BUYING A BUSINESS IN SASKATCHEWAN

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Community Futures Saskatchewan

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IN SASKATCHEWAN...

A wave of retirements among business owners in the next few years represents an opportunity for those wishing to pursue entrepreneurship by purchasing an already established business. CIBC World Markets says half of all small-and medium-sized businesses in Canada are set to retire over the next decade, including 310,000 that plan to transfer control of their companies within the next five years.[1] If you're in the market for owning your own business it is a buyer's market. And the advantages of buying an established business far outweigh the risk associated with starting from scratch.

This ebook will provide you with an overview of how to buy a business in Saskatchewan.

Note: This ebook should be used as a guide to help you get started, but should not be considered as a replacement to appropriate legal and accounting advice. Community Futures accepts no liability for errors or omissions contained within this guide.

ADVANTAGES
OF BUYING A BUSINESS..

For immigrants and those looking to enter the second act of their career, buying a business can give you a quick foothold in a market without doing all the groundwork to get established. If you want to hit the ground running and avoid some of the common start-up pitfalls, then buying an existing business or a successful franchise may be the best option. It definitely takes more money upfront to get started but there are a number of benefits of entering entrepreneurship by purchasing an already established business that can make it a wise investment:

- Benefit from the work that has already been done on building a brand, developing customer relationships, developing business processes and acquiring assets.
- Can start bringing in profits more quickly.
- Can be easier to get financing because the business model is proven.
- Immigration nominee programs available for new Canadians to speed up citizenship.

WHAT KIND OF BUSINESS SHOULD I BUY?

If you buy an existing business, you have two choices: franchise, or traditional (independent) business. There are advantages and disadvantages to both.

FRANCHISE:

Proven track record - This is an established business with a proven concept; there is less risk and less initial capital required than with starting something brand new. Similarly, when it comes time to sell, you may have an easier time finding prospective buyers for a known entity.

Built-in customer base - People know what to expect from your business because they know the brand, and trust the product or service.

Setup, support and training - Having a parent company means having the infrastructure and processes in place, from equipment to uniforms to corporate advertising, rather than having to develop them on your own. Other franchisees can also be a source of support.

Set of rules and regulations to follow - When you operate a franchise, you have less control over the operations than if you own an independent business; you also have to pay a percentage of your revenues to the parent company.

INDEPENDENT BUSINESS:

More control and responsibility - You have the autonomy to set your own rules, but the success or failure of the business rests solely on your shoulders.

No fees or royalties - You keep all of your earnings without sharing any of the profits.

More opportunity and risk - You can sometimes find a business that may not be doing well but has potential. If you are willing to do the work, you may reap the rewards; you must be prepared if things don't turn out as planned.

EVALUATING A BUSINESS

Before deciding to buy a business, you should evaluate its condition and potential. Think about the following things:

- What is the physical location of the business like? Is the office, warehouse, plant or retail space in good shape? What about any equipment or inventory?
- If it's an online business, how well-designed is the website? Is it secure? Are there any metrics to study?
- Does the business have a good reputation? You can check online for customer reviews.
- How visible and easily accessible is the business? Is it located in an urban or rural area? You will have to consider expenses like increased shipping costs if you are farther away from your suppliers and customers.
- Are the products or services generating revenue? Are sales increasing, decreasing or are they flat?
- Does the business have a good working relationship with its suppliers and bank?

If a business is doing poorly, examine what the potential causes are. It may be a case of poor management, or inadequate resources. If you think you can turn it around and make it profitable, you could stand to gain from your investment; on the flip side, you are taking a big risk if it doesn't work out.[2]

DETERMINING HOW MUCH TO PAY FOR A BUSINESS

As a buyer, it all comes down to knowing what you can afford before negotiations start. You should be flexible in your negotiations, but also keep your budget and the value of the business in mind.

IMPORTANT THINGS TO CONSIDER

- You will have to determine the value of assets such as the building, equipment and products.
- Further factors to consider are the business' financial statements, annual reports and intellectual property (e.g. patents and trade-marks).
- Other valuable assets to any business are its reputation, customer lists, and quality of personnel.

Talk to clients who buy directly from the business. It is better to find out the reputation of a business before you sign on the dotted line. Banks are more receptive to a business that has a proven track record.[3]

APPROACHES FOR VALUING A BUSINESS

There are two basic methods of valuing a business: Breakup Value and Going Concern Value.

Breakup value is calculated by taking the current market value of all assets of the business, then deducting the liabilities and reasonable liquidation fees. The resulting value is what you would end up with if you sold off the assets and paid off all the liabilities. That is the value of the business on a "breakup" basis.

Going Concern Value Going concern value is arrived at through a rather complicated process. This involves "normalizing" earnings, eliminating the impact of assets or revenue streams that do not form part of the core asset base or main revenue stream of the business. These assets and ancillary revenue streams are valued separately. Appropriate capitalization rates reflect reasonable levels of risk given the nature of the business.

DETERMINING IF IT'S WORTH IT

The basic question to be answered in valuing a business is, "How much am I willing to pay someone for a business if in paying that amount, I will receive a stream of future income from that business of $X annually?"

In determining this value, review the historical earnings stream, adjusting for the financial impact of unusual events such as a one-time windfall profit or an unusually large non-recurring expense.[4]

Before making a commitment on a purchase, you should seek the advice of a professional business valuator.

SOURCES FOR FINANCING

It typically takes more money to buy an established business than to bootstrap a start-up piece by piece. In both cases you will likely need a source of money but there are specific products available to those wanting to buy established businesses. The following are some Community Futures resources to access funding for your business.

COMMUNITY FUTURES LOANS

If you live in rural or northern Saskatchewan, you could get a loan of up to $150,000 to start, buy or grow a small business or to develop new products.

You need to:

- Have a viable business plan
- Invest some of your money in the project

If you are a young entrepreneur or if you have a disability, there are also loans designed specifically for you. Services like business training and counseling are also available.

Please contact your local Community Futures office for program information and application forms. Visit cfsask.ca to find office locations in your region.

HOW TO FIND BUSINESSES FOR SALE IN SASKATCHEWAN

The most common resources for finding businesses to purchase are publications devoted to businesses for sale, business brokers, and your personal network.

"Businesses-for-Sale" Publications

The easiest place to start looking for businesses to buy are online classifieds dedicated to businesses for sale. Doing a quick web search will yield many results so one has to be discerning when evaluating which websites are legitimate and current. Below are a list of websites that represent a place to start.

Franchises

Canadian Franchise Association - http://lookforafranchise.ca

Independent Businesses

BusinessesForSale.com
http://canada.businessesforsale.com/canadian/search/Businesses-for-sale-in-Saskatchewan

Business Sell Canada
http://www.businesssellcanada.com/sale/buy/b_s.htm

Business Brokers

Business brokers, also called business transfer agents, or intermediaries, assist buyers and sellers of privately held business in the buying and selling process. They typically estimate the value of the business; advertise it for sale with or without disclosing its identity; handle the initial potential buyer interviews, discussions, and negotiations with prospective buyers; facilitate the progress of the due diligence investigation and generally assist with the business sale.

Traditionally, the broker provides a conventional full-service, commission-based brokerage relationship under a signed agreement with a seller or "buyer representation" agreement with a buyer. Broker services vary widely depending on the practice and skill set of the broker. The most common services provided by a broker to a client are:

- Assist client in establishing a Most Probable Selling Price Valuation (MPSPV).
- Develop a comprehensive Information Memorandum on the company; Typically a lengthly document outlining the business for potential buyers.
- Conduct buyer searches.
- Promotion - Marketing the business to prospective buyers.
- Screen buyers for ability to complete a purchase.
- Coordinate negotiations and provide deal structuring advice.
- Provide overall deal management to guide the client through the entire process.
- Hourly consulting for a fee, based on the client's needs.

Perhaps one of the biggest services provided by brokers is the ability to allow owners to stay focused on running their business during the sale process, which can take on average 6 months to 12 months to complete.[5]

Your Personal Network

It's understandable that many people think that all they need to do is to use a business broker to search for a business and then engage an accountant and lawyer to assist them with the financial and legal details involved with buying a business. These buyers consider this group as their team of advisors and look no further.

While these groups certainly play a role in the process, the intelligent business buyer understands that the scope of what they have to do to be successful goes far beyond these three professional groups.

Look to find someone who has been successful in the industry and can provide some consulting expertise. For example, if you're looking to buy a gas station business, wouldn't it be helpful to have someone who has already owned one to provide you with additional insight? You can easily find these individuals through trade associations or by contacting owners of businesses who are not competitors to the one you're considering. Having someone with direct industry experience is a huge asset and their know-how will be far more helpful than relying on any broker, attorney or accountant. In addition, they may have insight about businesses for sale that are not yet public or businesses they know are looking to transfer ownership.

REFERENCES

1. Canada Business Network - https://canadabusiness.ca/starting/before-starting-your-business/buy-a-business-or-start-your-own/buying-a-business/sgc-47/?it=eng/page/2854/sgc-47/
2. Business Development Bank of Canada - 2 ways to calculate the value of a business: https://www.bdc.ca/en/articles-tools/start-buy-business/buy-business/pages/business-valuations-2-basic-methods.aspx
3. Wikipedia - Business Broker - https://en.wikipedia.org/wiki/Business_broker

CONNECT
ABOUT COMMUNITY FUTURES SASKATCHEWAN

13 offices across Saskatchewan providing loans, advice and support for 25 years. Community Futures has been in the business of encouraging and supporting our communities, our volunteers and our small business owners for more than 25 years. We know what it takes to start and grow a business, to raise money for a community project or organize to provide a much needed community service. And, we'll approach your idea in a way as individual as you are.

Toll Free: 1.877.851.9997

Visit our website at www.cfsask.ca to learn more and find the office nearest you.

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