

SUCCESSION PLANNING FOR SMALL AND MEDIUM-SIZED BUSINESS IN LABRADOR AND THE NORTHERN PENINSULA

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AUGUST 2018

Succession Planning for Small and Medium-sized Business in Labrador and the Northern Peninsula

**REPORT PREPARED FOR THE HARRIS CENTRE OF REGIONAL POLICY AND
DEVELOPMENT, MEMORIAL UNIVERSITY
*POPULATION PROJECT: NEWFOUNDLAND AND LABRADOR IN TRANSITION***

August 2018

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¹ Thank you to all who contributed to this project . Including considerable help with content and layout by Dr Keith Storey, Andrea Quigley, John Gibbons, Cathy Newhook, Dr Tom Cooper.

The Population Project: Newfoundland and Labrador in Transition

In 2015, Newfoundland and Labrador had the most rapidly aging population in the country – which when combined with high rates of youth out-migration, declining birth rates, and an increasing number of people moving from rural parts of the province to more urban centres, means that the province is facing an unprecedented population challenge. Without intervention, this trend will have a drastic impact on the economy, governance, and the overall quality of life for the people of the province. Planning for this change and developing strategies to adjust and adapt to it is paramount.

The Harris Centre's Population Project has developed potential demographic scenarios for the province and its regions for the next 20 years and will explore a number of the issues arising. These include, but are not limited to, those concerning:

- **Labour markets** – how will future demands for labour be met given a shrinking labour supply?
- **Service demands** – what are the implications of an aging and a geographically shifting population on the demand for public, private and non-government sector services?
- **Service provision** – what are the implications of a declining rural population for the costs and delivery of services to an increasingly smaller and older, but still geographically dispersed population?
- **Governance** – how will local and senior levels of government respond to changing governance issues in the light of these demographic changes and challenges?

Utilizing expertise from both inside and outside the university, the project employs a combined research and debate approach to inform and contribute to government policy, as well as to develop strategies for the private and non-profit sectors to respond to the broad range of issues resulting from the anticipated population shifts.

This report, by Dave Lough, an Executive in Residence in the Faculty of Business Administration, Memorial University, offers insights into the challenges facing small and medium-sized business owners in Labrador and on the Northern Peninsula with respect to succession planning. Few owners are able to persuade younger family members to continue operating their business and there are significant difficulties in finding prospective new owners and concluding a sale. The potential loss of small businesses to communities in the region may be critical for their futures. The loss of employment, taxes and the services that those businesses provide, together with other less tangible benefits, add to the problems of aging and declining populations and the future of local communities. Assisting businesses through the transition from one generation of owners to the next can help to maintain that business presence in the community and thereby contribute to its sustainability. The recommendations offered are designed to help achieve this goal.

Funded by the International Grenfell Association (IGA), this report is the sixth published through the Population Project. This and all other reports generated through the Population Project are available online at www.mun.ca/harriscentre/populationproject. More information about the project can be obtained by contacting the Project Director. Comments on the Project and reports generated are welcomed.

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1.0 EXECUTIVE SUMMARY

The Harris Centre of Memorial University is playing an important role in the responsible development of the economy and society of Newfoundland and Labrador and in stimulating discussion of important provincial issues. In addition the Harris Centre's "Population Project" research has revealed major demographic shifts in the Province. These demographic changes are significantly impacting regional economic growth and deserve informed analysis and discussion. One related area of concern that was identified in consultations is succession planning for small and medium-sized businesses on the Northern Peninsula and Labrador and this report sets the basis for an informed dialogue on this important issue. The need to maintain businesses and employment is recognized by economists as just as important as adding new jobs, however, this has not been the main focus of business advocacy and support agencies in the region.

It is a natural evolution that businesses over time need to be transferred to new owners often through family succession or with employees taking over after years of involvement in the business. When family or employees are not an option then a business has to be put up for sale in the hopes of finding new investors. For many owners the challenge of navigating through exiting their enterprise, even with a family transfer, is a huge undertaking and there is almost always a need for guidance from support agencies and for professional advice.

This research project was conducted during the winter of 2017-2018. A cross section of businesses representing different sectors from six sub-regions, five in Labrador and one on the Northern Peninsula were interviewed. Five of the six sub-regions were visited and the majority of interviews were held with the owner of the business. In total eighteen case studies and detailed discussions with support agencies and business leaders in the region were conducted. Also a literature review was undertaken which confirmed that succession planning is a very significant issue even in urban growth economies and is equally significant, but not as easily addressed in rural and remote areas.

In examining business succession planning there are a number of issues that are key in this rural and remote study area. Most importantly the availability of expert advice is key to informed decision making. Experienced business advisors who understand the region's economy and relevant examples of business transition models that have been successful are essential. Overall there is a need for more opportunities for informed dialogue with business owners. A key tool in succession planning to date has been seminars. While seminars are valuable, the dispersed region does not make it easy for many to attend. Seminars are often seen as really valuable as a good starter on the issues, resources and options for good succession planning. In rural and remote areas the challenge of engaging individual business owners on a one-to-one basis, and working with them over a period of time, is perhaps the most critical need.

The federal, provincial and community business development agencies that work in the region are the ones best suited to be the first responders to lead the dialogue on succession planning. It should also be introduced as a topic in all discussions in the business planning and support

cycle. While it is mature businesses with original owners that are the obvious target, all businesses and even newer enterprises need to have succession on their radar. Often for younger owners it can be viewed as an opportunity where they can acquire a business from someone ready to exit. They also have the opportunity to learn from the different issues others face in the succession process *and build their own plan early*.

The key people involved in supporting business development often connect at Chamber of Commerce or regional development planning meetings and it is there that succession planning for small and medium-sized businesses should be discussed. In these sessions good economic data on the region, investments updates and trends all help inform good discussion on the future opportunities for business in the region. There is an identified need for the availability of good regional economic data and research to support business decision-making. Open evidence-based discussion and support for good succession is just as important as working on a new business start-up. Retaining businesses reflects stability and a healthy economic climate and needs to be measured as a success factor in economic agency reporting.

Discussion and recognition of good succession planning should be celebrated. In this research it was clear that there are great examples of successful succession with family members or employees taking over and with new investors ready to buy good enterprises. The best practice case studies from the region are valuable and can help when often-failed attempts at succession have a higher profile in the media and regional discussion.

While I found successes, there were also businesses that have had to close because there were no buyers. Closure was often attributed to marginal viability, unrealistic sale price and changing economic trends. There is considerable concern for the future of small and medium-sized enterprises in Labrador and the tip of the Northern Peninsula. Small communities are increasingly challenged to attract and keep youth, especially bringing back youth who have gone away to post-secondary training or gained work experience in other regions. The small pool of workers and potential new owners has been an ongoing challenge. A positive campaign is needed to promote the economic and social opportunities of living in small towns. It needs to be profiled that most communities are in fact not dying communities, but have opportunities for energized and creative business investment which can result in a great lifestyle and excellent financial returns.

I saw both success and challenges in attracting and retaining people based on efforts by communities to address the need to be creative and welcoming. Winter community activities, family-oriented recreation, new small businesses are examples cited of key supports for healthy communities. As an example, the health clinic, school and businesses need to all work together on recruitment and retention as the success of each one provides the critical mass for healthy community activity and leadership and the basis for successful enterprises. The Labrador Straits was doing exactly this during the research. Support for healthy creative communities needs to be part of an economic development strategy and directly improves orderly business succession.

A priority of the Province is to accelerate immigration and this can help Labrador and Northern Peninsula businesses in succession planning. It is a significant positive step that offices for the Association for New Canadians have been established in Happy Valley-Goose Bay and Labrador West. We have seen the benefit of new Canadians in these communities and in the Labrador Straits. The challenges of the retention of new Canadians, especially in small communities where the critical mass is not there to provide the cultural supports needed and the remote sub-arctic environment require major adjustments. However attracting new Canadians as business owners or developing them as key employees in the business with the possibility of future succession, has been identified as opportunities worth pursuing. The challenges are significant, however a good matching with a business and the time to transition in the business has worked in other areas.

Business training, including short specific workshops and pre-employment training through the College system, has also been identified as key to successful retention and succession. The Nunatsiavut Government has identified the availability of business administration and management courses as a priority. The region should also work with Memorial University's Faculty of Business Administration on issues such as Social Enterprise development and training. Social enterprises especially aboriginal-owned enterprises are emerging, expanding and becoming a significant economic force in Labrador. In addition, the courses of the Gardiner Institute at Memorial University are ideal for existing owners and employees. Many from the region were employed at Muskrat Falls and as that project winds down, and with some training, they now can bring valuable experience to existing and new small businesses.

A key recommendation of this report is a new mentorship initiative, which would have an experienced businessperson guide a business owner through the key stages of succession planning. This approach has been a very successful model elsewhere and can work in this region. In the past Canadian Executive Services Overseas (CESO) has provided experienced business professionals to assist businesses in remote areas in Canada, including Labrador. CESO is still very active and is still targeting remote areas in Canada as well as international assignments. A bank of CESO volunteers is available, many of who have been through their own business succession. A mentorship program in partnership with CESO and administered through the CBDC is my recommendation. The Consultant Advisory Services (CAS) program currently offered by ACOA and CBDC's could support this new mentorship program. This would be a cost effective way to help address succession planning in the region. CBDC Labrador and the NORTIP CBDC are well positioned to be the primary contact for this new initiative.

Another key recommendation is the need for access to professional valuation, accounting and legal expertise who understand the region. A list of qualified business experts who are available to work in the region would help businesses navigate through the stages of business succession.

On line services are increasingly improving for up to date information including good succession planning kits and opportunities to list businesses for sale with CBDC Atlantic. These

services however are only a tool and often are more suited to businesses in or near urban areas.

The Labrador and Northern Peninsula region would greatly benefit from good regional economic data being prepared annually to support business planning, valuation and succession. ACOA support for a RAnLab "Future of the Economy" Report would be very valuable.

Like other rural regions retaining and attracting youth is a key issue however there are good viable business opportunities and for many a cultural and traditional lifestyle they value. Programs to support youth entrepreneurial training and start-up incentives can produce results in the region.

There are real business opportunities associated with a growing aboriginal economy, the completion of the Trans Labrador highway successful social enterprises and efforts to build more sustainable communities. These opportunities all deserve further research and analysis. In planning and advocacy the closure of regional economic boards has left a vacuum and it is fundamental that businesses support organizations like the three Chambers of Commerce in the region and the community economic development and business development organizations in the area all work together on policy, advocacy and new programs to continuously improve the investment climate for existing businesses in the region.

In summary, more support and dialogue for good succession planning for small and medium-sized business in Labrador and the tip of the Northern Peninsula is needed and can help ensure the retention and expansion of enterprises that are key to a healthy regional economy. The solutions identified can be implemented within existing mandates of key agencies without significant new costs. The results can have a major positive affect on small and medium-sized businesses and the region's economic stability.

2.0 PROJECT RATIONALE AND RESEARCH APPROACH

2.1 The Succession Planning Problem

Memorial University's Harris Centre has led an important initiative to examine demographic trends occurring in Newfoundland and Labrador to examine some of the implications of the projected changes for communities and the Province as a whole and to encourage dialogue on the findings. Entitled the "Population Project," the initiative has provided valuable research and opened up a range of discussion at all levels on what public policy and planning actions will be required to address the impacts of the changing provincial demographic landscape.

Through the Harris Centre's research and regional consultation process, a number of areas of interest were identified for further exploration, including the issue of succession planning for small and medium-sized enterprises (SMEs). Succession planning is seen as one of the top drivers of business success (Riding and Orser, 2007) and in light of changing demographics and growing efforts by small and mid-size communities to retain and recruit human capital, the need for succession planning and transition for SMEs is necessary to ensure economic and community sustainability.

The transition of all business enterprises to new leaders is a national and, in many cases, an international issue. Business succession is a natural progression and the ability to adapt to change is a part of the survival and growth of all enterprises. Sometimes it is a changing economy that requires a business management response, but it is inevitably the case that if a business is to continue over time, new owner managers eventually have to be found. In many cases the first and preferred option among SMEs is to keep the business in the family. Continuing the tradition has always been a source of pride for the owners and often for the community, especially when the business is a part of the community fabric. Many entrepreneurs view their business ventures as extensions of themselves, encompassing the vision and passions they have in both their personal and professional lives.

Across Canada changes have been most evident in the "Mom and Pop Stores," often located in or next to the family home. The small stores have been institutions in urban neighbourhoods and rural communities, with customers from children buying candy, to adults coming in for a few staple items and a yarn. Typically, when Mom and Pop were ready to retire, there was no family member interested in continuing the business. Often the businesses were more of a social than economic asset. The Mom and Pop store shelves, weigh scales, cash registers, and signs, are now often on display in community museums as fond memories.

The issue is not limited to Mom and Pop stores. Sooner or later all organizations will face the problem of transition and as such succession planning is important for the continuity of any business. All companies must engage in some form of succession planning if they are to survive beyond the lifespan of a single generation. Many may hope that their children will continue their business and as a result may feel that planning this transition is not required. In fact fewer than half of viable small and medium-sized businesses are able to survive past the first

generation and, of these, very few are successfully passed on to the second and third generations – often due to the lack of an agreed-upon strategic vision and ineffective succession planning (Burke, n.d.).

Succession planning has gained increased attention due to the upcoming retiring cohort of baby boomer business owners. The implications for rural communities and small towns are particularly significant in this regard in that SMEs are major contributors to their local economies in a formal sense as tax payers, employers and service providers, but they may also play important informal roles in terms of their contributions to community leadership, representation and organization. As such they are often important elements in the fabric of the community, and without them the community might well be a much poorer place.

In Labrador and on the Northern Peninsula, the study area for this project, the aging of the population the outmigration of young people and those in the early stages of their working lives makes succession planning for SMEs both more difficult and more essential. If the current cohort of SME entrepreneurs retire or die without establishing succession plans for their businesses, there is a risk that those business will close and their continuation in new forms by others is unpredictable. Loss of local SMEs may make communities less attractive places to live and trigger further out-migration and other downward spiral effects. Sustaining SMEs in Labrador and Newfoundland communities is thus seen as essential for the ongoing sustainability of those communities and the rationale for this project.

While this report focuses on the issues of privately owned small and medium-sized enterprises in the study area, most of the recommendations are also relevant to social enterprises.² While succession planning is an issue everywhere, there are some unique challenges faced by businesses in rural and remote regions, especially in the Labrador and northern Newfoundland contexts.

2.2 The Difficulties of Succession Planning

For the purposes of this report, succession planning refers to the set of considerations and processes involved in preparation for the transfer, sale or closure of a business from its current owner to a successor (Shore Consulting 2018).

SME business owners across Canada face numerous challenges and barriers with respect to business transfers. The major types of challenges to successful succession planning are typically associated with the following (Shore Consulting 2018):

- Upcoming retirement of the cohort of ‘baby boomer’ business owners;
- Too many business owners start the process of succession planning too late;

² Revenue-generating businesses with primarily social objectives whose surpluses are reinvested for that purpose in the business or in the community, rather than being driven by the need to deliver profit to shareholders and owners.

- Lack of awareness regarding the process of succession planning;
- Difficulty finding relevant information;
- Difficulty finding a qualified successor;
- Emotional implications of succession planning for business owners;
- Macro level regulatory, tax and financial challenges;
- Challenges relating to calculating the value of a business;
- Business support organizations lack the proper skills and resources to facilitate succession planning by SMEs; and
- Lack of comprehensive or integrated public-private collaboration on SME succession planning.

The situation in Newfoundland and Labrador is comparable to that of the country generally. While there are many organizations and institutions that offer instruction and advice on succession planning (see, for example, Canada, n.d.; Newfoundland and Labrador, 2008; Memorial University, n.d.; CBCD, n.d.; NATI, n.d.), take-up of opportunities by SMEs in the province to develop succession plans has been limited. In a 2011 survey by the Canadian Federation of Independent Businesses (CFIB, 2011) of 111 Newfoundland and Labrador SMEs, 64.2 % indicated that they had no business succession plan even though 47.4% of the respondents indicated that they planned to exit (sell, transfer, wind-down) their business in the next 1-5 years. Among the reasons given for not having such a plan were:

- 49.3% - Too early to plan for transition/succession
- 35.8% - No time to deal with the issue
- 23.9% - It is too complex
- 23.9% - Can't find adequate advice/tools to start
- 20.9% - Don't want to think about leaving
- 6.0% - Conflict with family members/employees

In an environment in which the populations of communities across the province will age, and in many cases decline over the next twenty years, the transfer of SMEs to the next generation will become both more important to community survival and more difficult to achieve.

Demographic shifts, technical barriers (taxes, legalities, financing, etc.), soft barriers (interpersonal conflicts, timing, finding appropriate candidates, etc.) are all deterrents to succession planning in SMEs, but they can be addressed. Based on interviews with a number of owners of Labrador and Northern Peninsula-based SMEs, government representatives of business development-related departments, business development organizations and other stakeholders in the region, this project explores options to entice SMEs to plan, implement and manage business succession. The primary output of the report is a set of recommendations directed to government, other relevant agencies and organizations, and businesses designed to help facilitate this process.

2.3 Research Approach

The study area for this Project is Labrador and the northern tip of the Northern Peninsula on the Island portion of the province. Labrador is not known as “The Big Land” without reason. The Labrador portion of the study area is 294,330 km², but it only has 8 percent (27,197 in 2016) of the province’s population. The largest settlement, Happy Valley-Goose Bay, had a population of 8,109 in 2016. In many respects Labrador comprises a set of different regions separated by significant distances, each with considerable differences in accessibility and different economic and demographic characteristics. It is further separated from the Northern Peninsula by the Straits of Belle Isle. It is a complex region and the particular forces that influence business activities within it vary across the region. Recognizing this, six sub-regions were identified, which correspond to those used by Simms and Ward (2016) in their report *Regional Population projections for Labrador and the Northern Peninsula 2016-2036*.

- 1) Northern Labrador;
- 2) Southern Labrador;
- 3) Labrador Straits;
- 4) Upper Lake Melville;
- 5) Labrador West; and the
- 6) Tip of Northern Peninsula (the area served by International Grenfell Association).

Within these regions a cross-section of business owners was interviewed to try to get a balance of industry sectors and owner experiences with succession planning. In total owners or representatives of 18 businesses were interviewed in the study area as a whole. To protect confidentiality specific businesses or their owners/representatives are not identified by name or location, but the industries or sectors represented were as follows:

- Hotel/Hospitality 6
- Services to other Businesses 5
- Retail 3
- Resource-related 2
- Other 2

In addition, key agency representatives with background knowledge and experience in the region were identified as significant resources, and interviewed to mine their collective experiences, gain a better understanding of the issue, and to identify possible workable solutions. In total 11 interviews were carried out. Again, for confidentiality reasons, individuals interviewed are not identified by name, organization, or location, but the types of agency or organization they represented were as follows:

- Government officials (federal and provincial) 5
- Business agencies (government) 2
- Business organizations (private sector) 2

The data used in the study were collected from a number of face-to-face interviews with business owners and other key informants in five of the regions – Northern Labrador (Hopedale), the Labrador Straits, Upper Lake Melville, Labrador West, and the tip of the Northern Peninsula. Other interviews were conducted by phone.

3.0 THE REGIONAL CONTEXT

3.1 Introduction

While there is a great romanticism about the demise of Mom and Pop businesses, the eventual transfer of ownership of all types of businesses is required for the economic survival of most communities. Most of the small communities in the study area have evolved from a traditional seasonal economy based on local land and sea resources, with the resource sector remaining the foundation of the local economy. The fishery, mining or forestry industries, including harvesting, processing and support services, allowed the creation of many successful small enterprises. The major changes in the cod fishery have had a huge impact on the region as have the closure of two paper mills, the cyclical nature of the iron ore industry, the changing role for the military in Goose Bay, the Voisey's Bay mine and, most recently, the construction of the Muskrat Falls hydro project and transmission line.

The boom in the Newfoundland economy associated with offshore oil resulted in few direct benefits for Labrador and the Northern Peninsula. Most of those benefits, like those arising from work opportunities in the Alberta oil sands, have come in the form of repatriated incomes earned by those "working away," but like many rural areas in the province, many have moved, either to be closer to the work or to an airport from which to commute.

On the Northern Peninsula and Coastal Labrador fish harvesting and processing has benefited from the allocation of shrimp licenses to community-based enterprises. A significant policy decision by the Federal Government created new enterprises including Torngat Fishery, Innu Fisheries, Fisherman's Union Shrimp Company, and St Anthony Basin Resources Inc., all major successful social enterprises that have generated significant stability and wealth for the communities they serve. These businesses, most over 35 years old, are going through their own succession planning challenges: the orderly transfer of expertise and the ability to navigate through the complex and changing issues of resource allocations, capacity, and investment.

Perhaps the most significant infrastructure development that impacts the future of economic development and the future of small business in Labrador is the Trans-Labrador Highway. For many businesses the road is changing supply and demand patterns: some businesses strategically located along the highway will likely do very well in the future, while others off the highway will not have the benefit of increasing traffic volumes. It was clear with several businesses that the highway traffic has become key to growth, and as the road is paved there will be increased commercial, resident and non-resident traffic. This is especially true at the gateways in Labrador West, Happy Valley-Goose Bay, Southern Labrador and the Labrador Straits–St. Barbe area. Enterprises at key locations along the highway are benefiting from increased traffic and expanding to meet growing needs. The updated study on a Strait of Belle Isle tunnel crossing (Harris Centre 2018) will also provide an opportunity to look at the return on investment opportunities from a major public infrastructure project in the Strait of Belle Isle.

The study area has some exceptional natural and cultural tourism attractions that have and will continue to present opportunities for local business. L'Anse aux Meadows and Red Bay are both UNESCO World Heritage Sites, and the Torngat Mountains and Mealy Mountains National Parks have co-management agreements with Labrador's Indigenous organizations. Battle Harbour, a National Historic Site, commemorates the fishery and offers the public an opportunity to experience the Labrador fishery heritage. In addition there are unique National Historic Sites in Hopedale and Hebron, which present and tell the story of the Moravian Mission Complexes established in the 1800s. Few remote northern areas have as many authentic attractions, many of which are now more accessible through the Trans-Labrador Highway. Packaging tourism experiences by sea through expedition cruise ships and by plane and helicopter from Goose Bay is increasing visitation by high-end tourists. The tourism industry will increasingly provide opportunities for existing and new small enterprises. Through succession planning, existing businesses can be passed to a younger generation who are attracted to adventure tourism businesses that cater to often high-end tourists who are looking for exotic experiences.

The economic outlook for Labrador is good in most key sectors and as such there is a need to support small and medium-sized business through policies and investment support to enable them, and the communities in which they are located, to flourish. The following summary of regional economic activity serves to illustrate current and prospective opportunities.

3.2 Regional Economy Scan

Mining – mineral exploration has been down significantly over the last five years. Exploration support services, including drilling companies and aviation, both fixed wing and helicopter, have contributed to significant new mineral finds over the years, in particular the Voisey's Bay discovery in the early 1990s. Despite a reduction in activity, rare earth metal projects have been in the feasibility stage in the St Lewis and Strange Lake areas. There is interest in gold on the Northern Peninsula. In 2017 there was some exploration for nickel in the South Voisey's area near Harp Lake inside Hopedale. With increase in metal prices further increased exploration is likely and will support key service and logistics companies in the region.

Hydro – the Muskrat Falls construction schedule plan is for first power by fall of 2019 and full power in 2020. Construction employment numbers will decrease significantly in 2018 from peak of 4,982 in 2016. Almost all procurement contracts are now in place. Once operational the project will likely have less than 200 permanent employees in Labrador. Many workers in the region found lucrative employment during the construction phase and are now seeking new employment opportunities. They are potential candidates to work for or acquire existing businesses.

Iron Ore – IOC's Wabush 3 pit is due to be in production by second half of 2018, increasing IOC's annual production from 18 to 23 million tons. Tacora Resources is in process of re-activating Wabush Mines (Scully Mine) and have a collective agreement in place with the Steelworkers Union. Alderon Mines is actively pursuing development of the Kami project, but

does not yet have financing. Projects on the Labrador side of the Schefferville/Menihek area continue with Tata Steel and New Millennium. The Quebec side has been reactivated with the Mount Wright, Fire Lake and Bloom Lake mine sites in production. The new 34 km Western Labrador Rail Services, which links Bloom Lake in Quebec to the Quebec North Shore and Labrador Railway, is being reactivated. The railway is 90% in Labrador and provides employment to Labrador West residents. Activity in the Wabush Industrial Park is increasing with industrial suppliers servicing most of the companies working in the Labrador Trough.

Nickel/Copper/Cobalt – the Voisey’s Bay Project has been a major employer in Northern Labrador. However, Vale has put the critical decision whether to proceed with underground mining on hold. An update is expected in 2018. The present open pit deposit is not expected to last much beyond 2023. Proceeding with underground mining will almost double the workforce and increase business to the mining services sector.

Fishery – shrimp and crab have been key to Labrador-owned enterprises like Torngat Fisheries, Ueshuk and Katsheshuk Fisheries (Innu), NDC Fisheries (NunatuKavut) and the Labrador Fisherman’s Union Shrimp Company. The organizations work with DFO in implementing the Federal Aboriginal Fishery strategy. The economic benefit in the recent past has been significant, but the situation is now at a critical point given reduced quotas and new investment is required as quotas are increasingly located further north.

Tourism – there are two National Parks in Labrador, the Torngat Mountains National Park (2005) and Mealy Mountain National Park (2015). The Red Bay National Historic Site was awarded a UNESCO World Heritage designation in 2013 and it and the L’Anse aux Meadows National Historic site - also a UNESCO World Heritage Site - are internationally acclaimed destinations. Battle Harbour National Historic Site, operated by the Battle Harbour Historic Trust, is currently developing a new strategic plan.

Trans-Labrador Highway – the Highway will continue to generate significant changes in the business landscape in Labrador and the Northern Peninsula. The supply chain for goods and services is shifting to more truck routing through Quebec by road to Labrador West and on to Goose Bay. This has improved timely access directly to national suppliers rather than going through traditional Island of Newfoundland suppliers. The road is becoming an increasing opportunity for new freight and tourism routing providing an alternative to air access and providing new business opportunities. The commitment to paving the highway has opened up significant opportunities for new hospitality industry services in the region as a whole, which will build visitation numbers to the Mealy Mountains, Battle Harbour, Red Bay and L’Anse aux Meadows areas.

Retail Services – retail operations in the region, as in other areas, have been affected by the growth of online shopping. The greatest beneficiaries of this trend have been postal and shipping services. Local retailers, especially those in small markets, will need to build on customer service and competitive pricing to survive. Viability of some enterprises is a concern, but there are opportunities for consolidation and rebranding. With improvements to the Trans-

Labrador Highway it is common to see Lake Melville residents shopping in Walmart in Labrador City and even Labrador and Northern Peninsula residents driving to shop at Costco in St John's.

Military – the CFB Goose Bay operation has stabilized since 2014 with the commitment of \$30 million annually for investment in infrastructure. There are 130 DND uniformed and civilian employees and 260 Serco employees on the Base. DND operates the airfield and has established a role hosting NORAD exercises.

Environmental Monitoring and Cleanup – monitoring and cleanup of Federal property around the Goose Airbase is funded at an annual rate of about \$30 million until 2020, By then a total of \$300 million will have been spent on cleanup.

Airport (Civilian and International Transit) – Goose Bay Airport is a secondary airport for international flights and averages about one diverted/emergency landing per week. Civilian aircraft movements have increased over the past few years associated with construction activity at Muskrat Falls, but this traffic will continue to decline through to completion in 2020.

Forestry – forestry was a significant industry, especially on the Northern Peninsula, but is now at its lowest level in years. Most small logging operators have ceased operation or are only operating seasonally. While there is a proposal for pellet export to the UK this project is at an early feasibility stage. The Roddickton Pellet plant built in 2011 remains idle.

Agriculture – agriculture is a provincial government priority and some progress has been made in developing small-scale vegetable operations in the Happy Valley-Goose Bay area. The Labrador Institute of Memorial University has acquired a small farm near Happy Valley, which will allow more northern garden research, support to food security initiatives and will provide expertise and training to local farm operators.

Technology and innovation – technology and innovation has become an emerging opportunity area in the iron ore industry with IOC leading new investment as it streamlines its operations. Autonomous mining is anticipated to increase productivity in truck and rail operations. This will have workforce impacts in some occupations, but will increase demand for new skill sets to implement and manage the new technologies. Also with Muskrat Falls there are possibilities for new opportunities in Labrador associated with this new source of power.

Internet Services – in December 2016 the CRTC declared broadband Internet a basic and essential service. Investments in broadband capacity and reliability in the study area are continuing, however, the standard being achieved for remote areas in Labrador is 5 megabits per second while the CRTC national standard is 50 megabits per second. The service, while improved, is not adequate for businesses that are dependent on high speed Internet. Small remote communities will continue to be at a competitive disadvantage in business development with only low bandwidth service.

Arctic Supply and Partnerships – the development of Arctic transportation linkages have been a priority of the Labrador North Chamber of Commerce and business leader Peter Woodward for the past decade. The Northern Lights bi-annual Conference and Trade show in Ottawa, in

partnership with the Baffin Chamber of Commerce, has forged a strong working relationship with business and Indigenous groups in Labrador and Nunavut. This partnership is resulting in business opportunities for Labrador based on the Trans-Labrador Highway and new marine investments.

3.3 Business Development Risks

There are a number of significant risks to economic growth and development in the study area that need to be monitored and considered in business planning as they will affect the future of SMEs in the region.

- If Vale does not invest in the underground mine project at Voisey's Bay the life of the current operation will end in the 2020s. This is a particularly important issue for industrial suppliers in the Upper Lake Melville area who will be affected by the completion of Muskrat Falls and will be hoping for the underground expansion at Voisey's Bay for business continuity.
- If the re-opening of Wabush Mines by Tacora Resources is not successful, the anticipated 300 new jobs will not be added to the Labrador West economy.
- Shellfish quota reductions will likely continue, especially in Area 3K adjacent to the Northern Peninsula and Southern Labrador. The smaller inshore vessel fleet will be especially affected.
- Labrador and Northern Peninsula is this province's sub-arctic region and should be the focus of more innovation and research in northern issues and living. The Smart Ice and Rural and Remote medicine programs are examples of what can be done, but the failure to develop or adopt technologies appropriate to the north has meant that much past investment has not necessarily been well spent.
- Continued reduced provincial government spending and employment is having an effect, especially on remote areas. It is still the case that many senior officials and policy makers have never been to the regions which have different issues and need for different types of engagement.
- Despite a Land Claim being signed in 2005 with the Labrador Inuit creating a unique form of self-governance, many senior provincial officials remain unaware of the responsibilities and requirements that are mandated in the rights of the new territory. The failure to have a lands use policy agreement between Nunatsiavut and the Province is hindering business development and investment, especially in mining and tourism.
- The closure of Air Labrador has left a monopoly with only one airline serving coastal Labrador.

- Many businesses are challenged to find fulltime and seasonal employees, which limits growth opportunities. Affordable housing and successful immigration are essential to maintain business and for the development of new and expanding enterprises.
- Training and upgrading skills availability through the College system has suffered with budget cuts. A recommendation for a Centre of Mining Excellence in Labrador West to support the iron ore industry has not materialized to date. More programs are needed in business skills to support new investment.
- The impact of federal and provincial Tax policy on rural and remote businesses has often not been considered and few incentives exist for new business investments in some key sectors, including businesses that are essential to small communities, such as repair and consumer services.
- Climate change and natural disasters, including severe ice conditions that have impacted the fishery and marine transport, flooding of the Churchill River and forest fires, have all been threats to commerce and are expected to increase in number/severity in the future.
- Housing and other costs of living, continue to hinder economic development and affect the attraction and retention of professionals to the region.
- Significant increases in electricity rates will have major negative impacts on operating costs for most businesses.
- Replacement of the Strait of Belle Isle ferry “MV Apollo,” with added capacity to handle increased traffic, and a new freight vessel for Northern Labrador to replace the aging “MV Astron” are overdue and essential to business growth.

3.4 Case Studies

The following section summarizes the information obtained from interviews with business owners in the study region. Businesses surveyed often performed more than one function and as such the business categories listed as follows overlap and are not exclusive. However, the sample of businesses surveyed offers a fairly broad representation of business types in the area and represent the following general activity categories: Motel/Restaurant (5 operators interviewed); Services to other Businesses (5); Natural Resource Harvesting and Processing (3); Retail Operations (3); Tourism (1); and Construction (1).

3.4.1 BUSINESS #1

A successful family-owned business in the accommodation and restaurant sector started over sixty years ago. The business, like many rural businesses, was built in pieces over the years. It is largely a seasonal tourism business ideal for motor coach, fall hunters and business traffic. The bar, once a major revenue source, is now mainly used to entertain motor coach guests. The

value of the business is in its assets and not cash. There has not been a valuation of the business. The business has enabled the owners to support a good, but not lavish lifestyle and employed many loyal local community residents over the years. Family members inherited the business over twenty-five years ago. The older family member, who is now the public face in the business, would like to retire from the business within three years. The other, however, would like to stay in the business for a longer yet undetermined period of time. The older member is hoping that their shares in the business can be converted to cash and will help finance their retirement. At this point none of the next generation have expressed an interest in being part of the business. It is not known if the younger family member would be able to buy out the other, or be willing to incur significant debt to allow the other to exit. The business appears to be in a very good location for long-term growth. The Muskrat Falls to the Island transmission line provided an extra source of revenue during its construction, some of which was used to do major building maintenance. Further investment is required to update the rooms and the exterior. At this point the solution on how to proceed is described as a "black wall." The older family member welcomed the opportunity to discuss the future of the business and possible options for the family shareholders to consider. The long time business' accountant will be key in providing information for any future discussion, however, it appears that time, financial resources and perhaps an experienced succession planner may be required to help provide some options for the co-owners to consider.

3.4.2 BUSINESS #2

This is a successful hunting and fishing outfitting business started by the present owner 30 years ago. This viable business has built an international reputation and provided a good income for the owner and a staff of up to 32 guides and accommodation and food service employees. The owner has quietly had the business for sale for some time, but has not concluded a deal after several years. In this case a family member who is involved in the business did not want to take on the full business, but was set up with a guiding business and some moose licenses from the main business' allocation. The owner does need income from the sale of the business to support retirement. The outfitting industry has gone through major changes with long-term customers needing to be replaced by younger, more international clients. On the other hand, fishing guests have increased, replacing some of the loss in hunting guests. This business has successfully partnered with Destination Canada and the Province in marketing and refining the product offering. The owner also has a strong environmental ethic and has supported efforts on sustainability. The business valuation is high and this narrows the list of possible buyers who could arrange financing, but who would need to be able to service a major debt. The lodge and business is also being marketed as a corporate retreat.

3.4.3 BUSINESS #3

This office supply business is strategically located, serving a number of small business and service companies over a large region. It was started in the early 1990s, but has remained small with 2-3 employees. The business provided quick and personal service and earned a good reputation. Through a national buyers group it was able to compete with urban box stores in

the same sector. The owner decided to retire after 20 years and looked for exit possibilities. A very capable employee was the first choice, but while willing to stay in the business, was not prepared to take on ownership. The owner was very realistic on price and fully aware that a buyer would not be able to service a large debt from the business. A local buyer with some small business experience came forth and a successful sale was negotiated with an orderly transition. The key to this successful sale was the setting of a realistic price, the ability to work with the existing permanent employee and the new owner, and an understanding of how to help the buyer access financing.

3.4.4 BUSINESS #4

This enterprise, established in the 1970s, is a very successful small processing and retail outlet near a National Historic Site. The business was started by a couple returning to the area with considerable international business experience and a willingness to be innovative, developing unique products to sell both locally as well as for export. Taking over an existing family property, they expanded from that base moving into the tourism industry as visitation to the area grew. The business grew quickly and built a strong provincial brand and a reputation for quality, well-packaged products. Major retailers provincially picked up the products, which allowed greater production volume and year round cash flow. The business joined innovative provincial and national networks, which added to the visitor experience in the manufacturing process and to improvements in marketing and distribution systems. The owners strategically worked on a succession plan with a family member who returned to the area and who, while assuming all the existing operations, also brought new ideas for business expansion in the tourism sector. The new business involves technologies and interpretation services designed to appeal to a well-educated visitor. The business also offers space for exhibits and is interested in promoting artists and creative initiatives. Experienced local staff continue in the business and provide continuity. In this family succession the founders of the business will stay involved as needed, but now have flexibility to enjoy other non-work related activities.

3.4.5 BUSINESS #5

This business is a social enterprise established to administer a fisheries quota and work with local fishing enterprises to build the local economy. In the recent past the social enterprise was able to increase revenues, but reduced quotas have since seen revenue decline significantly. In this case succession planning is equally important to ensure that capacity continues to exist for the organization to advocate, negotiate and support fishing enterprises in its region. The case study also gives insight into succession planning within the fishing sector generally and the region's fishery issues.

Shellfish, mainly shrimp, have been a mainstay of the region. There are about 60-70 fishing enterprises in the region using 65-foot vessels valued at \$1.2 to \$2.0 million each. There is also a large number of small boat enterprises with boats valued at about \$100,000 each that fish cod, scallops, mackerel and sea cucumber. It appears that for the most part the larger vessels do get transferred to new owners, and financing seems to be available. This appears to be less

the case for the small boat enterprises, where fewer new entrants are interested in what are seen as high-risk ventures. Current issues are particularly related to reduced local quotas, which mean that boats have to go further to harvest quotas in other zones, raising the cost of the landed product. Recent severe spring ice conditions have also delayed the annual start-up and caused increased damage to boats and gear.

Younger fishermen do, however, express an interest in aquaculture. The social enterprise has supported mussel farming in the past to serve the local tourism market, but this was discontinued, as the enterprise could no longer continue to afford the business losses incurred.

Within the board and management of the social enterprise there is experience and expertise necessary to manage the business and ensure that the local area is the primary beneficiary of any business success. Failure of the enterprise could mean a change in control of the quota, with large corporate fishing entities from outside the region, and often the Province, becoming the dominant players. If such is the case, local benefits will not be high priority.

In this example, in which the future of an enterprise is at issue and reacting to the changing economic situation is the priority, it may be felt that there is not the time or the resources available to devote to succession planning or even to restructuring to fit new times.

3.4.6 BUSINESS #6

This case is a successful restaurant and grocery store started in the mid-1970s. The business grew and developed a reputation for good food, well-stocked shelves, a bakery, and good service. Strategically located and with extended family involved in operations, it enabled the owner and staff to have a full career in the enterprise. However when the owner contemplated an exit none of the family was interested in taking over the business. The owner did have a young employee in the business for over a decade as a bookkeeper/operations manager who was very interested in purchasing, but did not have the down payment required by lenders. Over an 18-month period and making proposals to a number of lenders, a sale price and financing were achieved. The owner loaned the 10% equity required and CBDC and an Aboriginal business program assisted with financing. As part of the sale a number of assets remained with the original owner, with the hope the new owner would be in a position to buy them at a later time. Dividing the business enabled the sale to come in at a price that that could be financed with some continuing participation of the seller. In this case the seller had built up other assets that he retained and he had drawn funds from the business over the years for his basic retirement needs. The owner was realistic about the value of the businesses the books showed for lenders and what a potential purchaser would likely be able to afford to pay. The challenge for the purchaser is that there is now a need to service a debt that the business did not previously have, and as the original extended family was also ready to retire, new key employees needed to be hired and trained. In addition the business could benefit from a refresh to keep competitive, but is not in a position to take on more debt at this point.

3.4.7 BUSINESS #7

This is an accommodation and restaurant business built in the late 1980s and located on the Trans-Labrador Highway. The owner has been ready to fully retire for some time and has had the property for sale for several years. A succession plan involving immediate family did not work out, and the owner has relied on good staff to keep the business operational. Like many businesses in Labrador, the business has recently benefited greatly from the Muskrat Falls transmission line project, which provided four years of solid business activity. The business also serves recreational fishermen and summer and fall tourists. However, a new hotel and restaurant has opened in the region providing some new competition.

The challenge has been to establish a sale price that will work for the seller, who has counted on the proceeds of the sale for retirement, and potential buyers who will need financing and the ability to service debt. The realistic sale price is likely 40% less than the assessed value. The business supports 10-12 employees. Staffing has not been an issue. There is an employee who has been the operations manager and is interested in taking over the business. Looking at some creative financing options, including the owner maintaining an equity stake in the business, may be worth pursuing. The business owner is open to and would benefit from advice from an experienced professional to help set up financing arrangements that can work for both the current and prospective owners.

3.4.8 BUSINESS #8

This is a seasonal family-owned tourism business with a restaurant, gift shop and a few accommodation rentals near a National Historic Site. It has been operating for almost 40 years and the owners are ready to sell the enterprise. It is strategically located near an important UNESCO site and has developed an excellent reputation. The property has aged over the years and would benefit from a refresh of the buildings. A report was done for the business on improvements that would reflect the quality of the food and crafts that were on offer to tourists. The National Historic Site is scheduled for a major investment in interpretation and visitor experience facilities, and with ongoing road improvements in the area the long-term outlook is very positive. There is no one in the family interested in taking over the business. There is a long serving employee interested, and there has been interest, given the location and growth potential, from an outside investor. The owners would welcome and could benefit from a consulting service to put together workable sale options for the enterprise that would allow the owners to exit within the next few years.

3.4.9 BUSINESS #9

This is a logistical services company with a long history in providing services to the mining and mineral exploration sectors. The business was started in the 1970s and is involved in setting up and furnishing exploration camps, and providing an appropriate labour force. At peak it had more than a hundred employees. After nearly forty years the owners decided to retire. However they were retiring into a downturn in mining exploration and delays in investments in existing mines. The owners had done well and were not totally reliant on the business sale for

their retirement. There were no family members or employees interested in acquiring the business and there were no other companies ready to invest in this business at this point. The owners however recognized there was a market for the business assets. They had a large inventory of camp supplies that were sold into the local market. They also were able to sell the warehouse that housed the inventory, although they had to finance the buyer. They were realistic on value and took a full year to sell off the assets so that it was done in an orderly fashion from the perspective of both the buyers and the seller. The owners did retain their corporate entity and it will continue to have revenue streams from other activities and partnership opportunities. The expertise developed over 40 years still has value and the owners have not ruled out some new ventures, perhaps in other sectors. The region did, however, lose a successful exploration logistics company and good employer when the owners closed the business and moved out of the region.

3.4.10 BUSINESS # 10

The family owning this business operated a hardware store and later joined a national hardware franchise. The original owners successfully passed it on to the second generation, but there was no family in the third generation interested in continuing in the business. The owners indicated quietly that the business was for sale and there were offers from a competing hardware store, however the franchisor would not approve the sale. An employee was interested and was eventually able to qualify with the franchisor for financing and the purchase of the business. The process took more than a year, but was eventually successful for all parties.

3.4.11 BUSINESS #11

This accounting/tax business operates under a national franchise brand. The owner is looking at an exit strategy; however, there is no family member interested in the business. The business employs up to 10 people seasonally and is a critical support business for small enterprises in the community. The current trend is for larger accounting companies to buy up small firms. The sale of franchised businesses such as this has to be approved by the franchisor. Some potential buyers may be competitors and so would not be approved. From the community perspective a sale to a larger firm may mean higher costs to local clients, as typically billing rates for accounting, tax and audit services by these larger firms are much higher than those of the local company. The search for a buyer of the company continues.

3.4.12 BUSINESS #12

This is a successful hotel business developed by the second generation of a family enterprise some forty years ago. The business has grown over time in terms of the number of rooms available and the quality of the accommodations and service offered. The owner has built up a loyal and competent staff and an equally loyal clientele. The owner had entertained the possible sale of the business at various times over the years, but maintained ownership and was able to capitalize on the recent upturn in the business climate before negotiating its sale.

The purchaser was an aboriginal social enterprise that had access to aboriginal business funds. The sale was well-handled and received favourable media attention. Since the sale the new owners have made a number of strategic changes and business improvements. Both buyer and seller appear to regard this as a successful transfer.

3.4.13 BUSINESS #13

This gas station, vehicle repair shop and convenience store is strategically located on the Trans-Labrador Highway and is currently for sale by the owners who are ready to retire. The couple have built a reputation for hard work and good service and the business is well-positioned for future growth. Another couple have expressed interest in purchasing the business and the sale price was within the range for financing. The difficulty encountered was obtaining an environmental site assessment clearance for the property associated with petroleum and oil spills around the garage and bulk fuel storage area. The costs of conducting the required assessment had to be borne by the seller as a condition of sale. This process is both time-consuming and costly and had not been factored into the sale price. Obtaining the environmental approvals necessary for the financing of the purchase became the main challenge, but after months of issues and delays to meet conditions of sale, the sale was finally realised.

3.4.14 BUSINESS #14

Several owners of established agriculture enterprises, growing mainly root crops, almost entirely for local markets, have indicated that they are ready to transfer their business ownerships. The farms have developed from initial land acquisition and clearing, through acquiring farm equipment, building soil and maximizing short growing seasons to careful harvesting and marketing including road-side sales. It has been described as a tough, but often rewarding business, in terms of job satisfaction, but not always for compensation.

There is a great deal of support for the agriculture industry on the Northern Peninsula and in Labrador however there are challenges as a viable business opportunity. Farming is labour intensive and vulnerable to weather and plant diseases. The challenge for agriculture businesses in succession planning is valuing the business and the debt that can be serviced by a new owner. Memorial University researchers are now doing work to learn from the earlier successes of the Grenfell Gardens (Greenham 2018). This social enterprise model, which was the Grenfell approach, may work better in challenging environments.

3.4.15 BUSINESS # 15

This contractor provides logistical services support to a major telecommunications company for its remote sites. Though a successful business, it faces a number of challenges, among which are adverse weather conditions, unexpected equipment failure and the need to be able to mobilize staff and equipment quickly and efficiently. A recent additional challenge has been that the telecommunications company has recently changed its contract managers and policies

and the understanding of the particular challenges of logistics in the region has been lost. As a contracted service there is also the possibility that the contract could be awarded to another contractor when it is next up for renewal. The owner is attempting to involve a family member in the business with the intent of a phased succession over the next few years. Key skill requirements include the ability to plan and make quick decisions when needed, much of which can only be learned through experience. The ability of the owner, who has this experience, to mentor the successor will be critical in the transfer. As the main asset is the expertise of the owner, the business will be difficult to sell should the successor choose not to continue.

3.4.16 BUSINESS #16

This industrial equipment company operates snow removal and sanding equipment and an onsite cement plant. It has served the mining industry for over 35 years. The owner had planned on reducing his involvement in the business and groomed someone as a manager of operations. He was thus able to live out of the Province while staying involved in the management of the business and commuting to the business site as needed. The owner, however, passed away, leaving the business to his family, none of whom wish to continue operating the business. The challenge is now to sell it. The business could continue to operate under a good manager, but there would no longer be the oversight by the owner as was previously the case. The sale of the business is complicated by the amount of capital tied up in buildings and equipment, and any sale arrangements will thus require professional legal and accounting expertise. Depending on who the purchaser is, it may require some creative financing, possibly with the family owners retaining shares for a period of time. Sale of the company will be affected by conditions in the mining sector at the time.

3.4.17 BUSINESS #17

A successful restaurant for over 30 years closed its doors when no one in the family, no employees or a buyer could be found. Like many businesses the owners and the long-term employees were all ready to retire. One of the owners had health issues and there were challenges with finding new employees in the midst of a local economic boom. The owners had built a solid reputable business that was known for good basic food. While they chose not to have a liquor license they maintained a loyal customer base and good sales, however, even while the local real estate market was strong the business did not sell. The consensus was that the asking price was too high and beyond the reach of most new investors.

3.4.18 BUSINESS #18

Wholesale and distribution businesses play a key role in the region especially because of its remoteness and unique transportation challenges. One of these was started forty years ago and created significant wealth for the owner and made it possible for new business partnerships to be started in other sectors.

The supply of goods and services is controlled for the most part by supplier agreements with large Provincial or national distributors. The key consumer supply businesses providing items such as grocery, including beverages are somewhat affected by changing consumer habits and economic cycles but have been lucrative. It appears that in this study region these businesses have almost all stayed in families or were transferred to long serving employees.

3.5 Summary of Case Studies

The key lessons learned from the case studies is that all businesses have to deal with succession planning in some form and that each case is different, often in several ways. While there were several examples of successful transfer of the business to new owners, in descending order of the frequency of issues reported, the case studies identified the following challenges to succession planning:

- difficulty of finding a family member to continue the business;
- need for specialist advice to develop a succession plan;
- difficulties with determining the value of the business;
- need for ongoing involvement of original owner;
- burden of debt servicing for new owner;
- splitting of company assets to facilitate sale; and
- difficulty of getting franchisor approval for sale.

Some of these challenges are not easily solved; particularly the unrealised hope that a family member is willing and able to continue to operate the business. Other issues are potentially more easily addressed, but need the input of specialists. For example, placing a realistic value on the business and structuring the sale so that it is affordable for the new owner are both related to the need for specialist advice which should be available through those agencies and organizations that offer succession planning programming.

4.0 RESEARCH FINDINGS

Without exception, all those who participated in the research felt that succession planning for SMEs was a very relevant issue in the region and deserved more attention. Of the more than thirty persons interviewed all were very open in discussions on the topic and each offered valuable insights into the challenges in succession planning and the ways in which more support could be given to try to ensure that there is a smooth transition of business ownership in the study area.

There were several recurring themes. First, one size does not fit all. Each business has its unique characteristics and circumstances. Seminars, while useful at a high level and for beginning a discussion on the succession planning process, are only an introduction to the topic. Many identified the need for and value of informed one-to-one discussions about their specific enterprise. Each of those who had successfully sold or transferred their business noted that they went through a process which involved many conversations, often over several years, before the transfer of ownership occurred.

A key challenge, and usually the first step for all businesses, is to find a fair market price for the enterprise. It is difficult in rural areas to find comparative examples, or to find relevant economic data on the local region. The financial statements for the business and the level of financing required are usually the basis for determining a market price. For many owners, the valuation comes in at less than what they felt it was worth or what they felt they needed. Alternatively, if a buyer has to borrow a high percentage of the asking price, the number of lenders may be limited and the servicing of debt may leave the enterprise with poor cash flow or no money for ongoing maintenance or improvements. Discussion with business owners suggests that finding someone to establish the value for a business can be difficult. Access to a list of qualified valuation experts who know the region and can help establish a fair market value would be beneficial for buyer and seller.

Succession depends on establishing a price and putting together the funding package to complete the sale. Successful transfer of viable businesses often seems to work well if the seller and buyer work closely together, which may mean that the final exit from the business may take three to five years; this is especially true and important in rural and remote regions. Lenders need to see equity from the buyer and where this may not be sufficient it may be necessary for the seller to retain shares and/or a role in the business for several years to transfer all the knowledge and links which are essential to success. The potential time required for the transfer process is not necessarily recognized or anticipated by business owners, but makes planning well ahead of the desired transfer date all the more important.

Other key challenges identified were access to good professional advice and to current data to that would enable the vendor to build a good business case for the future of the enterprise. These were particularly important issues in rural and remote regions, and issue areas that require some new approaches. Many businesses can access accounting and legal firms in urban centres in the region, but it does not appear that there are many skilled advisors for strategic, management and business planning.

One-to-one support from qualified succession planners is the ideal. One option is to use the services of the Canadian Executive Services Overseas (CESO). CESO is a national program with a mandate “to strengthen the private sector and [create] an equitable environment where communities can thrive”. CESO has matched volunteer advisors with businesses in Labrador in the past, and while there have not been recent assignments in the region CESO is actively seeking opportunities in rural, remote and Indigenous communities. CESO has a bank of highly qualified and experienced business professionals who make their services available for the cost of expenses only and are looking for opportunities to provide assistance for a specific project. Succession planning would qualify as such a project.

Programs already exist such as the Consulting Advisory Services (CAS), funded by the Atlantic Canada Opportunities Agency (ACOA), and delivered by the Community Business Development Corporation (CBDC). A partnership could be established with an organization like CESO to match qualified business advisors to business owners looking to develop and execute a succession plan. The CAS program offers up to \$5,000 in assistance and should have a matching contribution from the business receiving the service. Matching professional business expertise to business owners for a defined project, such as succession planning and execution, would seem to be a good investment.

There are also firms, such as Sunbelt Business Brokers Atlantic, which offer services for buying or selling a business. The opportunity to match buyers with sellers is also a solution being pursued by the CBDC. A CBDC- Atlantic website is available (www.businessatlantic.ca) for owners to post businesses for sale. A scan of businesses on existing sites shows almost all those on offer are urban businesses. However, website listings have the potential to provide information on rural markets as well and at relatively little cost.

Perhaps the most fundamental challenge to rural business is the anticipated continued decline in population in much of the region. Out-migration of younger well-educated individuals, who have chosen to live and work in larger centres, reduces the pool of potential entrepreneurs. As such there is an increasing need to recruit buyers from outside the region. There are examples of former residents who have lived and worked away, often in the oil patch, wanting to come back to enjoy the lifestyle of their home region. They often bring financial resources and expertise that could be used to buy and run local enterprises. Targeting this potential market through listings on new websites and social media campaigns is an option.

Finding new employees with no ties to the region to resettle was identified as a challenge and yet key to the future of many businesses. New initiatives in the past decade to match immigrants to opportunities have made a significant contribution to the sustainability of many businesses in the region, in particular in the service sector. A recent example of a Filipino cook successfully settling in Hopedale is a great story of a successful match, which has been publicly celebrated as working for all parties. We also know that immigration works best when there is a cluster of immigrants from the same country, which allows for a family support network and for cultural traditions to continue. The Labrador Straits is creating a local support network organized by community leaders to help immigrants integrate into the communities. Foreign

workers are already making a difference in the Labrador Straits, Upper Lake Melville and Labrador West especially in the food, accommodation and health care fields.

The challenge is matching new Canadians to a rural/remote region for business ownership. Entrepreneurial skills, experience, and a hard work ethic have led to successful businesses for new Canadians since early settlement in all regions of Canada. The establishment of regional offices to support immigration as recommended in the “The Temporary Foreign Worker Program and Employers in Labrador” study for the Population Project (Fang et al. 2017) is now happening. This is a very positive step that helps facilitate efforts to have new immigrant investors take ownership or start new businesses in the region.

A recommendation of the Temporary Foreign Workers Report for Labrador (Fang et al. 2017) was also for the creation of a local labour supply and demand database to better understand needs and opportunities and modifications of some of the regulations of the TFWP to reflect Labrador specific needs. The responsibility was put on municipal authorities and local business, however this will require a great deal of coordination. A working group from Service Canada, Advanced Education, Skills and Labour, Association for New Canadians and local Chambers of Commerce and Aboriginal economic development organizations who work directly with small coastal communities will need to be engaged. Community Councils are facing increased pressure, including the downloading of some provincial responsibilities, tight budgets and human resource capacity. Similarly provincial resources have been cut back and the greatest impact is in rural and remote areas. “Temporary foreign workers are important for employers in rural and remote areas such as Labrador, where labour supply is often unpredictable” said Dr. Tony Fang. In addition, recommendations for language training, housing support and opportunities to pursue permanent residency are very relevant if foreign workers are to work towards taking ownership of local enterprises.

Recruiting new Canadians as owners of existing businesses is an option that has been identified and should be further explored. Often this is a process where the new Canadian joins the business as an employee and works towards acquiring an interest in and ultimately ownership of the business. They ideally bring previous experience and expertise that can add value to the business. In a number of businesses in the study area, immigrants have quickly risen into management roles and have proven to be dedicated to the business’ success. However they may face the challenge of financing the acquisition and/or need extra mentoring to build the skills needed to be the owner/operator. An affirmative action program, which provides incentives including training and mentorship, could bridge this gap. While this may take time the possibility of a successful transition is likely to increase.

In Labrador the role of indigenous organizations in business and community economic development has emerged as an increasingly important component of the Labrador economy. Recently the Nunatsiavut Group of Companies (NGC) has moved from large business investments – a mining quarry, town centre project, an airline and a helicopter company, to now buying existing or establishing new small to medium-size enterprises. For example, in one case a small contractor was retiring and an aboriginal-owned company had just established a foothold in the construction business. At the same time additional funding was being provided

for more housing. An opportunity to enter the market became available. This coincided with another retiring business owner, who was selling off parts of his company, making a warehouse available. These investments allowed the Inuit-owned company to quickly become a major player in local building construction.

Nunacor, the business arm of NunatuKavut bought the Royal Inn in Happy Valley from the retiring original owner of the business. They immediately invested in improvements, including offering airport transportation service. They have also bought commercial real estate from local businesses and are becoming a major player in the Upper Lake Melville business community.

Labrador Innu, through their Development Corporation, have strategically built a number of partnerships with 51% ownership, and signed impact benefit agreements with Voisey's Bay and Muskrat Falls.

These are examples of how Labrador aboriginal business organizations are building wealth for the communities they serve. They are able to finance takeovers of existing businesses, in many cases businesses from which the owners want to retire. Labrador is fortunate to have social enterprises with the financial resources to buy existing enterprises, but also to have enterprises with the resources and interest to take the business in new directions through further investment.

Successful succession requires buyers and a climate for future prosperity that will attract investors. As the regional economy scan suggests, there is good reason to believe that in the next decade, Labrador will be well-positioned, perhaps better than some other regions, to adapt to changes in business leadership and new economic opportunities.

5.0 RECOMMENDATIONS

5.1 Professional Business Experts

Good legal and accounting advice is key to successfully transferring business ownership. Business planning both in general terms and specifically for succession planning, requires access to business specialists. As an example there are seven certified business evaluators in the Province, www.cicbv.ca, six in St John's one in Corner Brook. In an urban centre these services are nearby and accessible, but such specialists are more difficult to access by SMEs operating in smaller and more remote communities. In the study area there are very few lawyers specializing in business law and similarly few accountants with experience in business ownership and changing tax issues. Recent federal tax changes were flagged by national business organizations as negatively impacting family business succession planning making access to specialist advice even more important.

RECOMMENDATION

A list of qualified professional business valuation, accounting and legal experts should be developed and maintained. The CBDC is best placed to undertake this with financial support from the provincial (e.g. the Department of Tourism Culture Industry and Innovation (TCII)) and federal (e.g. ACOA) governments.

5.2 Succession Planning Self Help Kits

There is lots of literature, sample business models and best practises for successful transfer of ownership of a business within a family, to an employee or to a new purchaser. The material, which is mostly available online often makes what appears to be a complicated process much simpler for the owner. Business Development Canada (BDC) and Community Business Development Corporations, (CBDCs) can direct owners to the most useful information. The CBDCs have an office in Labrador and one on the tip of the Northern Peninsula and have Board members in each sub-region. Good tool kits available at the right time with support services and connecting a seller to good information is valuable.

However it was identified that the take up of these web services in Newfoundland and Labrador has been limited. While generic material was somewhat helpful it was felt each business case is different and requires a customized approach to succession planning.

RECOMMENDATION

The CBDC should develop an advisory service to assist with succession planning. Each business applicant would be assigned an advisor who would be able to direct the business owner to relevant literature, other information and business professionals best able to address their particular needs.

5.3 Business Succession Mentorship Program

It became very clear in this research that business owners wanting to exit their enterprise need to be able to work with a trusted advisor who is arms length from the business and community who can work with them on a strategic approach including reviewing all available options and help them navigate through the paper process.

RECOMMENDATION

A Mentorship Program should be established to match experienced businesspersons with individual businesses wishing to prepare a succession plan. This program could utilize the Canadian Executive Services Program, which has a large bank of experienced volunteers and has provided services to businesses in Labrador in the past. CBDC and ACOA should lead this initiative. The costs of the mentorship program would be covered by contributions from individual businesses and funding sources such as the Consulting Advisory Services (CAS) program.

5.4 Listing a Business for Sale

A project has been launched by CBDC-Atlantic offering the opportunity for owners to list businesses for sale in Atlantic Canada on its business website (www.businessatlantic.ca). The intent is to link potential investors with opportunities by providing the connection. Interested investors would then deal directly with the sellers. This site will also help sellers in getting a better understanding of the market and sale prices. However, work may be required to overcome the reluctance of some businesses to list their business if they perceive that listing may have negative implications for sales and other aspects of current operations.

Listing a business for sale with little or no cost however is a major opportunity to judge interest and also to help profile and value the business in a short concise and attractive format.

RECOMMENDATION

CBDC should assist business owners in preparing their businesses for sale and in advertising those businesses through its website.

5.5 Immigrant Investors

New programs are being planned to match immigrant investors with business opportunities in the Province. Immigrants are currently playing a key role in many businesses in Happy Valley-Goose Bay, the Labrador Straits and Labrador West. The Association for New Canadians has opened offices in Labrador West and Happy Valley-Goose Bay. This is a major positive step to business support in the region and opens up opportunities for New Canadians to be involved in business succession. To date most immigrants are starting in minimum wage or junior

positions with businesses. There are however several examples in the study area where immigrant employees have moved up to more senior roles in the business and also have started their own small part-time business.

RECOMMENDATION

The new Federal and Provincial Immigration initiatives should earmark Labrador and the Northern Peninsula for pilot projects designed to encourage immigrants as business investors.

5.6 Social Enterprises

Labrador's social-political landscape has gone through major changes in the last few decades and will go through more as Indigenous rights are recognized and Indigenous organizations assume greater roles in the future business growth of many communities. As such it will mean new investment in community economic development and new opportunities for investment in SMEs, either as for-profit or social enterprise operations. The Labrador economic situation has to be understood, carefully tracked, and treated as a unique region with respect to business policy and planning. New models of business ownership are emerging with the growth of indigenous economic development organizations. Federal Government resources are available for business development and new job creation. Opportunities exist for local social enterprises to take over from businesses ready to sell and build the enterprise. Remote communities where succession or sale of a business is difficult but the business is still viable and can be grown may be ideally suited for social enterprises.

RECOMMENDATION

The role and opportunity to grow social enterprises in Labrador and the Northern Peninsula needs to be examined and new growth opportunities supported, including taking over existing businesses where such enterprises are critical to the sustainability of the community. The Atlantic Canada Opportunities Agency, the Department of Tourism Culture, Industry and Innovation, and Memorial University's Faculty of Business Administration should partner on examining the opportunities for and support of social enterprise growth.

5.7 Regional Economic Data for Valuation of Businesses

A key issue raised by businesses was the need for assistance to owners in the valuation of a business. What is the worth of an enterprise in whole or in parts is fundamental to successful succession planning. Remote areas have challenges because valuation expertise is in the larger centres and there may be significant extra cost in hiring a professional valuator. In addition it is challenging to valuers to do accurate comparisons without a critical mass of similar businesses in the region. Also the lack of regional economic data and projections for growth often make it more difficult. An annual economic review of the region would be extremely helpful to ensuring good business valuation, planning and succession. The economy of the

region which is heavily dependent on mining, fishery, tourism and aboriginal investments is constantly changing and updated economic indicators would support more effective business valuation and ultimately sustainable business development

RECOMMENDATION

Funding should be secured through ACOA to publish a regular “Future of the Economy” report for Labrador and the Northern Peninsula utilizing the knowledge of the Harris Centre’s RAnLab in partnership with the CBDC.

5.8 Youth Retention and Attraction

Youth moving away to urban centres is not unique to the region; however, it can work to the region’s advantage if they come back with new skills and a renewed passion for rural living. We are seeing the Bonavista Peninsula attract new young investors, some originally from the region, who are attracted to buy or start up small businesses. For some the opportunity to own a business and a quality seasonal lifestyle is a dream that is obtainable. Support programs through business financial incentives and business training to help young people acquire businesses are needed.

RECOMMENDATION

Provincial strategies for the retention and attraction of youth to rural areas should include support and training for potential entrepreneurs. The Gardiner Centre at Memorial University and the College of the North Atlantic could offer targeted training with funding support from provincial and federal development agencies

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