

Rural Grocery Succession Planning



BUSINESS VALUATION 101

Thursday, February 17, 2022

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Foundation*



Housekeeping

- This session is being recorded.
- A recording of today's webinar will be available at www.ruralgrocery.org.
- We will leave time at the end of the webinar for Q&A.
- Please use the Q&A feature to post your questions to our presenters.

Rural Grocery Succession Planning



BUSINESS VALUATION 101

Thursday, February 17, 2022 at 1:30 PM



Rick Feltenberger
Regional Director of the Fort Hays
State University Kansas SBDC &
Certified Exit Planning Advisor



Rick Weigel
Owner of Wilson Foods in
Wilson, KS



Stacie Schmidt
Executive Director of
Ellsworth County Economic
Development



CEPA

Certified Exit Planning Advisor

Business Valuation

What, Why, Who



The Presenter

- **Rick Feltenberger**
 - Founder & Managing Director of ForwardFocus
 - Regional Director Kansas SBDC
 - Certified Exit Planning Advisor
 - Accredited Business Intermediary
 - Former Serial Entrepreneur
 - Former Business Executive

Disclaimer

Certified Exit Planning Advisor



**Non-Attribution & not policy of the Kansas SBDC,
the US Small Business Administration, State of
Kansas**



**Not providing Tax, Estate, Legal, Real Estate,
Accounting, or Financial advice**

Disclaimer



General Concepts that can be applied to specific situations



Your results could be different



Identify **WHAT**, not **HOW**



Agenda

- **What**
- **Why**
- **Who**
- **Types**
- **Cost**

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Key Takeaways

- Business Valuations deal with the Economic Value of a business
- Valuations are Estimates
- Valuations are primarily influenced by
 - Who performs it
 - Why they performed it
- “Worth” and Value are not the same thing
- Cost of a Valuation
 - Pay what you need, but not more.

What...is a *Business Valuation*

- It is a Process
- Indicators of Value
- A thorough look at the financials & the business.



Why...might someone need it

- **Litigation**

- **Strategic Planning**

- **Tax and Financial Planning**

- **Buy or Sell a Business**

- **Financing Transactions**

Who...*could help*

- “Internal Revenue Service”
- Certified Public Accounting Firms
- Professional Valuation Firms
- Other Professionals

Business Valuation Approaches

- Rules of Thumb Value
- Calculated Value
- Conclusion of Value



Types

Most Common Valuation Need

Sale of a Business

Between

Owner/Operators

Nice to Know: Methods

WHAT ARE THE THREE COMMON METHODS OF COMPANY VALUATION



Asset-Based Approach



Earning Approach



Market Value Approach

— EQVISTA

What Will You Need



- Tax Returns
- Financial Statements
- Details behind the financials
 - Employees & wages
 - One-time expenses
 - Personal Expenses in the business

What Does it Cost

Certified Exit Planning Advisor

Depending on the scope of the valuation, a business valuation can cost anywhere from \$7,000 to more than \$20,000. – Mariner Wealth Advisors

Traditionally, the cost to perform a professional business valuation can range from \$3,000 to \$30,000+. | – INNP Valuation & Forensics

“...the cost of compiling a business valuation report for your business or business assets depends on both the individual business and the business situation or reason for seeking the appraisal.” -- The Valentiam Group



Summary

- **Decide**
- **Look for a competent professional**
- **Compare, but don't "shop"**



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Wilson Foods

A Case Study in Rural Grocery Succession



The Community

Ellsworth County
Wilson, Kansas

Population Demographics

Reliance on grocery for tax base and access to foods

Rick's grocery experience and the history of Wilson Foods in the community

The Challenges

Ellsworth County
Wilson, Kansas

Chronic Illness

Triple Net Lease Agreement

Nothing to collateralize

High risk

Identifying valuation was KEY to presenting a plan for financing



The Solutions

Ellsworth County
Wilson, Kansas

Partnerships- Building your team of experts

Income/Expenses equal importance

Creating something of value for succession

Patience and Tenacity



How Wilson is Different

Ellsworth County
Wilson, Kansas

Profit Margins

Family values

Community and partner support

A blue-tinted photograph of a supermarket aisle. The perspective is from a shopping cart, looking down the aisle. The shelves are filled with various products, and the floor is tiled. The text is overlaid in white, outlined font.

\$340,000

ACQUISITION AND
RENOVATION



Before



After



THE RURAL GROCERY STORE THAT COULD

AND DID...

OVERCOMING THE ODDS

PARTNERS IN THE FIELD

THE HEART OF A FAMILY

How Wilson, Kansas, population 859, is sustaining their grocery store into the future leaning on family support and community partnerships

BY STACIE SCHMIDT
EXECUTIVE DIRECTOR
ELLSWORTH COUNTY ECONOMIC DEVELOPMENT

THE WEIGEL FAMILY



“ Wilson Foods has a huge economic impact on Wilson. Wilson also has a significant number of older residents and having a well run and well stocked grocery store on main street is a tremendous service to our community.

MikePeschka, Mayor

”

Building a community's sustainability means keeping the local grocery store open. With challenges in competing with big box, dwindling population, and limited access to suppliers, this is no easy challenge, but the Weigel family is here to prove that a challenge turned upside down becomes opportunity for their rural grocery store in Wilson, Kansas.

It started with a 'For Sale' sign in the window of this little store on September 18, 2018. That wasn't just any day. It was owner Rick Weigel's birthday, and he was facing a personal decision following a chronic illness and an unknown future. The store was suffering from his illness too, with dwindling inventory, Rick's inability to manage the specialty meat counter which Wilson Foods was known for, and employee morale at an all-time low. The sign in the window was a desperate act by Rick and his family who knew that this would be a tremendous loss to the community, but who also knew family comes first, and personal well-being trumps everything. Rick was facing an upcoming appointment at Mayo Clinic, and looking for answers for his personal health challenges. Understandably, the store was taking a back seat.

The community scrambled, and Ellsworth County Economic Development (ECED) was called for resource assistance and to help secure a new buyer, bridge the financial gap, and to identify ways to improve efficiency and cash flow. All hands were on deck. Key resource partners are listed below.

- Resource Partners*
- KANSAS HEALTHY FOODS INITIATIVE (KHFI)
 - KANSAS RURAL GROCERY INITIATIVE
 - IFF
 - SMALL BUSINESS DEVELOPMENT CENTER(SBDC)
 - NETWORK KANSAS
 - K-STATE ENERGY AUDIT PROGRAM & REAP ASSISTANCE
 - ELLSWORTH COUNTY ECONOMIC DEVELOPMENT

Financial Impacts

- Every household in Wilson spends an additional \$1.5 million at Wilson Foods, with an additional \$192,600 annually
- Wilson Foods accounts for approximately 10% of the tax base for collector and distributed back to the City of Wilson
- Wilson Foods is a major employer and tax payer support to community development efforts
- Wilson Foods pays sales tax and property tax, reducing the tax burden on the tax payers
- Investment groups serve as a critical resource for local entrepreneurs

Timeline

- 11/19/21 LOAN/GRANT CLOSING
- 8/21-11/21 WORK WITH IFF TO SECURE FUNDING
- 7/21 KHFI APPLICATION #2 SUBMITTED WITH VETTED FINANCIALS
- 4/21-7/21 MENTORSHIP MEETINGS WITH COACHES
- 4/21 GROCERY BUSINESS MENTORSHIP PROGRAM BEGINS
- 2/20 AUDIT REPORT COMPLETED
- 2/18-4/20 KHFI INTAKE/ ENERGY AUDIT INTAKE
- 1/19 WILSON COMMUNITY MEETING TO SUPPORT STORE
- 11/18 GAP FUNDING FOR INVENTORY
- 9/18/18 FOR SALE

Meanwhile, Rick's son Nathan stepped up and took a more active position in the store, righting the inventory with assistance from a gap funding loan from ECED, and improving the store's general appearance and morale. His spirit was contagious.

An application to Kansas Healthy Foods Initiative was successful, with Wilson meeting the qualifications for the program; however, ONE BIG challenge was identified for any new purchaser- there was nothing to sell other than sweat equity and blue sky. Blue sky is often difficult to define, and cannot be collateralized. Therefore, the store was held hostage by a triple net lease agreement and a new purchaser would not have anything to collateralize to secure a loan. The building, while cosmetically improving, was battling a leaky roof and structural integrity concerns. The hands on deck needed to get creative, and fast.

In swoops another resource partner to the rescue, the Grocery Business Transition Mentorship, with pairs rural businesses with dedicated coaching to create a succession plan, vet financial viability, and prepare for loan packaging. Through this program Rick was paired with coach Rick Feltenberger of the Small Business Development Center (SBDC), and local resource partner ECED. The dedicated resources through this program made the next application through the Kansas Healthy Food Initiative more appealing, and more sustainable. Through this process, a solution to creating sustainability was created, including the building acquisition to eliminate the triple net lease, and make improvements to the building which would appeal to a prospective buyer and increase sales and market radius. Efficiencies and energy improvements would also increase the profitability.

IFF proved to be the final piece to the puzzle to secure the loan/grant package. IFF is a mission-driven lender, developer, and consultant that helps communities thrive. Across the Midwest, IFF is driven to help communities thrive and prosper. The vetting process was finalized through IFF and loan closed on 11/19/21. Another chapter of progress was written.

The timeline shown to the left leaves out a lot of things. It leaves out the sleepless nights, the many conversations, the ideas jotted on paper, and above all, the courage of a family to triumph over illness, to find a way to succeed, and to contribute to the community. It also leaves out the fabric of a community that comes together to find ALL resources, and to champion the cause. We can't wait to read the next few chapters of this story.

These are the stories that make lasting impact. When we can weave together a community challenge, add resources and a healthy dose of stubborn tenacity, together we can solve those BIG issues that sustain our communities.

-Stacie Schmidt

Definitions

- BLUE SKY: GOOD WILL OR THE POTENTIAL OF A BUSINESS TO MAKE MONEY
- COLLATERAL: AN ASSET THAT A LENDER ACCEPTS AS SECURITY FOR A LOAN
- LEASE AGREEMENT ON A PROPERTY: AGREES TO THE TENANT OR LESSEE
- TRIPLE NET LEASE: BUSINESS TO PAY ALL THE EXPENSES OF THE PROPERTY

A blue-tinted photograph of a grocery store aisle. The perspective is from the front of a shopping cart, looking down a long aisle lined with shelves of various grocery items. The floor is tiled. The text is overlaid in white, centered in the aisle.

PARTNERSHIPS:
KANSAS HEALTHY FOODS INITIATIVE
KANSAS RURAL GROCERY INITIATIVE
IFF (MISSION DRIVEN CDFI)
KANSAS SMALL BUSINESS DEVELOPMENT CENTER
NETWORK KANSAS
K- STATE ENERGY AUDIT AND REAP ASSISTANCE

Questions

NATIONAL RURAL GROCERY SUMMIT

June 20-21, 2022
Wichita, KS

Find more details at
www.ruralgrocery.org

K-STATE
Research and Extension

Rural Grocery Initiative

Registration
OPEN!

Survey

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Coming up:

FINDING A SUCCESSOR

Thursday, March 17, 2022