

# Executive Summary

## Challenges related to Business Transfers: Companies between continuation and closure

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## **Abstract**

When the time comes for one's own retirement from the business, owners must decide whether they want to hand it over to a successor or shut it down. However, the sole intention of handing over is not sufficient. Instead, a suitable successor is needed who is willing to take over. For the first time in Germany, this study examines how many businesses shut down during the planned handover period and which influencing factors can favour or hinder the shutdown or continuation.

### **The business handover is a hurdle race**

For former owners who want to hand over their business, finding a suitable and willing successor is essential. However, finding the right person to take over the business and the right successor is anything but easy - especially if the business cannot be handed over to family members. In this case, a successor must first be found who is not only willing to take over the management of the company, but also to pay the required purchase price. If this is not successful, the transfer of the business does not take place.

### **A quarter of businesses that are ready to hand over leave the market**

The study shows that a quarter of all owners of businesses, whose succession was planned between 2012 and 2016, closed down their business during this period. However, three quarters remained on the market during the observation period. For methodological reasons, it is not possible to determine whether they were handed over.

### **Family-internal takeovers harbour fewer risks**

Although transfers within the family can also be connected with challenges, our analyses show that businesses, where it is already planned at the beginning of the succession process that a family member will take over, are significantly less likely to be shut down than companies aiming for sale. In contrast, those businesses that were closed down during the planned succession period tended to be small and a lower export orientation.

### **Competitiveness and future viability are essential**

Economically attractive businesses are comparatively rarely among those that are ultimately closed down in the context of a planned handover: For instance, continuation is more likely if businesses had no poor profit situation, a high technical standard of equipment and higher capital expenditure in the period before the planned handover. This indicates that the selection mechanisms of the market economy seem to be functioning.

### **Information and awareness-raising are necessary**

Because of the time and financial effort involved in a futile search for a successor and a subsequent closure, a realistic assessment of the conditions under which a business's continuation appears possible is essential. There is a need for better information and greater awareness among entrepreneurs in Germany about the conditions under which continuation efforts are realistic - and under which they are not. In addition to economic policy, multipliers such as associations and chambers are also asked to take action.