



2019
SME Assembly
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Upgrading Growth Policy with Business Transfers
Masterclass, SME Assembly 2019, Helsinki, Finland

Working Paper

This working paper was prepared in a process related to masterclass in SME Assembly 2019 Helsinki, Finland, organized by the European Commission's Directorate General for the Internal Market, Industry, Entrepreneurship and SMEs and the Finnish Presidency of the Council. The SME Assembly is the most significant annual event for SMEs and entrepreneurs in Europe and those that support them.

BUSINESS GROWTH

There are two fundamental growth modes for SMEs. First, organic growth meaning internal generation of resources and expansion of a firm's operations from internally generated resources. Second, acquisitive growth meaning one firm buys controlling interest in another firm and acquired business is integrated within current operations or becomes a subsidiary of the acquirer's portfolio. Dynamic entrepreneurs use both growth modes.

SMEs are creating 85 % of new jobs and 93 % of the firms are micro-size in EU. Growth policies key objectives aim at vitality, well-being and jobs. Promoting business growth is a common challenge for EU Member States.

Effective growth policy should focus on promoting both organic and acquisitive growth. Growth policy development needs to be evidence based with systematic research.

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BUSINESS TRANSFERS

Business transfer is a change in firms controlling ownership and it includes both acquisitions and successions. One of the main drivers for business transfers is to create growth. Acquisitive mindset is underrepresented in entrepreneurs strategic thinking. A well-functioning business transfer market requires sellers, buyers, target businesses, financing, information, guidance and support services for entrepreneurs, financial instruments, stable regulatory environment and confidence in the future. Business renewal after the business transfer is one of the key success factors.

Business transfer is a good option to upgrade SME business model with digitalization and environmental sustainability. Business transfers support European Green Deal. Business transfers should have same level of political attention as business start-ups.

AWARENESS RAISING

Business transfer awareness-raising does have a number of perspectives. In order to be well-functioning business transfer markets need both sellers and buyers. There are not enough businesses to enter business transfer market. Entrepreneurs with the decision to exit business by selling it, develop the business and have vital business to sell. Aging entrepreneurs not knowing what to do with the business commonly let the business go down during last years. Also, entrepreneurs fail to prepare their firm for sale and are likely to obtain a lower value than expected. On the other hand, high asking prices prevent and slow down business transfers. On potential buyer side, entrepreneurs do not enough realize the full potential of business transfers in business development.

An unrealized, delayed, or failed business transfer always wastes know-how, assets and jobs. There is a need for systematic long-term awareness-raising measures at EU-level, in member states and at regional level. This would increase the number of sellers and buyers on business transfer market. Awareness-raising increases the number of entrepreneurs planning to sell their business as exit mode and the number of businesses exploiting acquisitive growth. Raising awareness about the need to

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prepare the transfer of one's business and call on experts for instance to value the firm, contributes to make the business owner aware of the difficulties he/she might face, including emotional aspects. Preventing a price expectation mismatch between the seller and the buyer of the firm contributes to have a smooth market and avoid so-called deal-breakers.

In awareness raising multi-stakeholder approach is important and needed. Higher policy makers' level representatives should be more involved in business transfer ecosystem development. A well-developed business transfer ecosystem will help develop dynamic ownership transfer markets and hence support growth and survivability of SMEs. Ultimately, awareness-raising is about making business transfers an ordinary, everyday part of doing business. It cannot be over-estimated.

FINANCING BUSINESS TRANSFERS

The fundamental feature of business transfer is that the value of target business is higher for the buyer than for the seller. Another key feature is that in business transfer the value of target business is buyer specific. It takes money to buy a business. It is very common there is a need for external financing in business transfers. Intangible assets make up an increasing share of SMEs' assets. Their value is difficult to evaluate. There is a need for financial instruments applicable to business transfers. Financing is needed by both buyer SMEs and individual buyers

Because of regulations, banks in Europe are more and more conservative and require more equity and collateral. However, in Member States there are differences in the availability of funding for business transfers. All Member States have potential in marketing available support and financing schemes.

What EU and different national and regional actors could do better is to raise the awareness concerning the benefits of business transfers and arrange both physical and web-based platforms where potential buyers and sellers as well as advisors (valuation, legal, tax etc.) and financiers can meet each other. It is also important that most existing and forthcoming public financing instruments that supplement the private market, can also be used to finance business transfers. What the public sector

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should NOT do is to micromanage any of these transactions or make the use of public services too complicated or bureaucratic.

Potential financial instruments

- Guarantees
- Junior loans
- Loans with light or without collaterals
- Equity capital

Potential EU-level entities to finance business transfers

- European Fund for Strategic Investments (EFSI)
- COSME

REGIONAL ACTION PLANS

SME Business transfer is a local phenomenon. In most micro-SME business transfers buyer and seller do know each other. Regional business transfer ecosystems are important in promoting business transfers. Cooperation between key stakeholders makes it doable to build regional action plans to promote business transfers. Events, success stories, media visibility and marketing regional business transfer services are examples to include into these action plans. EU structural funds offer a number financial instrument for funding regions cooperating in developing regional action plans. For example Interreg Europe is funding project STOB Regions. This project is supporting regional action plans for business transfers, with the purpose of renewing and improving, through the adoption of good practices and on-going regional business transfers approaches.

The topic of business transfer is omnipresent in most of the EU Member States. The levels of awareness, knowledge and experiences differ significantly. For the Eastern European Member States it is a new topic and they need support on all levels:

- political decision-makers do not know what is really needed to improve the business transfer ecosystem
- entrepreneurs are not aware of the topic and underestimate the time and efforts needed

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- there are no experienced advisors/consultants who can guide through the transfer process
- due to their history there is lack of entrepreneurial culture and mindset

Many European regions have tried many activities to promote business transfers. Sometimes they succeeded and sometimes they failed. It is important that regions build networks and find ways to exchange their experiences and good/bad practices. Each Member State or even each region has its specific challenges and issues (not only regarding business transfer). The exchange with others is the basis to build own solutions, taking into consideration the political, economic, geographic and educational requirements of each region. For example in Catalonia (ES), Flanders (NL) and South Ostrobothnia (FI) have a long history in building regional business transfer action plans.

NATIONAL ADVISORY BOARD ON BUSINESS TRANSFERS

Complex strategic, financial and psychological measure like business transfer involves a number of national organizations in public and private sector and other stakeholders. Each Member State needs to develop a general framework and national action plans for business transfers. National level cooperation between key stakeholders makes it possible to develop effective and successful measures to promote business transfer and growth. No one-size fits all.

DISSEMINATION OF BEST PRACTICES

Business transfer ecosystems do vary within EU Member States. It is well known, well-functioning practices can be applied in different environments with different characteristics. Platforms (e.g. TRANSEO) for cooperation and own initiatives increase opportunities to learn from others' experiences and insights. Also, there is a need to be proactive. Entities with good practices should make them visible and transparent. Entities developing their own practices should be curious about others way of doing. EU structural funds have a great potential in financing peer learning processes having participants in several Member States. Europe needs own business transfer scene.

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In EU we have a good number of best practices. Some examples of “want to be a best practice”:

- National Advisory Board On Business Transfer (Business Transfer Forum, FI)
- EU-level cooperation (TRANSEO)
- Financial instrument (Finnvera, FI)
- Guidelines for employee buyout (AT)
- Guidelines for advisor training (EE)
- Mentoring program for succession (HU)

NEXT

1. Business transfers should be essential part of the new EU strategy for SMEs. Each Member State should have national action plans for promoting business transfers and national advisory groups to host cooperation of key stakeholders.
2. There is a need for EU-level comparative study of national business transfer ecosystems.
3. Key message to education is to develop and implement courses “How to buy a firm”. This does apply to vocational education, universities and adult education.
4. Testimonials of buyers and sellers are very valuable in all levels of awareness-raising (region, national and EU).
5. Business transfer support services and advisors are keys to successful business transfers. Measures to develop and market these services contribute to business growth.

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