



# Rural Business Ownership Transitions Study:

## FINDINGS FROM SURVEYS AND INTERVIEWS WITH NEW BUSINESS OWNERS

### INTRODUCTION

Small businesses are the lifeblood of rural communities. They contribute to local governments' fiscal health and are responsible for 64% of new private-sector jobs throughout the country. The U.S Census Bureau estimated in 2012 that approximately 67% of current small business owners were born before 1967, leading to a "silver tsunami" of baby boomer business owners approaching retirement age.

Previous studies only focused on barriers to business succession at the firm level. This study provides rural stakeholders with research about what contributes to the success of new rural business owners. It also considers community actions that can support successful business transition.

### ABOUT THE STUDY

There are 690 rural Minnesota cities with a population of 7,500 or less located outside the Minneapolis - St Paul 7-county metropolitan area. A private firm, Infogroup, identified businesses from these cities that transitioned to new owners between 2008 and 2012. Excluded from the study were production agriculture farms, medical provider offices (doctors, dentists, etc.) and grocery stores. Farms were excluded because [educational programs on farm transition exist](#); medical providers were excluded

because of certification to practice; and grocery stores were excluded because the Regional Sustainable Development Partnership at the University recently completed [a study of rural grocery stores](#). The 2008-2012 timeframe was selected because: 1) business closures generally occur in the first three years under new ownership; and 2) to assure that the Great Recession (2007-2009) was not a most significant factor in business struggles.

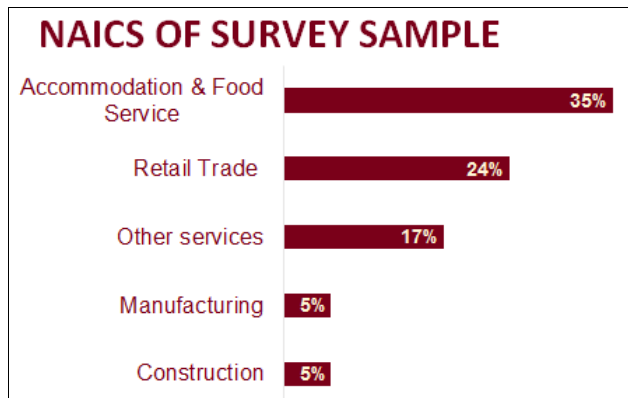
A total of 358 businesses received a \$2 incentive in a survey that was mailed in April of 2016, with 176 businesses responding. After screening survey recipients that didn't meet study criteria, the number of businesses included in the analysis was reduced to 118.

Seven phone interviews with business owners were conducted in May of 2016. Interviewees were selected to represent each [Minnesota Initiative Foundation](#) region (to ensure geographic diversity) and a variety of business types.

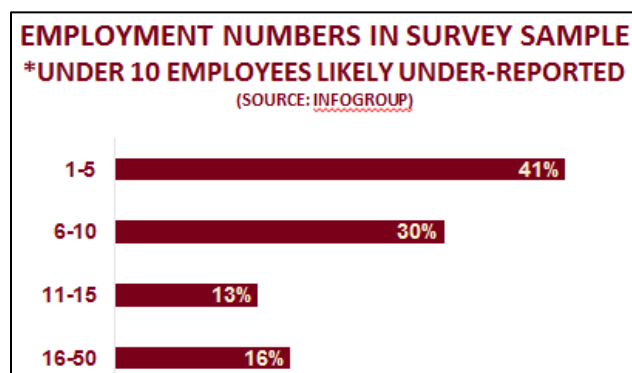
Initial findings were presented to the study's advisory committee to solicit feedback and calibrate interview themes with their expertise.

## DESCRIPTION OF INDUSTRIES SURVEYED

The chart below shows the sample of industries represented in the survey by NAICS code, as well as a summary of employment in the businesses represented.



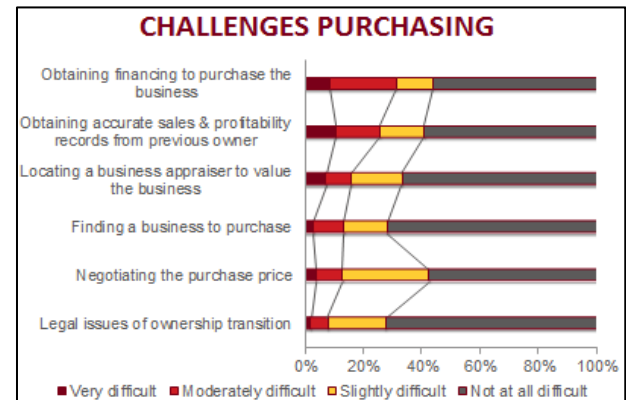
(In addition, *Wholesale Trade* businesses and *Professional, Scientific and Technical Services* were each 3% of the sample. Information and Administrative and Waste Management industries were each 1% of the sample.)



## PURCHASING CHALLENGES

Some respondents reported challenges in buying and operating rural businesses. Financing was the top issue, with 33% finding this very or moderately difficult. Interviews with business owners also confirmed that financing is a significant challenge to business succession. This is especially true for the initial funding, since a large cash amount (20%) is typically required. New business owners were forced to be creative, often relying on financing support from the previous owner through a contract for deed.

The second most challenging issue was obtaining accurate sales and profitability records from previous owners, with 25% rating this very or moderately difficult. No other issue was significant.



## OPERATING CHALLENGES

Operating issues were, overall, more challenging for owners than purchasing the business, as noted in the chart below. Advisory committee members noted, however, that owners may not remember all of the challenges of the past (purchasing) when dealing with the current operating challenges.

Employee issues ranked at the top of the operating issues, with 34% of businesses identifying it as very or moderately challenging. One owner noted:

*“It is a constant struggle to find employees that are invested in their profession and community.”*

The advisory committee confirmed this is a statewide concern of all businesses.

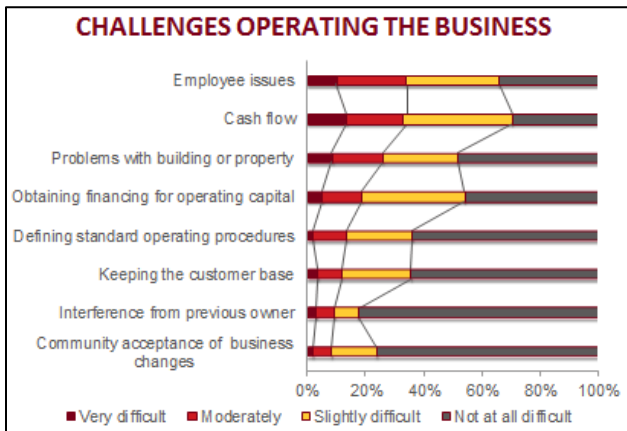
Cash flow was a close second, with 33% of businesses ranking it as very or moderately challenging. This can be seen as more significant because a higher percentage of respondents thought it was *very* difficult (13%). Obtaining financing for operating capital was a concern for 19% of respondents.

Interviews with business owners noted funding is available if the business is sound, but it can take time to find resources, and resources may not be available in small towns.

Problems with the building or property were the third ranked problem at 26%. Advisory committee members noted business owners nearing retirement delay building repairs or improvements to keep their building assessments down for their property taxes. One new owner noted:

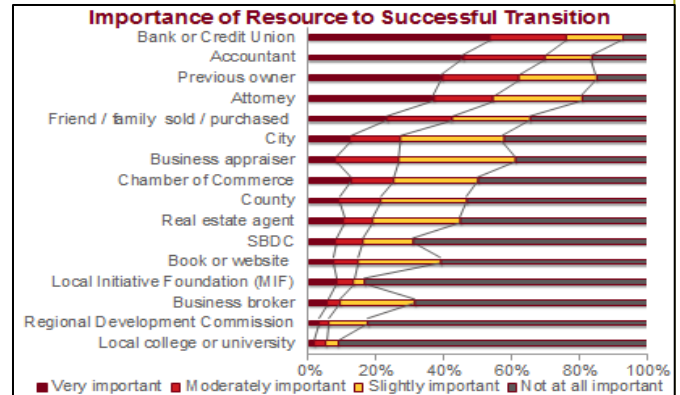
*(A challenge was the) “Cost of building repairs and maintaining up to date equipment along with paying competitive wages. The reality of what you can charge a rural community has an impact on how slow or fast you grow.”*

No other challenges significantly bothered more than 20% of new owners.



### WHO HELPED BUYERS SUCCEED?

Businesses that successfully transitioned to new owners tapped a number of resources. In this survey, respondents identified an average of 2.3 resources that were very important to address their issue(s). When moderately important ratings were added to very important ratings, the average increased to 3.8 resources.



Banks or credit unions were overwhelmingly the most important resource, with 75% of business owners identifying them as very or moderately important. However, the survey uncovered several challenges with banks:

*“Small Minnesota towns are not being served. Banks and credit unions and other potential funders and experts refuse to serve small towns. All they want are the million and billion dollar projects.”*

*“Not receiving a large enough loan and unable to anticipate the growth.”*

*“Banks would not look at us or not give an answer after our presentation.”*

*“We are trying to sell now and it is difficult for prospective buyers to find help with finances.”*

*(You have to) “Work with a financial institution in the area -- especially resorts. The Twin City banks haven’t a clue about resorting.”*

There were also success stories of buyers who got financing from:

*“An angel investor who wanted to keep this business local.”*

*“A bank who asked ‘How can I help? What can I do to make this happen?’”*

Accountants (70%), the previous owner (61%), and attorneys (54%) were very or moderately important to more than half the businesses. Buyers also valued help from family members

or friends who had business experience, with 59% of the sample identifying such a resource. Government support was less important to buyers, with city government identified as very or moderately important to 27% of business owners and county government as very or moderately important to 21%. The advisory committee was not surprised by this rating as the businesses' involvement with a jurisdiction is usually related to regulation or taxation, which businesses rarely considered helpful. Some respondents noted that small towns are overlooked by government resources.

*“Nothing like this serves my area. They REFUSE to travel to my small community to assist.”*

### WHAT HELPS NEW OWNERS?

Successful business owners who were interviewed each had a business plan or goals in place. The owner may have created the plan from prior business experience or leveraged knowledge from a mentor(s). The owners noted that financial skills are particularly important:

*“I have seen four restaurants close within 25 mile radius because of lack of education and knowledge on how to run this type of business and lack of buyer.”*

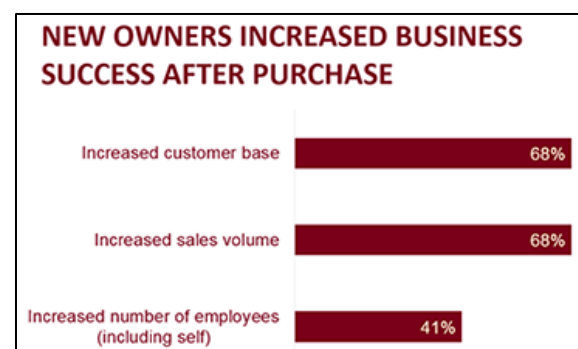
New owners received technical assistance from previous employees, suppliers, and the previous owner. All owners interviewed said they wanted mentors. Previous owners could provide valuable mentoring, though this can be tricky in small towns where confidentiality and public perception is very important.

Owners were unaware of many resources that currently exist, perhaps because they are not well marketed or difficult to access. Several owners suggested there should be a place for someone to go and say, “I’m thinking about buying a business. Who can help me?” and then be linked to resources.

Effective use of community resources depended on business owners' connectedness, as well as the business location since resource availability varies throughout the state.

### MEASURING SUCCESS

The businesses identified for this survey were successful. When asked about changes to the bottom line since they became owners, 68% indicated they had increased sales volume and 68% increased their customer base. This led to a 41% increase in employment, assuring that successful retention of valued businesses can grow local economies.



#### About the authors:

Liz Templin is an Extension Educator for Community Economics with the University of Minnesota Extension.

Scott Chazdon, Ph.D., is an Evaluation Specialist with the UMN Extension Center for Community Vitality.

Felipe Dyna Barroso and Lilian Osborn were Graduate Students with the University of Minnesota.

Glenn Muske, Ph.D., is a Rural and Agribusiness Enterprise Development Specialist with the North Dakota State University Extension Service.

Wil Craig, Ph.D., is a Professor Emeritus at the University of Minnesota.

David Procter, Ph.D., is the Director of the Center for Engagement and Community Development at Kansas State University.