Keep It Local:
Transitioning Local Businesses to New Local Owners

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COMMUNITIES Unlimited
Infrastructure. Entrepreneurship. Vibrant Communities.
Who is Communities Unlimited?

- **Mission**... moving rural and under-resourced communities in areas of persistent poverty to sustainable prosperity
- 44 professionals working with rural communities on water/waster water systems and with entrepreneurs
- CDFI: $18 million in assets (infrastructure/small business)
- Move beyond “the project” toward systemic change

Founded 1975

Founded 1998
• Cover over 60% of persistently poor counties in US
  • Depopulation – Lost between 4% and 20% of population (1990-2010)
  • Poverty - Between 22% and 34% of individuals live in poverty
  • Unemployment – Between 10% and 14% of individuals do not have and cannot find work.

Alabama, Arkansas, Louisiana, Mississippi, Oklahoma, Tennessee, Texas
Target Families

- Rural entrepreneurs ready to retire
  - Have few or no retirement funds available to them
  - Children have left the region

- Young entrepreneurs
  - Have few options to make a decent livelihood without leaving their community
  - Do not have the capital to purchase an existing business

- Low income employees of the business
  - Few other jobs available to them without leaving the community
  - No resources to move to a community with jobs
2012: Our largest client handed business over to grand-daughter with no preparation = Crisis

Staff meeting: Reflection on businesses lost to retirement and illness resulted in astounding number.

The Research:

- “Official” data not available
- Focus groups with bankers and CPAs which verified our assumption...
The Delta is losing 100s of viable businesses to “Aging Out” every year!
Communities are losing sales taxes as local retailers “age out”
Entrepreneurs see their business as a personal source of income and not a “community asset”

No one else in communities was addressing the situation
Goals: Keep It “local”

• Provide older entrepreneurs with a retirement income when they are no longer able to operate their businesses
  ✓ Entrepreneurs did not have the financial capability to plan for retirement.
  ✓ Business profits provided income but not savings

• Provide entrepreneurs access to affordable financing to purchase existing businesses in the community
  ✓ Lack of intergenerational wealth to provide capital for purchase
  ✓ Businesses lack collateral value to make them interesting to a bank financing
We are **not** a business broker!

- Risk Assessment of Existing Business – Is it viable?
- Full financial analysis – Is it healthy?
- Valuation of business – Reality check for owner
- Strategy to strengthen and grow business
- Inclusion in database with owner’s permission
- Creation of Prospectus about business
Maintain database of interested entrepreneurs

Identify potential entrepreneur:
- Manager within business
- Returning “youth”
- Local customer or vendor

Provide managerial assistance to prepare entrepreneur to take over business
Closing the Gap: Capitalizing the Deal

- Owner financing keeps owner engaged
- Determine loan size based on business cashflow
- Engage investors from community

**Next Step:** Raise equity capital to enable investment in and control of venture until new entrepreneur is ready to take over

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Since initiative started in February 2013 (24 months):

- Successfully transitioned 9 businesses to new owners
- Saved 45 full-time jobs
- Created 11 new jobs through growth of transitioned businesses
- Saved $3.5 million in annual economic activity and corresponding sales taxes
- 9 families turned small business into retirement income and intergenerational wealth
- Enabled 4 low-income individuals to own viable businesses
- Currently working with 3 businesses in various stages of transition
Karen Worthen – a single Mom with no assets and no income

Becomes store Manager at Meineke in Pine Bluff, AR

Owner wants to retire to another state

Owner financed $75,000

Communities Unlimited financed $45,000

Since 2013, Karen has grown the business by 7%, it is profitable and has never missed a payment

Established a reserve account of approximately $10,000 and has maintained a balance to help in the event of any unexpected problems
Sam Anderson began “making a living” by driving for FedEx route. When owner of truck and route was looking to retire, Sam wanted to buy the business to keep his job. Credit score 537, no collateral = No access to traditional financing. CU staff worked with Sam for 10 months to get him loan ready and secure authority from FedEx to transfer route. In Dec 2014, CU provided Sam with a $15,000 loan for the purchase. He has already added new clients to the route and is making plans to add another truck and hire a driver in the future.
One staff consultant specializes in sale of businesses and valuations

All other staff consultants are trained to work with new entrepreneurs

Pilot funding:
- USDA Rural Business Opportunity Grant in 2013
- Charles and Mary Grant Foundation in 2014

Seeking funding to replicate Arkansas pilot across 7 state footprint

Seller pays full rate for our work
Lessons and Advice

Lessons:
- Have access to equity – your own or interested investor to speed up the deal
- Engage Arkansas Community Foundation’s new impact investing efforts – meeting Thursday!
- Get into existing business early!

Advice:
- Engage tax accountant/attorney to protect assets of existing owners
- Ensure each party has attorney