

Tips for implementing change of ownership

Omistajanvaihdoksilla
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In brief:

Coordinated by the Seinäjoki University of Applied Sciences, the project *Women Entrepreneurs – How to reach business growth through business transfers* encourages and supports growth-oriented women entrepreneurs. Business transfers offer an avenue for business development and growth.

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Dear woman entrepreneur!

How about taking a bigger step at once – sooner, more easily and perhaps at less cost than you had ever imagined? You can do this by acquiring an existing business. So, what do you need to know and do?

You have in front of you an exceptionally comprehensive document to help you fulfill your dreams. In addition to this guide, the project's website offers a wide range of videos by experts on different topics related to change of ownership. Read, listen, buy and grow your business!

A group of amazing, hard-working women and men are behind this project.

During our sessions, participants have come up with new ideas, researched, laughed and learned from each other. My sincere thanks to them all and I hope this is an eye-opening experience to all readers!



Aila Hemminki
Business transfer expert
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More interesting information is available on the project's website at:

<https://www.seamk.fi/yriytyksille/tki-projektit/omistajanvaihdoksilla-naisten-yriytyksien-kasvuun/>

What does change of ownership mean?

Broadly speaking, change of ownership, or business transfer, refers to acquisitions and family business successions. Both acquisitions and family successions may be executed as share transactions or as asset deals.

Companies aiming for growth may strategically identify the acquisition as a means of growth, and on the other hand companies may also sell off business activities which prevent or slow down planned growth. Business transfers have, in fact, become a growth option worth considering.

ACQUISITION

FAMILY SUCCESSION

SHARE
TRANSACTION

ASSET DEAL

SHARE
TRANSACTION

ASSET DEAL

Changes of ownership are a part of a company's natural life cycle. Securing the continued operation of an existing company is important for the economy, the employees as well as the entrepreneur. An acquisition may also be a safer and easier way of becoming an entrepreneur than starting a new business.

Change of ownership as a tool for growth



A company can grow by expanding its own operations through so-called organic growth, or by acquiring another company's existing business. Acquisitions can be used to expand one's market or to take over new lines of business. Business transfers play a role in generating growth and maintaining the dynamics of the economy. Studies have shown that business transfers of small companies are usually successful in Finland.

Growth through acquisition

Studies have shown that in business transfers the buyers gain customers, employees, geographically new markets and increased turnover through their acquisitions.

By the acquisition, a competitor is often removed from the market, thus strengthening one's own market position.

Sometimes opportunities to diversify the business are sought. An acquisition may bring, for example, new products, or the aim may be to upgrade the level of value added.

Entrepreneurs, who have both established a company and acquired companies, find acquisition to be an easier avenue of growth.

When business is built up from the very start, costs will run even when there is no income yet. An existing company, on the other hand, already has cash flow, customer relationships and an infrastructure.

Starting from scratch may thus be a more expensive way of seeking growth.

The human side of acquisitions

There is also a human dimension to business transfers. Sellers often feel responsible for the company's employees and customers after the acquisition. Buyers also see qualified personnel as an important element in the transaction. In many cases, employees bring with them tacit knowledge and important networks.

The seller may also have a strong emotional bond with her company, which a wise buyer will take this into account. If the seller is not yet at a pensionable age, finding a suitable role in the acquiring company may close the deal. Still, mutual commitment to the new role does not always go smoothly.

Acquired companies need developing and the new company's operations need to be synchronised with the existing business. Digesting the object of purchase always takes time and acquisitions cannot, therefore, be made continuously.



A well-run business attracts buyers



An acquisition can be initiated either by the buyer or the seller. If the company to be sold is well run, it will draw interest from prospective buyers. Not everyone is aware that an acquisition may be a means of growth also for the selling company. In selling off a part of her business, the entrepreneur releases resources for developing the core business.

Companies that have made an acquisition, take a positive view on business growth through acquisitions. Often, when a first acquisition has been successful, companies begin to actively seek new opportunities for acquisition.

The importance of the business condition of one's own company is also understood. If a company is not well run or fails to move along with the times, it will not attract successors or buyers.

Practical tips for a successful transfer

Contents

Seller

Buyer

Before the transfer

Contact the regional expert advisor

Have in mind:

What you are selling; what is valuable about your company to the buyer

When you will be selling; start the process well before the date of transfer

Financial data and future prospects of the company

Seek actively and ask for advice from your regional expert advisors

Have in mind:

What you want to buy; sector, location and other criteria for the object of purchase

Why you want to buy; starting-up as entrepreneur vs. growing existing business

Find out about financing options

During the transfer

Continue to ensure the profitability of the company

Commission a business transfer expert

Seek for a buyer through multiple channels

Estimate the value of your business realistically

Agree on the object and terms of sale in writing

Agree on your role after the sale in the negotiations

Familiarize yourself with the seller and the object of purchase

Make a preliminary plan for the takeover and the development of the company following the acquisition

Find a financial partner for making calculations and clarify financing issues

Make the decision to purchase and draw up contracts

After the transfer

Support the buyer as agreed, for example, by concluding a separate employment contract for a possible period of employment

Carry out the takeover of the object of purchase as planned.

Consider personnel, customers and partners in the plans and the takeover itself

Identify the processes and matters which can be integrated into the existing business (synergies)

Making use of expert advice and support: Financing options

External experts are often consulted in acquisitions, especially in valuation and in weighing different financing options. Acquisitions are most often financed by a bank loan, which requires sufficient collateral. The repayment period generally varies from one to five years. A change of ownership often takes place by way of an asset deal.

It is a good idea to use an expert for drawing up the bill of sale and any other contracts and documents.

Even those experienced in acquisitions find that outside views provide added value. For example, the ELY Centre offers affordable subsidised low-threshold expert advice. Local associations of entrepreneurs provide advice and Finnvera, among others, helps with financing arrangements.



Read about other interesting cases of ownership change in the *Guide to business transfers for SMEs* (in Finnish)

Aims of the project

The project *Women Entrepreneurs - How to reach business growth through business transfers* encourages and supports women entrepreneurs to develop and grow their businesses through different means. Such means may be:

- 1) growing the business internally
- 2) growing the business through acquisitions/asset deals
- 3) growing the business by selling business activities
- 4) supporting and encouraging aging women entrepreneurs to prepare their businesses for sale and themselves for giving up entrepreneurship
- 5) bringing together potential successors and sellers of businesses.

The project also takes into consideration the well-being of entrepreneurs when they are planning and realizing an acquisition or sale.

Operational model for the buying, selling and growing of businesses

As a result of the project, an operational model has been developed which entrepreneurs can use independently or for working in peer groups on planning their own business transfer.

The operational model consists of three topics: buying, selling and growth. Comprehensive information packages on each topic are available on the project's website. They include lecture videos, educational materials and various tools.

Buying



Selling



Growth



Buying



Under this topic you can find more information, among others, on:

- acquisitions as a strategic choice,
- business valuation and financing
- takeover and development of new business.

Selling



Under this topic you can find more information, among others, on:

- business valuation,
- preparing for giving up a business,
- family succession and
- expert services in business transfers.

Growth



Under this topic you can find more information, among others, on:

- strategic management,
- marketing and social media skills to support growth and
- financial management.

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