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Job Opportunities & Business Succession

For the Construction Industry

Report prepared for the Job Opportunities & Business Succession Pilot Program

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Executive Summary

This report on Business Succession for the BC Construction Industry was commissioned by the BC Construction Association through its Job Opportunities & Business Succession Pilot. Support for this project was provided through the Canada-BC Labour Market Development Agreement. The objective of this report is to provide the lessons from the pilot and a pathway for establishing an effective succession program for small businesses in construction.

The goal of the Pilot is to develop a program that will successfully defend existing jobs and create new employment opportunities through enabling business succession across British Columbia, especially in rural and remote areas.

This report is a brief overview of the issues within the Industry that need to be addressed in order to move forward with the next phase of the Program. In addition this report reviews the gaps that need to be bridged and recommends programs and processes for bridging these gaps.

While there are a variety of organizations available throughout the Province which could provide support for succession for small contractors there are no programs designed to make the succession process successful.

Most small contractors have *"bought themselves jobs rather than built businesses".* According to BC Statistics there were 321,000 micro (fewer than five employees) businesses in BC in 2010. When the business owner is taken out of the equation there is often little value left within the business to entice a potential buyer to take over. Thus programs need to be developed in order to educate both buyers and sellers so that they can improve the viability of the business opportunities that exist. The programs should be designed in a manner that will enhance the value of the businesses by providing processes and systems that can be used within the businesses. The programs recommended are all related to the processes that are essential to developing a successful business. These will add value to the businesses, increase their profitability and make them more attractive to prospective purchasers. In addition to delivering the programs implementation must be a key feature of the process. Failure to implement the systems and processes is a major downfall of most of the education programs available, that combined with the fact that the available programs are not tailored to the needs of small contractors makes this an essential process for attaining the project's mandate.

To ensure implementation a network of mentors would need to be established. The role of the mentors would be twofold – to assist the business owners in implementation of the systems and processes and to assist the buyers in continuing on in that implementation process. Whether or not mentors should be involved in valuing the businesses and negotiating agreements has not been addressed as this may cause a conflict of interest for them. In addition to improving the success rate of business succession there is also a very strong likelihood that participating businesses would grow and hire additional employees and continue to support their local community.

Developing a program of best practices is essential, it would be easy to underestimate the challenges this process will face. Contractors tend to be independent business people and leveraging the Power of

Influence will be a deciding factor in achieving the desired outcomes of the program, hence the mentorship.

Focus must be on the potential buyers as well as the sellers because, no matter how ready the seller is, unless there is a competent and willing buyer there will be no transition.

Despite the fact that there was an expectation that individual businesses that are for sale could be identified as part of the Pilot it would not be appropriate at this stage to start identifying or targeting specific businesses. Working on the overall mandate of the program will fulfill that role. Certainly a number of businesses that are seeking buyers were identified in the BCCA Survey

Grass roots support within the various communities is also critical to success; this process could in itself create further job opportunities for educators and mentors and expand commercial activity within the communities.

Within this report reference is made to a variety of conduits for targeting buyers. These include a direct link with International Trained Workers http://www.councils.org/our-priorities/internationally-trained-workers/ and the Provincial Nominee Program of BC http://www.welcomebc.ca/wbc/immigration/come/work/about/index.page; Links have also been forged with the First Nations Communities. In addition BCCA has approximately 50 trades training specialists in 14 communities throughout the Province who can provide invaluable assistance in communications and evaluations of opportunities.

Financing the sale of the businesses and providing the capital to grow the businesses is addressed within this report. Most ownership transitions are likely to require third party financing. There are a number of institutions throughout the province that would meet a variety of financing needs. The various financing options that each of the financial and other organizations offer need to be identified.

It is essential that the programs are designed specifically with the small contractor in mind, not only from a content perspective but also from a delivery perspective. Technology has provided a myriad of delivery methods that can be harnessed to ensure the maximum return from each of the education programs that will be delivered. These delivery methods are identified within this report and will be developed in phase 2 of this program.

Matching appropriate buyers with sellers will be a major function of phase 2 of this program. For that reason ensuring that the buyers are involved in the education programs and processes from the outset is essential. External financing and successful transitions are only likely to occur when the buyer has the skills to take on the ownership role. External financing will be subject to lenders having confidence in potential borrowers/buyers.

As part of the process the BCCA conducted a Succession Survey across all four regions of the province in May and June 2012. Approximately 102 responses were received. A commentary on the survey results and that of the Venture Connect survey are included with this report and Appendix 3 shows the BCCA Survey questions and responses.

This report contains 16 recommendations. These need to be reviewed and prioritized so that detailed best practices can be developed.

Possible sponsorship programs to fund Phase 2 of this project should also be conducted.

All the conclusions and recommendations require detailed research and analysis before implementation or adoption.

The BC Construction Association has taken a lead role in this pilot program. It is uniquely positioned to carry- forward the recommendations of this pilot. It has been involved in this process from the start and the Association has representative offices throughout the Province.

- Vancouver Regional Construction Association
- Vancouver Island Construction Association
- Southern Interior Construction Association
- BC Construction Association - North

These are well established entities with extensive access to contractors in all four regions of the Province and are positioned to launch further action in this process.

In addition BCCA has 50 trade specialists in 14 communities throughout the Province. These specialists are in constant contact with contractors who are both members of the Associations and non-members.

BCCA has developed relationships with many of the parties that have shown interest in participating further in this initiative. Representatives from the Association have attended sessions with the Provincial Nominee Programs that involved potential employees and entrepreneurs from other countries and have also been overseas to attend fairs that involve trades people and potential owners who have shown interest in immigrating to Canada.

Recommendations

The following is a summary of the recommendations from this report. More details on the recommendations will be found at the end of this report before the appendices.

1. Make sure that both buyers and sellers see the wisdom of investing their time and money into succession planning and the transition process. (Section #2).
2. Review the programs that are discussed within this report (Section #3), identify the key ones and prioritize them. Make sure that all parties have realistic expectations.
3. The components of the various education programs will have to be developed along with a "train the trainer" program. (Section #4)
4. Review and prioritize the potential delivery methods and link with organizations that would be influential in helping the process to succeed – Associations, suppliers, Chambers of Commerce, Crown Corporations, Government and other agencies. (Section #5).
5. Form a Provincial Advisory Committee. Details of people and organizations involved to-date have been identified and should be invited to join (Section #5).

6. Review the concept of Peer Groups and Mentors and determine how to proceed in order to provide on-going support to all relevant parties to ensure the success of the process. (Section #6)
7. Ensure that potential buyers, sellers and senior management are part of the education process, recognizing the fact that there will be more sellers than buyers. (Section #6).
8. Develop processes for reaching agreements that incorporate the various financial elements that will make the transition process successful. (Section #7).
9. Develop boiler plate documents that would be part of the selling and transition process (Section #8).
10. Develop financing and funding options by reaching agreement with the various organizations identified within this report for a variety of purchase models. Their level of interest in the process and how they would see themselves becoming involved should be established. (Section #9).
11. Develop processes for matching qualified buyers with sellers. (Section #10).
12. Because there will be fewer potential buyers and because it is difficult to make money in a smaller business opportunities for consolidation should be explored. (Section #11).
13. Develop processes for valuing small businesses. The formula for valuing goodwill in different types of construction varies significantly. Traditional methods of valuing the businesses will prove less than ideal. (Section #12).
14. Develop detailed checklists to identify phases and timelines in developing and implementing a succession plan. (Section #13).
15. Develop methods for sourcing potential buyers and linking buyers and sellers together. (Section #14).
16. Review the various business models for business growth and develop an implementation process. (Section #15).

Introduction

There were approximately 391,700 small businesses operating in BC in 2010 (employing 1.04 million people), generating nearly 30% of the province's gross domestic product and 33% of all wages. Micro-businesses, those with fewer than five employees, accounted for 82% of those small businesses. Construction has the highest number of small businesses in the goods-producing sector accounting for 14% overall. Construction small businesses employ about 145,000 workers.
(*Source: BC Statistics).*

Organizations such as the Canadian Federation of Independent Business have identified the aging population of small business owners, combined with the lack of an identified successor, as a looming threat. Considering that BC small business provides nearly 57% of private sector jobs and employs over a million people, facilitating the successful transition of businesses to new owners will minimize the potential impact of lost jobs from retiring owners who simply close the doors and lay off employees for wont of a successor.

The BC Construction Association undertook the task of developing a pilot project "that would successfully defend existing jobs and create new employment opportunities through enabling business succession across British Columbia, especially in rural and remote areas".

This report on Business Succession for the BC Construction Industry provides a pathway to the next step in developing tools for the industry to facilitate business succession. .

This report also reviews the available resources for enabling small contractors to sell their businesses to ensure the survival of the jobs and services they provide within their communities and to expand employment opportunities. In addition, ensuring that the services offered by these businesses continue within their communities is of prime importance.

While the goal of the Pilot was to research ways in which to facilitate access to business ownership to any interested party, it was identified that it could be particularly helpful for those to whom making the right connections are difficult, such as women, youth, and the Aboriginal community. It could also provide an opportunity to engage new and potential immigrants to BC in a process that would result in transitioning into meaningful, well-paying construction and skilled trades' careers and business opportunities.

The BC Labour Market Outlook 2010 – 2020 forecasts that the Province can expect 1,027,400 job openings over the next 10 years, with 2/3rds of those resulting from retiring workers. Trades are listed as one of the three occupation groups with the most expected job openings. This is not surprising, in the construction and skilled trades industry, the average age of many in the skilled trades is between 40 and 50 [*BC Trade Occupation Outlook 2009-2019*]. Given the physical requirements of many of those trades it is reasonable to expect a large exodus from the workforce due to retirements over the next decade.

The importance on trades training was reinforced by the announcement on September 19, 2012 that the BC Government will launch a new skills and training plan with an investment of $75 million and several other important initiatives. On September 18, 2012 the BC Government announced $1.75 million employer fund to attract and integrate skilled immigrants.

A significant number of skilled workers own and operate their own small businesses in communities across BC and employ others. They might wish to keep their life's business operating, but with no one waiting in the wings to take over and no resources to go looking for buyers they are more likely to just shut down leaving employees out of work.

Immigration is one avenue for potential business successors, as are traditionally underrepresented groups in construction trades small business ownership such as women, youth and Aboriginals. Traditionally, access by these groups to small business ownership in the construction industry has been limited. While they are starting to create a presence for themselves in the trades as apprentices and journey persons, it has historically not been common for them to take the next step and start running their own businesses. With the right connections and the mentoring provided by this Pilot, they could more effectively achieve such a level of success.

A review was conducted of offerings by private companies such as accounting firms and lending institutions, as well as Community Futures and the Business Development Bank of Canada.

A scan was also completed of what has been developed and delivered by other provincial agencies and sector councils with particular interest on those who focus on the construction sector.

In addition, a review of international succession programs was undertaken, with a focus on those programs that have targeted small firms and were created for and by industry. The international review included government supported models that have attempted to engage sector agencies in the process of succession planning, in particular, Australia and the agricultural sector.

To assist in the research, meetings were established with a variety of companies and agencies that design and deliver training or transitional services. This includes: Venture Connect; Community Futures; Myers Norris Penny; Vancouver Regional Construction Association; Vancouver Island Construction Association, Doug Willaby; Spruce Credit Union PG; TD Bank, Mike Green, Rick Roberts; Vancouver Island Economic Alliance, Kelly Pollack; Immigrant Employment Council of BC; Community Futures; Omineca Beetle Action Coalition; Northern Development Initiative Trust and Initiatives Prince George.

The US Council for Disability Awareness
http://www.disabilitycanhappen.org/chances_disability/disability_stats.asp states that

- A typical male, age 35, 5'10", 170 pounds, non-smoker, who works an office job, with some outdoor physical responsibilities, and who leads a healthy lifestyle has the following risks:
    - A 21% chance of becoming disabled for 3 months or longer during his working career;
        - with a 38% chance that the disability would last 5 years or longer,
        - and with the average disability for someone like him lasting 82 months.
    - If this same person used tobacco and weighed 210 pounds, the risk would increase to a 45% chance of becoming disabled for 3 months or longer.

This is a key factor for many business owners who do not carry disability insurance. Most business owners underestimate their likelihood of becoming disabled.

A further statement from the Council for Disability Awareness states that "*64% of wage earners believe they have a 2% or less chance of being disabled for 3 months or more during their working career.*[5] *The actual odds for a worker entering the workforce today are about 30%".*

Construction has the highest number of deaths of any industry in Canada, accounting for 23.3% of all workplace fatalities between 2008 and 2010. Every business owner has a responsibility to themselves and to their family to ensure that the financial welfare of the family is secure and for business owners that means having an exit process in place for their businesses. Many business owners are going to need the cash flow from selling their business in order to maintain their lifestyle in retirement.

Too many business owners have no real understanding of what is necessary to make their business saleable or how to go about doing so. Based on this and the size of many of these small businesses the expectation that 56% of them will sell for more than $500,000 is wishful thinking. Wishful thinking is not a strategy!

The BCCA survey showed that 72% wanted information on opportunities to assist with their business transition. This is certainly a cry for help; however, even those who want to succeed find it very difficult to stay the course. A crucial portion of a program to help these businesses will involve ongoing mentoring.

The following results are taken from the 2012 Financial Benchmark Program undertaken by the Heating, Refrigeration & Air Conditioning Contractors of Canada

Heating, Refrigeration & Air Conditioning Contractors
Association of Canada
HRAI

2012 financial survey of 56 Canadian HVAC contractors showed
that after taking an owner/manager salary of $100,000
The operating pre-tax profitability was as follows

Companies	High	Low
Top 15 (27%)	27.7%	10.3%
16 to 26 (20%)	9.8%	6.0%
27 to 36 (18%)	4.9%	0.2%
37 to 56 (35%)	0.0%	-14.3%

The overall average was 6.3% pre-tax profit

Fifty-four percent of the companies surveyed made less than 6% pre-tax profit or lost money. The value of these companies to a buyer is not much above asset value. The range of profitability from one contractor to another is very significant. The main reason for this is the different approaches that the owner/managers take.

This is the 16th annual survey for HRAI and this year shows the greatest disparity ever between the most profitable contractors and the least profitable. The more successful contractors appear to be investing more in their businesses while the less profitable ones are being forced to focus more on their day to day survival. Historically in this survey no more than 20% of the contractors achieve double digit pre-tax profitability, this year the figure was 27%.

Surveys have shown that in 80% of the occasions that businesses get into trouble the causes are primarily internal to the company. In only 20% of cases it has been shown that the causes are of an external nature.

There is a great need for assisting small construction businesses in managing their transition process but the obstacles should not be underestimated.

Construction Associations are owned by their membership to meet their needs and the needs of the consumers of their members' services. Their role includes improving the viability of their membership. Facilitating ownership transition should be an integral part of the mandate of these Associations.

Surveys & Resources

JOBS Survey

The JOBS Pilot undertook a Succession Survey which highlighted many concerns that need to be addressed to fulfill the mandate of the terms of reference. The questions and responses to that Survey are shown in Appendix 3.

The respondents represent a cross section of the industry by trade and by size and cover all four regions serviced by the BC Construction Association.

102 responses were received throughout the Province.

Some key statistics:-

- Sixty-nine percent of owners are at least 50 years of age.
- Fifty-seven percent have been in business longer than 16 years.
- Sixty-two percent have 10 or fewer employees.
- Thirty-five percent want to exit within 5 years; another 39% in the ensuing 5 years.
- Twenty-three percent will sell to a family member, Sixty-seven percent to non-family member and ten percent will stay on in business.
- Fourteen percent expect to get between $300,000 and $500,000 for their businesses.
- Fifty-six percent expect to get more than $500,000 for their businesses.
- Three percent have a formal written plan.
- Forty-one percent have an informal unwritten plan.
- Fifty-six percent have no plan.
- Thirty-four percent of those with a plan (written and unwritten) got advice from their accountants.
- Seventy-two percent would like to be informed of opportunities to assist with business transition.

The survey results show that most of the businesses have made no significant attempts at preparing themselves for succession and are seeking further guidance in this regard.

A surprising number of the businesses appear to have very unrealistic expectations of the value of their businesses.

The majority of the businesses have 10 or fewer employees. In these cases the owners are very "hands-on" in their businesses and therefore are an integral part of the success of those businesses.

Seventy-four percent of the owners want to retire within the next ten years.

Venture Connect

http://www.ventureconnect.ca/

Venture Connect produced a document titled **Business Transition Guidelines February 2012**.

It covers Vancouver Island and the Sunshine Coast and its focus is small business. (Percentage points have been rounded off to the nearest whole percent).

- Twenty-four percent (3,720) of current business owners plan to exit within the next five years. Fifteen percent (2,286) of those who want to exit want to do so within the next three years.
- Thirty-one percent plan to close their businesses.
- Forty-eight percent plan to sell to a non-family member.
- Over 83% of these businesses have **not** begun a search for a successor.
- This translates into 3,720 businesses closing or transitioning within the next five years. Using an average employee business ratio of 2.59 this means that 9,635 employees will be impacted.

Based on the JOBS Survey and that of Venture Connect there is no doubt that in the future small businesses are going to need a lot of help in transitioning their ownership.

Business transition should be considered as part of one's estate planning. It is as important as making a will. While a person's home might be their greatest asset their business is likely the second greatest and quite complicated, with a high risk of depleting the value of one's total estate if it is not easily wound down or sold off. Winding down construction companies can be quite difficult, primarily due to the work on hand and Trust and Lien risks. The business must continue on until it is sold or the work-on-hand completed. The cost of abandoning work or getting other contractors to complete it can be very expensive.

Not only is succession planning critical as part of estate planning it is also very important because of the higher risk older owners face regarding long term disability. Most working people are more likely to become disabled than to die and when this happens the situation is even worse as the owner still needs an income but is unable to contribute to the business.

Resources used to compile this Report

A variety of resources were used for completion of this report.

- Job Opportunities & Business Succession Interim Report May 16, 2012
- Jobs Update, April 16, 2012 Research, prepared by BCCA
- BC Jobs Plan, News Release, Ministry of Jobs, Tourism and Innovation – 2012JT10007-000054. Jan. 23, 2012 – Pilot program targets small business succession
- BCCA Succession Survey June 2012
- Venture Connect Business Transition Guidelines February 2012
- Review of the programs offered by the Canadian Home Builders Association of BC
- Scan of a variety of websites of construction associations, financial institutions and regional resource programs
- Industry Canada Benchmark Results
- Heating, Refrigeration and Air Conditioning Association of Canada 2012 Benchmark Program
- Interviews with several contractors in the Lower Mainland who are going through succession planning

Research

A significant amount of research has been undertaken since the commencement of the Pilot, building on the work done in this area by the BCCA over the past several years. Travel has been conducted to rural communities in the Province and website scans were done to identify current activities in the area of Succession Planning. A management oversight committee was established with BCCA and Paul Mitchell was hired as Project Manager through a competitive procurement process to undertake further development of the Pilot.

Meetings

In addition to the research, meetings were established with a variety of companies and agencies that design and deliver training or transitional services. These include: Venture Connect; Community Futures; Myers Norris Penny; Vancouver Regional Construction Association; Vancouver Island Construction Association, Doug Willaby; Spruce Credit Union PG; TD Bank Mike Green & Rick Roberts; Vancouver Island Economic Alliance, Kelly Pollack; Immigrant Employment Council of BC; Community Futures; Omineca Beetle Action Coalition; Northern Development Initiative Trust and; Initiatives Prince George; Paul Mitchell, Special Projects Manager BCCA ; F. Abigail Fulton, B.A. L.L.B Vice-President BCCA: Dana Taylor Executive Director, Mechanical Contractors Association of BC; Beth Currie, BASc, M. Mgt., P. Eng., Program Head, Construction Management Program, BCIT; Electrical Contractors Association of BC.

#1 Overview of current succession programs that are offered to companies in B.C. with a brief analysis of the efficacy of those existing programs for small enterprises.

Key points:

- ***There are no programs geared to small contractors dealing with the all the elements of succession planning.***
- ***There is one program on Vancouver Island/Sunshine Coast geared towards buying and selling small businesses. -* Venture Connect** http://www.ventureconnect.ca
- ***In the major centres of the Province there are some programs that would benefit small contractors, but not enough to encompass the succession planning process. None of these programs are specifically geared towards small contractors.***
- ***There does not appear to be any follow-up programs to mentor or reinforce the learning.***
- ***None of the programs appear to provide any ongoing hands-on support.***

Industry Background

Statistics Canada issued a report on various segments of the construction Industry for BC by sales volume. The statistics can be found at

http://www.ic.gc.ca/app/sme-pme/bnchmrkngtl/rprt-flw.pub;jsessionid=0001AYvb-36JuiSztcG-e4482dR:Q1DVIMTP3?execution=e3s17

Here is a selection of construction trades from their reports showing the number of companies in each of three trades and their sales volume by unincorporated and incorporated businesses:

Total businesses in BC	**Sales $30,000 to $5 million**				
		Unincorporated		**Incorporated**	
	Total	Lower Half (50%)	Upper Half (50%)	Lower Half (50%)	Upper Half (50%)
Sales	$30K-$5M	$30K-$74K	$74K-$5M	$30K-380K	$380K-$5M
Residential building	11,856	3,097	3,097	2831	2831
Sales	$30K-$5M	$30K-$87K	$87K-$5M	$30K-396K	$396K-$5M
Plumbing, heating & A/C	3,261	731	731	900	899
Sales	$30K-$5M	$30K-$64K	$64K-$5M	$30K-212K	$212K-$5M
Painting	2,852	1,098	1,098	329	328
Total businesses in BC	17,969	4,926	4,926	4,060	4,058

The total payroll cost plus profit for the bottom 50% ranged between $30,000 and $102,000.

Specific programs on succession planning are offered by consulting groups and various banks provide programs dealing strictly with the succession process itself rather than how to prepare the business for succession planning. The most relevant program on succession planning for small business I British Columbia is **Venture Connect** http://www.ventureconnect.ca

Spirit West Management has a series of videos on this topic. The videos do provide information but the main focus of the videos is to get prospects to engage the services of Spirit West Management to assist them in preparing for the succession process. Most business brokers have a preference for companies whose annual sales exceed $5 million.

In order for succession to be successful there must be intellectual property within the business. This means it can't just be in the owner/manager's head. This is one of the key problems with smaller contractors.

There are numerous business management programs designed for contractors. These are delivered by a variety of organizations in British Columbia.

Most of the construction associations offer courses, however, the only associations that appear to offer business management topics on a regular basis are the

- Mechanical Contractors Association of BC (MCA-BC)
- Canadian Home Builders Association of BC (CHBA-BC)
- Heating, Refrigeration and Air Conditioning Contractors Association (HRAI) in conjunction with the Refrigeration and Air Conditioning Contractors Association of BC (RACCA-BC)
- Independent Contractors and Businesses Association (ICBA)

MCA-BC offers four Gold Seal one-day programs which are delivered at their Burnaby location. They have not held programs outside of the Lower Mainland. They often include the Electrical Contractors Association of BC in these programs. MCA-BC also offers 2 one-day estimating programs in the Lower Mainland. ICBA also offers a variety of programs in major centres. These can be reviewed on their website: http://www.icba.ca/courses_events/courses.htm

CHBA-BC offers a wide variety of programs, which have strong on-line components and usually a one-day classroom component. The programs are held each year in major centres around the province. They are very focused on the needs of home builders and renovators. Their programs cover en extensive range of topics for their industry segment. However, the classroom components are only held in The Lower Mainland and major centres such as Kamloops, Kelowna, Prince George, Victoria and Nanaimo.

A review of the business management programs and courses offered by MCA-BC and CHGA-BC show a high level of sophistication which would be beyond the needs of many of the smaller contactors.

The British Columbia Institute of Technology (BCIT) offers a variety of courses, primarily from their Burnaby campus for people in the construction industry, including a degree program – Bachelor of Technology in Construction Management. Many of these programs have online components but also require regular attendance at the Burnaby Campus. They do offer a series of online courses. However, none of these appear to be construction related.

Details of their online courses can be found at

http://www.bcit.ca/study/programs/5080acert

They cover the following topics:

Business Operations Management
International Business Management
Advanced accounting
Professional Accounting
Taxation
Corporate Finance
Financial Planning
General Insurance & Risk Management
Entrepreneurship
Marketing Communications
Professional Real Estate
Professional Sales
Tourism Management

None of the BCIT programs or courses that are offered outside their Burnaby campus is targeted towards the construction industry.

The Okanagan College

http://www.okanagan.bc.ca/

The College offers trades training and a series of engineering programs.

http://www.okanagan.bc.ca/courses.html

The region served by Okanagan College covers 37,750 square kilometers, and extends from Osoyoos and Princeton in the south and west to Mica Creek and Revelstoke in the north and east.

The Thompson Rivers University (TRU)

http://www.tru.ca/

This Kamloops based University offers a range of programs including ***Bachelor of Technology (Trades and Technology Leadership).***

This degree program provides qualified trades persons and technologists with the knowledge and skills necessary to become effective team leaders, supervisors and managers in a changing business and technical environment. Program admission is continuous, and many courses are available for registration at any time.

Apart from Trades Training this appears to be the only program designed for contractors. It is likely to be more comprehensive and time consuming than most small contractors would complete.

In addition to their main campus in Kamloops TRU's region includes the Nicola Valley, Clearwater and the North Thompson, Lillooet and the upper Fraser Canyon, 100 Mile House, and the historic region known as the Cariboo. At the Williams Lake campus, in the heart of the Cariboo, students can begin study in degree programs, or choose various Career and Trades program options.

Sprott- Shaw Community College

http://www.sprottshaw.com/

Sprott-Shaw offers a variety of courses throughout the Province, including trades training.

The Northern Lights College –

http://www.nlc.bc.ca/

University of Northern British Columbia –

http://www.unbc.ca/regops/nw/

North Island College –

http://www.nic.bc.ca/

Similar to the other colleges around the Province the above institutions provide a range of programs but none are specifically geared to the small contractor for business or succession planning.

Venture Connect http://www.ventureconnect.ca

Venture Connect was a project created in response to the challenge that over the next 20 years, there will be unparalleled shortfalls of both business owners and employees resulting in potential closure of large numbers of small businesses throughout the area. The project was supported by BC Ministry of Jobs, Tourism and Innovation, BC's Small Business Roundtable, Island Coastal Economic Trust and six Community Futures organizations throughout Vancouver Island and the Island Coastal region (this includes Powell River and the Sunshine Coast).

Venture Connect is a corporation, a subsidiary of 6 Island Coastal Community Futures offices and is governed by a 12 member Board of Directors. The organization currently works with four Business Advisors, and employs an Operations Manager and an Administrative Assistant.

Venture Connect has some excellent material that could be used in conjunction with the proposed BCCA program. They have videos, articles and links.

Their focus is similar to that being reviewed in this report except they only cover a portion of the province and are not construction focused.

#2 Identification and comments on any GAPS in the current environment

This relates to succession planning as it pertains to the construction sector, particularly small enterprises

Key points:

- ***The main gaps in the current environment are that there are no processes for encouraging small contractors to consider succession planning and there are no programs to support them in such an endeavour.***
- ***Getting small contractors to commit to the appropriate programs will be a major hurdle that needs to be addressed.***
- ***A succession plan should be part of overall estate planning.***
- ***There is no onsite support for contractors to help them implement the learning.***
- ***There are no guidelines for evaluating the elements that buyers and sellers need to review***
- ***Not only is there a dearth of programs targeted at existing owners there are no programs targeted at potential buyers.***

Virtually all of the courses and programs that have been reviewed for this report tend to target the mid-size to larger contractors - The “11 plus employees” companies.

Most contractors with 10 or fewer employees would do less than $2,000,000 in annual sales unless they are subcontracting out a lot of their work. A one-man plumbing business might bill out as much as $200,000 per year. The average would be significantly lower. See the Statistics Canada survey mentioned earlier in this report.

The smaller contractors tend to go to very few courses as the owners tend to be very hands-on in their businesses. Those that make money do so because of their hands-on approach. They often estimate and manage their projects themselves, even working on the tools themselves. Getting them to prioritize the succession process is critical to the success of this program.

Their approach is based on making money on each job. They don’t tend to think of themselves as business owners and rarely have a vision of being able to sell their businesses for any real value other than asset value. They see themselves as having bought themselves a job rather than gone into business. Many of those that have a determination of value, as shown in the Survey, appear to be very over optimistic. (It surprises me to read that 56% of those surveyed expected to get more than $500,000 on the sale of their businesses). It would be a mistake to think of these business owners as entrepreneurs. If they were entrepreneurs they would have a much different business focus. It is essential that support offered to small contractors fits with their timetables, resources and needs. While most small contractors are not sophisticated business people they tend to have a lot of common sense and are well grounded. Maintaining a balance between talking down to them and talking above their heads is critical to any successful process.

There appears to be no programs that specifically groom small contractors for improving their business knowledge, processes or succession planning.

There does not appear to be any follow-up programs or ongoing mentoring for the contractors.

There is no community involvement in the existing programs, apart from the fact that there are a wide variety of general courses available through the Associations and the Provincial network of colleges and universities.

The smaller enterprises don't have the mindset of succession planning. The major gap would be threefold,

- How to motivate contractors to adopt a succession planning process.
- Develop a process that they would buy into.
- Provide an ongoing mentoring component.

The program would have to focus on the value that they would get from becoming involved in the succession planning process and it would have to be an on-going process with a strong hands-on approach.

Many small contractors are not members of any construction associations, some 50% of the participants in the BCCA survey were not members of BCCA.

There are no overall guidelines for buyers or sellers of small contracting businesses.

While **Venture Connect** http://www.ventureconnect.ca does offer programs for small businesses none of them address the uniqueness of the construction industry.

A successful program for small contractors will need to be fluid. The major gaps identified above need to be managed and tweaked regularly to ensure that the program is successful. An ongoing audit process will need to be put in place with measurable milestones and a plan of action developed for participating contractors that are not reaching their milestones in a timely manner.

Consideration should be given to tailoring programs, milestones and timelines to the needs of individual contractors. This would be part of the role of the mentors.

Buyers, Sellers and Senior Management

Working with potential buyers is just as critical as working with business owners. Unless the buyers are successful in their new ventures this program could not be deemed a success. It may also prove easier to work with buyers as they will more easily see the opportunities that await them; they are likely to be more open to the process. In addition if business owners see a pool of potential buyers they will in turn be motivated to become involved in the transition process. As stated previously in this report there is likely going to be more sellers than buyers. Thus the success of the program will ultimately depend on finding suitable, qualified buyers. Buyers who complete the program will also likely find it easier to get financing for their new business venture. Therefore developing programs that encompass the needs of both existing business owners and potential business owners is critical. Consideration should also be given to where there may be several managers within the business who would each participate in future ownership.

Taking this a stage further would be to attract senior management in businesses to participate. Even if they don't buy businesses they will be instrumental in ensuring the success of existing businesses by using their additional knowledge and the resources they would get from participating in this program.

A recent trend in the ownership of contracting businesses has been where the owner does not want to sell the business but wants to exit from the ongoing management role. The financial reward in selling the business is often quite low. Even getting paid 3 to 4 times annual earnings is not an attractive option.

What some owners are doing is training their key staff to take over the day to day operations of the business and retaining control themselves. They provide mentoring and attend meetings and review performance indicators. In return they forego their salaries but receive dividends. Provided this process works for four years they usually end up ahead of the game.

This also applies to managers who are interested in taking more of a leadership role but wish to avoid the stress and responsibility of ownership.

This means there is a market for training senior management so that they can take on greater responsibility. This would ensure that the businesses stay active for a longer period and make it more likely that a buyer could be found.

Sales	100%	1,000,000
Direct cost	75%	750,000
Gross profit	25%	250,000
Overhead	15%	150,000
Profit	10%	100,000
Sale value of business		
Profit multiplier	4	400,000

Owner/manager's strategy

Pay the management salary that is included in overhead
to a manager and continue to draw dividends

At any time the owner could sell the business but each additional year that he holds on generates more money for him.

#3 Define the business elements that contractors need to implement in their businesses to make their businesses saleable

Key points:

- ***Identify the professional development programs that contractors need for their future success.***
- ***Focus on the buyer as well as the seller***

The profile of the small contractor tends to be a Caucasian male with a trade background; he has built his business using his technical skills and his common sense. He has taken little or no education since starting his own business. He drives his business by going from one project to the next. He is very much a doer and less of a strategist.

Many small contractors fail to put systems in place. It is surprising how often they fail to produce even meaningful profit and loss statements and balance sheets. This has been an observation from the 16 HRAI annual benchmark programs that have been previously referenced.

Also many contractors seem to be very weak in the use of signed contracts for work and do a lot of work without written authorization. Many of the disputes that contractors have with their clients are due primarily to a lack of clarity in specifications, communications and outcomes. This is particularly true in the residential renovation and custom home building markets.

The business elements that contractors need to implement are quite extensive. It is important to focus on small contractors and identify their needs rather than look at the overall needs of contractors generally. Larger contractors have more resources, more professionals within their businesses, access to a wider array of professional advisors and have a greater variety of needs.

Profile of the program's target market

Identifying the profile of the contractor that needs support is a critical first step.

Based on the BCCA survey 62% of those surveyed had no more than 10 employees.

- The one person business (2%)
- One to five employees (39%)
- Six to ten employees (21%)

While all contractors should develop the business elements listed herein there are additional elements that larger contractors should also consider. The greatest impact on making construction businesses salable would be to focus on the business elements that will enhance the succession planning process for these smaller contractors, the larger contractors would also benefit significantly from this focus and would find it much easier to develop their succession planning needs.

Appendix 1 contains a series of questions, by business element that contractors can use as a checklist to determine the readiness of their businesses for succession planning. The list is very extensive and it would be impractical to assume that any contractor would meet all the elements. Each business should tailor and prioritize the list to their needs.

Outcomes to focus on
The following are the primary outcomes that small contractors need to develop in order to make more money and to position their businesses for succession.

- Understand and accept the value of the succession process
  - This should include personal issues in addition to the business – overall estate planning
- Make sure the buyer will find no surprises
- Ensure that the business generates a profit, after a reasonable owner/manager salary in excess of 5% of annual sales
- Have a repeat customer base that awards work based on value not on price
- Have good documented controls in place, including key performance indicators
- Have good operating procedures for completing projects on time, on budget and to specifications
- Have a formalized estimating and sales process
- Have key management in place, with job descriptions
- Have no poor performing employees
- Have a profile of a potential buyer – family, employees, third party
- Understand the after-tax consequences of a sale
- Know if they can maintain their lifestyle after retirement
- Develop a transition process
- Have a vision of what they will do after selling their business

The desired outcome for each element needs to be defined and then built into an action process that the individual contractors and their mentors can implement. This would link back to the milestones and timelines reviewed in the previous section of this report.

Turning these elements into procedure manuals would be very effective. In addition to providing an invaluable resource this would simplify the role of the mentor, make it simpler for the contractor to implement and make it easier to monitor the success of the process. It would be an enduring advantage to the buyer as the intellectual property would stay within the business.

Each contractor would be expected to modify the content of the programs to their specific needs. These programs would also be invaluable to the buyer of the business. In addition the contractors would make more money during their normal course of business.

Focus the training

The initial thinking is likely to focus the training on the owners of the contracting businesses exclusively; this might prove to be an error. It is likely that potential buyers or others who wish to start their own contracting businesses will be eager to learn the skills they would need to become successful contractors in their own right. By targeting buyers the program would enhance their knowledge, giving them a greater chance of success. They could even take over businesses that are not really viable and turn them into viable operations. In the training process they would meet with owners who are interested in selling their businesses. Also sellers would be more inclined to sell the buyers who have undergone the training process as they would see the business having a greater chance of success. This would provide additional comfort to a vendor who will be carrying financing. This could also be a very valuable part of the transition process. In turn their ability to transition their businesses to the generation following them should be easier and more successful.

#4 Outline the key components for each education program & recommended timelines

Key points:

- ***Identify the "must have" professional development programs of a small successful contracting business***
- ***These elements are necessary for the ongoing success of the business and for creating a desirable sale value***
- ***Assist contractors in getting rid of their bad habits***

Recommended Programs

1 *Go on! Make Your Business Really Fly*

- Identify the benefits of a succession plan
  - The monetary rewards
  - The legacy
- Succession Planning is an integral part of your personal estate planning process
- Understand the need for having a will and keeping your affairs in order
- Know the tax implications to your estate on death
- Know what a permanent disability would do to your financial resources
- Know whether or not you are leaving your survivors financially secure
- Sometimes the biggest risk is in doing nothing
- Develop your risk elimination process – one step at a time
- Understand and implement the process of working ON your business as well as IN your business
- Understand the pros and cons of selling your business
- Clarify the concept of risk and reward – doing nothing is often the greatest risk and provides the least reward

This would likely be a one-day program

2 *Develop Your Plan of Action*

- Identify the outcomes you want to achieve
- Identify the challenges you will likely face
- Develop your Plan of Action to overcome the challenges along with timelines and performance indicators
- Identify a mentor to hold you accountable and to assist you

This would likely be a one-day program

3 *Make sure the buyer will find no surprises*

- Develop a checklist of items a buyer should review to help identify any areas that might not be readily apparent. Here are some sample of questions that are easily overlooked:-
  - Does the business have unrecorded banked hours
  - Are work in progress and inventory valuations accurate
  - Have there been any audits by CRA, the Provincial Government or WCB.
  - Are there any contingent liabilities

- Does the business require bonding
  - Are equipment and premises leases good and transferable
  - What severance packages is the buyer likely exposed to
  - Have there been any insurance claims
  - Do any of the employees have a high risk from a WCB perspective
  - What is the age of the workforce
  - Have all relevant employees got clean driving licenses
- By reviewing a complete checklist you can determine the level of exposure the buyer will face
- Look at things from the buyers' perspective – ask yourself *"would I buy this business"?*

This would likely be a half-day program

4 Management Accounting

The business needs to generates a profit, after a reasonable owner/manager salary of more than 5% of annual sales

- Understand Mark-Up/Mark-Down pricing policies
- Know how to calculate realistic charge out rates
- Know how to increase the value of service invoices and time and materials invoices
- Know how to calculate your Monthly Break-Even Volume
- Establish a proper set of Cost Codes
- Know how to calculate Monthly Progress Billings
- Know how to calculate Work In Progress accurately
- Understand pricing sensitivity
- Understand how to identify and manage Overhead
- Know how to manage Working Capital
- Understand the difference between Cash and Profit
- Understand the Cash Conversion Cycle
- Know how to Improve Cash Flow
- Identify Profitable Work
- Know How to Improve Profits
- Understand the key elements of service work
- Manage the Collection of Your Accounts Receivable
- Know your responsibilities regarding Payroll

This would likely be a one-day program

5 Financial Accounting & Financing

- Understand your financial statements
- Identify, calculate and interpret your key financial ratios
- Understand the different legal types of business entities
- Establish a proper set of Cost Codes
- Sources of Financing, including rhose referenced in Section 9
- Identify specific programs for specific needs

This would likely be a one-day program

6 *Sales and Marketing Program*

- Develop a business model that gets work awarded on value not on price
- Develop a Job Profile for identifying profitable projects
- Develop Planned Maintenance Programs
- Become involved at the design stage of projects
- Identify the profile of "A' customers
- Learn how to get repeat business
- Learn how to up-sell your customers
- Learn how to get referral business

This would likely be a one-day program

7 *Key performance indicators*

Put good controls in place

- Identify the key elements of your business
- Put controls in place to ensure you are getting accurate and timely reports on all work undertaken
- Identify the key performance indicators that will help you stay in control

This would likely be a half-day program

8 *Operating procedures*

There are four outcomes for every project: - Complete on time; complete within budget, complete to the standards expected, retain the client goodwill.

- Develop comprehensive procedure manuals for all stages of projects with a particular focus on checklists
  - Start up guides
  - Productivity checklists
  - Change Order Management
  - Short term Interval Planning
- Know how to manage projects of under $100,000 from quotation to completion.
  - Identify the problems
  - Develop the solutions
  - Understand the Outcomes
  - Implement the Actions
- Managing service work
  - Understand the key elements of productivity
  - Develop charge-out rates
  - Know what to include in your invoicing
  - Learn how to delight the customer

This would likely be a one-day program

9 *Formalized estimating process*

- Estimating should be done using detailed take offs

- Priced materials lists should be developed
- Standard labour factors need to be developed for each activity
- Difficulty factors need to be incorporated
- Schedule for subcontractors would be included
- Bid summary sheet would be developed to combine the various elements of direct cost and to include indirect cost and to calculate mark ups for overhead and profit.
- A method of identifying change orders and pricing them needs to be developed

This would likely be a one-day program

10 Key management

- Develop job descriptions for key positions
- Develop regular performance reviews for all managers
- Ensure that each manager reaches their goals or are being mentored to reach them
- Ensure that each manager mentors and monitors the employees who report to them
- Provide self-evaluation tools to your managers

This would likely be a half-day program

11 No poor performing employees

- Develop job descriptions for key positions
- Develop regular performance reviews for all employees
- Ensure that each employee reaches their goals or are being mentored to reach them
- Provide self-evaluation tools to all your employees

This would likely be a half-day program

12 Profile the potential buyer

Family, partners, employees, third party

- Identify who will not be potential buyers
- Identify what would be important to potential buyers
- Know how to contact potential buyers
- Where possible start grooming potential buyers it they work within the business
- Head hunt potential buyers to work within the business
- Know the realistic value of your business

This would likely be a half-day program

13 Valuing your contracting business

- Understand the after-tax consequences of a sale
- Know if you will sell shares or assets
- Understand the tax implications of a sale
- Know if you will have sufficient capital to maintain your lifestyle
- Identify the key elements in the value of your business
- Develop strategies for increasing the value of your business

This would likely be a one-day program

14 The marketing process

- Identify your exit date
- Put together a marketing plan for selling your business
- Start executing your plan with predetermined timelines

This would likely be a one-day program

15 The transition process

- Know what you are going to do after you sell your business
    - Will you stay on for a short while
    - Will you stay on indefinitely
    - Will you consult to the business
    - Will you mentor the new owners
    - Will you take on a different job
    - Will you do volunteer work
    - Etc.
    - Etc.
- Understand how the transition process will work
- Know how payment will flow from the purchaser to the seller

This would likely be a half-day program

16 Peer Group Programs

- Identify a format that would work for the contractors
- Develop the key components of the program
- Review the process with the participants
- Build the Peer Groups
- Establish agendas for them

This would likely be a one-day program

This process is covered in more detail in section 6

Note: These timelines are tentative. Times will vary once the programs have been developed and the delivery methods have been determined.

Advance preparation through self study processes would reduce classroom time.

Scheduling these programs in the most effective sequence also needs to be identified.

Five years is often considered a reasonable timeline for preparing a business for sale. If this timeline is adopted then these programs could be developed and scheduled to be delivered within the first five years of the program going live. It is essential that the process does not appear to be overwhelming.

Rolling out the programs and process needs special attention. Many people have a built-in resistance to change. Contractors are no different. Early yardage programs will help them buy into the process. Consideration should also be given to starting with programs that will have the greatest immediate benefits. This will benefit businesses where the transition period is shorter and the buyer can continue to participate in the process.

#5 Recommend a variety of methods for delivering these programs within the relevant communities

Key points:

- ***Don't get focused on only one delivery method***
- ***A combination of delivery methods can be incorporated into each program***
- ***A variety of options should be made available to suit the needs of the participants***
- ***Ongoing local support and mentorship is a key to successful completion of the process***
- ***Identify partnering with organizations and individuals who would participate at a local level***

Professional Development Programs

Section 4 outlines a series of Professional Development Programs. Providing comprehensive workbooks with tests at the end of each chapter could be used as part of this process. Adding assignments that should be submitted to an instructor would provide greater accountability.

Providing online workbooks with tests at the end of each chapter and assignments that need to be completed could also be effective, particularly if the workbook did not allow the participant to continue until the chapter test or assignment had been completed. The system could provide guidance on the accuracy of the tests. The Canadian Home Builders Association of BC uses this process in their professional development programs.

Workbooks can be turned into procedure manuals for the whole company. This will enhance the Intellectual Property of the business. This would also be very beneficial for the Peer Groups as recommended later in this report.

Delivery options

Classroom

Stand alone workshops/seminars could be offered. Alternatively on completion of the workbooks the participants could attend a classroom session to reinforce learning and to meet with other participants in the same program. Other advantages of the classroom environment are that mentorship and peer groups could be established at that time. Classroom programs could be held at local community colleges or sponsored by industry suppliers, construction associations and other organizations interested in ensuring the ongoing success of small contractors.

The classroom process could also be used in conjunction with internet, audio or video programs.

Mentorship

Assigning a local person to mentor participants on an ongoing basis would be beneficial. The added advantage to this is that it could create further employment within the local communities. Mentors could be sponsored by organizations within the communities. Mentors could also be employees of organizations within the communities as an opportunity for employers to give back. Many organizations gave their employees paid vacation to volunteer during the 2010 Olympics here in BC.

The BDC CASE program was successful for many years using a combination of education and mentoring.

Peer Group Programs

This would involve non-competing businesses within the community to meet regularly and follow a structured program for preparing their businesses for succession. An example might be contractors representing different trades could meet three to four times a year. An added advantage to this is they can recommend each other to their client base; they could merge their businesses to make them more attractive to potential buyers or they could joint venture on individual projects.

Sometimes peer groups are led by a non-participating person who takes a leadership role in ensuring that the process moves forward.

A standard process for peer groups should be developed.

The mentorship program could be incorporated into the peer group program.

Audio recordings

These could include tele-seminars, CDs and MP3 downloads

Video recordings

These could include webinars, YouTube videos and DVDs. Consideration should be given to using Camtasia (http://www.techsmith.com/camtasia.html)

Newsletters, blogs and tweets

These could be used to reinforce information and motivation.

Dedicated website

Much of the information and materials could be stored on a dedicated website that the participants would have access to.

Consider modeling along the lines of **Venture Connect** http://www.ventureconnect.ca/

Partnership links

Also links from other websites could be added. See the list of organizations in the next section for further details. These would enhance marketing of the programs and could be part of sponsorship programs.

Certificates of Completion

These could be issued to participants who complete elements of the programs. This would be of particular value to buyers who could show they have the credentials to run the businesses. It would give the seller more confidence in dealing with a buyer who had received a variety of certifications. Just like the Red Seal and Gold Seal Certifications add value within the Construction Industry.

The target market

All the above processes would be very beneficial not only to sellers but to buyers and to senior managers within contracting businesses. Senior management that does not want to participate in would also benefit from participating in these programs.

Provincial Advisory Committee

Co-coordinating this program and ensuring its goals are attained is a critical element of the ongoing program. With this in mind the various people and organizations that have been instrumental in contributing to this Pilot should be invited to participate in a Provincial Advisory Board.

These include: Venture Connect; Community Futures; Myers Norris Penny; Vancouver Regional Construction Association; Vancouver Island Construction Association, Doug Willaby; Spruce Credit Union PG; TD Bank, Mike Green, Rick Roberts; Vancouver Island Economic Alliance, Kelly Pollack; Immigrant Employment Council of BC; Community Futures; Omineca Beetle Action Coalition; Northern Development Initiative Trust and Initiatives Prince George.

In addition relationships could be formed with STARTUP Canada http://www.startupcan.ca/ and

Small Business BC www.smallbusinessbc.ca

As the program evolves more organizations would likely be willing to provide guidance and financial support.

#6 Recommend ongoing methods for supporting and enhancing these programs to ensure their continued success

Key points

- ***Identify organizations and businesses that would promote and support the process***
- ***Identify community members who would mentor the participants***
- ***Identify corporations that might provide senior management to provide mentorship on a pro bono basis***
- ***Implementation of a mentoring program***
- ***Development of peer groups***
- ***Develop a dedicated website with all the resources available to program participants***
- ***Gear the program towards both sellers and buyers***

In order to ensure that the program is successful input and ongoing support from a variety of community and provincial organizations and corporations and individuals within the communities will be essential. Some organizations and corporations could provide funding and or facilities or equipment to ensure the success of the process.

Groups that could support the program

- Construction Associations
- Provincial government
- Chambers of Commerce
- Local Community Colleges and Universities
- Industry Suppliers
- Aboriginal Groups
- SUCCESS
- Canadian Association of Family enterprise (CAFÉ)
- BC Community Futures Program
- Venture Connect
- Western Economic Diversification Canada
- Industry Canada (loan guarantees)
- Banks
- Credit Unions
- Business Development Bank of Canada
- Northern Development Initiative Trust
- OMINECA Beetle Action Coalition
- Larger local employers
- BCCA Trade Specialists

BCCA Trade Specialists

BCCA has 14 offices with approximately 50 specialists who are employed and in constant with the industry.

Dedicated website

Having a dedicated website with all the resources on it would be of great value.

- Associations could use it to promote the programs.
- Financial Institutions could offer their services through it
- Other groups such as colleges and Chambers of Commerce could get information on the program.
- Mentors could use it as a resource for materials they need to work with their protégés.
- Peer groups could use it to ensure that they were following the process and for guidance.
- Participating contractors could use it as a resource for programs, checklists and manual.
- Progress tracking for individual participants could be monitored.
- A list of participating contractors could be added so that consumers might be drawn to the site to choose a recommended/reputable/progressive contractor
- Frequently asked questions could also be part of it.
- Discussion forum could be included.
- Links to LinkedIn, Facebook and a dedicated YouTube channel should be established.
- Recommended readings and E-books should be included.
- Reciprocal links should be added to link all the above parties to the dedicated website.
- Businesses for sale should be listed.
- Potential buyers should register on it.

Mentors

***Mentorship** is a personal development relationship in which a more experienced or more knowledgeable person helps to guide a less experienced or less knowledgeable person. However, true mentoring is more than just answering occasional questions or providing ad hoc help. It is about an ongoing relationship of learning, dialogue, and challenge. (Wikipedia)*

Providing mentors to each contractor to keep them focused on their business objectives would be very beneficial. This would be a crucial part of ensuring the success of the program. It would provide constant feedback to the organizers of the programs so that they can monitor success regularly. Leaving contractors to implement the processes necessary to enhance their opportunities for succession planning will likely have a very low success rate. Virtually every athlete has a coach to help them, even the most successful ones. The chances of a contractor, being left to his own devices, being successful in this arena are slim. There are too many distractions and he does not have the skill to cope with this process.

Mentors could be recruited from within the community, which would create more local employment. Also larger employers may be willing to provide some of their senior management (on a volunteer basis) to act as mentors. These employers could include financial institutions, local government and local businesses.

The role and profile of a mentor are identified in Appendix 2

In addition to working on a one-on-one basis with a contractor the mentor could also be involved in the peer groups. Mentors should meet with each other regularly to provide support to each other and to get tips on keeping their contractors motivated.

Mentors should be obliged to attend the professional development programs.

Peer Group Programs

A common format for a peer group would consist of between 4 and 8 non-competing contractors, preferably of similar size.

They would meet regularly, anywhere from 4 to 6 times a year. This is a relatively inexpensive process as all the contractors provide their time for free as they all will get benefits.

There are variations on the process to be followed. In order to provide flexibility and to meet the needs of specific groups the various formats should be considered.

Format #1

This format involves dealing with all topics for one business at a time.

Meet at one contractor's place of business for 2.5 days. Say Friday, Saturday and Sunday morning.

The contractors would do an audit of the business practices of the host contractor and then spend Sunday morning reviewing the conclusions and recommendations and helping that contractor implement the recommendations.

The next meeting would be hosted by another contractor. The previous host contractor would report on his progress and be critiqued by the group. The group would then do their audit on the new host contractor and the process would continue until each contractor has been through the wringer.

At each meeting every contractor should be able to get ideas to help them. They could also incorporate a discussion program where each contractor gets to voice one concern and to get constructive feedback.

The mentor for the host contractor should organize the event and attend so that he/she can help the host contractor implement the recommendations.

- Identify a format that would work for the contractors
- Develop the key components of the program
- Review the process with the participants
- Build the Peer Groups
- Establish agendas for them

Format #2

This format involves dealing with one topic at a time for all businesses

This format is more structured and has several advantages over the previous method. This process would terminate in a formal policy and procedures manual tailored to the specific needs of each individual business. The topics to be covered would be linked with those in Section 4.

In this format each participant receives a binder divided into a variety of topics and over the life of the peer group fills each category with the appropriate information. The majority of the topics would involve developing a procedures manual for the business. The peer group meetings would follow the above timelines of 2.5 days. However the structure would be very different.

The main topics of the program would be

- The personal goals of the business owner to transition out of the business.
- Financial information
- Sales, estimating and marketing
- Operations
- Administration
- Human resources

The key elements in each topic would cover the following

Personal goals

- When he wants to exit the business
- How much money he expects to get
- What the payment terms are
- What he is going to do after he exits the business
- How he would deal with a disability if it occurs before he exits

Financial information

- Chart of accounts
- Sample monthly profit and loss statement and balance sheet
- Chart of job cost codes
- Sample job costing
- Annual budget
- Key financial indicators
- Computer back up procedures of accounting system
- Accounting procedure manual
- Payroll manual

Sales, estimating and marketing

- Sales scripts
- Customer service follow up procedures
- Details of estimating program identifying where a secure off site copy is held
- Information on marketing programs and materials
- Contact information for web support person
- Specific policies and procedures for above
- Contact management program

Operations

- Procedures manual for projects
- Procedures manual for service calls
- Follow up procedures with customers
- Checklists for all relevant operational procedures

Administration

- Administration manual

Human resources

- Policies and procedures manual
- Job descriptions for all positions
- Evaluation processes
- Vacation schedules

The attendees would complete the formal training program for a topic based on the topics in Section 4. Then in conjunction with their mentor they would develop the relevant information for their business.

Each peer group meeting would deal with one topic. The attendees would be expected to provide what information they could in advance and then work as a group to fine tune and share the information. The sessions would be led by the mentors and the mentors would assist their protégés in formalizing a process that worked for them and in implementing the process within the individual business.

Buyers and Sellers

As stated in Section 2 including buyers and other senior management of existing construction businesses would be a very beneficial way of enhancing the success of this program.

These buyers and senior management will help to give the program a broader approach as the content will be critiqued from a broader base of knowledge and from a buyer's, manager's and a seller's perspective.

#7 Outline a process for reaching agreements between buyers and sellers and financing arrangements

It is expected that very few potential buyers will have the financial resources to pay cash for these enterprises.

Key points:

- ***Cash offers are rare. Be prepared to carry financing in one form or another***
- ***Prepare your business for sale***
- ***Protect your assets to ensure that you receive full payment***
- ***Make sure expectations are realistic***

There are two main types of business structure, namely a proprietorship/partnership or a limited company.

There are three components to a purchase price

1. The assets to be acquired
2. The goodwill
3. The working capital

Legal Business Structures

Proprietorship/partnership

In this case the sale is by the individual(s) who own the business. The gain from the sale goes on their personal tax returns. The income tax implications are not being reviewed here.

However, normally when selling a proprietorship/partnership the purchaser will acquire the relevant assets and the goodwill. The purchaser is unlikely to have any exposure to any liabilities from the previous business except for any work on hand that they take over.

Certain assets and liabilities will likely stay with the vendor. These would include the cash, the accounts receivable and the accounts payable.

The purchaser would acquire the vehicles and equipment, including related debt and the inventory and the work on hand. The valuation process for this should be relatively strai9ghtforward.

Where the vendor is expected to carry financing he could set up the vehicles and equipment on a payment schedule that would involve the vendor holding title until the full purchase price is paid. An as worse situation for the vendor is that he would repossess the related items and retain whatever payments he has received.

The main security for the goodwill would be personal and corporate guarantees from the purchaser and the new business entity.

The purchaser should be expected to provide their own working capital.

If the vendor is providing working capital and financing for goodwill then he is taking a significant risk. He needs to look at the available security and the likelihood of the new owners succeeding.

The purchaser could be another proprietorship/partnership or a corporation.

Corporation

Incorporated"; "Inc."; "Corporation"; "Corp"; "Limited" "Ltd." are all variations on the titles used for a limited company in Canada. These different titles have no impact on the structure of the business. They all have the same legal meaning.

When an incorporated business is being sold it is essential to determine if it is the corporation itself (the shares) or the assets of the corporation that are being sold.

Where it is an asset sale the process outlined in the proprietorship/partnership scenario can be used.

If it is a share sale then everything that is within the corporate structure s sold. Prior to the sale the vendor should roll out any assets or liabilities that are not going to be part of the sale. This is where the advantages of a Holding Company come into play.

In a share sale the vendor can put charges against the assets of the company to protect any outstanding money. This should be done using a lawyer to ensure that the charges are registered in the appropriate manner. Charges can be registered in a variety of ways including fixed and floating debentures, promissory notes, personal and corporate guarantees or registered under the Personal Property Security Act. Take advice from your accountants and lawyers when going through this process.

Agreement to purchase

An agreement to purchase can be done in stages. This can be particularly effective when there is going to be a transition period between the seller and the buyer. This way, in a share sale, the shares can be transferred in stages or different types and classes of shares can be used.

Where it is an asset sale one option is to transfer assets to the buyer as they are paid for. However a key issue could be one of control of the business. Often the vendor will not give up control until he has been paid out in full. This can be addressed in the formal documentation.

The key elements to the purchase agreement are threefold as mentioned earlier – assets, goodwill and working capital.

The assets should be easy to value. If there is disagreement retain the services of a professional valuer.

The goodwill is the most difficult item to value and the valuation of goodwill is covered elsewhere in this document.

The working capital can be valued based on the historic values within the business or using a formula for the specific segment of the industry. Service companies need less working capital than contracting companies that have long-term holdbacks. For example, most commercial trade contractors should have working capital of approximately 10% of their annual sales with a current ratio of at least 1.5:1:00.

Negotiating an agreement

This process can become very emotional. They vendor often has a very strong attachment to his business. He has built it up, it's his baby. He may prove very defensive when others identify concerns that they have about the business and about the low ball offer that they may perceive they are receiving.

Educating the seller about the key elements of the value of their business is critical.

Bringing in a third party to evaluate an offer or to assist in helping a buyer to structure an offer would be beneficial.

The mentors could be involved in this process. One of the professional development programs outlined in Section 4 covers valuing a contracting business.

Ensuring that both buyers and sellers have realistic expectations from day one would make the process go more smoothly.

Agreements in principle can be made subject to a variety of conditions being met. A common condition could be *subject the purchaser acquiring certain financing.*

Financing organizations

By having financial institutions onside with the process would make the negotiation process more effective. The financial institutions would outline what their requirements are and in each situation the parties to the proposed agreement would have a good idea of what is required and whether or not an offer is likely to be successful. The various financial institutions that could be involved are detailed in Section 9.

High risk sale

A high risk sale is one where the vendor carries the full purchase price and the buyer pays for the business out of future earnings. This is sometimes seen when selling to family members or to employees who have little equity. The advantage for the seller is that he can usually obtain a higher price; the risk is that if the business fails he will likely lose out.

The vendor needs to have a significant level of confidence in the new ownership and should stay involved on a mentorship basis. Some of the items covered in the next section should be able to provide some comfort and protection to the vendor.

#8 Identify the types of agreements that could be developed for formalizing the sale and transition process

These would be designed as win/win agreements while protecting the assets of the sellers.

Key points

- ***There are a variety of documents for managing agreements***
- ***The simpler ones are less expensive but do not offer the same level of protection in a dispute***
- ***Don't rely on legal enforcement of an agreement; it is too expensive; go for a win/win situation from day one.***
- ***Resolve disputes quickly and fairly***

There are several different documents that are normally part of the buy/sell process.

Forms of agreement

Letter Of Intent (LOI)

This is normally a non-binding letter signed by both parties. It outlines the main terms on which the two parties are in agreement.

Once it is signed it can be forwarded to a lawyer to draft up a formal agreement. Both parties would retain their own lawyers to ensure that they are both protected.

Sometimes, in order to avoid the additional cost, the letter of intent itself can become the binding agreement and no further purchase/sale agreement is drawn up.

The letter of intent is often drawn up without legal guidance. The two parties can draw it up or their accountants or other professional advisors can help them.

Sometimes a deposit is provided with the LOI. It may be refundable if the agreement is not finalized.

Using the Letter of Intent as the final document is best suited where both parties have a good working relationship. It would not be advisable to use this document where the parties do not have a lot of trust in each other,

Offer to Purchase

This can also be a non-binding agreement. It is usually more complete than a Letter of Intent. Again it can be the basis of a legal agreement which would be put together by a lawyer or it can become the legal agreement itself.

While a letter of intent is often more informal an offer to purchase is usually drawn up by a lawyer.

Sometimes a deposit is provided with the offer to purchase. It may be refundable if the agreement is not finalized.

Purchase Agreement

This document is normally prepared by the purchaser's lawyer and when signed by both parties it becomes the binding agreement.

If clauses that were in the letter of intent or the offer to purchase are not included in the completed Purchase Agreement they are not binding on either party.

Promissory notes

If the purchaser owes money to the vendor he may be required to sign a promissory note. It is essential to know if you are signing the note on a personal basis or on behalf of the company you are buying.

Corporate and personal guarantees

If you are signing these make sure you realize the implications of them. Like the promissory note you need to know if this is a personal or corporate commitment.

Sometimes spouses are required to countersign on the promissory notes and personal guarantees.

Vehicle and equipment lease agreements

These would be used where the vendor wants to retain ownership of certain tangible assets until they are paid for.

In these cases the buyer would agree to monthly payments that on termination of the agreed amount the assets would then transfer to the buyer. This provides added security to the vendor.

This is distinct from a regular lease agreement where the purchaser acquires vehicles and equipment from suppliers.

Buy-Sell agreements

If there is going to be a partial ownership change with the vendor retaining some of the shares in the company then it would be prudent to complete a shareholder buy-sell agreement.

This should cover a variety of issues, including what will happen on the death or disability of one of the owners; often includes a shot gun clause.

In order to keep things running as smoothly as possible ensure that all appropriate legal agreements have a binding arbitration clause.

It is not practical for people to sue each other over business issues unless the amounts are very significant. The cost and time of taking claims to court is very high and should be avoided where at all possible.

Properly prepared documents that have been well thought out will minimize the risk of dispute.

Escrow Agreements

Where ownership changes hands over a period of time it is sometimes prudent to put shares in an Escrow Account. In this case a third party, often a lawyer would hold certain shares until certain conditions have been met.

Some caveats

Know whether or not this is a share transaction or an asset transaction. There is a huge difference between the two.

1. When buying shares the purchaser is buying the skeletons; he needs to ensure he is protected.
2. Make sure the vendor signs a non-compete clause.
3. Include arbitration in the appropriate agreements.
4. Complete all agreements a quickly as possible once the initial agreement is signed.
    a. Don't defer completing the shareholder agreement
5. When the seller sells his company (the shares) he is still on the hook for any personal guarantees that he may have given to suppliers in the past. The seller should take legal advice on how to neutralize any outstanding personal guarantees.
6. Sometimes a buyer will do a Section 85 Rollover once he has acquired the company to limit his exposure. Professional advice should be taken in this regard.
7. When a buyer acquires the assets he needs to rehire the employees and get a new business number, new WCB number and open new accounts with suppliers.
8. When the seller sells the assets he needs to layoffs for all employees and complete Records of Employment and also prepare T4s by their due date.
9. Both the buyer and seller should be aware of any major costs that might arise from employee severance.

Transition process

The terms of the transition process should be spelled out clearly. This could be done in the purchase agreement, the shareholder agreement or in a separate agreement that the parties sign. Usually the shorter the transition period the better; there are fewer opportunities for conflict. Make sure that clear job descriptions for all involved are prepared. Also ensure that there is a binding arbitration clause to finalize any disagreements quickly.

#9 Identify financing and funding options to facilitate the sales

Key points:

- ***There are numerous methods of financing the acquisition of a small business.***
- ***No one method is right as there are so many variables and options.***
- ***It is important to not get locked into the wrong type of financing.***
- ***The most difficult types of financing to obtain are for working capital and for paying off the previous owner.***

All references to banks include credit unions.

Normally there are three reasons for requiring a business loan

1. To pay out the vendors (this would include goodwill)
2. To finance Working Capital
3. To acquire Capital Assets

Sources of financing

Vendor Financing

Often the vendor does not need all his cash up front. Most agreements for small construction companies involve the vendor carrying financing. This makes it easier for the purchaser and can be considered a show of good faith by the vendor. Also the vendor can likely charge a higher interest rate than he would get from other investments. A higher level of vendor financing usually means a higher purchase price and a greater the risk for the vendor.

Family and Friends

This can be an excellent source of financing as it may prove easy to get, the cost of borrowing is usually low and the conditions imposed are likely to be less onerous than other lenders.

However, one has a moral and ethical responsibility not to borrow money that is likely to hurt the liquidity of family and friends. Make sure they can afford to do without the cash flow and that if the loan was not repaid that it would not have a serious detrimental impact on their lifestyle.

Do not try to raise funds privately from other than family and friends. This would likely draw the ire of the BC Securities Commission.

Personal Bank financing

Getting a personal loan secured by ones home or other real property is often the cheapest and easiest financing to get. This can be in the form of a mortgage or a home equity line of credit (HELOC). This is very suitable for loans of up to $50,000 and maybe even $100,000. Because the money is borrowed personally the borrower can use it for any of the above three reasons and write off the interest on their personal tax returns.

There are numerous advantages to this.

1. It attracts the lowest interest rate.
2. There are no monthly fees like with a commercial loan.
3. There are no ongoing compliance requirements such as submitting monthly lists of accounts receivable and inventory or financial statements.
4. If the terms of the loan are adhered to there is virtually no likelihood of having the loan called.
5. No business plan or cash flow forecast for the bank is required.

When personally loaning the money to the company the individual should put a charge against the assets of the company as security. The interest that is being paid personally can be paid to the lender by the company so that the company gets to expense the interest and any other related charges and individual can write off the income on their personal tax return (Schedule 4 part iv) against their cost of borrowing.

There are lenders (not bank and credit unions) that advertise personal loans at attractive interest rates. However the fine print usually involves significant administration fees and aggressive penalties. These should be avoided where possible.

Commercial Bank Loan

The process is more complex and expensive than getting a personal loan. When seeking larger loans the commercial route is often the best way to go. Apart from the hoops that a financial institution puts the client through it forces the client to look at their financial needs very carefully. Personal guarantees will likely have to be signed and the financing institution may require a collateral mortgage against the borrower's home or other real property.

This financing is not normally available for buying the business because this would mean the money is leaving the business. Commercial loans for working capital are often based on a margin relating to the value of accounts receivable and inventory. Usually only the interest is payable unless the loan is outside margin.

It is often recommended to apply to one bank and to one credit union for financing as each have slightly differing criteria when it comes to financing.

Capital asset loans are normally linked to specific assets with terms of repayment for interest and principal.

For example when buying the assets of a business all three forms of financing need to be addressed

1. Goodwill may be provided from the buyers own resources
2. A line of credit could be established for the working capital
3. A term loan could be used for the capital assets (building, vehicles and equipment).

Leasing

This is often a good method of financing capital assets. It is a popular method of financing vehicle and equipment acquisitions. It is easy on the cash flow but tends to be more expensive than a straight purchase.

There are two distinct areas here. First of all existing tangible assets could be sold to a leasing company that would then lease them back to the buyer. The advantage to this is that the vendor gets his cash out immediately and it ensures that the vendor will not be involved in the future of the business to protect his asset financing.

The other area is where the new enterprise needs to acquire new assets .The new owner may find it easier to lease than to purchase.

Factoring

This is a method of financing accounts receivable. When the sales invoice is issued the factoring company will advance a significant portion of the account immediately and the balance when the account is paid. It is an extremely expensive form of financing and factoring companies often won't finance construction receivables. However, it is a good lender of last resort.

Consignment inventory

This can be effective where a business needs large ticket items. Often suppliers will provide inventory on consignment if they can register their position under the Personal Property Security Act. A business owner should take legal advice in order to ensure they fully understand the implications of this financing.

Specific organizations

There are a variety of organizations that will provide financing for businesses .Some will provide support for acquiring assets or for working capital, while others will provide support for purchasers to pay out the sellers. This needs to be reviewed on a regional basis as certain organizations only operate in specific geographic areas of the province.

Business Development Bank of Canada (BDC)

The BDC has a variety of financing options available to businesses. They have a much wider range of options than the commercial banks or the credit unions. These options are mandated by the Federal Government.

They are often willing to take higher risks than other lenders. They will consider providing financing for share acquisition. They will also consider taking an equity position in a company. The higher risk that they are taking is reflected in the cost of financing.

They are often willing to work with commercial banks to provide financing in areas where the commercial bank does not wish to participate. In fact, the BDC prefers a business that has bank financing.

BC Community Futures Program
http://www.communityfutures.ca

This is a good source of financing for many small businesses in smaller communities.

Community Futures provide entrepreneurs with small business loans up to $150,000 when traditional financial institutions are unable to help. Loans are available for new business start-ups, business expansion, or to stabilize an existing business.

Western Economic Diversification Canada
They have funding options which should also be reviewed. http://www.wd.gc.ca/eng/home.asp

Northern Business Initiative
http://www.northerndevelopment.bc.ca/

Review their website for full details

Beetle Action Coalition
http://www.ominecacoalition.ca/

Review their website for full details

Initiatives Prince George
http://www.initiativespg.com

Their strategic plan includes business retention and expansion

Canada Business Network
http://www.canadabusiness.ca/eng/page/2848/sgc-59/

This agency outlines a variety of funding options available to small business. They will guide a borrower towards lenders.

Phase 2 of this project would involve identifying in detail the most suitable resources for financing small construction businesses for the succession process. See comments in Section 4 – Financial Accounting and Financing.

The process would also involve identifying the geographic areas that these organizations will support and identifying what makes them attractive to the buyers and sellers of specific businesses for the different types of financing required.

Employee Share Ownership Program (ESOP)
http://www.esop-canada.com/

An Employee Share Ownership Plan (ESOP) allows employees, who qualify, to purchase shares in their employer's company, with or without the monetary assistance from the company. Employees can acquire shares, and ownership through an ESOP that can range from one per cent to 100 per cent. It is an excellent method for small business owners wishing to retire and sell their business.

The key aspect is that employees have an ownership stake in the company they work for, and share in the risks and rewards that accrue to it.

The most definitive study to date in Canada was done by the Toronto Stock Exchange, comparing ESOP versus non-ESOP public companies. For ESOP companies:

- Five-year profit growth was 123% higher
- Net profit margin was 95% higher
- Productivity measured by revenue per employee was 24% higher
- Return on average total equity was 92.3% higher
- Return on capital was 65.5% higher
- ESOPs are appropriate for companies of small to large size, in all kinds of industries.
- There can be attractive tax advantages to the employee when using an ESOP.

#10 Identify sources for finding possible buyers of construction companies

#11 Review the potential for turning existing contracting businesses into satellite operations of larger regional businesses

- ***Acknowledge that with the changing demographics there will be more sellers than buyers.***

- ***Review the potential for amalgamating competing businesses and complementary businesses within the community.***

Key Points

- ***Most businesses that want to transition have no real idea how it is going to happen.***
- ***Many businesses have unreal expectations of the value of their businesses.***
- ***Eliminate family and employees as buyers if they are not suitable candidates.***

"Since the beginning of 2010, the number of self-employed Canadians nearing retirement is growing by 7.5% annually. As of 2009, 98% of all businesses in BC were small businesses and provided 57% of private sector employment in the province." Venture Connect

The key points of the BCCA survey completed in June 2012 and the Venture Connect survey are summarized in the introduction. There is some eye opening information in both those surveys.

Sources for finding buyers

Family and friends

- Spread the word. See the comments in Section 9 regards financing

Employee acquisition

- Identify employees, even apprentices, who could develop the skill to take an ownership position in the business
- Put together a process for grooming them for that position
- Identify senior management who would like to take a greater leadership role even if they don't want ownership

Advertising:

- Use the local papers
- internet adverting such as Craigslist and Kijiji
- Trade magazines
- Use the dedicated website that is proposed in Section 6
- Post notices on suppliers' bulletin boards

Construction Associations

- Identify the Associations that could provide leads
- Talk to the Association staff
- Advertise in their publications and their website
- Get them to do broadcast email to their members
- Get a list of their memberships
- Contact each member company
- Attend Association meetings

BCCA Trade Specialists

BCCA has 14 offices with approximately 50 specialists that are employed and in constant with the industry.

Suppliers

- Talk to your suppliers
- Talk to suppliers that would service potential buyers

Trade unions

- If you are a union contractor talk to the people in your Local to see if they can provide leads

Competitors

- Identify which of your competitors might be interested
- Identify if any senior staff in a competing company might be interested in starting their own business

Complimentary businesses

- Identify other trades that work on the same projects that you do
- Identify other trades that work on the same types of projects that you do
- Propose to them that they buy your business and roll it in with theirs
- Look to complimentary trades that work in other segments of the industry. e.g. if you work in residential renovations approach someone does new homes or commercial renovations

Satellite Operations

- Target regional businesses that may wish to expand into your community
    - Identify competing or complementary businesses that would gain a synergistic or strategic advantage by taking over your business

Target outsiders

- New immigrants often want to acquire ownership in a business. Sometimes they have difficulty in getting jobs, this would help them bridge that gap
- Native bands are encouraging their members to get more involved in business, they also provide financing and support to their members who take this step

- Women are beginning to become more prominent in construction. Some of them have taken apprenticeship programs and many of them have graduated from colleges with diplomas and degrees in construction related disciplines

Sundry organizations

- Banks/credit unions
- Your accountant
- Your lawyer
- Chamber of Commerce
- Realtors
- Business brokers

The potential for amalgamations

The advantages of amalgamations are often underestimated, there are many synergistic and strategic reasons why this is an excellent way of selling a construction business. Whether it is a competitor, a complimentary business or a satellite branch of a bigger company there are some very powerful reasons why this is often your best process for selling your construction business.

Most small contractors have either too much or too little overhead for servicing their level of activity.

Those with too little are afraid to add overhead because of the additional cost and because of the difficulty in finding the right people. Therefore they cannot grow and the owner/manager works very long hours and loses his ability to develop any strategies for growth and becomes inefficient. (A one-man plumbing business in the Lower Mainland had more than $250,000 of completed work orders that he had not billed going back five years. He didn't have the time to research the prices for the materials).

Contractors who have too much overhead can't cut back on the overhead because they would become inefficient and they can't grow because they don't have the technicians or the time to chase new work.

On average some 50% of a contractor's overhead is salary related.

Approximately every dollar in overhead requires $7 to $10 in sales to support it. Where a company has excess overhead it could absorb additional sales. For example if a contractor bought another contractor that was doing $300,000 in sales at a 20% gross profit this would generate $60,000 in additional gross profit without increasing overhead. This is because the overhead of the selling contractor could be eliminated. The duplicate costs of rent, bookkeeping and office administration could be eliminated. An additional advantage is that the surviving entity would have a much larger customer base, this would allow for additional sales. Consider the impact of a plumbing company merging with a HVAC company or a renovation company merging with a painting company or an electrical contractor merging with a controls contractor.

Likewise companies in other communities are interested in expanding. They might be very interested in having local technicians who provide a customer base. They can dispatch and do the accounting and administration work from their central location.

The following example could be used to deter a business from hiring additional overhead people. In this case the example used is hiring a sales/estimator person.

Adding overhead - using an 8 times factor				
Company wants to hire a sales/estimator for $80,000		As Is		New Sales/ Estimator
Sales	100%	1,000,000	100%	1,640,000
Direct cost	75%	750,000	75%	1,230,000
Gross profit	25%	250,000	25%	410,000
Overhead	15%	150,000	14%	230,000
Profit	10%	100,000	11%	180,000

By adding the additional overhead the and achieving 8 times the cost of the sales person the company would make an additional $80,000 profit
However, the company would lose money will the sales were growing.
There would likely be other overhead cost added due to the increased volume of work
Could that additional work be obtained without lowering selling price?
Could the company hire sufficient competent technicians to do the work?

A company that is interested in expanding might find it less of a risk to buy a competitor rather than to grow their own business.

The above example could be seen as a high risk and time consuming venture.

#12 Outline methods of valuations suitable for small contractors

Cover sole proprietorships, partnerships and limited companies, clarify key risks associated with those different types of enterprises.

Traditional valuation models are unlikely to be usable for smaller businesses.

Key points:

- ***Small businesses are difficult to value.***
- ***The owner/manager usually plays such a hands-on role that their exit from the business can have a huge negative impact on the future potential.***
- ***Often the intellectual property is in the vendor's head.***

With few exceptions much of the value of a construction company is in its goodwill.

Ease of entry makes the sale of smaller construction companies difficult. Most require little capital investment and can grow out of future earnings. Fabrication shops require the most financing, while service companies can lease their vehicles which are often their biggest set up cost.

Valuing a business is based on treating the business as a going concern, meaning the business will stay active.

The key factor for valuation is normalized earnings. This is the normal income and normal expenses after allowing for normal management salaries. The higher the normalized earnings are as a percent of sales the higher the goodwill value. The average HVAC Company in Canada has normalized EBITDA earnings of around 9% of annual sales.

EBITDA = Earnings **B**efore **I**nterest, **T**ax, **D**epreciation and **A**mortization.

When buying a business one is looking at its history but buying its future. The more involved the departing owner/manager is in the day to day operations the lower the value.

The asset value is not difficult to determine. The real difficulty lies in valuing the goodwill.

Construction companies that rely on bid and spec work have very little value beyond their asset value which would include the value of work on hand. On the other hand a service company with a strong customer base and a significant amount of planned maintenance contracts would have a much higher value. The service work tends to be more repetitive, does not require quoting and usually the owner/manager is not as involved with the customers.

Currently a high value for a construction service company would be four times EBITDA for the assets, the working capital and the goodwill. This would give the buyer a 25% return on his investment which is good in the current market. However, because of the lack of stability in the world economy it is hard to get a higher value. Buyers perceive a higher risk now than five years ago.

The elements that will allow a higher value would include any strategic advantages to the buyer. Here is a quote often used when valuing companies:-

Definition of value

"For the purpose of our report, fair market value contemplated the highest price available in an open and unrestricted market, between informed, prudent parties, acting at arm's-length and under no compulsion to do so, expressed in terms of money or money's worth.

Fair market value, as defined above, is a concept of value, which may or may not equal the purchase/sale price in an actual market transaction. Within the marketplace, there may exist "special purchasers" who may be willing to pay higher prices, because of anticipated synergies to be obtained from the acquisition. Such synergies include advantages arising from reduced or eliminated competition, ensured source of material supply or sales, cost savings resulting from business combinations and other benefits of vertical or horizontal integration."

Cash up front

Another important factor is the amount of money being paid up front. Often part of the purchase price is paid out of future earnings. The more that is being paid from future earnings the higher the price, because the buyer has the opportunity of earning the purchase price before he has to pay for it.

Sometimes when it proves difficult to agree a value for goodwill the parties agree to a fixed monthly consulting fee to the former owner for an agreed number of months. An example might be *the former owner will be available to provide advice and guidance for the next three years in return for a monthly payment of $x,000.* Alternatively it might be agreed that the new venture will pay a percent of sales for the next X years in lieu of goodwill. This might read "the new enterprise will pay 5% of annual sales to the vendor for the first year, 3% for the second year and 2% for the third year.

Never use a percent of profit as a basis for future payments because it is too difficult to identify exactly what this means and it is difficult to audit the figure. Verifying a sales figure is much simpler.

The motivated seller

Where the seller is very motivated, either due to illness or age, the price is likely to be lower than where the seller is not under pressure to sell. This behooves the seller to get himself organized well in advance.

Assets or shares

Subject to certain rules a sale of shares can be paid to the vendor tax-free, up to $750,000 for each vendor. In these cases the purchaser may be using after-tax money for the acquisition and this may reduce the value of the business. both the buyer and seller need to understand the tax consequences and the other pros and cons of asset and share acquisitions. Take professional advice.

Holding Companies

Holding companies are very useful. Surplus assets that will not be part of the sale can often be transferred into a holding company without attracting income tax. Tax is only paid when the money is withdrawn from the holding company and withdrawals taken as dividend would also benefit from a dividend tax credit.

For the purchaser, buying through a holding company also has certain advantages.

The money he pays (through his holding company) for the shares of the operating company can be loaned to his holding company; the holding company buys the operating company and then when the operating company makes profit it can transfer dividends without incurring further taxes to the holding company which can then repay the purchaser. Also any future shares can be bought through the holding company by way of dividends received. Currently profits in BC construction companies are taxed at 13.5% on the first $500,000 of taxable income.

Always take professional advice on the tax and other consequences of a sale of the business. There are a lot of technicalities that need to be resolved so that one can be sure of the after-tax consequences of a sale. It is the after-tax consequences that are most important.

Future performance

It is not uncommon for a purchaser to hold back some of the purchase price (deferred balance) for at least one year. This would be the case where the purchaser wants a guarantee of future performance.

Here is a typical clause that might be used:

The purchase price will be satisfied primarily by cash at closing with $xxx,xxx held back for up to two years (the deferred balance) in the form of an interest bearing promissory note. Interest on the promissory note will accrue for the first 12 months. Repayment of the promissory note will be contingent on the Company meeting the following targets for the 12 month period commencing at the date of acquisition.

- *The retention of at least xx technicians, the tabulation of which will exclude death, disability, retirees and employees with less than two year tenure or a replacement technician of equal skill level, and;*
- *Maintaining the EBITDA of at least $xxxxx.*
- *A pro-rata share of the deferred balance will be paid out provided the EBITDA is not less than $xxxxx.*

Sometimes this clause will allow for the company to achieve double its target EBITDA over a 2 year period. This gives the vendor a longer period to meet the profit target.

The downside to this type of agreement is that it locks in the vendor until the deferred balance situation has been resolved. The vendor would likely continue to work in the business for salary and have control over meeting the targets.

The advantage is that it may solicit a higher selling price.

Frequently Asked Questions

What's EBITDA and how to calculate it?

- Earnings before Interest, Tax, Depreciation and Amortization. This covers the costs that a buyer would normally incur in running the business. These factors are, to a large extent under the buyer's control.

What are Normalized Earnings?

- Normalized earnings are the normal earnings of the business. Make adjustments for unusually high or low management salaries, or other adjustments made for tax purposes. Also back out unusual professional fees or other non-recurring items.

What is a Weighted Average Factor?

- The Weighted Average Factor is the average profits over a specific number of years with the more recent years having a higher impact than the earlier years. Profits in the latest year are more meaningful than profits made 4 years ago.

What Multiplier should be used?

This is the number you multiply your weighted average profit figure by for a basis of valuation. Buying at a 4 times multiplier it means it will take 4 years to get ones investment back, this is a 25% return on investment.

What numbers are going to increase the value of my business?

- Average value of a sale, repeat business, gross profit per sale, pre-tax profit

What other factors apart from the financial statements will impact the value of my business?

- Number of maintenance contracts; size and mix of customer base (no dominant customer); policies and procedures manuals; ability of the business to run without owner's everyday presence

Why is there a range of values for my business?

- This depends on the supply of buyers which is often low, why they want to buy and the amount of cash they can provide

What causes the valuation range to vary so much?

This is dependent on how attractive your business is to buyers. The more strategic the buyers the greater the price range.

Can you do a cash sale or will you have to finance it?

- This is very dependent on the type of buyer. Usually a sale to employees or family involve extensive financing

What is unique about valuing construction companies?

- Many construction companies have little or no goodwill value. Where work is won by competitive bid there is little incentive for a buyer.

How to structure your company to best protect your assets?

- Form a new operating company; sell it with a gradual sale/lease of assets

How to use a holding company to your best advantage?

- Keep retained earnings and assets out of the reach of the buyer and his creditors
- Protect your equity during transition

How a holding company can be best used for an employee buyout.

- By using holding companies you can often use dollars that have been taxed at less than 16% instead of 46%

When should you not sell to your employees?

- When they don't have the business acumen to make a success of the business; when they don't have any money; when they won't sign personal guarantees

What profit should you be really making?

- There is nothing wrong with making more than 10% pre-tax profit. Twenty-five percent of Canadian contractors do so.

What is a strategic buyer and why will he pay more for your company?

- A strategic buyer is one who will gain advantages that you don't have. For example by combining 2 companies there can be a saving in overhead. Two companies that have similar customer bases can feed off each other e.g. residential heating contractor and residential plumbing contractor. Also contractors who want to move into your region have strategic advantages with buying power and customer bases.

How do you avoid being unfair to some family members?

Make sure that you value the business as part of your family estate and that each family member gets their appropriate share.

#13 Develop a checklist of items for individuals who are interested in exiting their business

This would detail the key questions that need to be asked and the conversations that need to take place so that both buyers and sellers will be aware of what will impact the value of the businesses. A proper preview will increase the likelihood of a successful transition.

Key points

- ***We don't plan to fail; we fail to plan.***
- ***Do you own your business or does your business own you? Take control.***
- ***Manage the sale of your business like you would manage a construction project.***

Here are the main reasons why people can't sell their business for what it should be worth.

Some "do's & don'ts"

1. Do start the process early and give it the priority it deserves.
2. Do take professional advice on your financial needs.
3. Do obtain a realistic independent valuation of the business.
4. Do put together a good sales package identifying why the buyer should buy for the asking price, including how the business will cope without your ongoing presence.
5. Do get interested parties to sign a confidentiality agreement.
6. Don't expect to get a big amount of cash. You will likely have to carry financing.
7. Don't tell your employees or your customers that the business is for sale.
8. Do clean up the business premises, vehicles and equipment.
9. Don't slow down your sales and marketing activities; keep the business activity going at as profitable a level as possible.
10. Do get a deposit when you accept an offer.
11. Do have good procedures documented for as many processes as possible.

Create your legacy

With the proper approach, your business will survive you and continue your legacy for years to come. Your business should be a money making machine that you can turn over to someone else when you are finished with it.

The Checklist

Review the checklist in Appendix 1 and identify the FEW items that are most important to you and start fixing them. Just pick a few items; you can't do them all.

Due Diligence

Don't rely solely on a checklist as the only source of due diligence. It would be prudent for a potential buyer to talk to employees, customers, sub trades and suppliers that the company uses.

Ask these people the Magic Wand question. ***"If you had a magic wand what one thing would you change about the business?"***

Also, where possible talk to the company's accountants, lawyers, bank, bonding company and insurance agents about any concerns they have or recommendations they may have for the future.

Succession plan template

The Australian government has prepared a template and guide which helps businesses assess their situations and develop their plan of action. It can be found at

http://www.business.gov.au/Information/Pages/businessgovauplanningtemplates.aspx

The following are the key points raised in their template, modified to include only key elements of interest for Canadian businesses.

Succession Plan Guide

Business Name	
Legal structure	sole proprietorship/partnership/ corporation
Current owners	
Planned Succession	Full or partial retirement; any ongoing involvement?
Potential buyer	Family, partner, employee, other
Succession Timeframe	What are the phases and timelines?
Restrictions	What restrictions will be imposed?
Organizational structure	What will the organization look like when the owner leaves?
Key personnel	Identify key personnel, including names, skills and training required
Training programs	What training programs will be organized for possible successors and how will they be delivered?
Change of business structure	Will the legal structure change?
Registrations	What registrations will change? WCB, CRA, PST, lease agreements, premises agreements, vehicle ownership
Contracts/legal documents	What documents need to be created?
Buy-sell agreement	Will one be required?
Estate planning	Has each party prepared a will?
Insurances	What policies are in place for death or disability?
Contingency risk management	What could go wrong? What contingencies are in place for protection?

#14 Recommend marketing processes for matching buyers and sellers

Key points

- ***Have the right package***
- ***Identify target groups to profile***
- ***Profile the potential buyer***
- ***Start marketing***
- ***Prioritize your process***

The type of construction business under review will not be attractive to investors. These businesses will be owner/managed; they will be people looking for a hands-on position running their business.

Identify potential buyers

One of the first things to do is to eliminate non-buyers.

- Are any family members likely to be serious contenders?
- Are any employees likely to be serious contenders?

If the answer to these is yes, then the process is obvious, if the answer is no then don't even tell them that the business is for sale.

There is a lot of consolidation occurring in the construction industry.

Go through a list of potential buyers by category and then list the individual people to contact and target them. These topics were identified in Section 10; It will help identify the following:

- Competitors
- Complimentary businesses (other businesses that service the same customers as you do; you meet them on job sites).
- New immigrants
- Native groups
- Regional or national complimentary businesses that might want a foothold in your area.

The BC Provincial Nominee Program

http://www.welcomebc.ca/wbc/immigration/come/work/about/index.page

The British Columbia Provincial Nominee Program (BC PNP) accelerates the Permanent Resident application process for skilled and/or experienced workers, experienced business persons and their family members who want to settle in BC permanently. It allows nominees to apply for Permanent Resident status through Citizenship and Immigration Canada (CIC) under the fast-tracked Provincial Nominee stream – which can be faster than applying through many federal immigration streams.

Tests were carried out in the Republic of Ireland with promising results. Due to the poor economic conditions in Europe there is a large untapped market for potential buyers.

The marketing package

A business' marketing package will consist of many of the elements already discussed in this document. However, depending on whom the likely buyer is the vendor will need to have a clear expectation of payment terms.

A sale to family or employees is likely not to generate much initial cash flow; it is more likely to generate monthly revenues (like a pension).

A sale to an independent third party will likely generate a larger initial down payment but may also have performance clauses that may require the vendor to work for one or two years in order to earn the performance payout.

For the sake of confidentiality having the business' accountant, lawyer or other business advisor to front the sale during the initial advertising process would be prudent. They would be the initial contact with a potential customer and would screen them for suitability and get them to sign a confidentiality agreement before releasing the name of the business that is for sale.

A very good source for leads is to talk to suppliers. The business needs to stress the confidentiality factor. Suppliers know which companies are likely in expansion mode and which would be a poor choice (maybe they are not paying their suppliers promptly). Also they might identify key managers in other businesses that could be interested in acquiring an ownership position.

Local construction associations can also be a source for good leads.

The business' banker, accountant and lawyer could also be a good source for indentifying a potential buyer.

Realtors may also be worth a try but it is unlikely that they will have a hot prospect, but they may be able to find one.

Business brokers are also a source for finding buyers. They tend to be expensive for small businesses but would be okay for a larger business or where other avenues have failed.

Here's an approach that that has been used successfully.

- Roofing contractor asked a consultant to find him a buyer.
- There were no employees or family interested.
- The consultant compiled a database of roofing contractors in the area from the Yellow Pages and phoned each one.
- The consultant sent out a one page summary to the ones that were interested.
- An agreement of sale was reached with one.

This report recommends the use of a dedicated website to handle many of the elements of this program. Using it as a source for listing businesses for sale and listing potential buyers would be very beneficial.

What's In It For Me?

That's the question that needs to be answered for the buyer. The package of information that is provided to the buyer must answer that question. Avoid talking about "me, "I" and "us". Those people are not going to be around in the future. Address what the future is going to be like without the current owner being in place.

A good business is a money-making machine that can be passed on to the next person so that they can enjoy a comfortable lifestyle from it and then pass it on to the next generation.

#15 Review various business models for small contractors and how they are impacted by amalgamation and growth

Key points

- ***Identifying the strategic advantages to another business could be the greatest selling point.***

	Your business		Competitor		Combined	
Sales	750,000	100.0%	1,000,000	100.0%	1,750,000	100.0%
Direct job costs	625,000	83.3%	750,000	75.0%	1,375,000	78.6%
Gross profit	125,000	16.7%	250,000	25.0%	375,000	21.4%
Overhead	80,000	10.7%	150,000	15.0%	175,000	10.0%
Pre-tax profit	45,000	6.0%	100,000	10.0%	200,000	11.4%

If you sold your business for 3 times profit you would get $135,000. Normally it would take the buyer 3 years to get his money back. However, in this example, because of the savings on overhead the buyer would get his money back in less than 17 months. He would likely do better than this as he should be able to get better economies of scale on his production.

If you find running your business very stressful maybe merging your business with a competitor could be a big help.

If you both worked the business it would likely grow in sales and profits while gaining from the lower overhead. This is a good option for businesses that is not making much money but the owners wants to stay in business.

Enhancing your business value

By giving yourself some lead time you will be able to implement certain activities to enhance the value of your business.

- Develop policy and procedures manuals.
- Develop job descriptions.
- Start doing bi-annual evaluations for all positions.
- Weed out the poor performers.
- Enhance management training.
- If appropriate develop automatic repeat business such as planned maintenance or inspection programs.
- Make sure your bookkeeping and management reporting is accurate and timely.

Here is an example of a numbers strategy that could easily double the value of your business in five years or less.

	Now		Five Years	
Sales	2,900,000		3,701,217	
Direct job costs	1,850,000	63.8%	2,213,327	59.8%
Gross profit	1,050,000	36.2%	1,487,889	40.2%
Overhead	850,000	29.3%	950,000	25.7%
Pre-tax profit	***200,000***	***6.9%***	***537,889***	***14.5%***

Note:

Owner/manager's salary of $100,000 is included in overhead.

Five Year Strategy

Increase selling prices by 2% in real terms over the five years
Reduce job costs by 2% in real terms over the five years
Gross Profit is 4% higher because prices are up by 2% and job costs down by 2%
Increase overhead by $100,000 over five years
Increase annual sales by 5% in each of five years

If you only have a one or two year window then put your prices up by 2% and reduce your job costs by 2%. This will have a very significant impact on profits over a one or two year period.

Synergies

These are advantages that the buyer might enjoy by acquiring a second business.

- Better buying power
- Greater customer base
- More employees
- New systems, procedures and processes
- New product lines
- New equipment and vehicles

The more of these that are identified as being of value to the buyer the more likely a sale will be concluded and at a higher price.

Conclusions

Seventy-two percent of the businesses surveyed would like information on the topic of business succession. Ninety-seven percent have no written plan and seventy-four percent want to exit their businesses within the next ten years. The chances of many of these businesses executing a successful transition are slim without a lot of additional support. In addition there are going to be more sellers than buyers.

There is a very extensive range in profitability from one company to another and there are a lot of small contractors in the Province. Residential Building, Plumbing, Heating & Air Conditioning and Painting Contractors in BC with annual sales under $180,000 amount to almost 9,000 businesses.

Apart from Venture Connect there does not appear to be any organizations dedicated to assisting small businesses in the Province with succession. Venture Connect covers certain parts of the province but does not focus on Construction. Many organizations within the Province do offer programs that would assist contractors. The construction management programs are offered in the main centres of BC.

Most of the programs are targeted at mid to large size contractors; none offer a full range of programs that the small contractors would need to make their businesses more attractive to a potential buyer. In addition the owners of these small construction businesses tend to be very hands-on in their businesses. They are not true entrepreneurs and find it difficult to deal with business systems. Their backgrounds tend to be in the trade or in estimating and they have little business training.

Programs that are exclusively classroom based are most unlikely to be successful. It is not easy to break the bad habits of a lifetime.

Succession planning is an integral part of estate planning for business owners. Many small and medium sized contractors do not have a good understanding of the process or the value of their businesses. Fifty-six percent of the companies surveyed expect to get more than $500,000 from the sale of their businesses.

There are numerous elements that contractors need to add to their businesses to make them saleable. Most of the intellectual property of the business is in the owner’s head and is not easily transferable.

The key processes within these businesses have not been documented and this makes it difficult for someone else to take over the business. It is often easier and less risky for a person to start their own business then buy an existing one because the existing business does not look attractive.

Succession planning not only involves the existing business owners it is a very necessary process for buyers and senior managers. There is not much value in only educating the seller unless the buyer is also educated and motivated to take on the risk of ownership.

A variety of education programs have been documented in this report along with a variety of complimentary delivery methods.

Without ongoing support for the program participants the program results are likely to be poor.

There are a variety of methods of providing this support and there are various organizations that would likely facilitate the support.

Simple processes for bridging the gap between the buyers and sellers would make it easier for the relevant parties to buy into the process.

Most transitions will require financing, it is unlikely that buyers will have the cash to buy the businesses and provide the working capital.

Matching buyers and sellers will be a major part of the process. The likely buyers will be people who are already in the industry. It is extremely rare for an outsider with no real industry experience to buy into a small to medium sized construction business.

Traditional methods of valuing businesses do not work well for small to medium sized contractors. Other methods will have to be used. Increasing the intellectual property within the business will make it significantly more valuable.

Marketing the sale of small businesses is not easy to do without spending a lot of money. If the selling costs are too high then there either won't be enough cash for the vendor or the purchaser will be paying too much.

There are many vehicles that need to be put into place to ensure success. These range from a Provincial Advisory Committee to a variety of local community groups that would involve the mentors and the industry supporters who have been outlined within this report.

Recommendations

1. Make sure that both buyers and sellers see the wisdom of investing their time and money into succession planning and the transition process. (Section #2).
    a. Introductory 90 minute PowerPoint program to promote the concept
    b. Develop half day program – explaining "What's In It For Me" for both buyers and sellers
        i. Budget $10,000 to $20,000
2. Review the programs that are discussed within this report (Section #3), identify the key ones and prioritize them. Make sure that all parties have realistic expectations.
    a. Review the outcomes required to make sure the correct programs are developed
3. The components of the various education programs will have to be developed along with a "train the trainer" program. (Section #4)
    a. There are 16 programs recommended for development
        i. Develop content for each
        ii. Develop workbooks, including proof reading and layout
        iii. Develop PowerPoint Presentations
        iv. Develop YouTube videos in 30 minute training sessions
        v. Develop webinars
        vi. Develop methods of monitoring learning and implementation
4. Review and prioritize the potential delivery methods and link with organizations that would be influential in helping the process to succeed – Associations, suppliers, Chambers of Commerce, Crown Corporations, Government and other agencies. (Section #5).
    a. Have discussions with "partners" to see what support they can offer in developing, delivering and monitoring the programs
    b. Determine if they can provide any financial support for program development
5. Form a Provincial Advisory Committee. Details of people and organizations involved to-date have been identified and should be invited to join (Section #5).
6. Review the concept of Peer Groups and Mentors and determine how to proceed in order to provide on-going support to all relevant parties to ensure the success of the process. (Section #6)
    a. Develop detailed processes for these
    b. Identify profiles of possible leaders and mentors
7. Ensure that potential buyers, sellers and senior management are part of the education process, recognizing the fact that there will be more sellers than buyers. (Section #6).
    a. Develop a presentation that will reinforce the need for having all parties involved.
        i. This can be done in conjunction with 1 b above
8. Develop processes for reaching agreements that incorporate the various financial elements that will make the transition process successful. (Section #7).
    a. Develop this process by analyzing the needs of both the buyers and sellers
9. Develop boiler plate documents that would be part of the selling and transition process (Section #8).

    a. Identify all the required processes and have the documents developed using legal expertise
10. Develop financing and funding options by reaching agreement with the various organizations identified within this report for a variety of purchase models. Their level of interest in the process and how they would see themselves becoming involved should be established. (Section #9).
    a. Develop this process in conjunction with institutions that will provide financing
11. Develop processes for matching qualified buyers with sellers. (Section #10).
    a. Put together a Plan of Action for matching qualified buyers with sellers, reinforcing participation in this program to increase the chances of success
12. Because there will be fewer potential buyers and because it is difficult to make money in a smaller business opportunities for consolidation should be explored. (Section #11).
    a. Where local buyers can not be found look to regional businesses to expand and take over the local operations
13. Develop processes for valuing small businesses. The formula for valuing goodwill in different types of construction varies significantly. Traditional methods of valuing the businesses will prove less than ideal. (Section #12).
    a. Consider the best methods for valuing goodwill and for generating cash flow for the vendor that will not impede the success of the buyer
14. Develop detailed checklists to identify phases and timelines in developing and implementing a succession plan. (Section #13).
    a. Develop a process for this
15. Develop methods for sourcing potential buyers and linking buyers and sellers together. (Section #14).
    a. Identify the methods that can be effective in promoting businesses for sale and potential buyers. These would include a dedicated website and promotion from the "partners" in the process.
16. Review the various business models for business growth and develop an implementation process. (Section #15).
    a. Ensure that the businesses in transition understand the key elements of success in their business.

Appendix 1 – Are You Sale Ready?

	Are You Sale Ready?	1 2 3 4 5
1.0	**GENERAL**	
1.1	Will the buyer find surprises?	
1.2	Is there a lease on the premises & is it transferable?	
1.3	Are there vehicle and equipment leases? Current and transferable?	
1.4	Are there outstanding legal or other matters?	
1.5	Are there contingent liabilities?	
1.6	Is there good communications within the organization?	
1.7	Do we have fun in our business?	
2.0	**FINANCIAL**	
2.1	Does the business have a record of pre-tax profits higher than 5% of sales?	
2.2	Are sales trending up?	
2.3	Does any one customer represent 20% or more in sales?	
2.4	Are good accounting procedures in place?	
2.5	Are your Income Statements well laid out?	
2.6	Is the balance sheet well laid out and current?	
2.7	How does the business rank compared to its competitors?	
2.8	Do you have a list of all the Capital assets with fair market values?	
2.9	Is your (good) inventory value accurate?	
2.10	Do you have reliable backup systems for our data?	
2.11	Do you have performance based remuneration for key employees?	
3.0	**SALES & MARKETING**	
3.1	Do you get a lot of repeat business?	
3.2	Are customer contracts secure and transferable?	
3.3	Do you have a list of which of your services/products are unique?	
3.4	Can you evaluate how good your customer service is?	
3.5	Do you have a marketing plan?	
3.6	How would you rate your website?	
3.7	Do you have a good contact management database?	
3.8	Are you in regular contact with your customers?	
3.9	Do you manage your sales team?	
3.10	Does your sales team use a contact management program?	
4.0	**OPERATIONS**	
4.1	Are good controls & operating procedures in place?	
4.2	Are the facilities, vehicles and equipment clean and in good condition?	

4.3	Is the workforce young and skilled?	
4.4	Does the business have room for expansion?	
5.0	**HUMAN RESOURCES**	
5.1	Are there current policy & procedures manuals in place for all divisions?	
5.2	Are there employee contracts in place?	
5.3	Do you do regular employee evaluations?	
5.4	Is there a strong key management team in place?	
5.5	Is your employee turnover rate within industry standards?	
5.6	Do you have a good organizational structure?	
5.7	Have you got rid of poor performing employees?	
5.8	Have you monetized possible severance packages?	
5.9	Does each individual have measurable goals?	
6.0	**STRATEGIC**	
6.1	Do you know what distinguishes your business from the competition?	
6.2	Does the business have a clearly defined niche?	
6.3	Have you identified the future growth potential?	
6.4	Does the business have a business plan for the coming 3 years?	
6.5	Do you understand the process for selling your business?	
6.6	Have you identified a buyer profile? (employee/family/competitor etc)	
6.7	Have you done a business valuation?	
6.8	Have you a marketing package to attract the right buyer at the right price?	
7.0	**PERSONAL**	
7.1	Do you know why you are selling?	
7.2	Are you selling Assets or Shares?	
7.3	Do you understand the after-tax consequences of a sale?	
7.4	Are you willing to stay on?	
7.5	Will you carry financing?	
7.6	Do you know what you will be doing after you exit the business?	
7.7	Will the sale of the business allow you the financial base for your lifestyle?	
7.8	If selling within the family are all family members being treated fairly?	
8.0	**INDUSTRY ISSUES**	
8.1	What is the economic forecast?	
8.2	What are the industry trends?	
8.3	What is the forecasted labour market?	

Your Total Score	
Maximum score	300
Your percent of total	%
NUMBER OF QUESTIONS	60

Appendix 2 - Role and Profile of a Mentor

Note: This is a draft for review by those recruiting mentors. As the process evolves so should this. The number of possible questions suggested below is very extensive and needs to be edited.

The role of the mentor is to help the protégé succeed in building his business towards a successful transition of ownership or in helping a buyer transition into a business where he can be successful.

The mentor's responsible includes

- Ensuring that his protégé knows what outcomes he needs to achieve
- Assisting in developing and maintaining timelines
- Supporting the protégé to stay on track to achieve the predetermined outcomes
- Supporting a transitional ownership

A Resource Management

The efficient planning, organizing and scheduling of the following elements

- Professional development programs
- Other mentors
- Program support team
- Other resources to be identified
- Peer group meetings

These are the resources that the mentor has to plan, organize and schedule so that the protégé gets the maximum benefit from each element.

B Liaison Activities

This covers the range of people that touch the project.

- Employees
- Other businesses
- Financial institutions
- Potential buyers
- Potential sellers
- Sources for finding buyers and sellers

C TEAM COORDINATION

The real skill of the good mentor is in combining the resources and the liaisons to ensure the successful completion of the project.

THE SKILLS & MAKE UP OF A MENTOR

Skills

- Logical thinking
- Able to assist in good decision making
- Good communications
- Team leadership
- Planning
- Prioritizing
- Ability to handle a crisis
- Entrepreneurial thinking
- Systems oriented
- Organizational
- Not letting
- other intimidate him/her

WHAT TO LOOK FOR IN A SUCCESSFUL PROJECT MANAGER

- Profit orientated
- Clear and concise communications
- Self-motivated
- Assertive
- Disciplined
- Will meet deadlines
- Works will in a stressful environment
- Can prioritize activities and processes
- Analytical and attentive to details
- Systematized
- Self confident
- Team leader
- Enthusiastic
- Persistent and consistent
- Formal education and a solid track record at minimum of middle management
- Good listening skills
- Ethical and prudent
- Able to deal with a broad range of people

Ask open questions about their experiences that will help you identify the elements that you seek.

1. What do you like best about your current job?-What did you like about your last job?
2. What do you like least about your current job? -What did you like least about your last job?
3. Why do you want to be a mentor?
4. What do you see as the role of a mentor?
5. What qualities do you bring to the process?
6. What do you think are the elements/traits of a good mentor?
7. What can you offer us as a mentor?
8. What difficulties do you think you would encounter?
9. How would you deal with them?
10. Under what conditions do you work best?
11. What do you do to relax after work?
12. What conditions at work are most frustrating to you?
13. When do you do your worst work?
14. When do you do your best work?
15. How would you handle a disagreement with your protégé?
16. Give me an example of two good decisions you have made in the past six months?
17. What alternatives did you have?
18. What do you do if you have to do five things all at once?
19. What hours are you available?
20. What constraints on your availability to work certain hours?
21. Do you have a car?
22. If I talked to your current or former employer what would they say about you?
23. Describe something that you have accomplished that you are particularly proud of
24. What do you consider to be your weaknesses?
25. How would you describe yourself?
26. What do you feel you can improve upon?
27. What motivates you?

Why not give them these questions in advance and ask them to prepare for the interview in this way? This will give you an opportunity to evaluate how they prepare for a project. Have they pre-planned the interview? Have they anticipated other questions? Are the assertive in sticking with their perspective or can they be intimidated into changing their principles.

Use a points system to score each candidate on how well they are responding to each question in relation to the objectives. This will allow for a more impartial decision.

Appendix 3 – JOBS Survey results

Prepared by Jen Reid

June 2012

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A note about this document

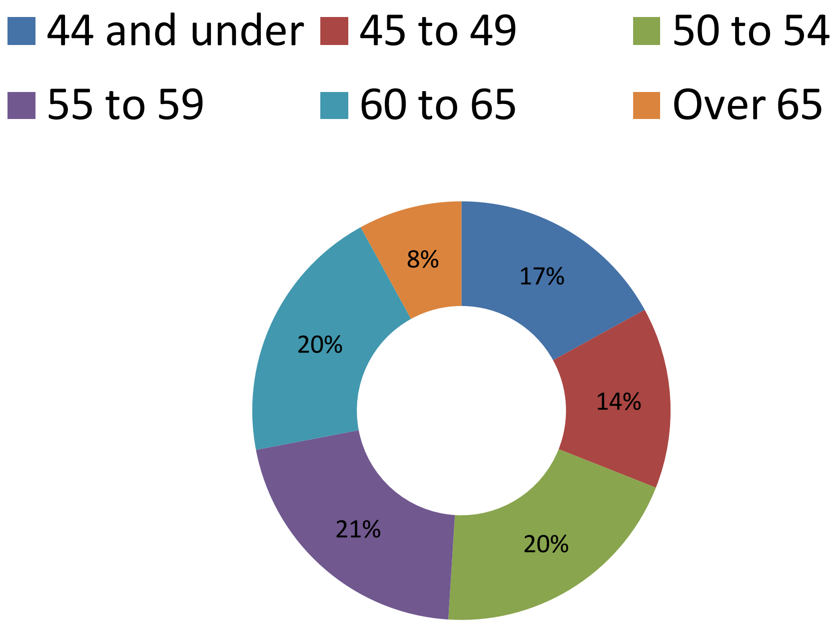
This survey was conducted in May and June 2012 across all four regions of the BC Construction Association. Approximately 102 responses were received.

The percentages indicated in this report reflect the percentage of answers provided. Not all respondents answered each question as asked, but in the interest of ensuring we retain and report the data, each question is reported separately. Blank or inappropriate responses were disregarded and not included in the results for each question.

The number in brackets in the lower left of each graph indicates the total number of responses given for each question.

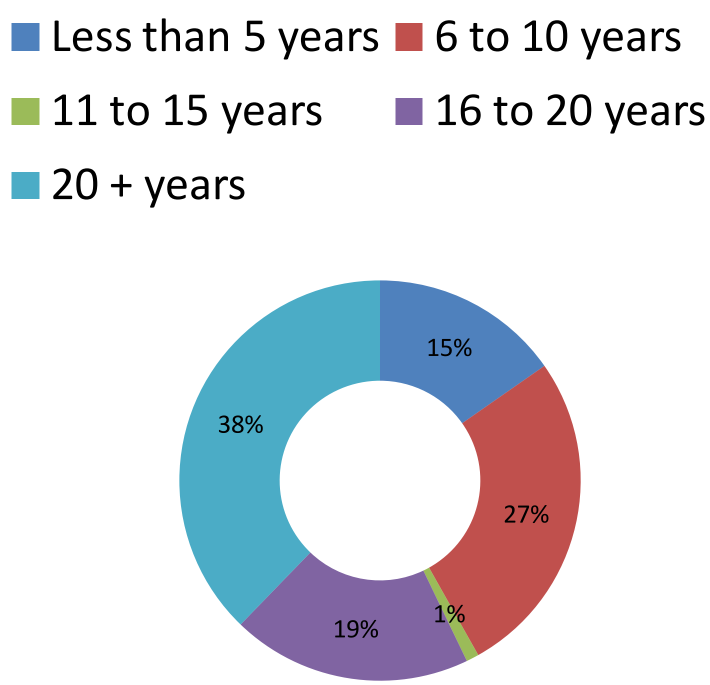
Survey Data

1 What is your age group?



(100)

2 How long have you owned your business?



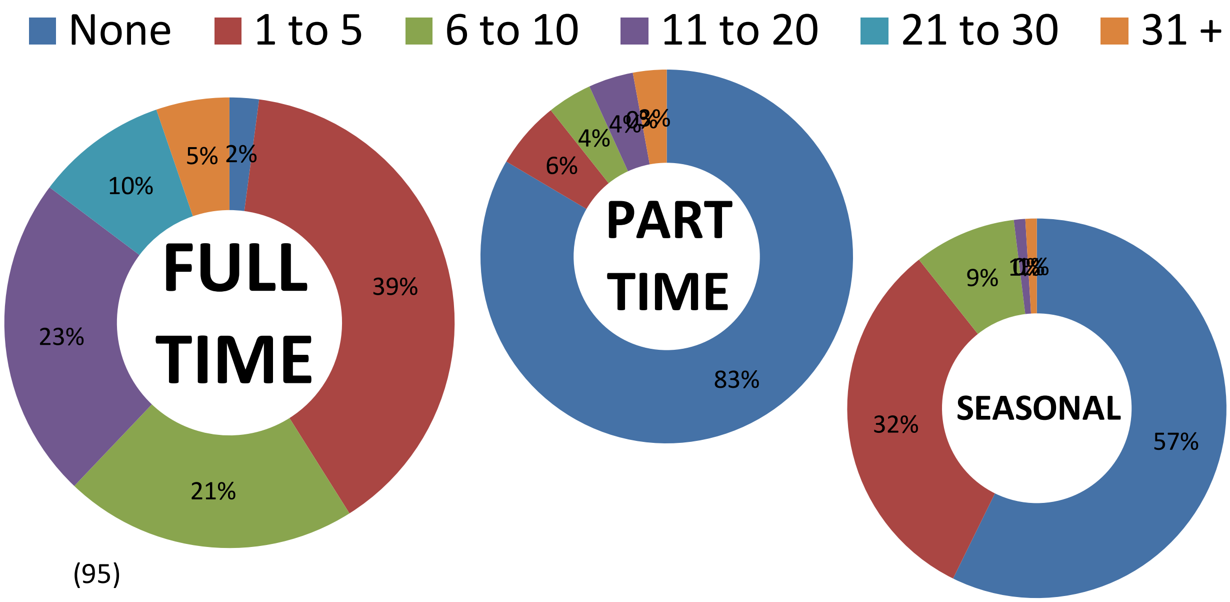
(98)

3 What type of products and services do you provide?

Listed below are the majority of the answers from survey respondents describing their business.

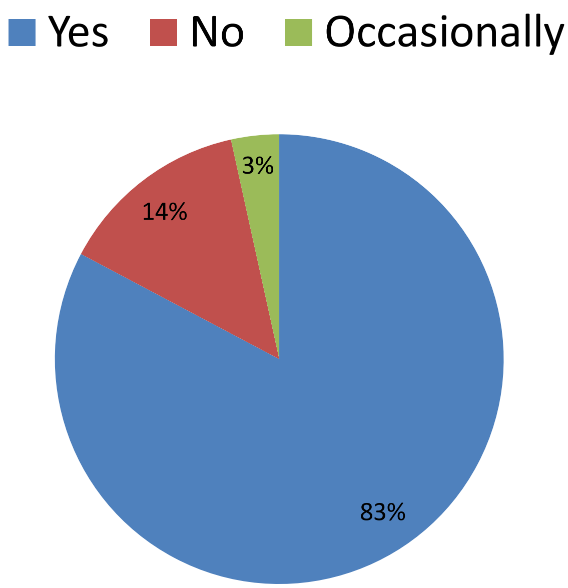
- custom sheet metal, handrails, electrical enclosures, stainless steel and aluminum fabrication
- stucco contractor
- electrical contracting
- ferrous metals - welding and fabricating
- architectural sheet metal, cladding, decking and composite panels (supply and install)
- insulation and spray foam
- plumbing, heating, HVAC, mechanical, medigas, process piping
- paint/wallpaper and minor reno work
- structural and metal fabrications and installations
- ductwork and HVAC systems; div 15 HVAC
- security products, cameras door control security systems
- general contractor
- civil construction
- plumbing and drainage services
- concrete block, brick and cultured stone
- consulting, project management services
- mechanical contractor
- excavating/civil infrastructure
- electrical estimating services
- sandblasting & painting
- architectural millwork /custom interior finishing
- fencing products
- solar, decorative and security window films
- glazed aluminum window, curtainwalls and entrances
- security and low voltage systems
- mechanical insulation
- glazing
- steel fabrications
- structural concrete formwork
- consulting engineers
- fire protection equipment – sales, service and installation
- plumbing, HVAC, electrical
- road construction
- pipefitting, millwrighting, tank erection, structural steel, fibreglass piping
- project management & consulting
- landscaping and irrigation
- drywall and painting contractor
- geotechnical engineering and construction materials testing
- heating and ventilation products
- fire and water insurance claims; tenant improvements
- roofing and architectural metal
- floorlaying and tilesetting
- commercial steel and wood doors, hardware, washroom partitions and accessories, lockers
- cabinetry, doors, etc.
- furnaces, chimneys, wood stoves - inspections, consulting, design
- custom machining, manufacturer
- construction, design, framing, barn structures, riding arenas
- concrete (civil)
- custom cabinets and doors
- wood coatings, millwork and kitchen bath
- manufacturing of custom suspensions and parts for vehicles; assembly and out of shop services

4 How many employees do you have?



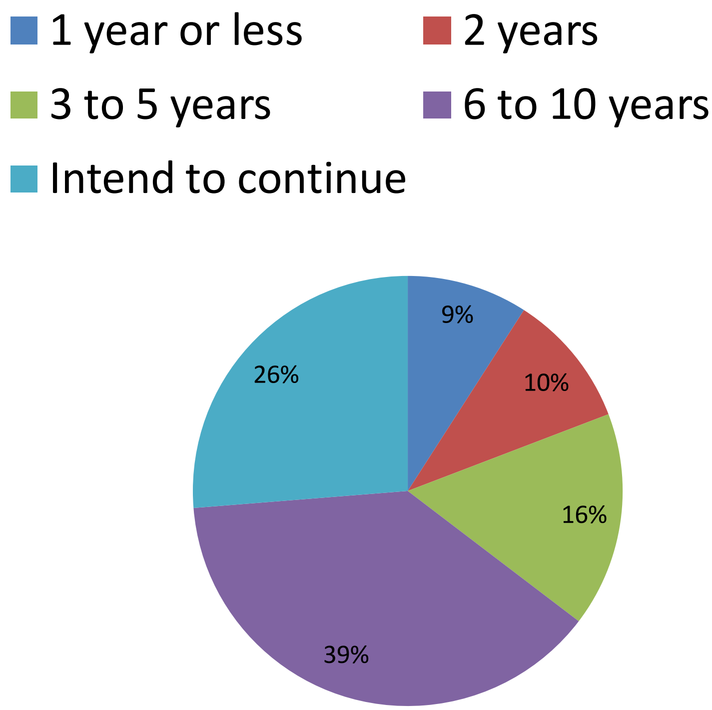
(95)

Do you hire tradespeople and apprentices?



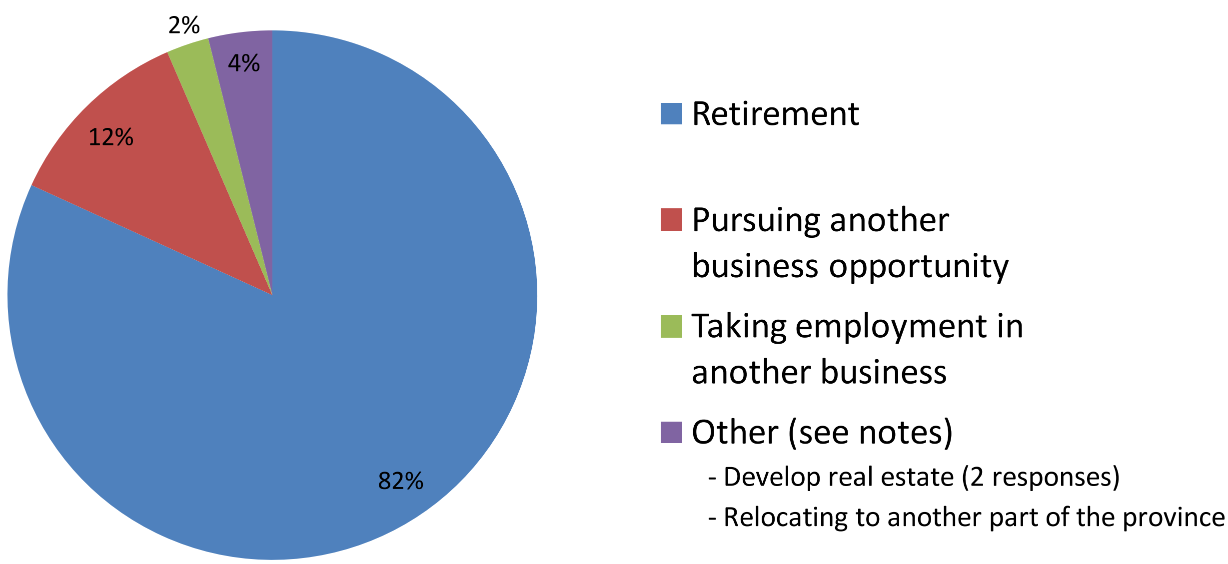
(86)

5 When do you plan to exit?



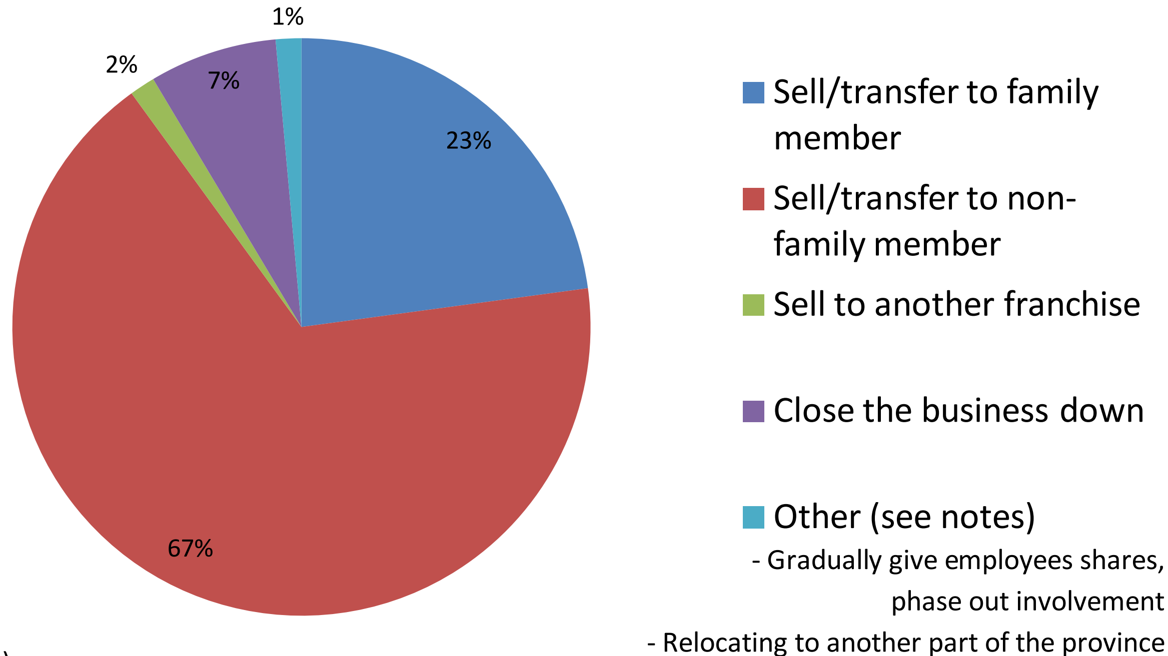
(99)

6 Why do you intend to exit your business?



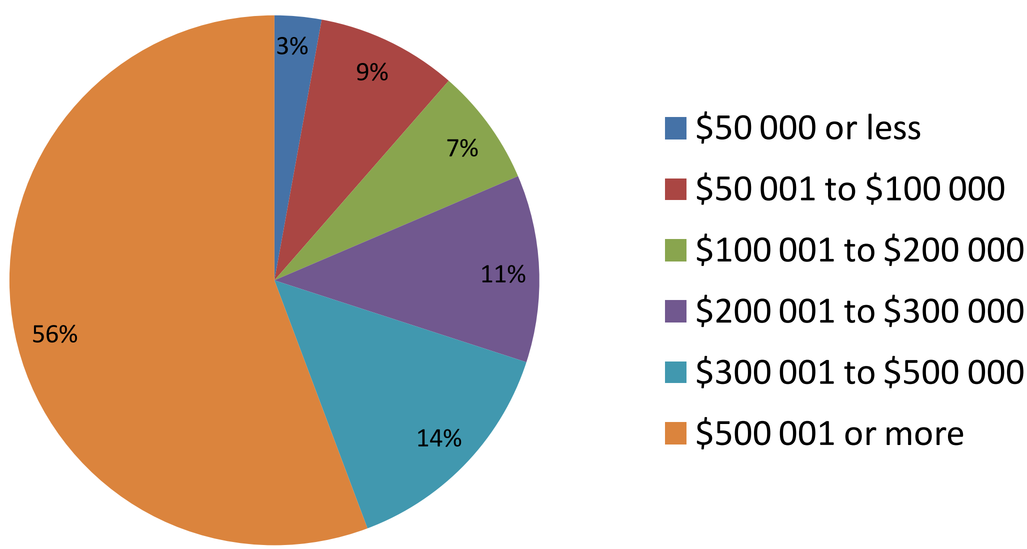
(74)

7 How do you intend to exit your business?



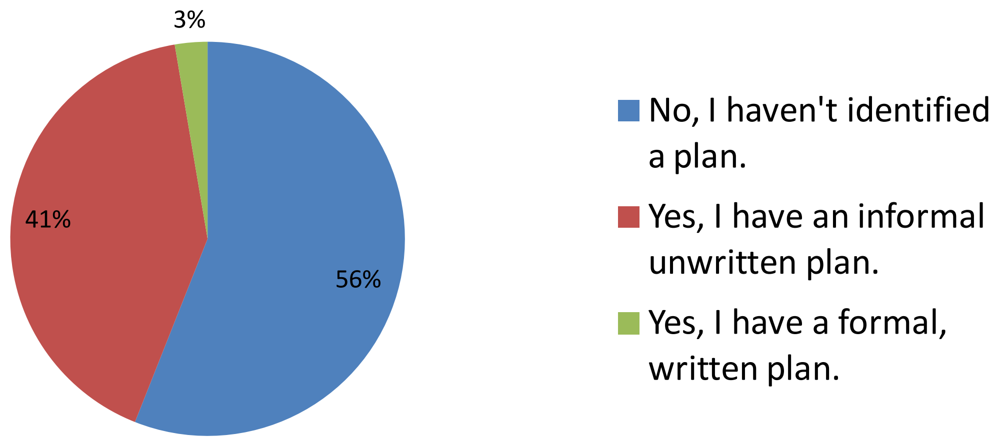
(70)

8 At what price point would you plan to sell or transfer your business?



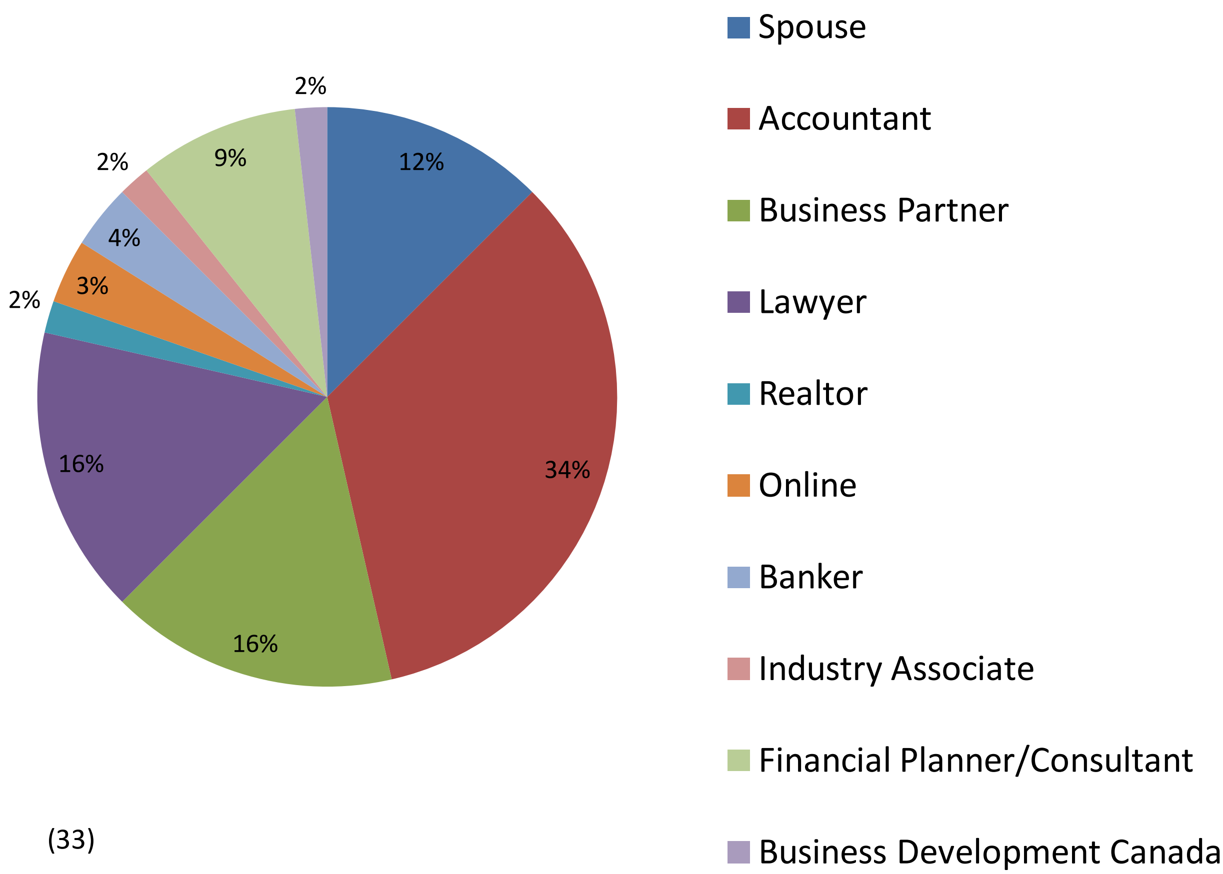
(70)

9 ***Do you have a transition or succession plan?***



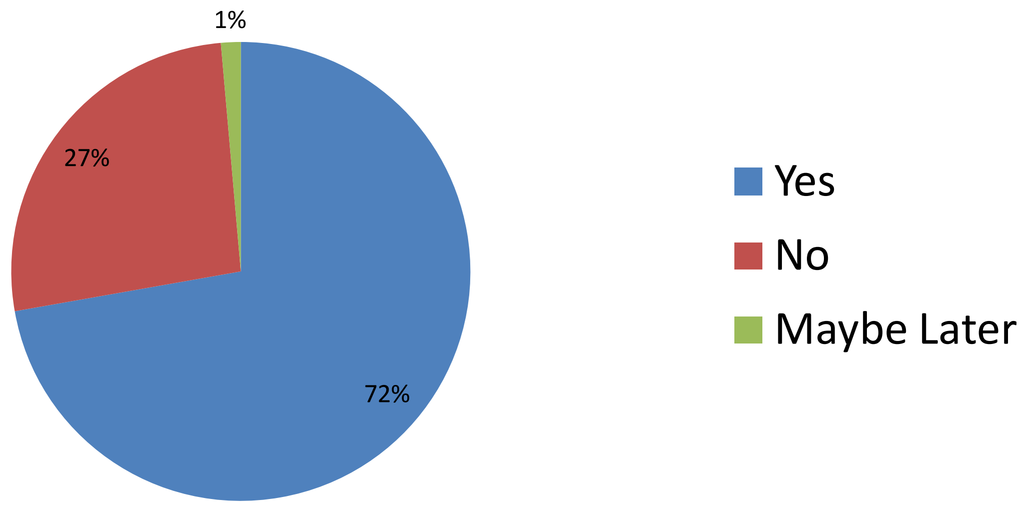
(75)

10 ***If you do have a transition or succession plan (formal or informal), who helped you to develop the plan?***



(33)

11 Would you like to be informed of opportunities to assist with business transition?



(72)