Transfer-planning entrepreneurs outnumber takeover entrepreneurs 3 to 1

Newly self-employed are often equated with new entrepreneurs, that is, with those who establish a new business. In Germany, around 70% fall into this category each year, and in 2015 they even reached a share of 75% (Figure 1). Entrepreneurs who build on the structures of existing enterprises, however, receive less attention. At the same time, takeover entrepreneurs (9%) and entrepreneurs who acquire an active holding (21%) account for roughly one third of start-up activity. Demographic change is making business takeovers particularly important for the economy.

More takeovers in times of crisis?
Takeover entrepreneurs typically tend to be full-time entrepreneurs. On a long-term average annual basis they make up 14% of full-time entrepreneurs (5% of part-time entrepreneurs), but this ratio is subject to relatively wide fluctuation. In times of economic uncertainty, full-time entrepreneurs appear to be rather more willing to take over a business. Accordingly, the share of full-time takeover entrepreneurs was above-average between 2001 and 2004 (after the new economy bubble burst) and between 2009 and 2012 (in the wake of the financial crisis). In the long-term, however, takeover entrepreneurs follow the general trend of years of declining start-up activity (Figure 2).

This decline is posing a growing challenge. After all, by the year 2018 some 620,000 small and medium-sized enterprises are scheduled to be transferred or sold – that is 17% of SMEs with more than 4 million employees. This means that, on an annual basis, there are three times more transfer-planning entrepreneurs than takeover entrepreneurs today. This gap can be expected to widen further as demographic change proceeds.

Intra-family succession dominates
The greatest share of realised transfers takes place within the family. This is reflected in the high share of transfers with no purchase price (67%, Figure 3). These transfers were presumably made in the form of gifts under inheritance law. Of the 33% business transfers made with a purchase price, almost one in five were sold for over EUR 50,000.

The purchase price, however, represents only a portion of the potential funding requirements for a takeover. New entrepreneurs typically get by without finance or with smaller financing sums of up to EUR 10,000 (Figure 4). Only 23% of new entrepreneurs have funding requirements in excess of EUR 10,000.
EUR 10,000. This share is twice as high for takeover entrepreneurs, with four in ten (43 %) investing at least EUR 10,000 and 18 % more than EUR 50,000 (new entrepreneurs 5 %).

The higher funding requirements of takeover entrepreneurs illustrate that financing the purchase price alone will not do the trick for many takeovers. In many cases, additional capital expenditure or even current operating expenses must be financed. It is important to plan this additional capital requirement well ahead.

Similar types of founders
On a long-term average, takeover entrepreneurs and new entrepreneurs differ little in other characteristics, such as age. Still, temporary variations do exist. For example, in recent years women have discovered takeovers as a self-employment opportunity after exercising some restraint in the years 2009 to 2012 (Figure 5). Their proportion of takeover entrepreneurs has steadily grown from the low of 2012 (20 %) to more than half in 2015 (52 %). This trend may also be due to family succession, in which daughters are now being more seriously considered. In early 2009 most entrepreneurs facing family succession preferred to consider their sons as their successors. But what is behind this trend is ultimately unclear.

New entrepreneurs and takeover entrepreneurs are also similarly distributed across industries. Their presence differs in just two sectors, as takeover entrepreneurs are clearly less active in commercial services, but more active in retail.

More takeovers are desirable
Many entrepreneurs are driven by the prospect of creating something new from scratch. And this is important so entrepreneurs can perform their role for the renewal of the economy. But it would be good for the economy if more entrepreneurs seeking successors could find someone to take over. After all, taking over a business conserves resources, unlike closing a business and replacing it with similar offers from new entrepreneurs. Entrepreneurs prepared for succession and those looking to take over a business can come together at www.nexxt-change.org.

1 Schwartz, M. (2015): KfW SME Panel 2015. With growing confidence, German SMEs are starting to invest again, KfW Research, Frankfurt am Main.
2 “Significantly more than half (56 %) of SMEs generally consider handing their company over to a family member”. Ageing SMEs need to plan for succession - 620,000 businesses to change owners by 2018, Focus on Economics No. 132, KfW Research, Frankfurt am Main.