type="checkbox"/> Fair</li> <li><input type="checkbox"/> Poor</li> </ul>

# Key successor skills and abilities

## ÉTAPE 3 : SKILLS TO BE ACQUIRED

Write down the skills that you will have to **acquire** in order to assume the management role you will play in the business

LIST OF SKILLS TO BE ACQUIRE	SCHEDULE FOR ACQUIRING SKILLS
_____	Month _____ Year _____

**Note:** Contact a training advisor to help you create your skills development plan.

# Distribution of roles, responsibilities and powers tool

A successful integration depends on you having sufficient knowledge of the current **Distribution of roles, responsibilities and powers**. Your arrival, and possibly that of another family member or partner, as business owner will require a restructuring of roles and responsibilities. The Distribution of roles, responsibilities and powers tool will enable you to determine what role you want to have in the business both during the co-management period and after the transaction has been completed.

## The purposes of this tool are to help you to:

- determine (if possible) the retirement date of the current owner;
- clarify your role and responsibilities within the company (current and future);
- identify each employee's duties and level of responsibilities;
- determine what type of power you want management to have.

## Instructions:

To begin your reflection process, write down key information in the various sections and read the comments on the potential effects the answers may have on you and on the business.

# Distribution of roles, responsibilities and powers

## 1. WHO RUNS THE COMPANY?

(Check the statement that best describes the business management structure)

- A single person
- A couple
- A team of managers

### **Comments:**

If the business is managed by a single person, it probably means that power is centralized and that decisions rest completely on the shoulders of one individual. You will be collaborating with someone who is not used to working in a team and who may have difficulty delegating responsibilities or trusting another person. Effective communication between the transferor and the successor is essential.

A business that is managed by a couple — two people with the same vision, well-defined roles and complementary strengths — makes for a more interesting scenario within which the work climate will likely be harmonious. However, you will need to negotiate your role with respect to both these people, and this is not always an easy task. On the other hand, you must be very careful if the couple appear to have a conflictual relationship. Conflict often leads to low employee morale and a negative work environment. The successor may face a huge challenge to improve the situation, in addition to the difficulty of establishing an effective channel of communication between you and the two transferors.

If the business is run by a team of managers, you will need to become part of the team, get to know the members and earn their trust. A strong management team provides an element of stability to the business, whose growth is not dependent solely on one person.

## Distribution of roles, responsibilities and powers

### 2. IS THERE A PLACE FOR YOU IN THIS BUSINESS? (IF NOT CURRENTLY AN EMPLOYEE)

(Checkmark the answer that best describes your opinion)

- Yes
- No
- I don't know

#### **Comments:**

If you answered "No" or "I don't know" to this question, confirm whether your perception is accurate and whether the owner-managers want you to join the business (mainly in the case of a family business). If their response is negative, you need to think about either looking for another business or postponing your acquisition project.

### 3. WHAT IS YOUR CURRENT POSITION WITHIN THE COMPANY? (AS APPLICABLE)

(Checkmark the answer that best describes your situation)

- Owner-manager
- General manager
- Other position \_\_\_\_\_  
Specify:
  - Administration
  - Production
  - Business development
  - Human Resources
  - Other: \_\_\_\_\_

#### **Comments:**

The inherent roles and responsibilities of the position you hold in the business have a direct impact on what other employees think of you. Most people have an opinion or perception of each position. For example, if you are the Human Resources manager and would like to become General manager, you must demonstrate strong leadership and administrative skills if you want employees to believe in your ability to manage the business. Employees may have a different opinion of you if you are the Director of Finance or are responsible for business development. These positions are often seen as a springboard to becoming General manager or to establishing your credibility as a business owner.

## Distribution of roles, responsibilities and powers

### 4. WHAT POSITION WOULD YOU LIKE TO HOLD IN THE COMPANY ONCE THE TRANSACTION IS COMPLETED?

(Checkmark the answer that best represents your goal)

- Owner-manager
- General manager
- Other position  
Specify:
  - Administration
  - Production
  - Business development
  - Human Resources
  - Other: \_\_\_\_\_

#### **Comments:**

If your selection differs from the position you currently hold, we suggest you develop a plan for acquiring the skills you need in order to be successful in the positions you aspire to hold. Your personal challenge will be to follow the learning goals outlined in your plan. To help implement your plan, read Section 5 of the Taking the leadership reins - Successor Training Plan, Directory of educational practices to promote knowledge transfer and successor training.

### 5. WHAT TYPE OF POWER DO YOU SUPPORT?

(Checkmark the answer that best represents your notion of power as it relates to decision-making)

- A micromanager who controls every detail
- A management team
- Basic decision-making power

#### Comments:

We caution that you avoid falling into the trap of micromanaging and controlling every last detail. This form of leadership is unfortunately still widespread and is not conducive to promoting the growth of a business and the personal growth of its employees. In fact, it can lead to low employee morale and high turnover.

If you opt for putting together a team, seek advice from a management committee. You can also choose to delegate certain powers to key individuals in order to show employee appreciation and to promote a work environment that is conducive to productivity, efficiency and retention

## Distribution of roles, responsibilities and powers

### 6. DO YOU KNOW WHEN THE CURRENT OWNER PLANS TO RETIRE?

(Checkmark the appropriate answer)

- Yes, the planned date is \_\_\_\_\_
- No

#### **Comments:**

If you answered "No" you will need to meet with the owner to determine when he plans to retire and what role he wants to play during the transfer of powers. The owner- manager's intention and readiness to retire will be clear if he can set an actual date. If the owner is vague about the details, it may mean that he has not yet completed his process of reflection.

### 7. DO YOU KNOW WHO DOES WHAT IN THE BUSINESS?

(Fill out the table)

#### **Comments:**

In order to ensure successful management and operation, it is very important to know who does what in the business. We suggest you fill out the table below to record the data.

NAME OF PERSON IN CHARGE	DUTIES/RESPONSIBILITIES

# Distribution of roles, responsibilities and powers

## 8. WHO WANTS WHAT JOB?

(Fill out the table)

**Comments:**

You must know what the intentions of the key business stakeholders are regarding the transfer so as to better manage their expectations and develop partnerships. We suggest you fill out the table below to record the data.

WHO: STAKEHOLDERS	WHAT: ROLES, RESPONSIBILITIES AND DUTIES

## 9. IN YOUR OPINION, WHO, OTHER THAN YOURSELF, CAN BE THE NEW OWNER?

Your choice: \_\_\_\_\_

What is the reason for your choice? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

# Summary tool for the buyer

**1. I am a successor type of:**

(review, if needed, Step 1 – What type of successor are you?):

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**2. My motivations for owning a business are:**

(review, if needed, Step 2 – What are your motivations?)

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**3. I need to acquire the following knowledge:**

(review, if needed, *Successor - Acquisition of key knowledge* tool)

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**4. I need to develop the following skills:**

(review, if needed, *Key successor skills and abilities* tool)

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**5. My position in the business and the one for others are the following:**

(review, if needed, *Distribution of roles, responsibilities and powers*)

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# Summary tool for the buyer

## 6. Financing set-up outline of my transfer project:

(review, if needed STEP 3 – Financing set-up)

QUESTIONS	REPOSSES
How much is the business worth?	
How much am I willing to pay?	
What is the maximum business debt level I do not want to exceed?	
Will I buy the business alone? If we are several partners to buy the business, how much will be each financial contribution?	
Is the actual owner willing to finance part of the transfer project?	
If there is a shared ownership, how will it be done?	
What types of financing are available to me?	
What are the outlines of the financing set-up?	
Other?	

## 7. Partners’ names, roles and responsibilities in the transfer project and acquiring business:

	PARTNERS ’ NAMES	ROLES AND RESPONSIBILITIES
Account manager		
Tax specialist		
Attorney		
Business valuation specialist		
Business transfer advisor		
Management consultant		
Other partners:		



## FINANCING THE TRANSFER PROJECT



## 4 FINANCING THE TRANSFER PROJECT

Financing set-ups for business transfers differ from one business to another, and, contrary to popular belief, there is no universal magic bullet.

Accordingly, Desjardins offers advantageous consulting services for the financing of your business transfer or acquisition, at very attractive rates.

Our advisors will rigorously assess your financial and business needs, and propose appropriate financing strategies and financial products.

### FINANCING STEPS

#### **1. Document the transfer project and draft the business plan**

You are the architect of the transfer; therefore, it is up to you to design the plans. Preparing a solid business plan helps you ensure that the various factors required for a successful transfer are in place.

Owning a business involves teamwork. You will need the support of financial experts, partners, government advisors and/or suppliers. Your business plan will help you to accurately describe your vision to each stakeholder.

Before meeting with your Desjardins advisor, be sure to fill out your application and draft your business plan. You must also consult the legislation regarding business start-ups.

#### **2. Generate the financial statements**

To complete your business plan, you must generate the financial statements for your business or the one you are acquiring. These financial statements must reflect any planned or ongoing business projects.

You must also prepare the following documents:

- your personal balance sheet;
- your curriculum vitae, summarizing your main achievements;
- the cost and financing of your project;
- an opening balance sheet;
- the cash budget forecast (two years);
- projected income statement according to various scenarios (three years);
- budgeted balance sheet (three years).

### 3. Prepare the financing set-up

The financing of your transfer must cover every aspect of your business operations: working capital, current expenses, tools, equipment, buildings, patents, etc.

Once your needs have been determined, you should identify the possible sources of financing to meet them. This financing set-up is often presented in the form of a table, and it is essential that each transfer-related need be met.

#### EXAMPLE OF A FINANCING SET-UP

COST OF THE TRANSFER PROJECT	
Land and buildings	\$600,000
Furniture and equipment	\$250,000
Inventory	\$75,000
Accounts receivable	\$250,000
Goodwill	\$245,000
Other start-up costs (accounting, taxes and permits, insurance, rent, supplies, etc.)	\$80,000
<b>Total</b>	<b>\$1,500,000</b>

FINANCING THE TRANSFER PROJECT	
Capital funding	\$150,000
Mortgage loan	\$450,000
Term loan on equipment	\$150,000
Line of credit	\$225,000
Balance of sale	\$250,000
Mezzanine capital	\$275,000
<b>Total</b>	<b>\$1,500,000</b>

## 4. Prepare your financing application

You have identified your needs and determined which financial tools will enable you to meet them. You have also created a network of resources (other entrepreneurs, mentor, account manager, financial advisors, members of the board of trade or business associations, etc.) that you can consult as needed. The next step is to prepare your financing application.

### Fill out your application

Your financing application will complete your business plan.

The application should include:

- the nature of the transfer project to be financed;
- the amount of financing required;
- the financial spin-offs of the project (which will enable the business to continue to grow while meeting its financial commitments);
- the benefits of your transfer for the investor.

### Present your application

Before meeting with your investor, be sure to provide your financing application and your business plan so that he can review it.

Prepare for this meeting by:

- specifying the length of the meeting and adhering to it;
- preparing a brief presentation that covers the key points;
- anticipating the lender's objections and making note of points that require further explanations;
- inviting an expert (accountant, attorney or other) to accompany you in order to provide more details on points related to his field of expertise;
- being attentive to the lender's comments and reactions during the meeting;
- offering your availability in case he wishes to obtain more information;
- asking the lender what the next steps are.

## **Review of your application**

If the lender approves your financing application, you will have to agree on the terms of the contract.

If your application is declined, take the opportunity to improve your file. It would be wise to ask your lender what prompted his decision. This will provide you with valuable information about your business plan or your approach, since it is likely that you will have to submit a new application to that institution.

## **Six criteria to evaluate in a financing application**

In general, financing applications are evaluated based on the following six criteria:

### **1. Quality of the leadership**

The transferor and the buyer are the driving forces behind a business transfer project. Their vision, energy and efforts will determine the success of the business transfer.

### **2. Risks associated with the business environment**

The lenders will ensure that your activity sector does not present a risk for them. The anticipated lifting of a tariff barrier, use of a process that is harmful to the environment or a downturn in the economic sector in which the business operates are just some of the factors that cause investors to be overly cautious. The business must also have adequate insurance coverage that is tailored to the nature of its activities.

### **3. Credibility of the transfer**

Lenders expect competitive returns when they decide to invest in your transfer; therefore, they will ensure that your forecasts are realistic and based on verifiable facts.

### **4. The business's ability to pay and its financial structure**

You must prove to the investors that your business is able to meet its financial commitments. The financial structure of the business therefore must show a healthy balance between assets and liabilities.

### **5. Financial history of the buyers**

In your investor's eyes, the past predicts the future. It is highly likely that a credit check will be done for each buyer. The investors will ensure that the buyers have met their past commitments. A bankruptcy or outstanding loan negatively affects a buyer's credibility.

### **6. Securities**

Loan financing is granted in exchange for securities. These securities must be available in sufficient quantities to enable your investor to cover his risks.

## TYPES OF FINANCING

You can finance your business through loans, equity and/or government programs.

A. LOAN FINANCING	Used to finance accounts receivable, inventory, equipment or commercial property (including renovations).
B. EQUITY FINANCING	Provided, in part, by the buyer. Private investors and/or investment companies are also potential sources of equity. During the start-up phase, they help finance working capital requirements and start-up costs. During the growth phase, they enable business acquisitions and the development of new markets.
C. GOVERNMENT PROGRAMS	Various subsidies are offered by the federal and provincial governments to help businesses succeed and to promote entrepreneurship.

## A. LOAN FINANCING

You can finance a part of your transfer with loans. They are used to finance accounts receivable, inventory, equipment and commercial property (including renovations).

Commercial term loan	To finance equipment or miscellaneous projects.
Business mortgage loan	To finance the purchase, construction or expansion of a building, or the purchase of a parcel of land.
Operating line of credit	To meet cash flow needs.
Bridge financing	Loan that meets your temporary cash flow needs while awaiting an influx of cash or a pending loan disbursement.
Investment credit (revolving credit)	Provides the funds needed to invest in your business: purchase of equipment, machinery or production inputs, or repairs/renovations to property.

Here is a brief description of the most common financing loans available at Desjardins:

### Commercial term loan

To buy supplies and equipment required for business operations or to improve the financial structure.

Features:

- amortization according to the useful life of the purchased supplies;
- fixed or variable interest rate;
- flexible repayment terms;
- available in Canadian or U.S. currency.

Benefits:

- enables you to finance capital projects without significantly affecting working capital;
- improves or consolidates the business's financial structure to enable the continued growth of the business;
- possibility of reborrowing a portion or all of the repaid capital without incurring new fees (Multiproject Option).

### **Business mortgage loan**

For capital needs, such as the purchase of land, the construction or expansion of a plant, or any other major project.

The terms of credit (term, amortization period, rates and repayment terms) are tailored to the needs of the business.

Features:

- amortization up to 20 years;
- fixed or variable interest rate;
- available in Canadian or U.S. currency.

Benefits:

- Repayment terms based on the business's activity sector or financial results;
- possibility of reborrowing a portion or all of the repaid capital without incurring new fees (Multiproject Option).

**B. TYPE OF EQUITY FINANCING**

Equity financing is provided, in part, by the buyer. Private investors and/or investment companies are also potential sources of equity. These funds improve the business’s capital without reducing its room to manoeuvre with respect to its creditors.

<b>SOURCES OF EQUITY</b>	
The buyers	The buyers must provide a portion of the amount required to finance the transfer (personal savings, home, pension fund, RRSP, balance of sale, etc.).
Development capital	In the form of financing with acquisition of shares in the business.
Mezzanine capital	Combines the features of a loan and equity financing. In terms of the business’s financial structure, mezzanine capital falls between a senior debt and a net asset.
Management buy-out	Acquisition of controlling interest in the business.
Cooperative financing (CTA)	Cooperative financing is achieved when the unionized and non-unionized employees of a corporation jointly purchase shares in order to benefit from the growth of the business.
Angel investors	This type of investor is often a former business owner/manager who has the necessary investment capital.  Angel investors inject money in projects with high chances of success. Accordingly, they become business partners and are often involved in running and growing the business.

Here is a brief description of the most common financing loans available at Desjardins:

### **Development capital**

When analyzing the financial needs associated with a transfer, the financing package is often completed with risk capital, in the form of equity or quasi-equity. For the buyer, the aim of the financial structure is to simplify the acquisition of a successful business and ensure its continuity. For the seller, the goal of the transaction is to maximize the income from the sale and minimize the tax implications.

Features:

- sources of additional capital through traditional loan financing;
- financing with the acquisition of shares or in the form of subordinate debt;
- unsecured capital: common or preferred shares, debentures;
- exit/repayment horizon: 5-8 years;
- risk-adjusted returns;
- amounts ranging from \$200K to \$20M.

Profile of eligible businesses:

- forward-thinking management team;
- realistic and well-developed business plan;
- excellent growth potential;
- competitive edge;
- product for which there is already a major market.

Certain specialized investment funds, such as the *Fonds Relève Québec* intended for buyers, are hybrid in nature, with features of both conventional funds and development capital.

## **Mezzanine capital**

Financial instrument, also known as subordinate financing or quasi-equity, that combines the features of a loan and of equity financing. In terms of the business's financial structure, mezzanine capital falls between a senior debt and a net asset.

Features:

- takes the form of an unsecured loan with a term of 3-5 years;
- the repayment terms are dependent on the business's financial forecasts.

Benefits:

- its subordinate position to that of the lender means it can be considered as a net asset;
- results in minimal dilution for current shareholders;
- helps reduce the tax burden (interest is deductible);
- pre-defined exit strategy;
- a portion of the financing costs are dependent on the success of the business.

Profile of eligible businesses:

- minimum two years' profitability with enough stable and predictable internally generated cash flow to meet the terms of the additional financing;
- a strong and committed management team;
- niche market with growth potential;
- competitive edge;
- maintenance of certain financial ratios.

## **Buy-outs**

Possible scenarios:

- controlling interest with an existing management team that acquires shares (buy-out of the founding shareholder);
- controlling interest with a new management team becoming shareholders (buy-out of the founding shareholder);
- controlling interest through the partial buy-out of shares held by the majority shareholder, who stays on with the business;
- controlling interest through the acquisition of business shares from an industrial group undergoing a spinoff, with the management team becoming shareholders.

Type of businesses sought:

- medium-sized businesses with a strong management team;
- businesses operating in growth sectors or in sectors in which consolidation is both possible and desirable;
- businesses with strong market positioning or that operate in a market that is difficult to penetrate.

Competitive edge afforded by buy-outs:

- membership at Desjardins;
  - assets are kept in Quebec;
  - pride in selling to Quebec's largest financial institution;
  - Desjardins is a major player in the local economy, which is reassuring for managers, employees, and community stakeholders;
  - clients and suppliers are instantly reassured (due to Desjardins' strong financial footing).

## C. GOVERNMENT PROGRAMS

To stimulate entrepreneurship, the federal and provincial governments offer various subsidies to help businesses succeed.

Features:

- Some of these programs simplify loan financing, while others, in the form of subsidies, enable an increase in the value of business equity.
- Many of these programs target a specific clientele.
- While others are aimed at a specific type of activity, such as research and development, exportation and marketing.
- Each program offers a different type of support. In certain cases, the support comes in the form of tax credits, while others offer loan security, subsidies or direct loans to finance an aspect of the business.
- Each program has multiple requirements: business size, age of the buyers, sector of activity, etc.

List of main resources:

- *Fonds Relève Québec* (no link yet)
- Business Credit Availability Program (BCAP)
- *Centres locaux de développement* (CLD)
- Community Development Assistance Corporation:
  - Quebec
  - Ontario
  - Canada
- Canada Business Network – Government Services for Entrepreneurs
- Industry Canada
- Canada Mortgage and Housing Corporation (CMHC)
- Export Development Canada
- *Investissement Québec*
- Canada Economic Development
- Canada Small Business Financing Program
- Small Business Enterprise Centres (SBECS) (Ontario)



## TAKING THE LEADERSHIP REINS

Desjardins & Co.



## 5 TAKING THE LEADERSHIP REINS

### TRANSFER OF POWERS

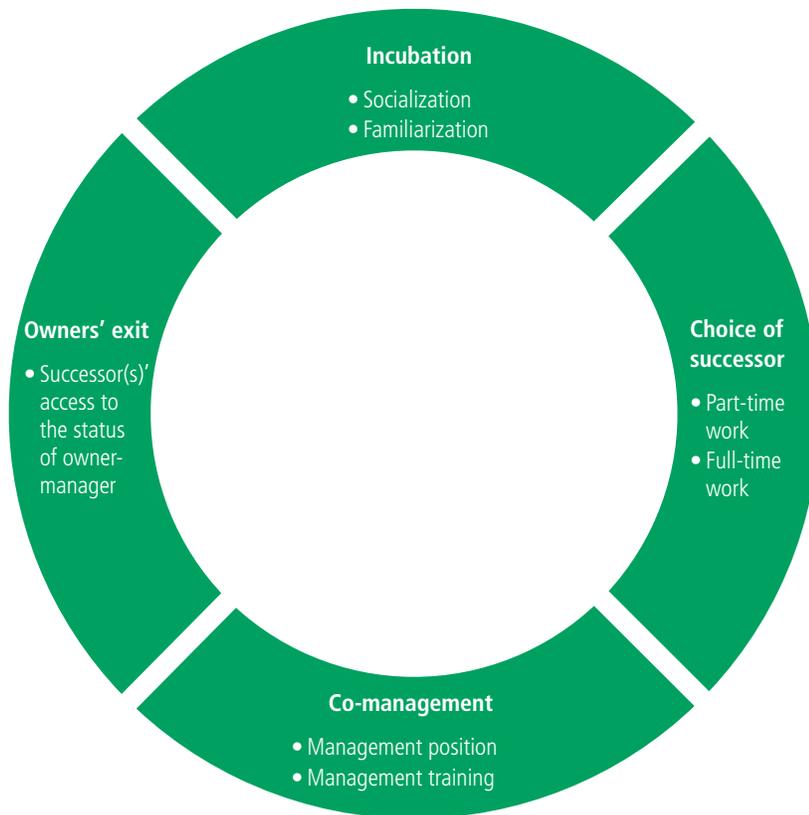
The transfer of powers is different from the legal transfer of assets. It refers to the division and delegation of strategic business responsibilities by the transferor to the successor(s). Knowledge transfer refers to the knowledge that the successor(s) must acquire. A well-planned transfer of powers and knowledge is key to a successful business transfer.

The required actions to create the plan for the transfer of powers and knowledge are:

- taking an inventory of the powers to be transferred;
- taking an inventory of the strategic knowledge;
- reviewing the organizational structure;
- determining the distribution of roles and responsibilities within the new structure;
- choosing strategies and activities associated with the transfer of knowledge and powers;
- setting a timeline for the transfer;
- deciding when progress will be measured.

Knowledge is also a form of power. As buyer, you must create opportunities for dialogue with the owner, in order to acquire his strategic knowledge of the various business activities and specifics in terms of the market, competitors, clients, suppliers, financial backers, technology, etc.

EXAMPLE OF A TRANSFER-OF-POWER PROCESS IN A SCENARIO INVOLVING TRANSFER TO A FAMILY MEMBER OR TO MANAGEMENT



**Incubation:** The family members start at a very young age to work within the business and to socialize with other employees. They contribute to the work, but do not necessarily have specific responsibilities or work hours.

**Choice of successor:** One or more family members are designated as successor(s). They have expressed interest in working in and managing the business. They are in training.

**Co-management:** The successor(s) are actively involved in managing the business alongside the parent-owners. This is the most crucial phase of a transfer. An interdependency is created.

**Owner's exit from the business:** The parent-owners gradually step down as managers, while continuing to work in the business. They assume the role of advisors. The successor(s) take over the management of the business.

These are the challenges of co-management during the transfer of powers to a family member or to management.

**For the owners, relinquishing their powers is one of the most difficult aspects of the transition.**

The successor(s) will face a number of major challenges:

- gaining access to strategic decisions regarding the growth of the business;
- learning about the management of the business and its human resources;
- becoming familiar with the roles and responsibilities of a business owner;
- sharing and subsequently taking over the reins from the parent-owners;
- moving from an employer-employee or parent-child relationship toward an equal partnership;
- a potential power struggling between heirs, between the successor(s) and staff, or between the successor(s) and parent(s);
- establishing of an interdependent relationship.

We suggest that you review and fill out the tool:

- Transfer of powers and knowledge

This tool will help you to:

- understand the management model in place at the business;
- provide stakeholders with the appropriate support in this phase of the business transfer.

### SUCCESSION TRAINING PLAN

The purpose of a succession training plan is for the successors to acquire the technical, administrative, managerial and personal skills and abilities they will need to fulfill the business's objectives, and to be effective business owners and managers.

## Directory of educational practices to promote knowledge transfer and successor training<sup>1</sup>

### 1. Specify transfer expectations and goals

The training should account for the fact that the learner will have already defined his professional goals—goals which are to be discussed with his immediate supervisor.

Measures, such as the implementation of activities or projects, need to be planned in order to achieve these goals.

The training will include a follow-up of the progress achieved.

<sup>1</sup>Roussel, J.-F. (2011). *Gérer la formation – Viser le transfert*. Montréal, Guérin (Ed.)

## **2. Include knowledge transfer situations**

The training model will outline situations within which the learner can apply what has been learned.

The learner will be encouraged to make a list of learning situations in line with his goals.

These knowledge transfer situations, which will be both diversified and complex, will also incorporate new, unknown elements so that the learner can apply concepts to new situations and learn to adapt accordingly.

The training is structured into work-learn cycles, thereby enabling the gradual integration of knowledge transfer situations in the workplace.

## **3. Promote informal learning (i.e. hands-on learning)**

The training model will include knowledge transfer situations based on actual cases that require solving.

The model helps the learner develop instinctive reflexes, by teaching him to stand back and objectively analyze his thoughts and actions.

## **4. Outline the steps in a learning plan**

Training is an integral part of a learning or skills development plan.

The learner needs to provide input into the design of the project or plan.

This project must have been agreed upon by the learner and his immediate supervisor.

This project must be part of an ongoing, regularly updated initiative.

## **5. Incorporate the training as part of the learner's career plan**

Training is an integral part of the learner's career plan.

This career plan must be part of the business's comprehensive successor development initiative.

The learner and his immediate supervisor must discuss the plan and update it regularly.

# Powers and knowledge transfer tool

The **Powers and knowledge transfer** tool will help you understand and determine which powers and knowledge you need to transfer, and how to go about it.

## The purposes of this tool are to help you to:

- create a list of the different knowledge and powers that you must consider during the reflection on your business transfer;
- identify the individuals who will share their knowledge and powers, taking into account their age, experience and seniority;
- name your successor(s), whether they are family members or managers;
- determine which knowledge your successor(s) must acquire;
- determine the powers that your successor(s) must assume;
- establish a schedule for the powers and knowledge transfer;
- plan the powers and knowledge transfer so as to ensure the continuity of your business;
- do preventive planning for the management of your human resources.

## Instructions:

1. Determine the knowledge/skills you feel you must acquire or improve.
2. Under each statement, determine who in your family, or among your employees/other parties would be best placed to manage the knowledge transfer.
3. Think of training activities that could round out this knowledge.
4. If applicable, write down a target date for the completion of the knowledge transfer.
5. The transfer of powers is done in cooperation with the current owners. Determine which powers will be transferred and exactly which tasks will be assumed, and set a target date.

# Powers and knowledge transfer

## KNOWLEDGE TRANSFER PLAN FROM:

<b>KNOWLEDGE</b> <b>Identify the stakeholders</b>	<b>SCHEDULE</b> <b>Target date for completing the activity</b>
<p><b>Operations</b></p> <p>Name: _____</p> <p>Age: _____</p> <p>Seniority: _____</p> <p>Expected retirement date: _____</p> <p>Key information to be transferred: _____</p> <p>_____</p> <p>Successor: _____</p>	
<p><b>Competitors</b></p> <p>Name: _____</p> <p>Age: _____</p> <p>Seniority: _____</p> <p>Expected retirement date: _____</p> <p>Key information to be transferred: _____</p> <p>_____</p> <p>Successor: _____</p>	
<p><b>Suppliers</b></p> <p>Name: _____</p> <p>Age: _____</p> <p>Seniority: _____</p> <p>Expected retirement date: _____</p> <p>Key information to be transferred: _____</p> <p>_____</p> <p>Successor: _____</p>	
<p><b>Financial backers</b></p> <p>Name: _____</p> <p>Age: _____</p> <p>Seniority: _____</p> <p>Expected retirement date: _____</p> <p>Key information to be transferred: _____</p> <p>_____</p> <p>Successor: _____</p>	

# Powers and knowledge transfer

## KNOWLEDGE TRANSFER PLAN FROM:

<b>KNOWLEDGE</b> <b>Identify the stakeholders</b>	<b>SCHEDULE</b> <b>Target date for completing the activity</b>
<p><b>Clients</b></p> <p>Name: _____</p> <p>Age: _____</p> <p>Seniority: _____</p> <p>Expected retirement date: _____</p> <p>Key information to be transferred: _____</p> <p>_____</p> <p>Successor: _____</p>	
<p><b>Technologies</b></p> <p>Name: _____</p> <p>Age: _____</p> <p>Seniority: _____</p> <p>Expected retirement date: _____</p> <p>Key information to be transferred: _____</p> <p>_____</p> <p>Successor: _____</p>	
<p><b>Staff</b></p> <p>Name: _____</p> <p>Age: _____</p> <p>Seniority: _____</p> <p>Expected retirement date: _____</p> <p>Key information to be transferred: _____</p> <p>_____</p> <p>Successor: _____</p>	
<p><b>Other</b></p> <p>Name: _____</p> <p>Age: _____</p> <p>Seniority: _____</p> <p>Expected retirement date: _____</p> <p>Key information to be transferred: _____</p> <p>_____</p> <p>Successor: _____</p>	

# Powers and knowledge transfer

## POWERS TRANSFER PLAN TO:

<b>POWERS</b> Identify the persons best placed to transfer the respective powers	<b>SCHEDULE</b> Target date for completing the activity
<b>Administrative</b> Name: _____ Age: _____ Seniority: _____ Expected retirement date: _____ Powers to be transferred: _____ _____ Successor: _____	
<b>Executive</b> Name: _____ Age: _____ Seniority: _____ Expected retirement date: _____ Powers to be transferred: _____ _____ Successor: _____	
<b>Operational</b> Name: _____ Age: _____ Seniority: _____ Expected retirement date: _____ Powers to be transferred: _____ _____ Successor: _____	
<b>Production</b> Name: _____ Age: _____ Seniority: _____ Expected retirement date: _____ Powers to be transferred: _____ _____ Successor: _____	

# Powers and knowledge transfer

## POWERS TRANSFER PLAN TO:

<b>POWERS</b> Identify the persons best placed to transfer the respective powers	<b>SCHEDULE</b> Target date for completing the activity
<b>Distribution</b> Name: _____ Age: _____ Seniority: _____ Expected retirement date: _____ Powers to be transferred: _____ _____ Successor: _____	
<b>Design</b> Name: _____ Age: _____ Seniority: _____ Expected retirement date: _____ Powers to be transferred: _____ _____ Successor: _____	
<b>Management</b> Name: _____ Age: _____ Seniority: _____ Expected retirement date: _____ Powers to be transferred: _____ _____ Successor: _____	
<b>Other</b> Name: _____ Age: _____ Seniority: _____ Expected retirement date: _____ Powers to be transferred: _____ _____ Successor: _____	





## EXIT OF THE CURRENT OWNER



## 6 EXIT OF THE CURRENT OWNER

This step involves the gradual transfer of leadership, which usually occurs in phases.

### The usual exit phases include:

- an openness to the successor's ideas/input;
- responsibility-sharing and consultations;
- the sharing of decision-making powers;
- the creation of a new role in the business: consulting, expertise sharing, advising;
- complete withdrawal.

A complete withdrawal is when the owner relinquishes all management duties and effectively retires. In the case of a property transfer, owners commonly retain shares in the business without actively participating in its management. The transferor's personal financial situation is a key determining factor of the type of link he maintains with the business and the type of relationship he builds with the successor.

If he is financially secure, chances are very high that he will explore new opportunities, and the issue will be deciding between a gradual departure or a rapid withdrawal. Whatever the case, a transferor will always find it difficult to leave his business, which is often the embodiment of everything that has given meaning to his life.





SO, DO YOU THINK  
YOU'RE READY?

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## **7** SO, DO YOU THINK YOU'RE READY?

Below is a summary of the steps involved in **acquiring a family business**.

### STEP 1:

**Choose whether to join the family business or explore a new opportunity**

### STEP 2:

**Determine the knowledge and skills you need to run the business**

At this stage, take the time to clearly define your vision, gather pertinent information, and subsequently share your vision with the owners and any other individuals involved in the transfer process.

### STEP 3:

**Complete a skills profile and a psychological profile**

These tests will enable you to better understand your strengths, weaknesses, management skills, communication and decision-making style. They will provide an accurate and compelling portrait of the type of entrepreneur you are and what training you need.

### STEP 4:

**Business diagnostic**

Several experts can be of assistance — our advisors will help find the right specialists for you.

Main assessment criteria:

- Management structure
- Key employees
- Production process
- Innovation and creativity
- Diverse, high-quality customer base
- Level of dependence on suppliers
- Financial structure and profitability

## STEP 5:

### **Transfer financing scenarios**

The financing set-up for a transfer project differs from one business to another. Contrary to popular belief, there is no universal financial product for business transfers.

You must carefully and thoroughly assess your financial needs and those of the business. In addition, you must ensure that your scenario is both flexible and able to drive business growth

## STEP 6:

### **Due diligence, price adjustments and other conditions**

At this stage of the negotiations, you will need the support of your advisors (lawyer, accountant, tax specialist) to implement the conditions for a successful transfer.

## STEP 7:

### **The legal transaction**

This step includes the drafting by legal advisors of all legal documents and contracts. You must ensure you understand the legal aspects of all deeds, documents and contracts involved in the transaction. Your legal advisor will clearly explain them to you.

## STEP 8:

### **Entrance strategy**

A well-planned entrance strategy is very important; careful planning will help ensure a smooth transition. The transferor's participation, particularly when meeting with employees, is essential. From the beginning, employees need to be reassured about any future decisions and projects. Take the time to listen to and ease their concerns.

### **Need more time to reflect on the above?**

**Consult our Guide for acquiring a business or visit our site at [Desjardins.com/businesstransfer](http://Desjardins.com/businesstransfer)**

Below is a summary of the steps for **acquiring a non-family business**.

**STEP 1:**

**Choose whether to proceed with the project alone or with a partner**

- You want to buy a business and become the sole owner.
- You want to partner with one or more people.

**STEP 2:**

**Define the target business criteria**

Economic activity sector: \_\_\_\_\_

Size: \_\_\_\_\_

Geographic location: \_\_\_\_\_

Selling price: \_\_\_\_\_

Financial health: \_\_\_\_\_

Market: \_\_\_\_\_

Labour force: \_\_\_\_\_

Management structures: \_\_\_\_\_

Other personal criteria: \_\_\_\_\_

**STEP 3:**

**Determine the knowledge and skills you need.**

At this stage, take the time to clearly define your vision, gather pertinent information, and subsequently share

your vision with the owners and any other individuals involved in the transfer process.

#### STEP 4:

##### **Complete a skills profile and a psychological profile**

These tests will enable you to better understand your strengths, weaknesses, management skills, communication and decision-making style. They will provide an accurate and compelling portrait of the type of entrepreneur you are and what training you need to succeed.

#### STEP 5:

##### **Business search**

Talk about your interests with family and friends. Get involved in business transfers; you'll develop a network of contacts who can help you find your dream opportunity. Several sites such as Acquisition.biz can also be of interest. Your advisors can guide you here.

#### STEP 6:

##### **Assessment of the target business**

When you've found a potential business that meets your selection criteria, start the evaluation and assessment process. Several experts can be of assistance— our advisors will help find the right specialists for you.

Main assessment criteria:

- Management structure
- Key employees
- Production process
- Innovation and creativity
- Diverse, high-quality customer base
- Level of dependence on suppliers
- Financial structure and profitability

## STEP 7:

### **Consider various acquisition scenarios with the transferor**

While acquiring a business can be done in one step or gradually, the latter approach is often necessary. It provides the successor with an opportunity to become familiar with the business and to gradually assume responsibilities. It is also preferable for the seller to ensure business continuity after his departure and to ease him through the process if he is not quite ready to retire immediately.

Both the transferor and the successor need to be open about their needs and plans. In this business partnership, communication and detailed planning of each step are essential.

## STEP 8:

### **Negotiate with the transferor**

The conditions for buying the business must be negotiated in order to reach an agreement. After agreeing on the terms and price of the sale with the seller, you must write a letter of offer; this will demonstrate your commitment as a serious buyer, subject to certain conditions. A specialized attorney can guide you here. Our advisors will ensure you have access to the right specialists.

## STEP 9:

### **Transfer project financing scenarios**

The financing set-up for a transfer differs from one business to another. Contrary to popular belief, there is no universal financial product for business transfers.

You must carefully and thoroughly assess your financial needs and those of the business. In addition, you must ensure that your scenario is both flexible and able to drive business growth.

## STEP 10:

### **Due diligence, price adjustments and other conditions**

At this stage of the negotiations, you will need the support of your advisors (lawyer, accountant, tax specialist) to implement the conditions for a successful transfer.

## STEP 11:

### **The legal transaction**

This step includes the drafting by legal advisors of all legal documents and contracts. You must ensure you understand the legal aspects of all deeds, documents and contracts involved in the transaction. Your legal advisor will clearly explain them to you.

## STEP 12:

### **Entrance and integration strategy**

A well-planned entrance strategy is very important; careful planning will help ensure a smooth transition. The transferor's participation, particularly when meeting with employees, is essential. From the beginning, employees need to be reassured about any future decisions and projects. Take the time to listen to and ease their concerns.

### **Need more time to reflect on the above?**

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