Supporting Business Succession & Transition (BST): Lessons Learned from Minnesota

Michael Darger
BST Issues we’ll cover

1. Why Business Succession and Transition (BST) is important?
2. The basics of BST based on past research in MN + ND
3. Readiness issues
4. BST resources
5. Employee ownership
6. BST research in Minnesota
7. The importance of bringing up BST
Poll: What experience do you have with Business Succession & Transition? (choose all that apply)

1. Provided education to businesses or business support pros or economic developers
2. Coached business owners on BST
3. Coached employees on BST
4. Support entrepreneurs
5. Research on BST (or related issues)
6. Other: ___________________________
7. None, so far.
How are we learning about BST?

- Liz Templin, et al research
- A 2-state initiative on worker cooperatives
- Programming efforts
- BST Ecosystem Group
- Sessions like this
- New research initiative
Freshly tested in Southeast Minnesota
1. Why is Business Succession and Transition (BST) important?

- Rural Business Transitions: Approaches to Community Training and Education

Support for this project was and is provided by University of Minnesota EDA Center, with grant funding from the U.S. Economic Development Administration (EDA)
Small businesses are the lifeblood of local economies.
More info. on Business Succession and Transition’s importance in economic development

UMN Extension’s interest

1. Extension Farm transfer program started seeing nonfarm biz in their classes & retreats
2. BRE data since 2012 showed there is a gap in BST planning

Everyone needs an exit plan right? (not just Boomers)

The MN Center for Employee Ownership commissioned this research on the size of the issue at the state and county levels.

https://www.mnceo.org/the-silver-tsunami
### Changes in Confidence in Institutions, by Political Party, 2021-2022

Figures are the percentages with a great deal or quite a lot of confidence in the institution.

<table>
<thead>
<tr>
<th>Institution</th>
<th>Republicans</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Small business</td>
<td>77</td>
<td>73</td>
<td>70</td>
<td>69</td>
<td>64</td>
<td>65</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The military</td>
<td>81</td>
<td>71</td>
<td>66</td>
<td>58</td>
<td>63</td>
<td>67</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The police</td>
<td>78</td>
<td>67</td>
<td>49</td>
<td>41</td>
<td>30</td>
<td>28</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The medical system</td>
<td>34</td>
<td>31</td>
<td>42</td>
<td>38</td>
<td>55</td>
<td>46</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The church or organized religion</td>
<td>52</td>
<td>46</td>
<td>35</td>
<td>25</td>
<td>27</td>
<td>26</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The public schools</td>
<td>20</td>
<td>13</td>
<td>30</td>
<td>29</td>
<td>44</td>
<td>43</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organized labor</td>
<td>13</td>
<td>15</td>
<td>28</td>
<td>27</td>
<td>41</td>
<td>41</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banks</td>
<td>35</td>
<td>23</td>
<td>33</td>
<td>27</td>
<td>34</td>
<td>31</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large technology companies</td>
<td>17</td>
<td>20</td>
<td>32</td>
<td>27</td>
<td>33</td>
<td>30</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The U.S. Supreme Court</td>
<td>36</td>
<td>39</td>
<td>40</td>
<td>25</td>
<td>31</td>
<td>13</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The presidency</td>
<td>12</td>
<td>2</td>
<td>31</td>
<td>18</td>
<td>69</td>
<td>51</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Newspapers</td>
<td>8</td>
<td>5</td>
<td>19</td>
<td>12</td>
<td>38</td>
<td>35</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The criminal justice system</td>
<td>17</td>
<td>10</td>
<td>23</td>
<td>16</td>
<td>17</td>
<td>16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Big business</td>
<td>20</td>
<td>19</td>
<td>19</td>
<td>13</td>
<td>16</td>
<td>13</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Television news</td>
<td>6</td>
<td>8</td>
<td>13</td>
<td>8</td>
<td>26</td>
<td>20</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Congress</td>
<td>6</td>
<td>5</td>
<td>12</td>
<td>7</td>
<td>17</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Confidence in U.S. Institutions Down
2. **The basics of BST - what is succession planning?**

The process of planning for the day an owner decides to step down from their leadership role in the farm or business.

Source: *Entrepreneur, SCORE*
What is business transition?

- This is the actual event of change in the ownership and leadership of a business.
3. More basics of BST

Timing. When should a business start succession planning?

The major options for transferring ownership (i.e. transfer to…)

- Family
- Management
- Employees
- Private Equity
- Third party (i.e. the market including strategic and financial buyers)
The 5 Ds of business transition.....

1. Death
2. Divorce
3. Disability
4. Disease
5. Disagreement
Dudley’s Pizza gets new owners; Flodeen pens letter thanking community
Why aren’t they planning?

- **Top barriers**
  - Time
  - Cost
  - Confidentiality
  - Lack of awareness about the value of planning

- **Also,**
  - Not interested or not ready to pass it on
  - Valuation is too low (i.e. there is a “value gap”)
  - Don’t know where to begin
  - Seems important but not urgent

Opportunities for entrepreneurs!

How owners plan to exit their businesses

- ESOP
- Sale to private equity
- Close the doors
- Transfer to children
- Sale to employees
- Third party sale

Source: Business Owner Survey, BEI, 2016
Our research and partners: what influences success?

- Business Broker
- Federal Reserve Bank of Minneapolis
- League of Minnesota Cities
- Minnesota Association of Business Valuation Professionals
- Minnesota Association of Development Organizations
- Minnesota Bankers Association
- Minnesota Chamber of Commerce’s Grow Minnesota
- Minnesota Initiative Funds
- Minnesota Main Street by Rethos
- Minnesota Small Business Development Centers
- Minnesota State Bar Association
We asked questions about......

- **Transfer of Ownership (Purchasing)**
  - Legal, tax and financial aspects

- **Transfer of Leadership (Operating)**
  - Transfer of knowledge, management capacity and social capital to the new owner

See more about the research at z.umn.edu/bizsuccession
Successful business succession = retaining and growing businesses

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased customer base</td>
<td>68%</td>
</tr>
<tr>
<td>Increased sales</td>
<td>68%</td>
</tr>
<tr>
<td>Increased # of employees</td>
<td>41%</td>
</tr>
</tbody>
</table>
What can business owners do?

✔ Start planning 1-3+ years ahead
✔ Show 3+ years of profitability in financial records
✔ Get a business valuation to target improvements
✔ Create a leadership transition plan
✔ Offer mentorship to new owner
How Much Time Does it Take to Transition a Family Business?

- https://mediaspace.umn.edu/media/t/1_g76cvx1f
What helps buyers succeed?

✔ Business plans or goals
✔ Mentorship (including prior owner)
✔ Utilizing available resources (many are not aware of all that exists)
✔ Getting connected to the community
Who can help with transition planning?

- Attorneys
- Business valuation professionals
- Wealth planning professionals
- Business Owner
- Accountants
- Transition advisors
- SCORE/SBDC
What can communities do?

To start:

✔ Find a “champion”
✔ Assess local situation
✔ Identify transition resources
✔ Identify ways to reduce reasons sellers don’t plan for succession
✔ Raise awareness about business succession with firms in community
What else can communities do?

To support ownership transitions....
✔ Connect sellers and buyers to resources
✔ Offer workshops for sellers and buyers
✔ Identify and engage intermediaries to help connect buyers and sellers
✔ Remember, the buyers could be inside the business already
✔ Send business teams to our BST class
And what else can communities do?

To support leadership transitions......

☑ Create a community climate that welcomes and celebrates new people and businesses

☑ Develop or obtain a leadership succession guide to help retiring owners organize

☑ Create mentorship opportunities for new owner/leaders

Z.umn.edu/bizsuccession
Transition advisors are costly!
Business Succession & Transition (BST) Ecosystem

- Convened in 2021
- Based on
  - UMN Extension research on BST
  - Our BRE survey data
  - Recent courses and self-studies we’ve created
- Realized this is BIGGER than any one entity
3. Readiness issues.

Business owners need to work on multiple layers

- Owner readiness - Personal Forces
- Business readiness - External Forces
- Market & Business forces

The emotional aspects of an owner’s personal readiness is probably the biggest challenge.
99% of Business Owners agree a plan in important. Yet, 48% had done NO planning and 80-95% had NO written business or personal transition plan...

Are you ready?

Will you leave lasting impact?

Source: 2017 Twin City Metro EPI Owner State of Readiness
Personal: Legacy Plan

In order to leave a lasting legacy, you must address the “softer-side” of transition planning.
4. BST resources

MN Chamber
Has a nice list

4. More BST resources

- Extension class for businesses
- *Is Your Business Ready for Success(ion)*
- z.umn.edu/BSTclass
- $500 for 5 week via Zoom
- “I think a lot of people and businesses would benefit from this course. The time it takes to sit in the online classes and the homework is small compared to the amount of time and effort that will be needed to actually properly implement a successful transition.” — spring 2020 participant
4. More BST resources

- “Virtual workshop” for community leaders
- Free, DIY format
4. Our UMN Extension BST stuff

- z.umn.edu/BSTclass (business course)
- z.umn.edu/bizsuccession (research, general info. and guidance for community leaders)
- z.umn.edu/Darger (my “packrat” BRE + BST collection)
4. More BST resources

- MN Center for Employee Ownership & Julie Keyes developed a self-guided (asynchronous) course for business owners
- $499 on the participant’s own timeline
5. Employee ownership (very few people know about this option, so it’s worthy of its own topic)

- Minnesota has high density in employee ownership of businesses, ESOPs (Employee Stock Ownership Plans)
- But other forms of EO barely exist here.
- A nice BST video from the MN Center on Employee Ownership
  - [https://www.mnceo.org/employee-ownership-101](https://www.mnceo.org/employee-ownership-101)
5. Employee ownership – national network of centers
https://eoxnetwork.org/state-centers

EXPANDING EMPLOYEE OWNERSHIP ACROSS THE U.S.

Click on any state in blue to be taken to that State Center’s website. If you are interested in opening a center in your state, please contact us for more information.
5. Employee ownership – curriculum library at Rutgers
https://cleo.rutgers.edu/
I have two hypotheses regarding EO and BRE:
1. EO is the most likely form of business transition to keep a business local.
2. EO is under what its equilibrium point could be if there was
   1. greater awareness of the opportunity that EO presents for company performance and worker participation and compensation
   2. more capacity to assist businesses AND employees on EO transitions
6. Further BST research in Minnesota

- Ashley Petel, Graduate Research Assistant
Research Step 1: Literature Review

Key Questions

▪ Business Owners
  ▪ Preparedness for business succession?
  ▪ Circumstances that prompt action around succession planning?
  ▪ Awareness and attitudes towards employee ownership?

▪ Employees
  ▪ Awareness and attitudes towards employee ownership?
Research Step 2: Focus Groups

Key Questions

- Economic Development Professionals
  - Key trends and concerns around business succession and employee ownership?

- Business Owners
  - Key challenges and successes around business succession and employee ownership?

Research Step 3: Statewide Survey
7. The importance of bringing up BST & Discussion

- How do you have a succession planning conversation with a business?
  - Video tips from Jon Keimig: https://mediaspace.umn.edu/media/t/1_ox1nu6cs
Questions?

Michael Darger, darger@umn.edu
Ashley Petel, petha001@umn.edu