

Business succession planning and economic vitality in rural Kansas

The Small Business Development Center (SBDC), supported by our Robbins College of Business and Entrepreneurship, exists to increase economic prosperity in Kansas by helping entrepreneurs and small business owners start and grow their businesses. Headquartered in Topeka, the Kansas Small Business Development Centers throughout the state are funded through federal grants, local colleges and universities, and the state of Kansas. It is a system of 12 centers – several located on university campuses. All 12 centers are overseen by Fort Hays State University.

I recently visited with Rick Feltenberger, the director of the SBDC at Fort Hays State. I learned that as of August 2021, the state of Kansas started 174 fewer businesses than during all of 2020. This makes retaining critical infrastructure businesses (grocery stores, veterinary clinics, pharmacies, lumber/hardware stores, etc.) essential to economic prosperity. Rick also shared some information specific to businesses in rural Kansas, including:

- 50% of business owners are 51 or older.
- Only 30% of family-owned businesses successfully transition to the second generation.
- 20% plan on closing and conducting an orderly liquidation of assets.

Rick believes that one potential solution lies in careful business exit or succession planning. This process ensures business owners are fully prepared to transfer the single largest financial asset they have to a new owner, whether it be a family member or a third party. Rick cautions that many business owners confuse the successful transition of their business with the simple act of selling the business. A successful transition occurs on the owner's terms, their timeline, and their price. It takes planning to get there. Focusing on "selling" doesn't put the owner in a sound financial position.

Typical mistakes business owners make as they look toward exiting the business:

- **Underestimating the amount of money required to meet their retirement or post-business lifestyle.** Our heritage, work ethic, and upbringing in rural America make us unique. It also makes us very modest in our outlook. To maintain a retirement income of \$30,000 per year requires a nest egg of about \$750,000. If personal savings and investment can't cover this, owners will need to maximize the net proceeds from their business.
- **Assuming that their business will naturally be attractive to a potential buyer.** Beauty is in the eyes of the beholder, and prospective buyers may evaluate the value of a business very differently than the current owner.
- **Overestimating the actual value of their business.** Valuing a business that is preparing for a transition is slightly complex, but the formula is very simple: Earnings x a market multiple factored for risk = Value. Earnings are the cash flow generated from the business. Market multiples are determined in the private equity markets, and every industry has a range of these multiples based on the relative risk level of the business. While owners can't control the multiples, they absolutely can control where they land in that range of multiples by making their business less risky to a buyer. The lower the risk, the higher the multiple and the greater the value. It really is that simple.

Essential first steps in business succession planning

- **Organize your financial reporting.** This would include developing a personal financial statement, a detailed view of the owner's assets and liabilities. The process isn't difficult, and the owner's financial planner or a certified exit planning advisor can usually help.
- **Ensure your business financials are clean and accurate.** The best way to do this is to have your accountant prepare income statements and balance sheets along with business tax returns for the past three years, plus detailed statements for the last 12 months.
- **Communicate your intentions to your customers and potential buyers.** The path to attracting a potential buyer can be tricky, so you will need a well-thought-out plan and a good team of advisors. The good news is that your buyer might be living in your community. The bad news is that no one will know that you are looking for a buyer unless you tell them. Forget the myths about losing customers or employees; it doesn't happen if you properly communicate your intentions.
- **Contact your local Economic Development Office and Chamber of Commerce.** They may know of an interested person. If nothing else, they can quietly get the word out for you.
- **Find an apprentice who would like to own your business.** This isn't a quick option as it could take two to three years to train an apprentice, often even longer. This is why it makes so much sense to start the process long before you face an event that requires you to leave the business.

Feltenberger is one of three certified exit planning advisors in Kansas. He can help any business owner in the state of Kansas plan for a successful transition. The Kansas SBDC also hosts the Kansas Center for Business Transition (ksbiztransition.com), a web resource where business owners can find an array of do-it-yourself tools to get started on the process. If you want to learn more about partnering with the SBDC, visit <https://www.fhsu.edu/ksbdc/> or contact [Rick at RickFelten@ksbdc.net](mailto:RickFelten@ksbdc.net) or 785-628-5615.

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