

Business Transition Models



Valley Foods Cooperative | Lynch, Nebraska

Which model best fits your needs?

Personal*

Financial*

Community*



NEBRASKA COOPERATIVE DEVELOPMENT CENTER

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Transition through Liquidation



FROM THE BEGINNING TO THE END

Once a business starts there will be at least one more transition in the life of the business. The owner will decide at some point to transition the business through a sale or closure. The simplest business transition that anyone will ever go through is to just close their business. Simple to do, but difficult psychologically. The owner sells the remaining inventory, the equipment, and then takes care of the building. Either terminate the rental or lease agreement for the building or sell the building if it is owned by the business. That's it.

If the owner locks the door and walks away, this transition can take less than a minute. This transition type is the one in which the owner gets the least amount of return for the business. This is the fastest business transition type; other business transition options may require years.

TRANSITION

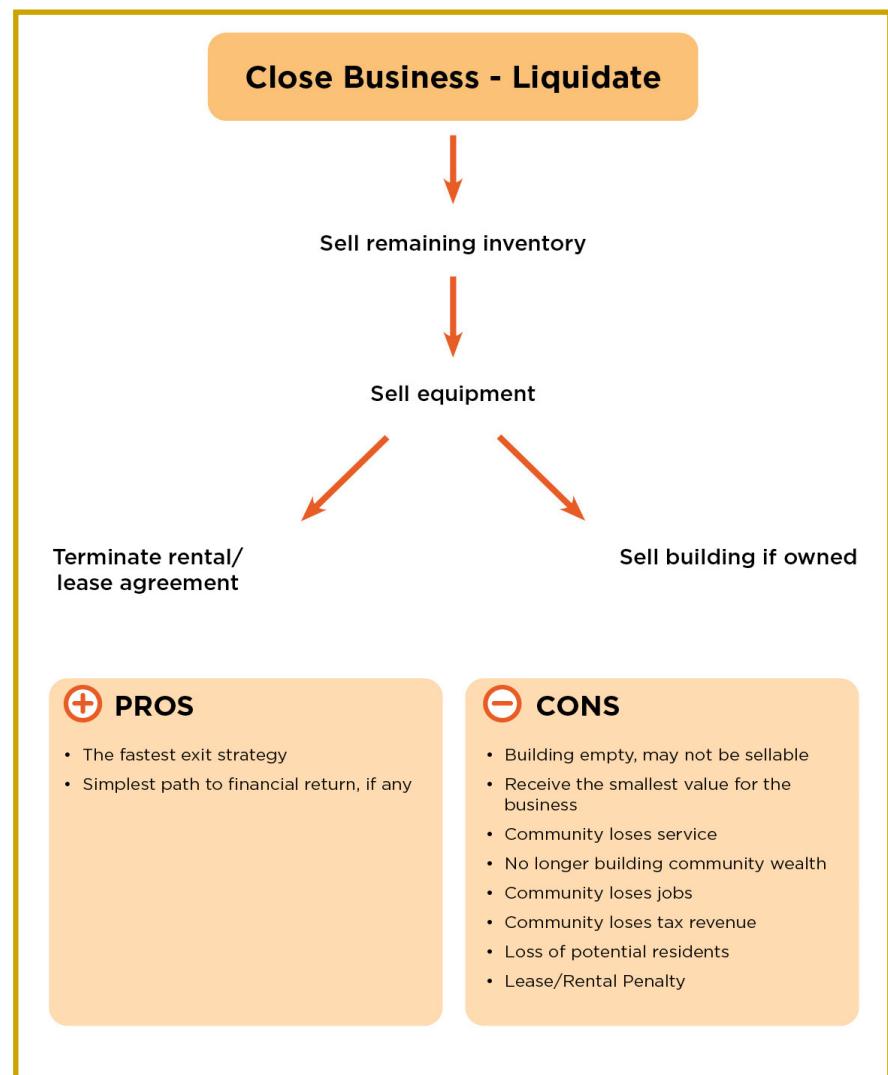
"A change or shift from one state, subject, or place to another."

-Webster's Dictionary

A business can transition from one owner to another, to a group, or simply close the doors. The choices made create either a new beginning or the end of one's dreams.

FOR ALL OF THE BUSINESS TRANSITION DIAGRAMS, THE ARROWS CAN HAPPEN SIMULTANEOUSLY AND CAN GO IN ANY TIME ORDER. THE DIAGRAMS VISUALLY DEPICT WHAT IS HAPPENING WHEN SOMEONE SELLS OR TRANSFERS A BUSINESS TO ANOTHER PERSON OR GROUP.

THERE ARE EXCEPTIONS AND SCENARIOS NOT SHOWN IN THESE BRIEF DIAGRAMS. WORKING WITH YOUR ATTORNEY DURING THIS PROCESS IS RECOMMENDED.



Transition through a Private Sale

MANY NECESSARY DECISIONS

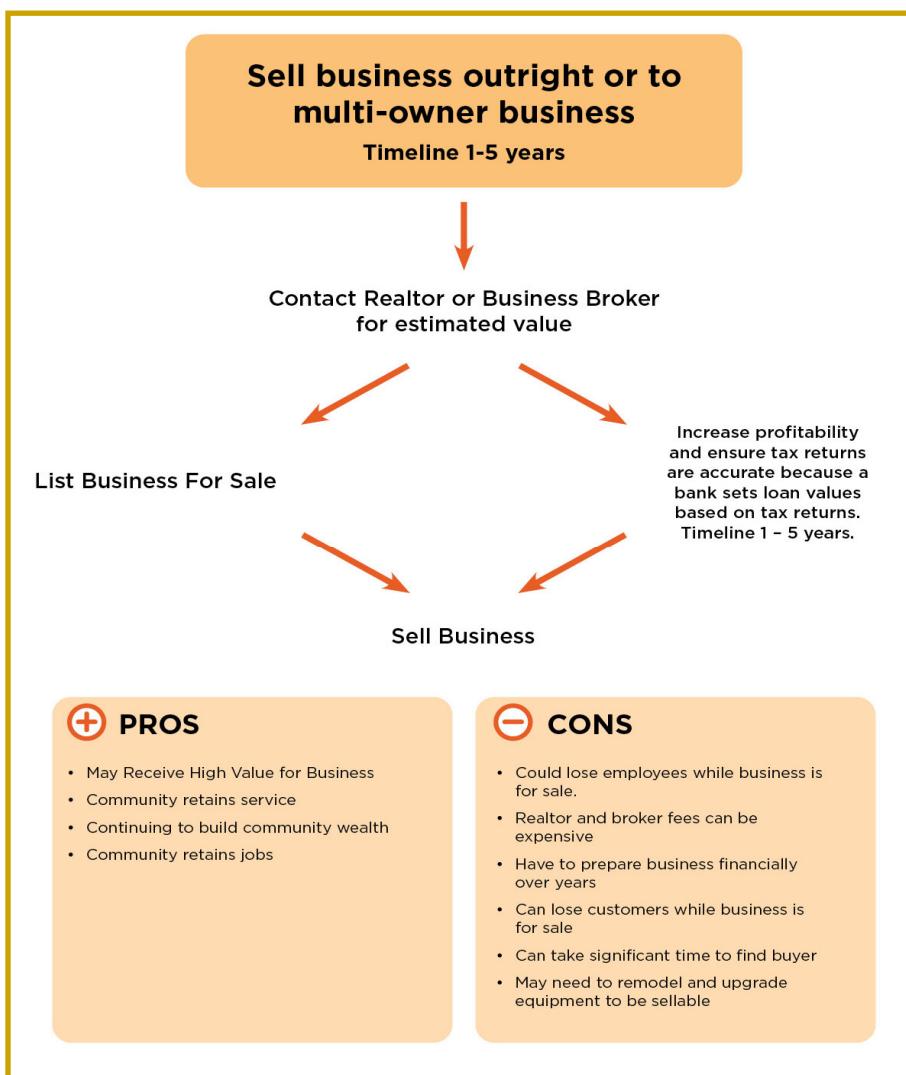
This diagram shows you some of the decisions that need to be made when a business owner decides to sell a business. The business owner can contact a realtor or business broker for an estimated value and then they list the business for sale and sell the business. Even this simple sounding process can take more than a year to complete. At the minimum, the seller should plan for at least three months for a buyer to create their business plan and secure funding. This diagram shows the simplest way to transfer a business and have it continue operating.

TIME

“An appointed, fixed, or customary moment or hour for something to happen, begin, or end.”

-Webster’s Dictionary

Business transitions happen over time. The transition could be as short as a few months, or occur for ten years or more.



PLAN AHEAD—IF THE BUSINESS VALUATION IS TOO LOW, THE OWNER CAN INCREASE THEIR PROFITABILITY OVER SEVERAL YEARS. BANKS SET LOAN VALUES BASED ON ACCURATE TAX RETURNS. WORK WITH YOUR ACCOUNTANT TO ENSURE YOUR PROFIT AND LOSS STATEMENTS MATCH YOUR TAX RETURNS.

Transition through Family/Employee Transfer



POTENTIAL TO LEAVE A LEGACY

A business transition can be accomplished by giving a portion and/or selling the business to a family member. This can also be done with employees. The owner can give or sell a non-controlling portion of the business to a family member or employee and then each year the owner sells or provides a percentage of that business to the family member or employee as part of their compensation package. That helps them grow equity to go to a bank and get a loan for the entire business in the future. During this time, the owner also works with them to increase profitability in the store based on tax returns. This process can take up to five or more years.

SELL

“To give up (property) to another for something of value (such as money).”

-Webster’s Dictionary

To sell or give a business to a family member or an employee requires additional considerations — what does the owner need financially to cover their debts and what does the buyer need to successfully operate their business going forward.

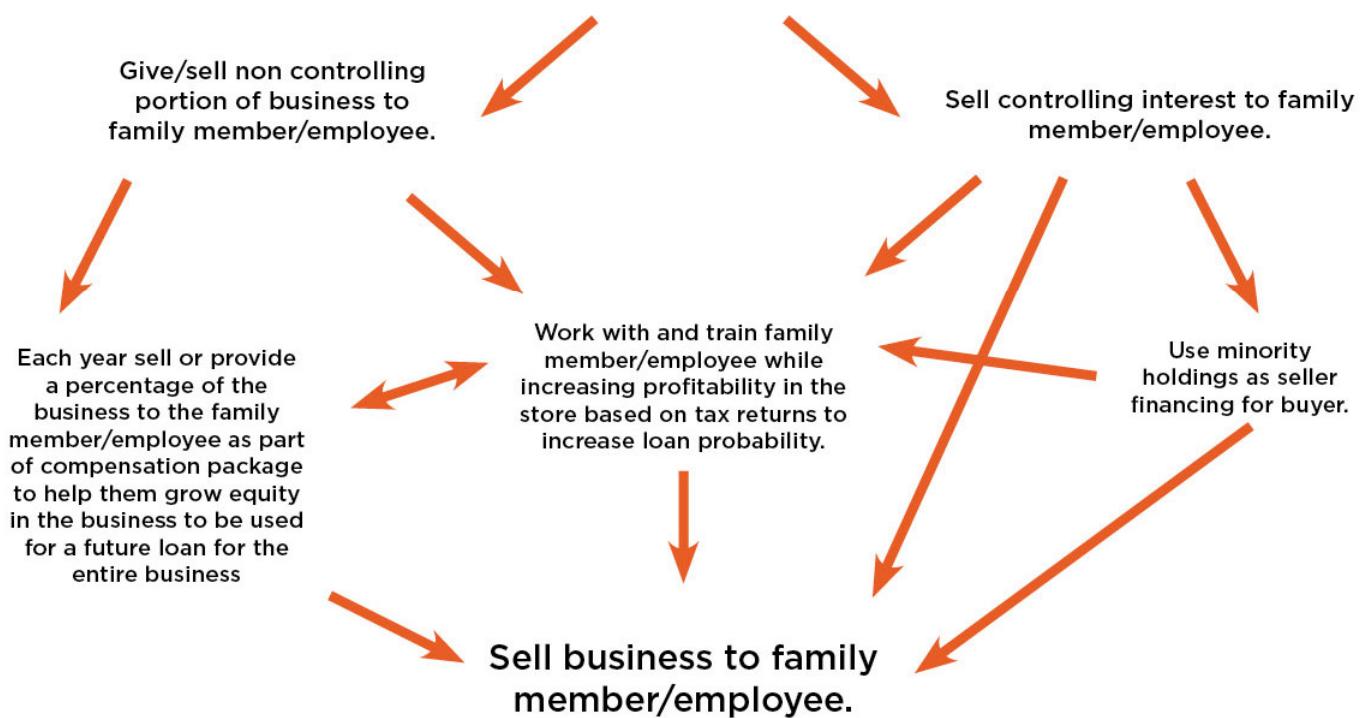
Another option is seller financing. In this scenario, the owner would sell a controlling portion of the business to the buyer and hold back a portion of the business with the new owner making payments to the seller. The bank would usually be in first position on the collateral and the former owner of the business would be in second position. This strengthens the banks position and makes the loan more agreeable to the lender.

In any of these business transition diagrams the arrows you see can happen simultaneously and they can go in any order. These diagrams try to show a visual idea of what is happening when someone sells business to anyone, there are always exceptions and scenarios not shown.

TWO COMMON STRATEGIES FOR TRANSITIONING A BUSINESS TO EMPLOYEES ARE THROUGH EITHER AN EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) OR A WORKER COOPERATIVE. AN ESOP IS NOT A COOPERATIVE BUT IS A TRUST IN WHICH EMPLOYEES RECEIVE SHARES IN THE BUSINESS. THEY ARE NOT DIRECT OWNERS AND THEY MAY OR MAY NOT HAVE VOTING RIGHTS. A WORKER COOPERATIVE IS AN EMPLOYEE-OWNED BUSINESS IN WHICH EACH MEMBER HAS ONE EQUAL VOTE. ONLY WORKERS CAN BE SHAREHOLDERS.

Give/Sell business to family member/employee

Timeline 0-5 years



⊕ PROS

- Community retains service
- Continues Family Legacy, if family member buys.
- Can be a quick transfer, gifting a portion of the business takes longer
- Building community Wealth
- Community Retains Jobs
- Customers have relationship with new owner if current employee buys.

⊖ CONS

- May not receive highest value for business
- Must have interested and skilled family member
- May take some time especially if loans are involved
- May take time if shares need to be given over time
- Non-Employee family members may not be satisfied with their 'piece of the pie'.

Due to the nature of business transitions all decisions and all business transfer types cannot be shown on this chart.

Transition to a Member Owned Cooperative



Elwood Hometown Cooperative Market | Elwood, Nebraska
Photo courtesy of Omaha.com

COOPERATIVE

“An enterprise or organization owned by and operated for the benefit of those using its services.”

-Webster’s Dictionary

Inherent in the word is the one of the primary tenants of a cooperative business — a willingness and ability to work with others.

In a cooperative, members have a share in the decision-making process:
one member—one vote.

SHARED OWNERSHIP, SHARED GOVERNANCE

When a business transitions into a cooperative, the store owner has two options. The store owner can participate as a shareholder, or they can sell the business outright. If they don't participate as a shareholder, the sale is very similar to selling the business through a private sale. When the cooperative entity has enough money and financing to buy the business, they buy the business from the owner. The owner takes the money and goes home. If the store owner is participating in the cooperative as a shareholder, they simply receive shares in the cooperative as part of the purchase contract. They have the same rights and responsibilities as any other shareholder.

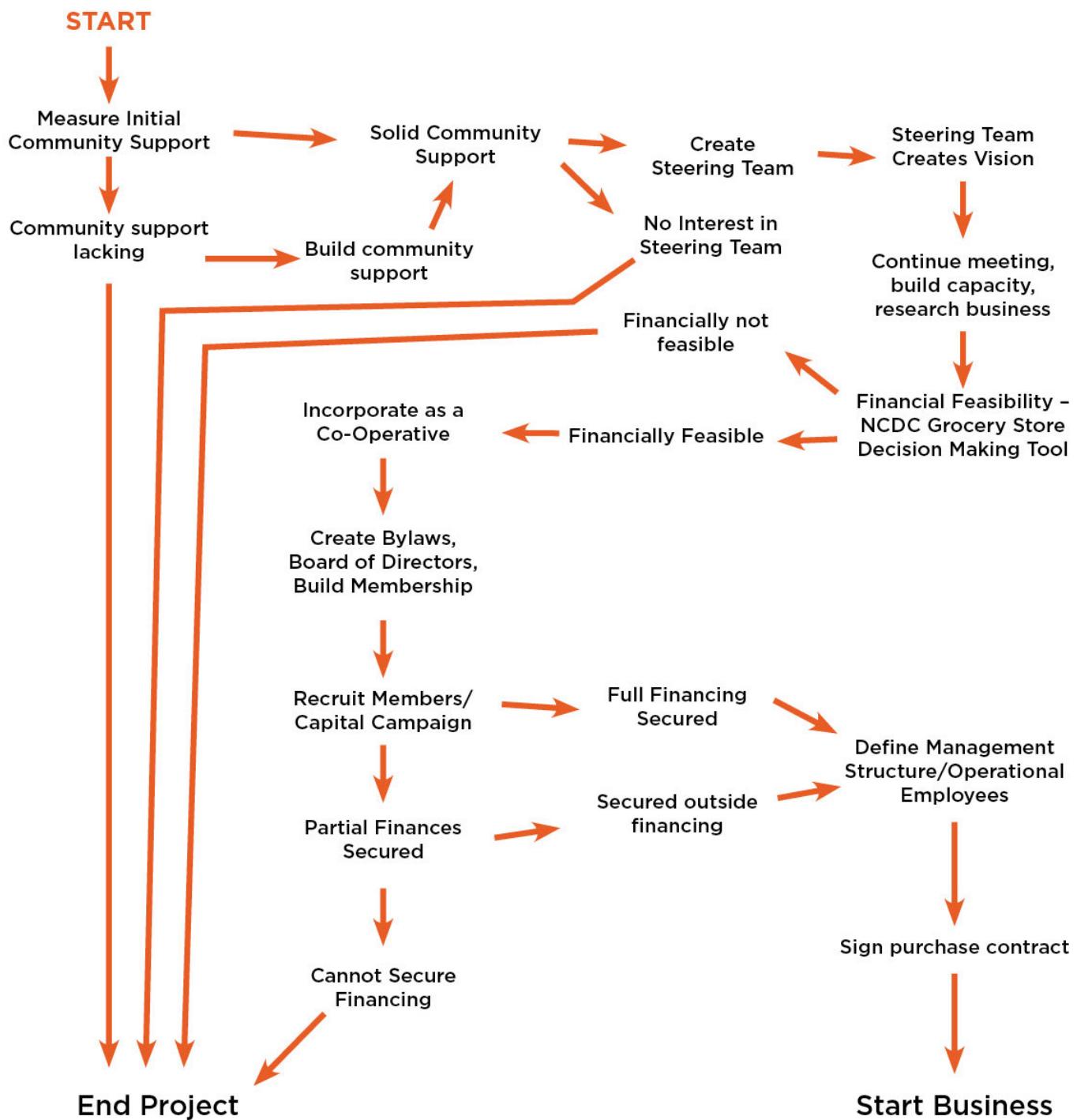
This scenario is different than the other diagrams because it focuses on the formation of the cooperative who is in this case, the buyer. For a cooperative to form there are many steps. When starting a cooperative the initial phase is to gather support for purchasing the business. Initial community support can be measured through meeting attendance and activity. If there is solid community support, a steering team is organized. The steering team creates a vision and purpose for the potential cooperative. This helps to inform and guide community members as they consider purchasing shares in the cooperative. The steering team researches the business and conducts a financial feasibility study. The steering team continues to build community capacity toward mutual ownership, setting initial guidelines and organizing the capital campaign.

When the steering committee has determined sufficient financing and community support is available, they incorporate as a cooperative. During this phase, the committee writes corporate bylaws, secures a board of directors, and begins building membership. After they start recruiting members and can begin the capital campaign. Once full financing is secured, they can define a management structure and find operational employees. The Board of Directors could then sign a purchase contract and purchase the business. Some of these steps all occur at the same time, for example, the Board is securing financing and at the same time, defining the management structure or perhaps they are building the steering team while still hosting public meetings. The diagram shows the decisions and the flow of these decisions.

Co-Operative

Store Owner can participate as shareholder.

If owner does not participate, sale is similar to selling the business outright.



Due to the nature of business transitions all decisions and all business transfer types cannot be shown on this chart.

Transition to a Member Owned Cooperative

TESTING THE FEASIBILITY

PROS

- Board is usually customers
- Smaller Investment
- Increased Community Support
- Community Retains Service
- Can receive value for business
- Can choose to donate and/or still be involved
- Can continue to build community wealth
- Retains community jobs
- Pass-through for tax purposes.

CONS

- More individual shareholders
- Can be complicated building support and financing
- Can take a long time to complete process

What happens if the Board is unable to secure financing? The project ends. There are a couple other spots where the project could end. For example, if the financial feasibility study shows that no matter what decisions are made, even with volunteer workers, the project is still not financially feasible--end the project. What if there is solid community support, but no one is interested in serving on the steering team? if nobody wants to put their time in on the steering team then the project should end. Again, when the steering team organizes a hot dog feed to determine if there is interest in a cooperative grocery store and begin to build community support but no one shows up, maybe that is an indication that the project should end.

There are a lot of decisions to be made when building a cooperative and it can be a complicated process. The Nebraska Cooperative Development Center have resource and specialists to help guide your community through the process.

THE NEBRASKA COOPERATIVE DEVELOPMENT CENTER (NCDC.UNL.EDU) HAS TOOLS AVAILABLE TO ANALYZE THE FINANCIAL FEASIBILITY OF THE COOPERATIVELY OWNED GROCERY STORE BUSINESS.

THE GROCERY STORE DECISION TOOL IS A FINANCIAL SPREADSHEET THAT CAN BE USED TO DETERMINE FEASIBILITY OF DIFFERENT FINANCING OPTIONS SUCH AS SHARE AND PRODUCT PRICING, OPERATIONAL COSTS AND INCOME GENERATION.

Transition to a Nonprofit

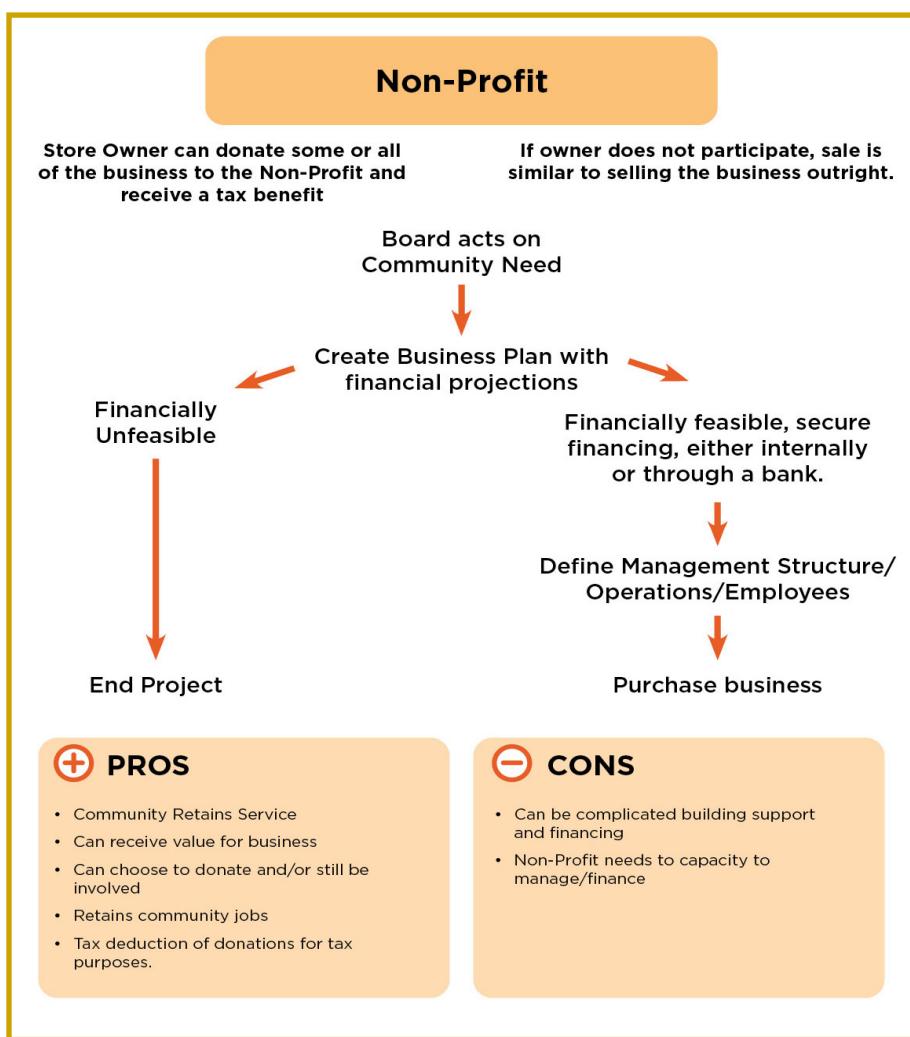
BUSINESS DONATION AS AN OPTION

An existing nonprofit entity wants to buy the business. The owner can donate some or all of the business to the nonprofit and receive a tax benefit. The nonprofit can then purchase the rest of the business from the owner. If an owner does not participate in the sale through donation, the sale is just like a private sale (see page 3). The owner sets the price and accepts an offer.

On the nonprofit buyer's side, the board sees a community need and acts on that need. They develop a business plan, with financial projections, or conduct a feasibility study. If the business is financially unfeasible, they could end the project or find donations to fund continuing operations of the business. If feasible, the nonprofit secures financing either internally or through a third party. The non-profit defines their management structure, operations, employees etc. and purchases the business.



Circle C Market | Cody, Nebraska—a school-based grocery store
Photo courtesy of www.theshelbyreport.com



NONPROFIT

"A nonprofit business is exempt from taxes and does not financially benefit its shareholders."

-Study.com

However, to stay in business, all businesses must make some profit to cover expenses. Unlike a for profit business, nonprofits must retain earnings and use these earnings for its own expenses, operations and programs.

Transition to Another Business Entity



DJ & Lindy Schmidt | Peru, Nebraska—added to their business holdings by purchasing Peru grocery store
Photo courtesy of 316strategygroup.com

CORPORATION

“A body formed and authorized by law to act as a single person although constituted by one or more persons and legally endowed with various rights and duties including the capacity of succession.”

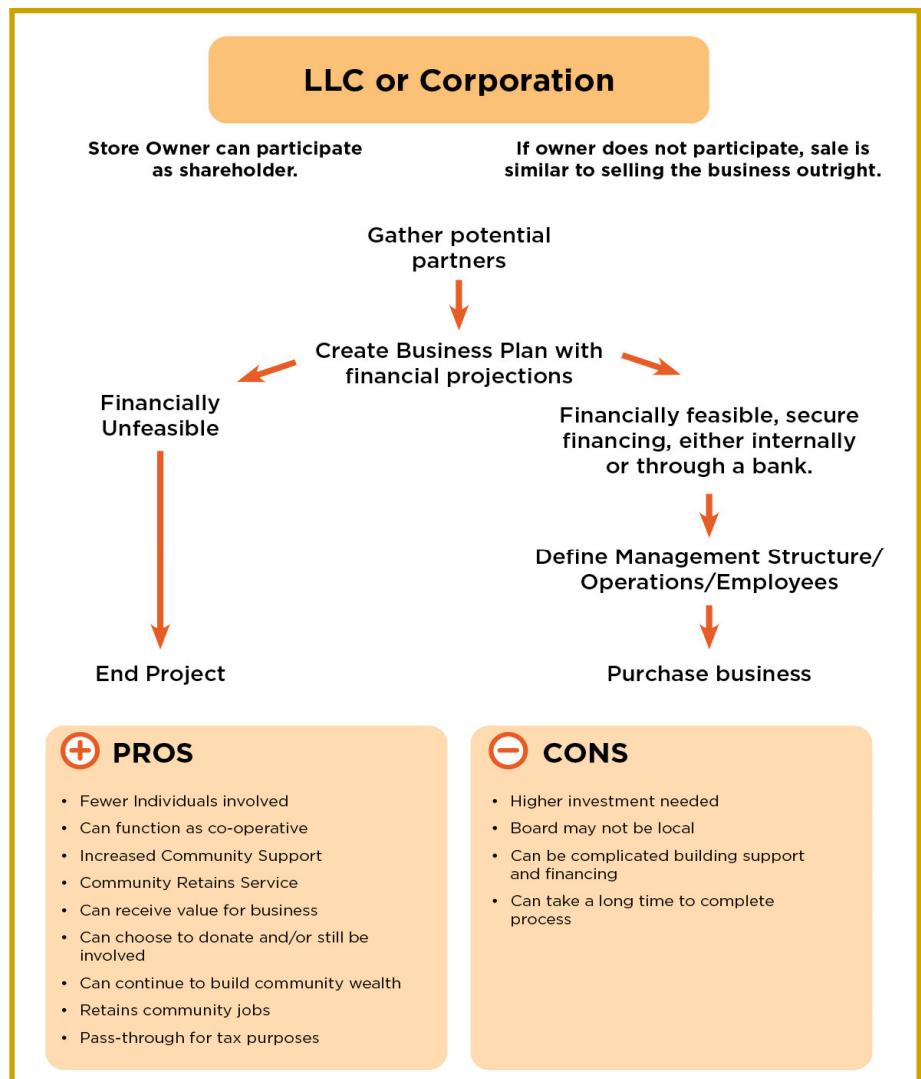
-Webster’s Dictionary

INDIVIDUALS CONSIDERING A CORPORATION SHOULD WORK WITH AN ATTORNEY OR ACCOUNTANT TO DETERMINE THE CORPORATION STRUCTURE THAT BEST FITS THE BUSINESS SITUATION.

BUSINESS TO BUSINESS TRANSFER

The last scenario covers the transition if the entity that wants to purchase a business is an LLC or corporation. The store owner could participate as a shareholder and continue to be involved in the store if that is an option. If the owner does not want to participate, then the owner is selling the business outright to the other entity just like if it is sold to an individual.

If the LLC or corporation does not yet exist then there are steps that will be needed to gather potential partners and create the LLC, etc. Like other business transitions the buyer would create a business plan with their projections, and if it is financially unfeasible then end the project. If it is financially feasible secure financing either internally or through a bank, and proceed to define the management structure, the operations, and employees. Finally, purchase the business.



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Ken's Market | Coleridge, Nebraska—re-opened with funds from community investors

Photo courtesy of siouxcityjournal.com



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