

BPCE L'Observatoire Notes: halting the decline in company transfers, a challenge for the competitiveness of French industry

Since 2011, BPCE L'Observatoire has been monitoring business transfers in France with an innovative and exhaustive approach that has proven to be reliable. For the first time, it is extending the scope of its analysis this year to Europe, where the subject is still not properly grasped. This new study highlights the threat of the ageing of SME owners and the need to address this urgent economic issue in order to preserve the French productive fabric.

A one-third decrease in company transfers in France within three years

The findings of BPCE L'Observatoire are indisputable : business transfers fell by one third in the space of three years, from more than 76,000 transactions in 2013 to fewer than 51,000 in 2016. That said, the transfer rate varies by a factor of 1 to 7 between intermediate-sized enterprises (ISEs, 13.3%) and very small businesses employing between 1 and 5 people (1.9%), thereby confirming that the size of the company is the most decisive criterion in the transfer of companies in France, ahead of the age of the proprietor and the sector of activity.

At the level of individual sectors, the decline in the number of transfers of SMEs and ISEs was more pronounced in retail services, manufacturing industry, and the wholesale trade. Nevertheless, the transport and especially construction industries remain the most sensitive sectors where the gap between the takeover rate and disappearance rate is the smallest.

Disparities between geographical regions continue to be observed. The Ile-de-France region around Paris and the former Rhône-Alpes region, which still enjoy high transfer rates, have been joined by the Mediterranean coastal *départements* and the former Aquitaine region. In contrast, however, the situation is deteriorating in the Normandy, Brittany and Pays de la Loire regions and remains worrying in the Hauts-de-France region and in overseas French territories.

Family transfer, some good news

Family transfer is the only transfer method that has not suffered a decline over the period covered by our research. For SMEs and ISEs, it accounted for 22% of transfers in 2016. This trend is particularly favorable for small entities that had previously lagged behind medium-sized companies. One downside, however, is that family transfer has decreased sharply for companies with more than 100 employees since 2014, a possible sign that it is becoming more difficult to ensure the long-term future of family capitalism in France.

The ageing of SME owners: an urgent economic issue

More than one out of five SME and ISE owners were aged more than 60 in 2016, compared with a proportion of less than 15% in 2005. The significance of this observation can be understood when set against the fact that the decline in the transfer market in France is greater when the proprietor is more elderly.

Thus, the transfer rate for owners in their forties fell by only 1.8 percentage points between 2013 and 2016, compared with 3.1 points for those in their sixties and 4 points when they were over the age of 65. These figures disprove the idea that a wave of disposals would necessarily prolong the ongoing generational turnover. On the contrary, the decline in the number of transfers when current owners cease their professional activities accentuates the already significant ageing of SME proprietors.

This increase in the average age of SME proprietors is becoming a critical economic issue. More than 23% of SME and ISE proprietors are expected to be older than 60 and more than 10% over the age of 65¹ by 2021. The probability of a proprietor's company being sold decreases significantly when he or she is older than 65. This phenomenon has two types of consequence : on the one hand, there is a risk of an inflated stock of less and less innovative companies for sale ; on the other hand, the under-investment affecting a growing proportion of SMEs could have a macroeconomic impact in the form of the declining competitiveness of our productive fabric.

Europe²: the economic and social impact of company takeovers

Europe has 1.7 million SMEs and ISEs in the private non-agricultural and non-financial commercial sector providing, within this same area, a total of 100 million jobs. If we extrapolate the transfer rate by size and sector of SMEs and ISEs in France and take account of the structure of the economic fabric specific to each country, 100,000 SMEs and ISEs are expected to be transferred annually within the European Union, directly impacting more than 10 million jobs. In manufacturing industry alone, 24,000 companies and 2.7 million jobs will be affected every year.

While this assessment does not take into account all the factors specific to different countries, it highlights the decisive economic and social impact of company transfers in Europe and the need for a homogeneous tool to measure the phenomenon and to implement a policy whereby company transfers become a lever for growth rather than a structural weakness on a continental scale.

Nicolas Namias, Deputy Chief Executive Officer Finance and Strategy, Groupe BPCE, and Alain Tourdjman, Head of Economic Research and Forecasting, Groupe BPCE, concluded the report by underlining that “business transfers represent a major challenge for French competitiveness: over 750,000 jobs were concerned in 2016, via 51,000 transactions. Nevertheless, these figures are decreasing. That’s why the demographic renewal of the fabric of SMEs in France must be backed by efforts to raise the awareness of the party transferring the business and to support the party taking it over. It is now an issue of European concern, potentially impacting over 10 million jobs.”

¹ Assuming that the rate of disappearance and the rate of transfer per proprietor age group stabilizes at their 2016 levels – see the note on methodology in BPCE L’Observatoire Notes

² See the note on methodology in BPCE L’Observatoire Notes