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Rural Minnesota Business Succession and Sale: Barriers and Opportunities

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Introduction: The Nature of the Problem

Minnesota is facing a threat to the economic and social life of rural areas. Succession planning for businesses, including small rural businesses, is a crucial part of the business's life cycle. The sale of a business often caps decades of work, but while the deal may be small by corporate standards, the impact and stakes are enormous for the seller and buyer (Stambaugh & Yu, 2021, p. 88), and the continuity of a community's businesses impacts its entire ecosystem of stakeholders: not just the business owner, but also "employees, vendors, customers, charities, and the surrounding communities, for whom the owner provides jobs and social well-being" (The Exit Planning Institute, State of Owner Readiness Report – Minnesota, 2023, p. 3).

And yet, only 30% of all business sales close on the first try, meaning that 70% fail the first time around (Exit Planning Institute, State of Owner Readiness Report – Minnesota, 2023, p. 12). This may pose a huge problem for Minnesota, which boasts over 525,000 businesses (U.S. Small Business Administration Office of Advocacy, 2023, p. 1). Due to the "silver tsunami" of retiring Baby Boomers, over 52,000 of the businesses they own are predicted to change hands or dissolve in the next five to ten years (MNCEO webpage). Add to that an aging workforce where more people are leaving the workforce than entering it (MN Chamber of Commerce, 2024, p. 4), and these statistics foreshadow important impacts on the wellbeing of businesses, people, the economy, and communities of Minnesota. Thus, while any age is a relevant age to begin considering succession, sale, and transfer plans, it's especially important as the owner approaches the traditional retirement age of 65.

For many business owners, the sale of their businesses when they choose to or need to leave will be the defining financial moment of their careers (Stambaugh & Yu, 2021, p. 88). And yet, according to recent research released by the University of Minnesota Extension,

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only 19% of owners have reported working on a written succession or exit plan in the last three years (Darger et al., 2024).

While planning a successful business succession can be challenging for any owner regardless of where they are, owners in rural areas face a lack of access to planning resources that can result in a lack of clarity on the full suite of exit options; a lack of access to advising appropriate for their own unique situation; and a general lack of a systematic approach to the entire process.

Rural Minnesota business owners are concerned about taxes and regulations, an increased cost of doing business, slower growth in the state's GDP in 2024 equating to slowing overall economic growth, a shrinking workforce, and slowing population growth (MN Chamber of Commerce, 2024, p. 5). These day-to-day concerns can make it difficult to focus on the important ownership work their business needs for the long term. But despite these statistics and challenges, rural business owners continue to lead successful companies that serve and support the citizens of Minnesota, and they value their role as community members who provide excellent service and are good neighbors.

Little data has been gathered directly from owners on their business exit experiences, and therefore, this report seeks to explore and discuss the current status of succession planning and sales of privately owned businesses in Greater Minnesota by identifying barriers and facilitators of success. The business community in Greater Minnesota is vibrant, has a critical impact on local economies, and enhances the viability and livability of rural communities. Businesses have multiple options for transition, and yet, business owners still seem to be unable to capitalize on the opportunities available to them to sell or transfer their businesses.

The research demonstrates that there is work to do. The outcomes of business transitions are often unplanned or rushed and therefore may be less than optimal in achieving all goals of the transfer and exit event. Considering this is often the largest transaction in the owner's personal, professional, and financial life, and that the transition carries implications for the community, region, and state both socially and economically, it is critical to maximize the moment.

The process and resources needed for succession and exit are fragmented and can be difficult to access for rural businesses. But by identifying the challenges and barriers to successful succession planning, this report will help business owners better understand the importance of succession planning for their businesses and how they can access assistance.

Literature Review

To fully explore the impact of business succession, sale, and transfer in rural Minnesota and understand the barriers, one must understand the importance of businesses in rural regions. Businesses provide a basis for the tax income of a city, county, and region. Local families find meaningful jobs within their community and build civic connections in rural areas. The systems that create a community ecosystem, including the government, health care, housing, and the school system, are all bolstered by the property taxes and livable wages provided by rural Minnesota businesses. Additionally, local businesses invest back into the communities where they are located and where their employees live. This giving back fosters the connections that create great places to live, work, and call home, attracting young people to commit to rural communities. Therefore, the growth and continuation of business in rural areas contribute to the economic and civic ecosystem.

What does a small business mean to Greater Minnesota?

Small business in rural Minnesota is the lifeblood of a rural community (Templin et al., 2017, p. 282), providing the goods and services that sustain community members. Businesses in rural areas are also necessary to sustain the community beyond farming (Pett et al., 2021, p. 52). Many of Minnesota's rural communities originated to serve farming families, but like farm families, rural business owners typically live in the community they operate their business in, relying on and thriving with their neighbors. Their interdependence is evident in the economic, civic, and philanthropic life of the community (Templin et al., 2017, p. 282).

Approximately 90% of small businesses in the United States are family-owned (United States Census Bureau), while a study by the Exit Planning Institute indicated that a similar percentage of Minnesota small businesses (~ 89%) are also family-owned or family-controlled (Exit Planning Institute, State of Ownership Readiness Report – Minnesota, p. 10).

Where did these small businesses come from? Rural business start-ups are often based on necessity entrepreneurship (Yu & Artz, 2021, p. 648) and can be considered lifestyle businesses (Lamb & Sherman, 2010, p. 10). Necessity entrepreneurship and lifestyle businesses allow an owner to enjoy the rural life without an original goal of pursuing growth past a size that supports the owner's lifestyle.

These businesses hold a deeper meaning to the surrounding community and region as well, however, providing access to goods, services, and importantly, a quality of life for rural communities (Templin et al., 2017, p. 283). The community, built from farming roots and grown through a preferred rural lifestyle, creates a market that keeps rural businesses in operation through a sustained demand for their goods and services (Snow, 2020, p. 55). Therefore, businesses in rural Minnesota are critical to the economic growth of the region, supporting farming families and businesses and enhancing life in rural Minnesota.

Yu & Artz also discuss choosing a rural community as a decision motivated by lifestyle (2021, p. 650). The draw for families selecting a hometown in their 30s and 40s usually revolves around affordable housing, lower crime rates, and lower population densities (Yu & Artz, 2021, p. 650), factors that make rural Minnesota an ideal destination for establishing a home, raising a family, and pursuing a career. Growing up in a rural community is also the most significant predictor of choosing to return to rural following college (Yu & Artz, 2021, p. 650). The connection to one's roots can also produce an advantage of reputation and important connections to relationships and financial opportunities (Yu & Artz, 2021, pp. 650-651), making the selection of a rural community an attractive place to start a business for young rural residents ready to return.

The Center for Rural Policy and Development demonstrated a sudden and modest in-migration to rural Minnesota communities in the years following the COVID pandemic (Center for Rural Policy and Development, *The State of Rural,* 2024). The choices made by these Minnesotans on where to establish their homes reflect their values and dreams for the future. Therefore, it stands to reason that motivated by lifestyle choices available in rural locations, new ways of working, and the re-alignment of values, many young Minnesotans will be able to choose to locate in rural Minnesota. Therefore, maintaining resources and opportunities for these Minnesotans should be a core concern of policy affecting Minnesota's future.

Minnesota businesses often grow and thrive when sold or transferred (Templin et al., 2017, p. 289), which can be attributed to an infusion of new energy, capital, and a fresh perspective from the new owners. Research points to an increased customer base, increased sales volume, and more hiring post-transition or sale (Templin et al., 2017, p. 289). These increases could have dramatic impacts on a rural community. An increase in sales and additional customers could bring more revenue for the owners, job security for employees, a consistent need for surrounding goods and services, and a further improvement in the area's quality of life.

The Coming Wave of Retirements in Greater Minnesota

The current state of business in Minnesota provides a picture of what we can expect in the next decade. According to data from the U.S. Census, Minnesota business owners are 85.7% white and 60% male (Darger et al., 2024). The over 52,000 businesses with owners over the age of 55 in Minnesota employ roughly 600,000 workers, $124B in revenue, and $24B in payroll (Minnesota Center for Employee Ownership, https://www.mnceo.org/the-silver-tsunami). These businesses represent multiple industries including professional services, retail, construction, healthcare, and manufacturing (Minnesota Center for Employee Ownership, https://www.mnceo.org/the-silver-tsunami).

"Most owners have 80-90 percent of their financial wealth locked in their businesses" (The Exit Planning Institute, State of Owner Readiness Report – Minnesota, p. 3). When wealth is locked in the business, it suggests that the cash needed to enjoy a retirement is only available if the business is sold or transferred to new ownership. Therefore, the financial security of Minnesota's business owners rests in the successful and profitable transfer of their businesses.

Exit Options for Business Owners

Owners in transition must make many decisions during exit such as considering all of the options for transition. These options include an inside transition to family or employees, positioning the business for sale, understanding an ESOP, preparing for unplanned events that could force an exit, and ensuring business sales close by passing due diligence of buyers (The Exit Planning Institute, State of Owner Readiness Report – Minnesota, p. 4). Additionally, in preparing for exit, the owner must also consider the ramifications for their personal identity, future financial needs, and daily activities.

A helpful first step in considering succession is to become familiar with all of the options available for transition. More than becoming aware, it is most helpful to become comfortable with the options that could fit each owner and business circumstance. Succession of a leader and transition of ownership can happen in multiple ways depending on the chosen exit option. There is no one right answer for rural owners, but the more options they consider and are familiar with, the more confident they will be selecting and moving through exit. Education and advice from advisors early in the planning stages can help the owner understand and prepare for the option(s) that best fit them.

The more complex the exit event, the more intense and detailed the plans must be. For instance, to set up an Employee Stock Option Plan (ESOP) requires more technical and legal requirements than to list and sell a business with a broker, but it can be an option for a stable company with a strong culture and a business owner who wants to stay committed to a community.

Below is a list of some exit options with brief explanations.

Strategic Buyer: A buyer within the business's current market or industry. A strategic buyer usually means selling to a competitor. Strategic buyers will usually pay more for a business to gain a competitive advantage.

Sell/Transfer to family member(s): Selling or transferring to a family member is usually done through gifting or purchasing of shares of the company over time. This method requires a successor to be selected within the family, prepared for the role, and empowered to be the owner and leader of the business.

Third-Party Buyer: A third-party buyer is not a competitor, a family member, or a former employee, but any person or group not otherwise connected to the organization.

Management Buyout: A management buyout occurs when members of the management team or key employees purchase the business and assume operation as owners.

Sell to existing partner(s): Selling to a partner requires dissolving a partnership and selling one's shares of the business to the partner.

Private Equity: Selling to a private equity firm is selling to a group that views the business as an investment vehicle. The goal is to maximize the value of the current business to the investors. The business is typically re-sold in 5-10 years.

Employee Stock Ownership Plan (ESOP): A business moving into an ESOP gives employees the opportunity to be owners receiving shares of the corporation. The business owner creates an ESOP, which holds ownership and distributes shares to employees over time with a vesting schedule.

Liquidate and sell assets: To liquidate and sell assets means to dissolve the business and gain cash value for any remaining assets. The business will no longer exist.

Barriers in the Literature

Barriers to a business's sale and its leadership succession in rural regions can be found in the academic and popular literature and are our basis for understanding the context of succession and exit. These barriers found in the literature included factors such as workforce availability, buyer availability, the choice to live in a rural area, access to professional services, access to ongoing sophisticated mentoring or support, and confidentiality concerns. Below, we will examine these barriers in closer detail.

Barriers in Terms of Preparedness

One of the key indicators of readiness to transition is having a written plan, yet the literature indicates that businesses are not taking the needed steps to put written exit plans in place.

Recent research published by the University of Minnesota Extension Community Development and Minnesota Department of Employment and Economic Development (DEED) presented an intriguing picture of the state of preparedness of Minnesota businesses. The report, published in 2024, followed up on research conducted in Minnesota in 2017 by then-Extension Director Elizabeth Templin. In 2017, Templin found that few of the businesses surveyed had formal succession plans in place when the decision to retire was made. Owners and advisors in the study noted many barriers, such as the high cost of developing a plan, time constraints, confidentiality concerns, and a lack of awareness of the benefits of such a plan (Templin et al., 2017, p. 287).

Data from the 2024 report by Darger et al. demonstrated that some progress had been made since 2017. But even though 81.7% of respondents were somewhat familiar or familiar with succession planning and 80.9% thought plans were somewhat important or important, only 19% reported working on a written plan in the last three years (Darger et al., 2024).

Darger et al. also determined milestones that indicate when both the business owner and the business are ready for transition: when they had a written plan, a formal valuation, discussions with family, and in the case of inter-family transition, had started training the successor.

We see that only a small portion of Minnesota private business owners in the silver tsunami have worked on this element in the past three years. That leaves 81% of business owners with no plan or a plan that is rapidly becoming outdated and potentially obsolete.

Barriers for Growth and Sale of Rural Businesses

Another set of barriers identified in the literature revolve around not understanding or ignoring more sophisticated levels of managing the business, thereby limiting that business's growth.

The focus on necessity entrepreneurship and the lifestyle nature of many rural businesses can lead to methods of operating that may restrict future opportunities. Most rural entrepreneurs, even with a great product or service, have not thought through their growth strategy and may not understand what's needed to exploit growth potential (Lamb & Sherman, 2010, p. 11). These owners may have goals related only to lifestyle needs and thus have not developed the expertise related to market planning, financial planning, or executive team development that would allow the business to grow its reach, revenue, and profitability in rural areas (Lamb & Sherman, 2010, p. 11).

Just because a business is rural and therefore most likely small doesn't mean the deal won't be complex and challenging, with many decisions impacting success. Stambaugh & Yu noted in their research (2021, p. 89) that most deals involving small firms don't get done, meaning the sale does not come to fruition. Many factors can impact the deal closing, including those that may be influential in any financial transaction. Barriers may include agreeing upon a realistic and firm valuation, the current owners not wanting a business to relocate upon transition, the connectedness of the owner/operator to the core competitive advantage of the business, and general business issues around the lack of a unique selling proposition (Stambaugh & Yu, 2021, p. 94).

Barriers for Succession Education Efforts

Many programs exist in Minnesota to aid businesses in their start-up or early phases, offering access to startup capital, business planning, goal setting, growth advising, loans, and other aids, but these programs offer little in the way of information and education on succession and exit planning. Local economic development professionals, chamber of commerce teams, and Small Business Development Centers exist to bring aid and consulting services to rural business owners; the disconnect occurs around evaluating the needs of a rural business considering transition and exit planning. Succession and sale are critical elements but often second-tier concerns.

The reason may be because economic developers' success is often measured based on recruiting new businesses to a community (Yu & Artz, 2021, p. 647). Research indicated that public officials tend to favor business recruitment programs with major ribbon cutting ceremonies and other easily recognizable signs of positive economic increase (Lamb & Sherman, 2010, p. 11). Government investment in business retention and expansion, however, is inhibited by the length of time it can take to see a tangible payback on an investment in this area of the business lifecycle (Lamb & Sherman, 2010, p. 11), making a policy on retention and expansion, along with programming for it, a less attractive initiative.

Many state and federal programs measure "touches" with clients, meaning the number of clients with whom the program has engaged (Lamb & Sherman, 2010, p. 14). This may effectively disincentivize these programs from engaging in the longer-term, more-intensive services that support high-growth businesses or hurt the quality of service provided (Lamb & Sherman, 2010, p. 14). Thus, measuring success by jobs created or retained and number of businesses assisted may come at the expense of more intensive, sophisticated, and longer-term consulting needs of existing businesses, including those services around succession and exit planning.

Rural areas also need a different type of economic development model (Lamb & Sherman, 2010, p. 16), which can be more complex because rural businesses face a unique set of challenges. Non-farm rural businesses are repeatedly noted in the research literature as complex and thus more challenging to serve than farm-related businesses. The programs for the non-farm rural business present a unique context, and therefore, a general, one-size-fits-all approach will not feel sufficient (Pett et al., 2021, p. 52). Rural businesses face pressures such as large-scale urbanization and a changing competitive marketplace (Pett et al., 2021, p. 1). Higher costs of goods and services, a shortage of available qualified workers, poor internet broadband, competition from big box retailers, and more lead to challenges that uniquely affect the rural business (Pett et al., 2021, p. 1).

Barriers Related to Trust and Confidentiality

In the transaction between rural buyer and seller, a variety of concerns found in the research were categorized as issues of trust. Confidentiality was one. It is particularly difficult for business owners in small communities and closely connected rural regions to pursue some supports, including mentors or advisors, as they find confidentiality a core value that is difficult to maintain (Templin et al., 2017, p. 291). Lamb and Sherman (2010) noted a distrust between the work of the economic development teams and the local politicians and business owners (p. 15). Templin et al. also noted that buyers perceived the current institutions such as county officials, chambers of commerce, and banks to be unhelpful and even a bit untrustworthy (p. 291).

Understanding the perspective of the owner is important in providing resources that can be impactful for transition and succession. Lamb & Sherman (2010, p. 15) found business owners apprehensive and hesitant to use state or federal government forms of support that include loans and other types of financial inputs, expressing the feeling that there are too many strings attached. Business owners frequently mentioned interest in mentorship from other business owners while also desiring confidentiality (Templin et al., 2017, p. 291). These conflicting values of needing support while valuing confidentiality and independence result in owners being perceived as cautious and lacking trust in the systems that may exist.

Barriers From the Viewpoint of the Ecosystem

Insight from the ecosystem of organizations and stakeholders who work with businesses reveals another perspective on the perceived barriers to succession and sale. The 2017 Extension report found ten primary barriers to succession of ownership in rural Minnesota businesses (p. 287):

- The retiring owner overestimates the value of the sale.
- The retiring owner is unwilling to widely communicate the sale due to fear of impact on customers, suppliers or losing key employees.
- The retiring owner may not be aware of the variety of ownership options (particularly employee cooperative) limiting potential buyers.
- The retiring owner may not have adequate financial records to demonstrate profitability. This impacts the next buyer's ability to get financing from a bank and the value of the business on the market, which in turn affects the current owner's financial gain.
- The retiring owner may not be able to communicate the existence of intangible assets like the reputation of the business and its sustainable advantage.
- The rural community may lack access to business brokers or other intermediaries.
- Potential buyers may be unable to secure financing even if interests align with the current owner.
- The retiring owner may wish to remain overly involved.
- The retiring owner may exit too soon, limiting the number of buyers available in the time frame.
- The retiring owner may possess social capital that doesn't transfer to a new owner.

Barriers to Rural Growth and Transition

The owner's emotional, financial, and cognitive preparedness for the transition is another critical element to successful transfer. An owner can be considered most ready when they have a written plan, a formal business valuation, had discussions with family, started preparing a successor for intra-family transfers, and most critically, has prepared a plan for what they, the soon-to-be former owner, will do next (Darger et al., 2024).

Darger et al. found that Minnesota business owners were most likely to consider a strategic buyer or transfer or sale to a family member. Owners were somewhat likely to consider a third-party buyer, management buyout, a sale to a partner, or to a private equity firm. They were least likely to consider a form of employee ownership, indicating that they would consider liquidating the business and selling off assets before considering employee ownership options (Darger et al., 2024).

Darger also found that only 33% of the Minnesota business owners in the study indicated they were personally ready to step away from the business when they did (Darger et al., 2024). Actions that the business owners correlated with being ready or somewhat ready to step away from the business were seeking advice from a partner or spouse, holding discussions inside the business, and conducting a formal valuation of the business (Darger et al., 2024). Of these same owners, 31.9% felt the business was ready for transition and 42.6% felt the business was somewhat ready (Darger et al., 2024). Seeking advice from a partner or spouse, an attorney, or an accountant correlated with a sense that the business was ready (Darger et al., 2024).

Research Methods and Participants

Although data exists on rural and upper Midwest United States businesses, no studies were found specifically from the perspective of Minnesota business owners who had experienced succession or sale. The data and research currently in Minnesota focused on the ecosystem's perception of the experience and barriers for business owners. It also focused on the intentions of current business owners. While these both give an important and valid contextual understanding of business succession and transfer, the data misses a key voice. The missing piece and what may help Minnesota assess the current situation is the lived experience of those who have completed the transition experience. Thus, the research in this study focused on Minnesota business owners who had experienced transition within the last seven years, with most (9 of 11) transitions falling between 2021 and 2024.

Research Type

The research method is a qualitative phenomenological study. Qualitative research uses the researcher engaging in an intense interaction with participants to understand the context, psychology, and activity of people in a particular setting (Miles et al., 2020, p. 21). Data that is collected becomes meaningful through the identification of patterns, making comparisons, noting relationships, building logical themes, and making a conceptual connection anchored in logic and informed by the prior literature (Miles et al., 2020, p. 274). The goal of qualitative research is to understand the social world in which people interact through the eyes and meaning making of those involved (Bryman, 2016, pp. 392-393). Such data allows the research to demonstrate why people act as they do in context. Understanding the why behind actions allows for gap identification and solution propositions.

Sampling

The interview subjects were former business owners who had sold, transitioned, or experienced a succession event with a business headquartered in Minnesota. The research question asked: "In what ways do rural business owners experience barriers and facilitators of success in the process of sale and succession of their businesses?" A phenomenological research sample size can range from 5 to 25 individuals who have had "direct experience with the phenomenon being studied" (Leedy & Ormrod, 2019, p. 233). Thus, the sample of business owners who have experienced a business transfer via sale or succession were interviewed to explore the research question. There were eight individual or partnerships of owners who had experienced eleven business succession and transition events.

The sampling method used in this study was purposive sampling and snowball sampling. Purposive sampling is a non-probability form of sampling that samples participants who are relevant to the research question (Bryman, 2016, p. 408). In snowball sampling, the research participant sample grows through the network of participants to others with the same experience (Bryman, 2016, p. 415). The participants in this study relied on a vast network within the business community in Minnesota, and thus, the participant set was built through the relationships among community economic developers, large business owners, and other owners similarly networked.

Methods

The interviews were conducted during July and August of 2024. The former owners received an email and pre-screen phone call that verified they had transferred ownership of a business located in Minnesota. This call also ensured they understood the confidential nature of the study such that no names, financial data, or other identifying information would be included. The pre-screen call was essential to establishing trust between participants and the researcher as well as clarifying purpose and use of the research.

The interviews were conducted via Google Meets, telephone call, or in person at the preference of the participants. The majority of the interviews occurred in an online format. The study included open-ended questions to explore the experience of succession or sale as well as to learn about the barriers and facilitators of success. The interviews were recorded using written notes or recorded via Otter.ai. The transcripts and/or notes were uploaded to MaxQDA and analyzed using this qualitative software as well as Excel spreadsheets. Interestingly, although the interviews were with eight individuals, the businesses bought, sold, or transferred during their ownership experiences were eleven in total.

Findings

Rural Minnesota business owners are facing a new stage in their professional lives as they look to transition or sell their businesses. The businesses themselves are also entering a new stage in their lifecycles as leadership and ownership transfers. Done successfully, this stage is shown to trigger growth and re-invigoration of the business.

The owners and business transitions in this report included multiple methods for sale or succession event with the exception of closing the business and liquidating assets.

Transitions included sale to a key management team, sale to third party, sale to a family member, sale to a strategic buyer, and transfer to an Employee Stock Ownership Plan (ESOP). The experiences, lessons, and outcomes of these transitions reflect almost all the options available to rural Minnesota businesses. The owners were located across Minnesota and participated in multiple industries, from service to retail to industrial. Although the sample is small, we can begin to see a picture of the unique challenges and opportunities for businesses and owners in rural business transition.

Barriers to Awareness and Resources in Rural Minnesota

Many of the barriers to transition align with national trends while others are specifically concerns for a rural business. The interviews with business owners who had recently completed exit show some key insights regarding the trigger for transition, the experience, and barriers and facilitators to success. The full process of business owner transition is complex. A simple way to understand the process is to view three key stages to owner exit and business transition; all stages have specific activities to accomplish and outcomes to achieve for both the business and the exiting owner.

- Stage one is preparation prior to the transition event, including education about exit, a written plan, and preparing for the transition.
- Stage two is assembling the transition team, including outside advisors (bankers, attorneys, etc.) and putting the exit plan into motion.
- Stage three is finalizing exit and transitioning to the next role in life.

Owners in rural settings have specific and unique goals for their business's transitions. These goals include confidentiality, positive relations with the community, maintaining deep-rooted value systems in the culture of the business, care for the clients/customers, and positive financial outcomes for the individual and business. Rural owners and communities are connected in important ways by the relationships and critical services that are provided by the business. Therefore, the goals of the rural business owner in transition are unique to their context and situation.

The lack of timely access to information and resources presents one barrier to successful transfer of the business. The process represents a critical moment for the individual and stakeholders, but the resources necessary for this process in Minnesota are fragmented, could be difficult for owners to find, and are complex and often difficult to understand. Focus is often on the event of sale or succession, but the reality is that it is a much longer and more involved process. Lack of access to resources in rural areas further complicate the situation. Thus, the time to prepare, which increases the chances of excellent results for rural business owners, may be longer than anticipated.

The trigger informing most of the owners in the sample that it was time to sell or transition was the realization that the needs of the business were outside of what they could offer; they had reached a point of burn-out with the demands of the business; or a buyer was pursuing them. Darger (2024) found that a business owner is ready for transition when they have a written plan, a formal valuation, have talked to their family, and in the case of intra-family transition, have begun training the successor. In this study, five of the eleven transitions occurred because a willing buyer was available and/or burnout was encroaching. One owner expressed the concern with the statement: "I wanted to get rid of it because I couldn't sleep." Another trigger for transition, found in six out of eleven cases, was a need for improvement or for the next business model to be put in place. An owner commented, "I knew for future growth and transition I could be the problem, so it was time to find a new owner." However, only two of the eleven cases had a pre-established plan going into the exit process. Often, the owner was motivated to exit when a trigger occurred even though they were not prepared. As one owner stated, "The sale came fast and furious, faster than we expected."

What has made the business owner successful can also be the issue. Entrepreneurs are often focused on maximizing an opportunity, defined by fast action and a penchant for disruption (Immelt in Ries, 2014, p. IX). The pioneering and risk-taking behavior that fostered growth and success in building the business may not provide the skills and orientation needed for a planned and lengthy process like succession and exit planning. Yet the owners feel the weight of the decision even if they don't know all their options for the transition. One commented, "I just felt like I had all my marbles on this deal and was struggling, even though we were making money." Another felt similarly: "Quite honestly, we don't want to own this forever, and so we need this to be successful. We need this transition to be successful."

The barrier for some owners was not being fully aware of their options, which shortened the time they had to establish their priorities, goals, and desired outcomes. More complex deals like an ESOP take extensive education and preparation. By not outlining the priorities, goals, and future of the organization, entrepreneurial owners may find themselves at a disadvantage at the negotiation table of their biggest transaction. "I guess it just came to it was an emotional event. But I think my dad (a former owner) was the first one who looked at it and said, 'You just have to do it. It just makes sense.'"

Barriers to Advisory Team and Plan Execution in Rural Minnesota

Assembling an advisory team can be challenging in a rural area when the impact of the transition is very public and critical to the community, as it can be in a small town. A team of advisors is needed for the process, yet 64.5% indicated they do not have an advisory team prepared (Darger et al., 2024). There is often a lack of professional service providers in smaller rural communities. The local attorney, accountant, or banker may not be a viable option for many reasons. Thus, a search becomes more extensive and involves greater distances. Additionally, the owner must reconcile all the advice they receive with their own needs, decisions, and actions around the exit event. Owners in rural areas know that their transition is a public and visible event that has potential for ripples in their community. "He was the longest running leader of our business, so that transition would be the one that people watch the most," one interviewee stated.

The relationship with clients, employees, and vendors is important to the owner. For the business to remain healthy, the transition must respect these important stakeholders. This brings the need for carefully planned communication and appropriate confidentiality throughout the process. Many business owners expressed a desire to be transparent with all parties and felt a responsibility to communicate as much as possible. This was balanced with a need to have a successful transaction that often required periods of withholding information from close individuals. Behavior like this may appear to be a lack of trust but is more likely a careful management of a delicate situation with much at stake.

Barriers to Exit and Transition Stage in Rural Minnesota

Rural Minnesota business owners in transition stage are concerned about preparing the next leader; costs and tax implications; and their own future plans. The final stage of transition makes these concerns salient as the owner is faced with decisions and their outcomes. Owners felt more satisfaction with the transition process when they had a plan for their own future, plans for their financial situation, and the next leader was prepared.

In some cases, sales and transitions had to be postponed or re-examined to address potential loss of the value of the business. The cost of land acquisition and use, depreciation recapture on assets, and costs associated with land are all concerns for owners when transitioning a business. Businesses in rural areas in general are more likely to include larger land assets that are unrelated to agriculture. Businesses in manufacturing, construction, and tourism, such as resorts and wineries, may have large capital equipment costs related to operation and maintenance. Tax and cost concerns such as capital gains taxes, income tax, land costs and values, and estate tax can impact both the seller and the next generation family owner or buyer.

An additional common cost and tax concern for the next owner is being asset rich and cash poor. As land, business shares, and other assets add to a new owner's balance sheet, they are taxed on a wealth level determined by the value of the business whether that business has achieved a sustainable cash flow yet or not. An owner working on preparing to transition their business to a child reflected on this challenge. "It's hard, because I remember when we were building the business, we were just pouring everything back in, money we didn't even have. We were pouring it back in to get our equity up. It's a vicious cycle."

Some owners in this situation prioritize the transition over financial outcomes. One former owner conceded losses on the tax situation to accomplish other goals of the transition. "Tax-wise, I didn't come out well. But my accountant did the best with what I gave him. I wanted to give the managers buying me out a chance to continue the company that we had built. So, I took that on to continue the business and culture."

As the current owner looks to transfer ownership and management to the next generation or the management team, a barrier can emerge related to leadership preparedness. Next-generation leaders need the time and opportunity to grow in leadership abilities with mentoring. "There are gaps in leadership in most successions, and for us like many others, you want to replace yourself with someone exactly the same as you, but that doesn't always work. I think in this transition, these guys have allowed the next leader to lead in their own style."

Business owners interested in transferring to family have concerns about the impact of mixing business and family. Although they may have operated together for years, when it comes time to value the business, "put a decimal point on it," and move to the technical details of transition, the process can put stress on the family system. Business owners in this study were careful to consider the concerns of their family relationships as well as their business relationships. One owner commented, "In order for me to get paid, I need them to be successful. They need the best foundation I can provide, both for their well-being and my own. We had to figure out how to do that while still running daily operations of the business."

A final critical point in the event of succession or sale of a privately owned business is the owner's own plans for the next chapter. In four of the eleven exit events, the former owner physically moved away from the business. "We intentionally took ourselves away from time to time, so that we were just getting rid of those tasks." In five of the eleven exit events, the former owner was engaged and worked at the firm following sale or succession by request of the new owner or as a part of the deal. Six of the eleven former owners started a new venture or nonprofit. The emotion connected to the exit varied, but those who were intentional about their post-ownership plans had the highest satisfaction with the exit event. "Gradually I was less informed and couldn't make decisions anymore—by design."

Establishing a plan for the immediate future as well as a long-term vision of life and purpose after ownership is an exciting but overwhelming prospect for most people. The skills, knowledge, and abilities of former business owners are needed in many capacities. Whether entering retirement and focusing on personal hobbies and family or pursuing a new venture, mentoring or building a new business, the benefits these former owners bring to any new activity are unquantifiable.

Facilitating Succession Planning in Minnesota

Despite the difficulties in finding and using business transition resources in rural areas, Minnesota does have an ecosystem of business succession and transition organizations that can assist business owners in their succession planning and transition.

University of Minnesota Extension Community Development, Business Succession & Transition

The Business Succession and Transition (BST) group has met for the last three years and is spearheaded by Michael Darger of the University of Minnesota Extension. Darger is joined by rural researcher Ben Winchester, working through Community Development in Extension. BST has assembled a collection of cutting-edge research, extensive data, training for businesses, and acts as a gathering spot for the business succession and transition community.

University of St. Thomas Family Business Center

An important member of the family-owned business community in Minnesota is the University of St. Thomas Family Business Center. This active and thriving community of family-owned businesses connects, informs, and supports businesses through a membership model. The center offers a series of programs throughout the year for family business owners and advisors. A key outcome of connecting with other family business owners and learning together is the mental preparedness for this planning process, as well as meeting peers in an often isolating experience.

Granite Partners Private Equity

Granite Partners is a long-term equity partnership with a focus on buying and holding businesses in Minnesota. Granite Partners is a unique model documented in case study through the Harvard Business School and the Carlson School of Business at the University of Minnesota. This model, built by Minnesota businessman Rick Bauerly, uses a long-term holding company focused on developing specific industry platforms through acquisition of businesses with the long-term goal of remaining in Minnesota. Known as the buy-and-hold model (as opposed to a typical buy-and-sell model of private equity), Granite Companies can be found in communities across the state from north to south and in the Metro.

Nonprofits, Economic Development, Consultants, Certified Exit Planning Advisors, and Others

A wide array of nonprofit and government-funded services exists to serve specific populations in the business succession and transition community in Minnesota. They include groups such as MNCEO, focused on employee ownership options; Nexxus Community Partners, serving communities of color; Metropolitan Consortium of Community Developers; the Minnesota Initiative Foundations; Small Business Development Centers; and economic development professionals around the state. These groups provide services and supports to people who are looking at transfer and succession. A unique awareness campaign on the value of rural business and life has been the “My Town” Series, which debuted in fall 2024 at the Twin Cities Film Festival highlighting opportunities in rural communities. Additionally, there are business brokers who assist buyers and sellers focused on rural Minnesota.

Moving Forward

Small businesses, employers with fewer than twenty employees, represent a full 85% of all businesses in the state, and a large number of them are headed up by aging owners who will be looking for someone to take over for them so they can head into retirement. Who will take on those businesses that support our rural communities, and how will they find the opportunities out there?

The entrepreneurial spirit that started these businesses still exists in individuals who would like to own and operate their own businesses, but they need to find them first. And the current business owners need to plan ahead for the day when that perfect match comes along: the person who will be the right fit for their business and their community.

Transitioning a business from one owner to the next is a complex process full of moving parts, but it’s the attention to these parts that can ensure a smooth process and rewarding outcomes. For rural business owners, however, there are many barriers to a smooth process. Some of those barriers are common to owners wherever they are, while others are unique to rural communities. And while there are powerful organizations that do excellent work in the field of business transitions, the majority of them are located in the Twin Cities, leading to problems of visibility and distance for rural business owners. These organizations currently serve complementary and/or the same goals but operate largely in silos.

Education and engagement can help business owners feel more comfortable with asking for help and sharing the information needed to receive proper guidance. From understanding how much time succession planning and the process really take to understanding the complexity of the process and maybe even putting their rural life out there as an asset for a new owner, learning is in the future for our small independent business owners.

Special thanks

Special thanks to those business owners and their spouses who agreed to be interviewed for this report and share their valuable experience.

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