

ISLAND CRISIS CARE SOCIETY BUYS A BAKERY: A CASE STUDY

AS TOLD BY:

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DATE OF ACQUISITION: 2021

LOCATION: Nanaimo, BC



INTRODUCTION



ABOUT THE BUYER

Island Crisis Care Society (ICCS) is a registered non-profit society based in Nanaimo, BC. It works with people who have experienced adversity and homelessness, providing housing alternatives and holistic support for their development, recovery, and independence.

ABOUT THE SELLER

Nanaimo Bakery & Confectionary is a 30-year local business that provides quality, homemade, artisanal food and beverages made with care and intention.

“I think this type of social purpose innovation will be more common in the future. It seems that organizations are recognizing that we need to be more proactive in supporting ourselves, and this is a great way to do that.”

-Corrie Corfield, ICCS

OVERVIEW



Photo: Nanaimo Bakery Instagram page

Before the acquisition, ICCS had contemplated starting a social enterprise for a few years. The organization was donor dependent and wanted to diversify its revenue to gain financial stability. ICCS did not have previous experience with social enterprise, but two leadership team members had some social entrepreneurship background and understanding.

In 2020, ICCS received funding from the Community Foundations of Canada Investment Readiness Program to explore social enterprise concepts. The organization contracted Scale Collaborative to help them explore their options. They piloted a small-scale social enterprise within one of their programs before deciding that looking at bigger options would provide more stability and help meet their program objectives.

ICCS held a design lab with staff and the Board to assess the needs of the community and the organization. The result was a concept for purchasing a multipurpose building that would provide space for offices, programming, and a social enterprise. They started looking for spaces, and one of the potential properties they toured also housed a local business that was up for sale, the Nanaimo Bakery & Confectionary. The building and the business were listed for sale separately.

The ICCS Executive team realized that the building and bakery met many of their identified needs and offered wider business and programming opportunities.

In July 2021, ICCS successfully purchased both the business and the two-story, 18,000-square-foot building where the business is located. They planned to adapt the building to house their administrative offices, meeting rooms, community events, learning spaces and to host their Project Rise pre-employment training program. The building also housed two other business tenants and 3,000 square feet of residential space. With current leases in place, the organization plans to examine options for residential portions of the building in the future.

At the time of acquisition, the 14 existing staff at the bakery had expressed interest in staying on, which ICCS saw as a benefit for the continuation of operations. ICCS planned to continue to operate 'as is' while exploring options for growth and greater impact. Some ideas included providing work experience to clients and social enterprise training for other organizations.

MOTIVATIONS

For ICCS, the goals of purchasing the bakery business were two-fold:

- To diversify revenue and increase the stability of the organization
- To provide enhanced opportunities for client support and program development.

“We recognized that many of our clients have an end goal of reconnecting with the community, whether it be employment, market housing, or whatever that looks like. For many, though, there is often a significant gap in the support towards these goals. With the funding that we have in our programs, we can only take them so far. It becomes challenging if they've never learned basic life skills or employment skills. We wanted to incorporate some of that programming into whatever we ended up with.”

-Corrie Corfield, ICCS

SELECTION CRITERIA

When the opportunity came up, ICCS was not looking to acquire an existing business to create a social enterprise. They looked at what was most important and decided the purchase must:

- Align with the mission, vision, and strengths of the organization
- Provide financial stability for the organization
- Centralize operations and costs by also housing ICCS offices and programming.

ACQUISITION DETAILS

DEAL STRUCTURE

ICCS is a non-profit organization with charitable status. To secure the required financing and then acquire and manage the business, they created a for-profit subsidiary corporation called Rising Hope Services Inc.

The acquisition was structured as a share purchase, meaning that all assets, liabilities, and obligations of the business were transferred to Rising Hope Services Inc. Nanaimo Bakery & Confectionary was amalgamated into Rising Hope Services Inc. and was renamed Nanaimo Bakery & Café.

The reasons for this structure were primarily financial. The acquisition required financing, and the organization did not want to borrow the funds because the interest would become an expense of the charity and require tax payment. However, if a company borrows, interest is an expense of the company and can be written off. This structure also helps keep a strong differential between charity and enterprise for tax purposes.

ICCS made a capital investment into Rising Hope Services Inc. to cover the mortgage down payment, closing costs and operating cash flow. This investment was structured as a loan to be repaid to ICCS with interest and flexible terms. The organization also received a consulting grant of \$12,000 from their local credit union to help guide them through the process and financing.



Photo: Nanaimo Bakery Facebook page

TRANSITIONING OWNERSHIP

Included in the agreement was a management contract where the seller would continue to provide six months of training to the new owners:

- In the first two months, the seller would stay in the same capacity as before the sale (same hours, same work, etc.)
- In the following two months, ICCS planned to negotiate a wage for the seller to work up to 40 hours per week
- In the final two months, the seller would work on a consultation basis when needed.

RESOURCES UTILIZED

ICCS accessed several key supports to assist them with the acquisition process, including:

- ICCS Executive Team (primarily the Executive Director and Assistant Executive Director)
- ICCS Board of Directors
- Consultant
- Realtor
- Accountant
- Lawyer

KEY CHALLENGES

System Transfer: Two weeks before the deal was finalized, ICCS received a call from the health inspector saying that the operating permits for the bakery were non-transferable.

ICCS learned they needed to have all new food safety and sanitization plans before opening under new ownership. The business had been allowed to operate without these documents in place, so they needed to be created from scratch before business operations could begin.

“Our understanding was that because we structured it as a share purchase agreement, the business would continue as it went. So all contracts would continue. The only thing that would be different would be the actual shareholders of the company.”

-Corrie Corfield, ICCS

The health inspector agreed to meet with ICCS and the new General Manager a couple of days before the transfer of ownership and assisted them with obtaining the information needed to proceed. ICCS successfully drew up all the sanitation and operating plans and received the operating permit from the inspector. The bakery was closed for just one day following the sale.

Two Lenders: During the sale, some challenges arose related to the mortgage lender's first rights over any property of the borrower. While ICCS had been moving forward with the understanding that there was to be a separation between the non-profit organization and the new for-profit company, the financial institution wanted to have rights over all existing ICCS properties, which included several commercial and residential properties, some with associated mortgages. To resolve the issue, their previous financial institution permitted the new institution to have first rights over all their properties, or ICCS would have to transfer all the mortgages over to the new institution (which meant paying a large penalty on the mortgages).

Eventually, the new financial institution agreed to move forward with a written guarantee from ICCS that they would transfer the existing mortgages, giving first rights over all existing assets to the new lender. This transfer incurred an \$8,000 penalty and wasn't the preferred option, but it was a workable solution.

Banking Gaps: In addition, ICCS encountered issues transferring the business' bank account and important contracts with suppliers from the previous owner. Though the previous business had been set up as a limited company, in many ways, the owner had operated for many years as a sole proprietor, which caused several logistical issues in the transfer of accounts and contracts. The result was a gap in banking services for six days.

Owner Transition: Figuring out how to replace the original owner was also an ongoing challenge. ICCS hired a General Manager with experience in hospitality management with the intention that a new baker would also need to be employed to eventually manage that side of the business.

“The biggest challenge for us lay in converting an existing business, with its longstanding clientele and operating style, to a social purpose business. While stepping into an existing business gave the opportunity for bypassing the growing pains of the initial startup, it came with its complications and expectations. Every change was met with resistance from already established customers and relationships.”

-Corrie Corfield, ICCS

KEY SUCCESS FACTORS

CAPACITY AND KNOWLEDGE

"Having somebody on the team who has been in business before was very helpful. It was a team effort, but I know my experience in business has helped me take on more of the planning. I had been through building my own business before, so I think I had a lot to bring to the table that isn't typically seen in a non-profit organization. Having someone on the team with some knowledge or experience in [business and entrepreneurship] is beneficial.", says Corfield.

CREDIBILITY

The longevity and financial stability of the non-profit were also key success factors. ICCS has been in operation for over 30 years and has financial stability and credibility within the community. This helped them gain financial support from lending institutions and community support for the new endeavour.



Photo: Nanaimo Bakery Facebook page

LESSONS LEARNED

Be prepared for the unforeseen and draw upon the knowledge of many.

“If we knew back then all that we know now, of course, we would do things differently. But this is the challenge of thinking about things in a new way and taking a risk on an innovative project. I don't think you can actually know how it's going to play out until you've been through it... Nobody actually has all the answers. It was essential that we sought out support from other professionals, but I think it was important to understand that they were learning too. Maybe remembering this would have decreased the stress a little bit!”

-Corrie Corfield, ICCS

OUTCOMES

The acquisition proved to be both a tremendous challenge and a great learning opportunity for ICCS.

One of the biggest hopes for the acquisition was turning business profits back into innovative programming for ICCS clients. One such area of new programming is Project Rise, which aims to give essential pre-employment training to clients ready to move into a new level of independence, followed by 8-week work placements. This program will be externally funded through donations and grants for its first three years of initiation, with incrementally increasing proportions supported through profits from the bakery. Projections are that within three years the program can be fully funded through profits from the business. At the same time, it is anticipated that the Bakery and Café will host some of the work placement opportunities.

The organization also plans to modernize the business by renovating and refreshing the customer-facing areas, implementing technological changes such as a POS system to track sales, and developing an online e-commerce store. They also plan to standardize business practices more thoroughly, develop the staff and designate more responsibilities primarily taken on by the previous owner and founder of the business.

"I think that what I've appreciated about being at ICCS is that we are open to innovative thinking, which in business is not abnormal, but I think having a non-profit that can be innovative and able to think outside the box is different. I think many non-profits are just focused on work and focused on survival, which is important... But I think if you're not committed to the innovation, if you're not committed to thinking outside the box, the impulse will be to pull back and not allow it to happen. So being that learning organization is really important."

-Corrie Corfield, ICCS



Photo: Nanaimo Bakery Facebook page

