

## Canadian SMEs and Transition Planning Backgrounder

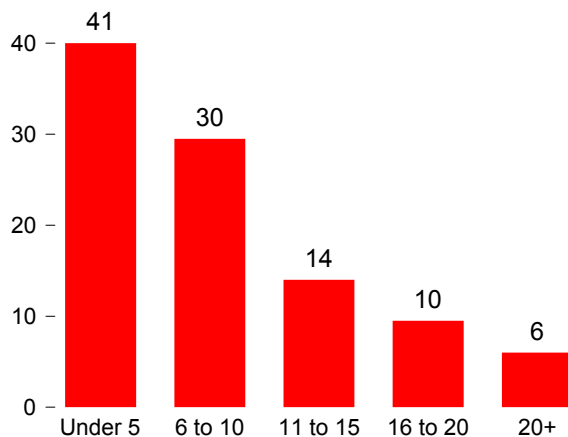
### ***Canada's small business sector at a glance***

- In Canada, there are over one million businesses that have full-time employees. Of these 98% are small businesses with fewer than 100 employees.
- Canada's SME sector is the driving force of economic growth, innovation and employment and represents the vast majority of Canadian business.
- According to Statistics Canada, 75 per cent of all businesses employ fewer than 5 employees and 95 per cent employ fewer than 50.
- Businesses with more than 500 employees account for less than 0.5 per cent of all businesses in Canada.
- SMEs employ the majority of working Canadians – nearly 60 per cent – and are the primary contributors of economic growth, contributing 80 per cent of all new jobs in the economy and generating roughly 43 per cent of Canada's economic output.

### ***The Issue***

- According to a CIBC study published in 2005, there is an estimated \$1.2 **trillion** dollars in business assets to be transferred to the next generation of owners by 2010.
- In a June 2005 study, the Canadian Federation of Independent Business (CFIB) found that 71 per cent of Canadian entrepreneurs are planning to retire in the next ten years – 41 per cent plan to do so in the next five years.

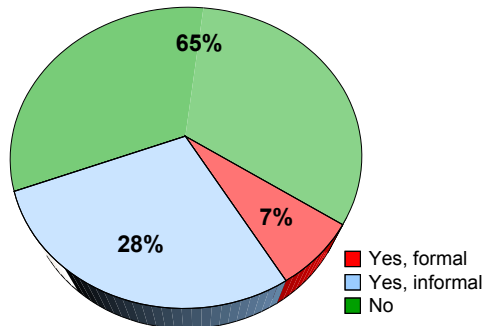
### ***When SME Owners Plan to Exit Business (% response, years)***



Source: Canadian Federation of Independent Business, *Succession Can Breed Success*, June 2005

- More than half of these entrepreneurs have no plan to transfer their business to new owners.
- Only one third of SME owners are planning for their future succession (see figure below).

**Existence of a Succession Plan  
(% respondents)**



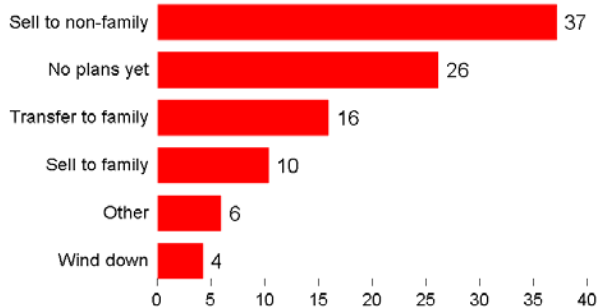
Source: Canadian Federation of Independent Business, *Succession Can Breed Success*, June 2005

- Among those who have a succession plan, the majority are informal, unwritten plans, which have not been shared with the intended successor.

**The CFIB study *Succession Can Breed Success* also found that:**

- Retirement is the number one reason for business owners planning to exit their businesses (82 per cent of respondents).
- The most common method among SME owners of exiting their businesses is to sell outright to non-family members (37 per cent) (see figure below).

**How SME Owners Plan to Exit Businesses  
(% response)**



Source: Canadian Federation of Independent Business, *Succession Can Breed Success*, June 2005

- Non-family businesses are slightly more likely to have a succession plan compared to family businesses (39 per cent vs. 29 per cent). However, these family businesses are less likely to have a formal succession plan (23 per cent vs. 31 per cent).
- The less likelihood of formal plans in family businesses may occur because owners assume that they are “on the same page” with their successor.
- Among SMEs who have a succession plan, only 51 per cent have chosen their successor.
- A family member currently working in the business tends to be the most popular choice as a successor (58 per cent) with family not employed in the business accounting for only 6 per cent.