

Business Opportunities

HOW CANADA COULD BUILD A NATIONAL BUSINESS OPPORTUNITIES MARKETPLACE

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Most municipalities need to be aware of good business opportunities in their areas so that they can adequately service both potential investors and local vendors.

The term "business opportunity" is used here to include the following: (1) Mature situations, manufacturers or service companies seeking an outright sale of an established business; (2) Growth situations, companies seeking an equity infusion; (3) Start-up situations, new companies seeking capital; (4) Joint venture, strategic alliances, and licensing situations; and (5) Commercial buildings and land.

While there's probably a good infrastructure in your area to handle these types of situations—a CA firm, a business broker, a real estate agent, or some other "middleman"—there is often difficulty in getting good representation for opportunities in the \$1 million or less category.

Too often these lower-priced opportunities fall into "no man's land"—not so much for lack of interest but usually because it takes as long to consummate a small deal as it does to do a large deal.

Information to Serve the Market

Here are a couple of situations that could occur in your community . . .

Mary Jane wants to retire. She runs a successful retail operation that generates \$1.5M a year in sales and it shows a healthy profit before taxes. She is asking \$600,000 for the business. Who does Mary turn to? Usually it's a local business broker but often it's her local economic development officer.

In the same community could be somebody with another need—Joe Brown, a middle manager in the retail business who has been subjected to "early retirement" but is anxious to remain active in the market-

place. Joe has some \$250,000 in cash to invest and he has talked to his accountant or banker and realizes that he could leverage this amount to buy a business in the \$600,000 range. But how to find the right business? In his search, Joe might well connect with Mary but there is no certainty. His personal network, however, could well include his local Economic Development Professional (EDP).

A seller and a buyer, both looking to their local EDP for help.

Some EDPs feel very comfortable in this situation because they have an infrastructure in place and could easily connect both Mary and Joe. But experience indicates that most EDPs, probably overworked anyhow, are frustrated by this "unstructured" marketplace. Usually they look for somebody in the community to help with this type of situation but, in these two cases, most of the local mergers & acquisitions players will not be interested; they're too busy chasing "bigger deals".

In order to assist the Mary's and Joe's in their communities to locate buyers/sellers EDPs have to get involved in three areas:

1. Sourcing local opportunities. This is often a hit-or-miss affair. Most EDPs tend to make a real effort for a special event, such as an upcoming business trip to Hong Kong. . . or a group of Europeans are arriving and want to see specific types of opportunities in the area. . . or possibly a company requests special assistance in seeking a joint venture partner. EDPs are used to handling these types of requests but there's often no formal system (or staff assignment) for gathering information on these types of opportunities in a standardized format so that it can be disseminated to potential investors on a regular basis.

2. Marketing the business opportunities, matching the buyers and sellers. If the EDP

has managed to gather and correlate information on local opportunities, and a few EDPs across Canada do this job well, then the next step is to aggressively market this information locally, nationally and internationally. This should be done quickly and simply so that potential investors are able to get in touch directly with the vendors or their representatives.

3. Maintaining business opportunity listings. For the listings to be effective and useful they must be purged and updated on a regular basis.

All three steps are time-consuming and, particularly step 2, can be quite expensive. Not all municipalities are prepared, or can afford, to make the necessary financial commitment.

In reality steps 1 to 3 could be handled quite economically.

It could start this way. The EDP could get on the phone, call a business opportunities consultant and have this expert visit the municipality for a few days of concentrated work as follows . . .

- make contact with all possible sources of local business opportunities;
- gather and write-up the opportunities in a standardized format according to Standard Industry Code (SIC) categories;
- set up a computer system within the municipality, and establish a method of follow-up, that could be maintained by a junior staff member using an IBM-compatible PC;
- market the opportunities via national and international business opportunity networks;
- initiate a method of regular interaction between the networks and the municipality.

Ideally, the service would be strictly concerned with information—neither the ex-

pert nor the networks would be in the matchmaking business or interested in taking a percentage on deals. The only purpose of the service would be to put vendors and investors together speedily, efficiently, and with a minimum of fuss.

A couple of years ago most of the elements to do this were in place, not in an integrated sense but on a piece by piece basis. There were business opportunity experts available, local initiatives, national networks, and an "opportunity" publication that reached overseas investors.

Not any more, as most of you are aware. Among the better funded initiatives that have bitten the dust are the Federal Business Development Bank's matchmaking service, the Canadian Chambers of Commerce initiative through COIN, and the Bank of Nova Scotia's Business Quarterly. Numerous other players in both the private and public sectors are no longer operating, including my own "Invest Canada" magazine and the Entinex Inc. national database.

Remember FACE? Venture Link? S.B.D.C? VentureNet in B.C.?

Very few initiatives remain, of which only two come immediately to mind -- the Investment Exchange and the Ontario Government's "Marketplace". The latter, a free service, concentrates on manufacturing opportunities (not service opportunities) but its activities were recently stunted when the NDP Government saw fit to shut down the province's Strategic Alliances Branch.

There are many reasons for the failure of these various networks and everybody has a different idea as to how the situation could be corrected. For example, the Canadian Bankers Association says "... One of the main problems is that while these networks provide information relative to the opportunities available, customers also require expertise to assess the transaction and none of the networks provide any assessment/due diligence on the quality of the listings."

It sounds like a logical argument but the reality is that an opportunities database, to have any relevance at all, must contain a wide variety of investment choices, many hundreds of business opportunities, and assessment/due diligence of these opportunities is virtually impossible. But while you cannot "police" the individual opportunities you can certainly police the sources that provide the opportunities, and in a very short time the "bad apple" sources would be purged from the database.

From my experience of this highly unstructured marketplace I believe the two key reasons for lack of success were (1) inadequate marketing and (2) a general reluctance on the part of Canadians to pay for information. (Studies have shown that Americans are five times more likely to pay for information than Canadians are. I guess we have had too many "freebies" over the years and this expectation has been incorporated into our psyche.)

If we can find some way to eliminate the costs to the buyers/sellers, and also solve the marketing problem, we could quickly build a viable, national opportunity marketplace of which any community in Canada could be an integral part.

Needed: A National Database Network

Here's one suggested scenario, reduced to its very basic elements:

1. Establish a national standard for opportunity listings. (Cost: nil).

2. Use Provincial regional offices as the opportunity sourcing/data input locations for all regional business opportunities. Send data gathering teams, comprised of private sector information brokers, to each regional office and its surrounding local communities in order to establish the necessary infrastructure and on-going liaison. (Cost: two experts for a maximum of 10 working days in each provincial region).

3. Set up a simple computer infrastructure so that the local communities can transmit their opportunity data to their various regional offices. (Cost: no additional staff should be necessary but start-up costs would include the time of a computer consultant and a writer of a computer operations manual.)

4. The regional offices will check the data to see that it conforms to pre-established parameters and will feed it down the line to a provincial database. (Cost: one liaison person at each regional office plus one or two at the provincial level, probably all new positions).

5. The provincial databases will feed the data down the line to the national database. (For credibility purposes, particularly with certain overseas markets, the national database should be operated by the private sector; however, it should be accessible by all the various levels of government). The national database would then disseminate the data on a national and international ba-

sis. (Cost: varies according to arrangements made but need not be exorbitant).

Up to this point the opportunity listings are "free". Anybody with an opportunity will have dealt through a "recognized source" which in this case would be the local EDP. Listings through other recognized sources -- bankers, accountants, business brokers, technology transfer people, etc. -- would also be free. Only individuals requesting listings or searches would be required to pay.

If correctly structured, most of the recognized sources should be able to list and search the national database without the intervention of other parties. Those recognized sources requiring assistance in both listing or searching would be charged a nominal cost plus fee. Thus it would pay most active sources to conform to network protocols and obtain the available free access.

The end result would be local databases, regional databases, provincial databases, and a national database -- all integrated. The national database would contain some hundreds of opportunities, all of which would have been partially screened as they progressed down the network.

The start-up costs would include the data gathering teams and the setting up of a computer infrastructure (or possibly piggy-backing on an existing structure) and it is suggested that this one-time cost could be absorbed by the various provincial governments. The ongoing operating costs should be minimal to the various provinces and local communities.

The national database would make its revenues from publishing activities, an annual maintenance/monitoring fee charged to the provinces, and from revenue for individual listings/searches.

The aim of the national network would be to become the main source of information on business opportunities in Canada to the point that anybody selling a business or searching for a business opportunity would turn to the network as a first resource.

Why publishing activities? Databases represent current technology but are only effective if the marketplace is aware of their existence, thus a printed product remains an important marketing component. One suggestion is to have a monthly publication (possibly with provincial editions) that would be distributed both nationally and internationally. It could be kick-started with a low-cost federal government grant. (The

federal government has made it clear over the years that it would like to see a viable business opportunities database in place).

Investors are looking for facts, not gloss, so a printed version to serve as the "window" into the database would not have to be an expensive production. It should give a representative look at all the opportunity categories available and information on how to access/list opportunities on the database. The intention would be to not only make this publication self-supporting but also offset some of the day-to-day database operating costs. There are at least three possible sources of revenue:

1. Each issue of the publication could

contain feature reports on different investment sectors and these in-depth reports would be supplemented by paid opportunity profiles on companies within these sectors who are seeking funding, joint ventures, alliances, etc.

2. The companies who are going to benefit from this free market of information would be invited to advertise – the consultants, accounting firms, chartered banks, brokers – anybody who stood to benefit from being part of the process.

3. For this latter group an extra benefit could be to have their names/companies listed as contacts when certain given categories of opportunities are accessed on the

database. For instance, Health Care opportunities could list consultants who specialize in this industry, market feasibility experts, joint venture experts, export consultants, etc. This could prove a real service to the potential investors.

The distribution of the suggested publication and physical access to the database, nationally or internationally, would not present major problems.

The expertise is available now to start the ball rolling on the proposed network. If there is any interest out there in seeing such a network in place this initiative could get underway tomorrow at a local, regional, provincial or national level. □

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