

# WEBINAR SERIES

## Keeping Groceries Alive: Successful Ownership Transitions for Rural Grocery Stores

**K-STATE**  
Research and Extension



# **Preparing for Business Transition**

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**Thursday, February 11**

# **Our Partners**

*Food Co-Op Initiative  
Kansas Center for Business Transition  
Kansas Rural Center  
K-State Research & Extension  
NetWork Kansas  
Rural Grocery Initiative*

# **Our Sponsor**

*Ewing Marion Kauffman Foundation*

# Housekeeping

- This session is being recorded.
- A recording of today's webinar will be made available at [www.ruralgrocery.org](http://www.ruralgrocery.org).
- If you have technical questions, our team is on standby to assist you.
- 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.

# Preparing Your Business For Transition

*John Addessi & Jack Harwell  
Kansas SBDC*

# The Kansas Small Business Development Center (KSBDC)

The Kansas Small Business Development Centers Network increases economic prosperity in Kansas by helping entrepreneurs and small businesses start and grow through professional counseling, training, and resources

U.S. Small Business Administration



Your Small Business Resource

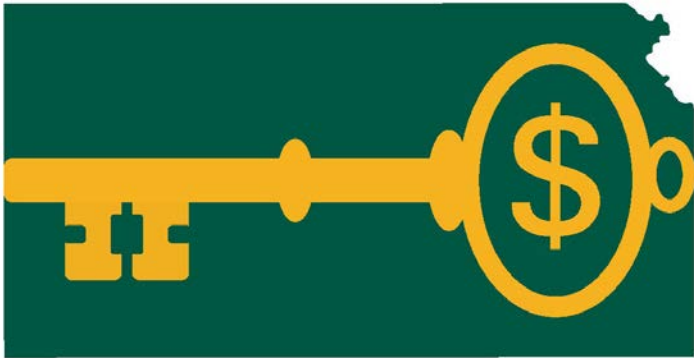


# Agenda

- Introducing the Kansas Center for Business Transition
- What is a Transition Plan?
- Estimating the Value of Your Business
- Preparing Your Business For Transition
  - Building Value in Your Business
  - Structural Growth
  - Cultural Growth
- Paving the Way for Success

# New Online Resource

## Kansas



Center for Business Transition

[www.KSBizTransition.com](http://www.KSBizTransition.com)

- Exit Planning Checklist
- Downloadable Tools
- Success Stories
- Links to Partners with Intersecting Missions
- Links to Related Resources
- Blog with Regularly Posted Content
- Contact Info for Kansas SBDC Advisors (CEPAs and CVAs)

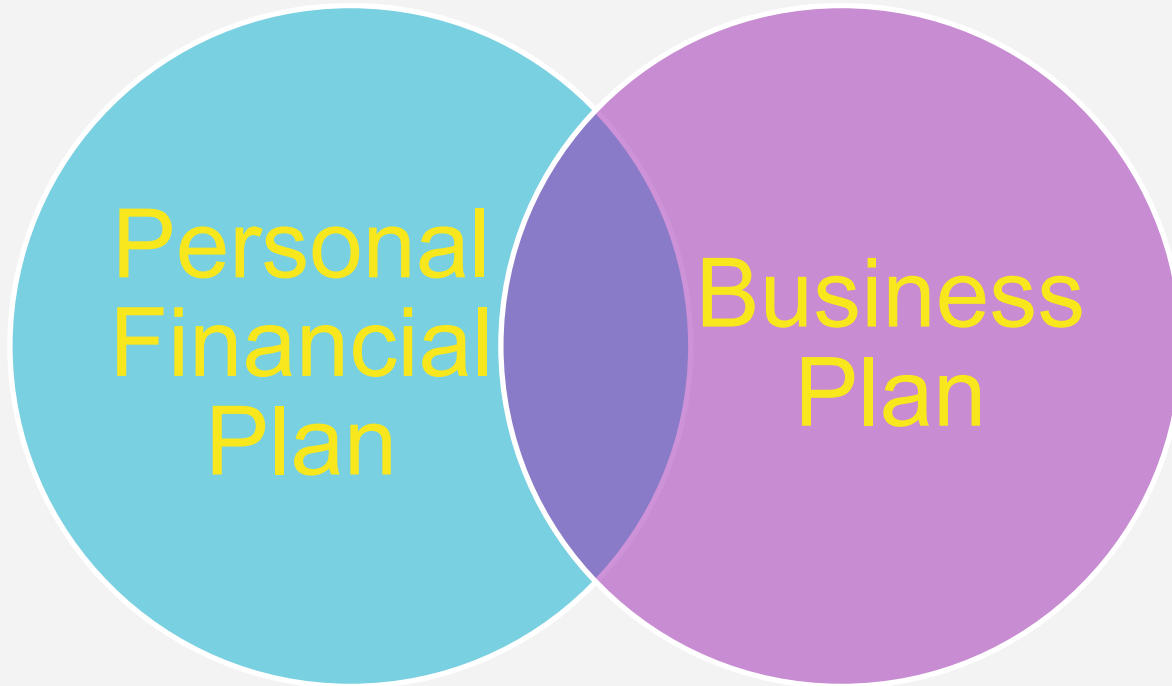


**A Transition  
Plan is...**

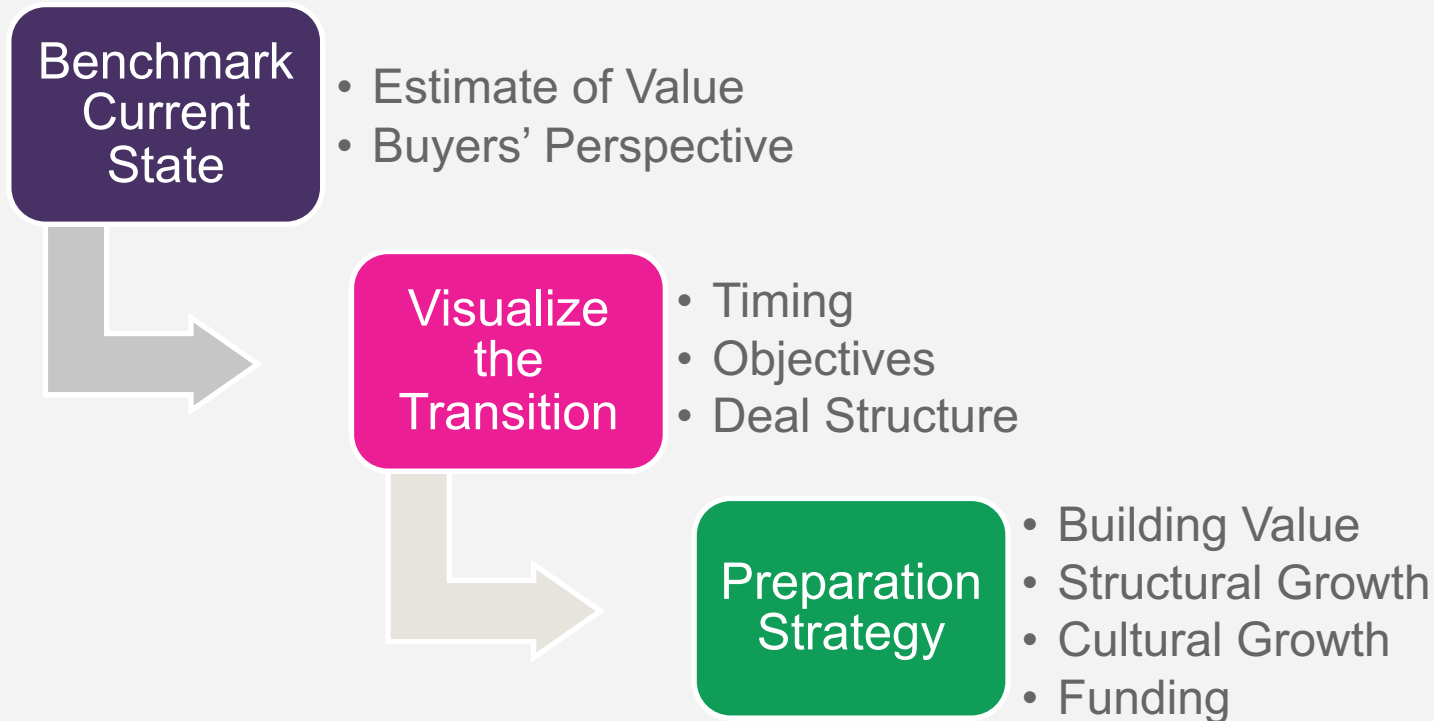
**The Ultimate  
Business Plan**

**The Ultimate  
Financial Plan**

# Integration of Both Plans



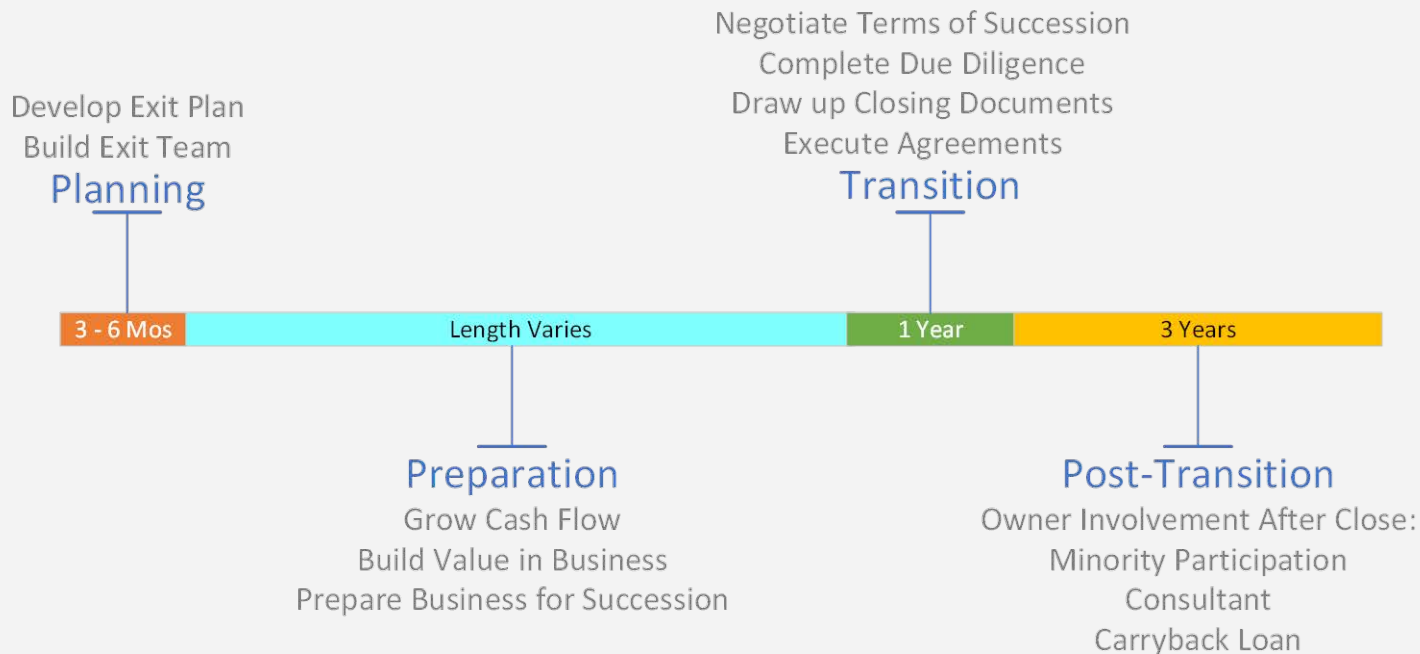
# The Transition Planning Process



# Transition Plan Components

Current Ownership	Future Ownership
Timing	
Deal Structure <ul style="list-style-type: none"><li>• Price</li><li>• Taxes</li><li>• Funding</li></ul>	
Preparation Plan <ul style="list-style-type: none"><li>• Building Value</li><li>• Structural Change</li><li>• Cultural Change<ul style="list-style-type: none"><li>• Funding</li></ul></li></ul>	

# Transitions Take Time!



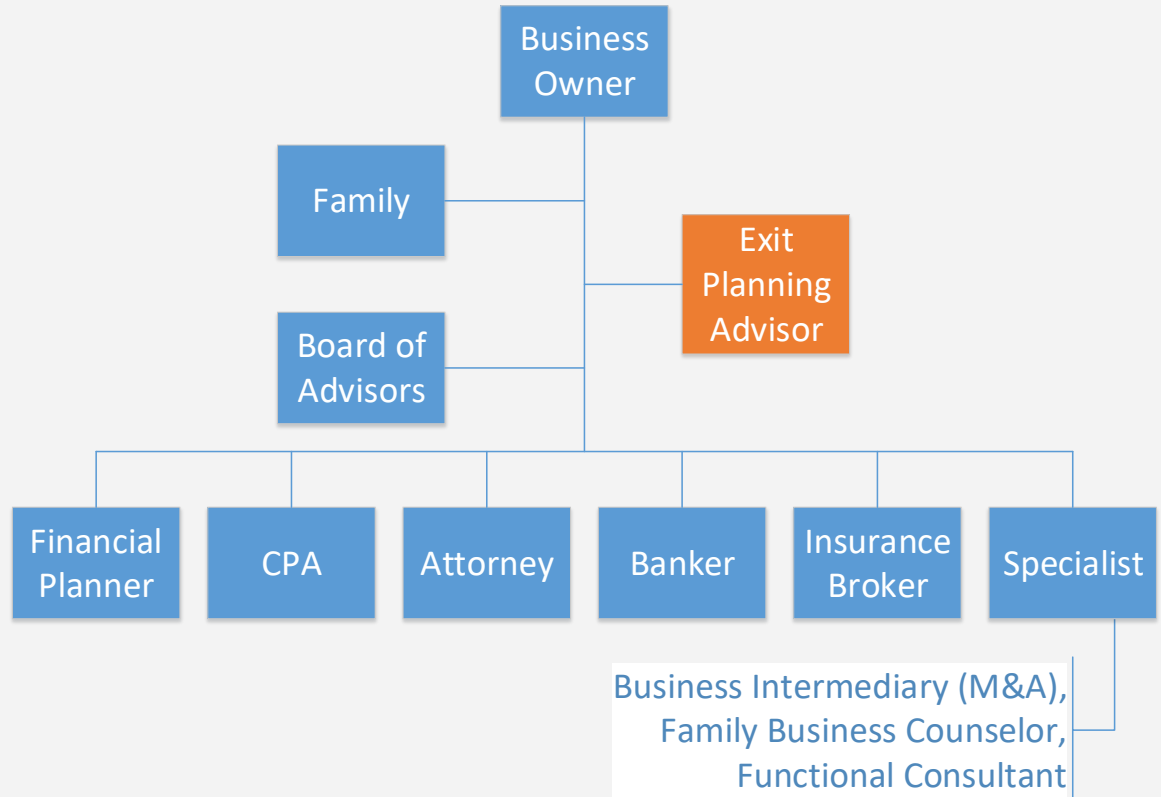
The Transition Planning Timeline

**When do you expect  
to exit your  
business?**

*[Poll Question]*

# Your Transition Planning Team

Building a Great Team is Critical to Your Success



# The Exit Planning Advisor's Role



Educate owner on succession and important considerations.



Assist owner in developing and documenting their desired exit plan.



Help communicate exit plan to others on their exit team.



Continue to advise owner during preparation and transition phases of their succession.





# Other Key Roles

## Financial Planner

- Recommend investment strategy
- Identify needs for retirement nest egg

## CPA

- Estimate tax on transition
- Assist owner in identifying tax savings opportunities

## Attorney

- Advise and assist in negotiations
- Draw up legal documents

## Banker

- Assist in funding plan
- Coordinate with other lenders

**Who is on your  
transition team?**

*[Poll Question]*

# Business Valuation



# Common methods of business valuation

- *A multiple* of Seller's Discretionary Earnings (typically between 1X and 4X. We will discuss how to get this higher!)
- *A fraction* of annual revenues
- Comparable sales
- Asset based

# Seller's Discretionary Earnings

“A seller's discretionary earnings are the pretax and pre-interest profits *before* non-cash expenses, one owner's benefits, one time investments, and any non-related income or expenses. In addition, SDI (or SDE, same thing) may require that expenses be adjusted if a new owner will necessarily need to take on a new expense.”

<https://quietlight.com/sellers-discretionary-income/>

# Informal definition:

The total, true cash benefit to the owner.

**Question:** Where do we find this info?



# Example:

P/L Statement:

## ABC Lawn Recast Income Statement

Year: 20XX

Data Source: Tax Return

	Original	Add Backs	Notes
<b>Income</b>			
Gross Sales	\$1,400,000	-	\$1,400,000
Returns and Allowances	\$50,000	-	\$50,000
<b>Total Income</b>	<b>\$1,450,000</b>	<b>-</b>	<b>\$1,450,000</b>
<b>Cost of Sales</b>			
Cost of Goods Sold	\$450,000	-	\$450,000
<b>Gross Profit</b>	<b>\$1,000,000</b>	<b>-</b>	<b>\$1,000,000</b>
<b>Expenses</b>			
Officer's Salary	\$120,000	\$120,000	- A - officer's salary
Salaries and Wages	\$500,000	-	\$500,000
Repairs & Maintenance	\$6,000	-	\$6,000
Rents	\$45,000	-	\$45,000
Taxes and Licenses	\$65,000	\$17,000	\$48,000 B - payroll taxes
Charitable Contributions	\$3,000	\$3,000	- C - discretionary
Insurance	\$35,000	-	\$35,000
Large Tools	\$13,000	\$10,000	\$3,000 D - equipment loss
Small Tools	\$2,500	-	\$2,500
Depreciation	\$25,000	\$25,000	- E - see notes
Utilities	\$18,000	-	\$18,000
Telephones	\$6800	\$1,800	\$5,000 F - personal phone
Fuel	\$24,000	\$5,000	\$17,000 G - personal fuel
Interest Expense	\$1,200	\$1,200	- H - see notes
Other Expenses	\$10,500	-	\$10,500
<b>Total Expenses</b>	<b>\$875,000</b>	<b>-</b>	<b>\$690,000</b>
<b>SDE</b>	<b>\$125,000</b>	<b>\$310,000</b>	

# Common Add backs:

- Personal cell phone
- Insurance payments (health, life)
- Retirement funding
- Spousal labor (?)
- Personal vehicle
- One owner's salary
- Excess rent to a related company
- One-time charges (ex.: lawsuit, moving)





# Add Backs:

P/L Statement:

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# Business Reference Guide

## INDUSTRY DESCRIPTION

This industry comprises establishments generally known as supermarkets and grocery stores primarily engaged in retailing a general line of food, such as canned and frozen foods; fresh fruits and vegetables; and fresh and prepared meats, fish, and poultry. Included in this industry are delicatessen-type establishments primarily engaged in retailing a general line of food.

## RULES OF THUMB

3 x

EBIT

10%–22%

annual sales plus inventory

2–3 x

SDE; add fixtures, equipment plus  
inventory

3–3.5 x

EBITDA

## INDUSTRY MULTIPLES

Acquisition multiples below are calculated medians using US private industry transactions. Data updated annually. Last update: January 2020.

### Valuation Multiple (Median Value)

- MVIC/Net Sales: 0.26
- MVIC/Gross Profit: 0.71
- MVIC/SDE: 2.46
- MVIC/EBITDA: 2.94

# Deal Stats Data:



DEAL & MARKET DATA

NEWS & RESEARCH

GUIDES & BOOKS

TRAINING

VALUATION TOPICS



USD

COPY

Statistic	Count	Range	10th Percentile	25th Percentile	Median	75th Percentile	90th Percentile	H Mean	WH Mean	Mean	Coefficient of Variation
Sale Date	423	04/12/1991 – 10/05/2020									
Net Sales	423	\$28,025 – \$4,977,500	\$277,100	\$424,945	\$742,429	\$1,437,291	\$2,438,248			\$1,079,453	
MVIC Price	423	\$10,000 – \$3,650,000	\$50,600	\$90,000	\$165,000	\$300,000	\$554,000			\$260,340	
EBITDA	266	(\$122,790) – \$352,600	(\$5,487)	\$16,848	\$48,179	\$90,293	\$148,750			\$59,243	
Seller's Discretionary Earnings (SDE)	203	(\$119,200) – \$472,786	\$15,162	\$48,632	\$88,886	\$148,319	\$204,394			\$104,384	
Gross Profit Margin	395	(6.8%) – 100.0%	13.5%	21.0%	29.4%	39.5%	54.7%			32.9%	
SDE Margin	203	(39.8%) – 60.0%	1.5%	4.5%	9.0%	14.4%	22.7%			10.8%	
EBITDA Margin	266	(52.7%) – 44.8%	(0.5%)	1.5%	5.7%	11.9%	19.1%			7.3%	
Operating Profit Margin	415	(53.4%) – 60.0%	(1.2%)	1.3%	6.2%	12.0%	20.1%			7.7%	
Net Profit Margin	395	(28.1%) – 60.0%	(1.2%)	0.9%	6.0%	12.1%	20.0%			7.7%	
MVIC/Net Sales	423	0.01x – 1.45x	0.09x	0.14x	0.23x	0.36x	0.54x	0.16x	0.24x	0.28x	0.76
MVIC/Gross Profit	394	0.05x – 21.53x	0.30x	0.51x	0.76x	1.20x	1.87x	0.57x	0.85x	1.08x	1.35
MVIC/EBIT	351	0.3x – 137.1x	1.1x	1.6x	3.1x	7.2x	16.2x	2.2x	3.6x	8.0x	2.0
MVIC/EBITDA	227	0.2x – 587.1x	0.9x	1.6x	3.4x	7.2x	15.0x	2.1x	3.6x	10.4x	4.1
MVIC/SDE	192	0.4x – 64.7x	1.0x	1.5x	2.5x	3.8x	7.5x	2.0x	3.0x	4.0x	1.5
MVIC/Book Value of Invested Capital	64	0.1x – 25.1x	0.3x	0.9x	1.5x	2.8x	6.8x	0.8x	1.1x	3.0x	1.5

# SDE Calculator:



## Kansas Small Business Development Center

### SDE (Sellers Discretionary Earnings) Calculator

Most business valuation methods use the historic cash flow of the business to estimate the value of that business. For small businesses this cash flow is referred to as SDE or Seller's Discretionary Earnings. The first step in estimating the value of your business is to calculate SDE.

The logic of SDE is to estimate how much cash flow the business generated in previous years without the impact of the current owner(s) or any one-time expenses, so a more accurate estimate of value can be done.

SDE is not the same as net profit, but the net profit as stated on the Profit and Loss statement (P&L) is the starting point. From there, follow these steps to calculate SDE:

$$\text{SDE} = \text{EBITDA} + \text{One-Time Expenses} + \text{Owner's Salary} + \text{Owner's Perks}$$

Note that amounts added to arrive at SDE are also known as "Owner's Add-Backs".

#### Step 1 Calculate EBITDA

EBITDA is a measure of profitability that excludes expense items that are influenced by the owner's financing strategies (interest) and tax strategies (corporate income taxes, depreciation, and amortization). Adding these items back to Net Profit will eliminate those influences. Another reason to add back depreciation and amortization is because these are non-cash expenses. To calculate EBITDA, simply take net profit and add back all interest expenses, taxes, depreciation and amortization.

#### Step 2 Add One-time Expenses

From time-to-time a business will spend a large amount of money to resolve a major problem, such as a law suit, or make a one-time purchase to take the business to the next level. These extraordinary expenses should be added because they are not expected to repeat in future years.

Again, as noted above, only expense items appearing on the P&L should be included in one-time expenses. Capital investments should not be included.

- Fillable .pdf
- Notes/instructions

[Find SDE Calculator Here](#)

# Weighting Example:

Accommodate 2020  
with the weights:

For example:

- 2020: 2
- 2019: 3
- 2018: 1

Owner's Salary			
Owner's Salary			
Owner's Payroll Taxes			
Total Owner's Salary	\$ 0	\$ 0	\$ 0

Owner's Perks			
Interest on Auto Payment	\$ 1,500	\$ 1,500	\$ 1,500
Auto Expenses	2,000	2,000	2,000
Travel & Entertainment	8,500	8,500	12,500
Other Owner's Perks:			
Additional rent above market rate	1,200	1,200	1,000
Trailer			9,000
Total Owner's Perks	\$ 13,200	\$ 13,200	\$ 28,000

SDE			
Total SDE	\$ 227,626	\$ 242,911	\$ 284,520
Weights	1	2	3
Weighted Average SDE			\$ 261,168

# Certified Valuation Analyst (CVA)

- A CVA is trained and certified by the National Association of Certified Valuators and Analysts
- Often required for loans and lawsuits
- Costs range from sub-\$1,000 to several thousands
  - Depends on person doing valuation and requirement
- Qualified to perform detailed analysis required for income approach
- Recommend CVA prior to:
  - Listing the business
  - Accepting an offer
  - Making final financial decisions highly dependent on business value

**Given what you have  
learned about how  
business value is a  
fraction of sales or  
multiple of SDE...**

**Is your business  
worth what you  
thought?**

*[Poll Question]*



# We made you a promise...

- How do we get the sales multiple higher than 4 X SDE?
- Why is the same number on Wall Street (P/E ratio) so much higher?

## Nasdaq PE

The **PE** ratio is a simple way to assess whether a stock is over or under valued and is the most widely used valuation measure. **Nasdaq PE** ratio as of February 02, 2021 is

21.92.

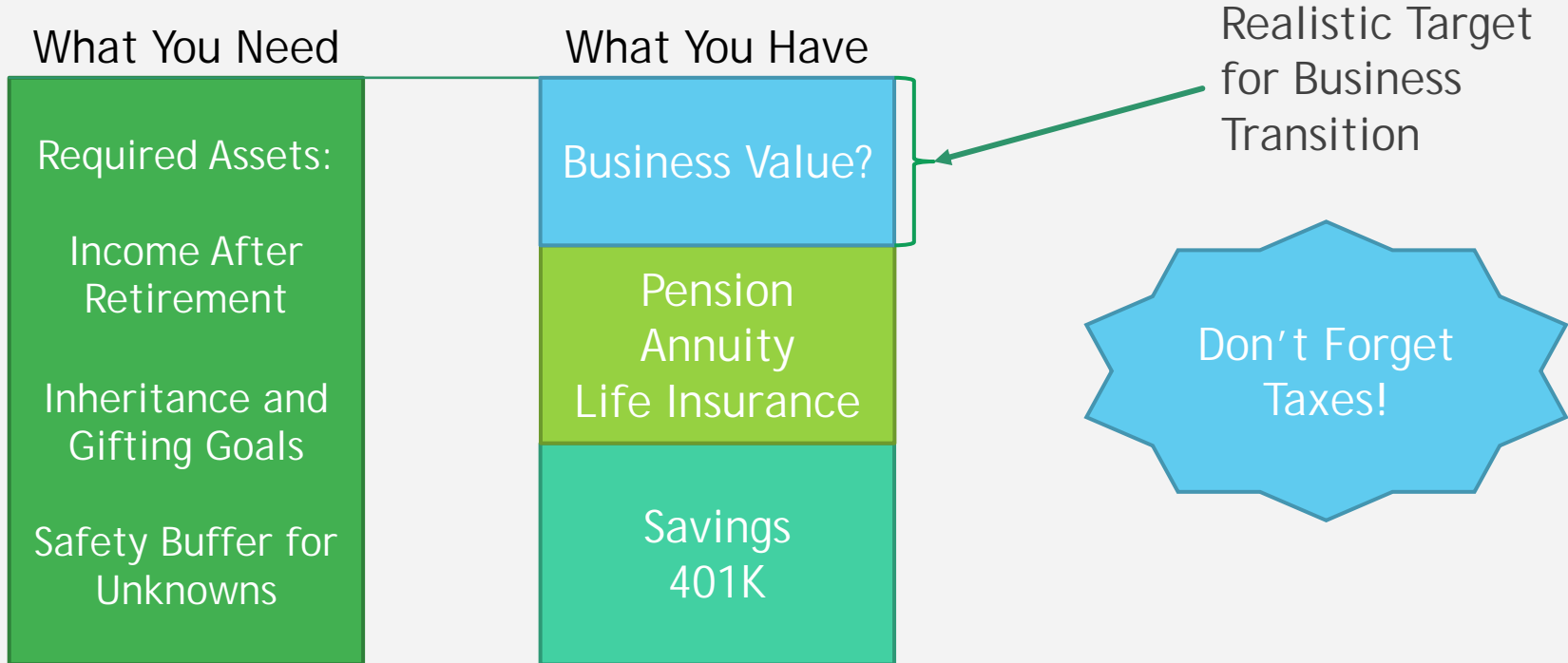
- Find ways to mitigate buyer's risk
- Strategic Sale vs. small business sale

A close-up photograph of a hanging basket filled with vibrant purple flowers, likely petunias, with green foliage. The basket is suspended in front of a dark sign with the word "GROCERY" in yellow, bold, capital letters. The background is softly blurred, showing more of the store's exterior and greenery.

# Preparing Your Business For Transition

GROCERY

# What Is Your Number?

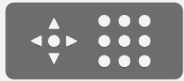


# **Do you know your number?**

**(amount needed from business to  
retire)**

*[Poll Question]*

# Two Ways to Increase Value



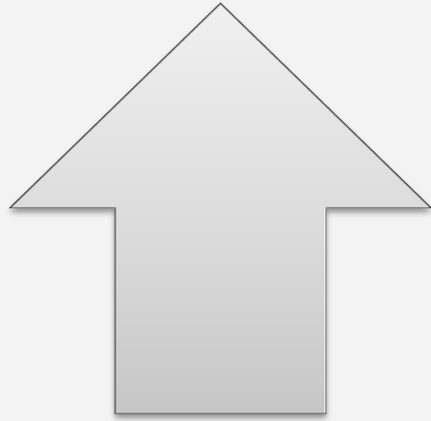
Increase  
Cash Flow

Increase  
Multiple

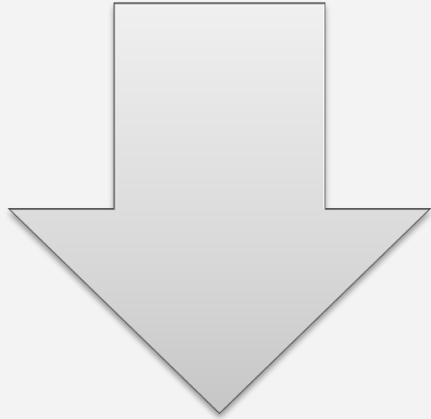
# Grow Cash Flow

- Market valuation based on cash flow
- Increasing cash flow increases value
- Higher revenues
  - More sales
  - Higher prices
- Lower costs
  - COGS
  - Overhead
  - Capital

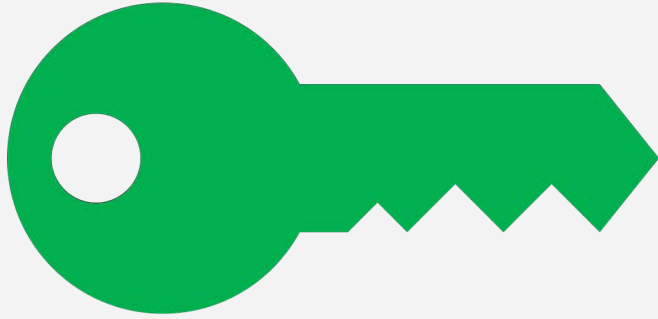




**Increase  
Multiple**



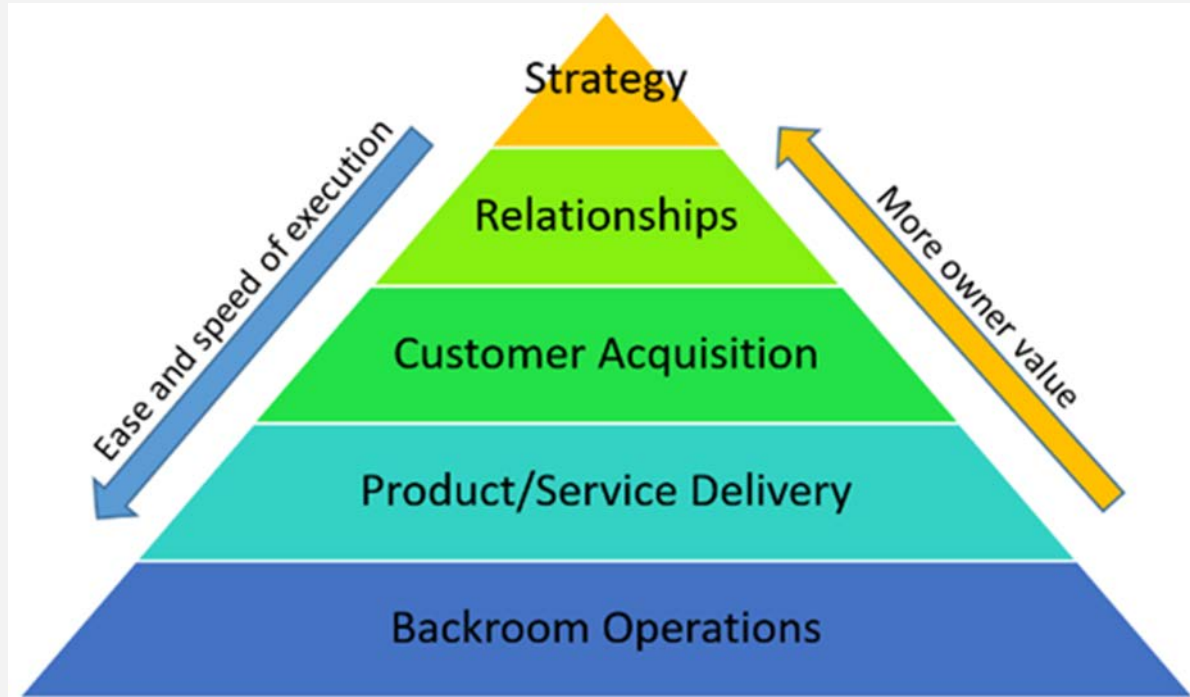
**Reduce  
Risk**



# Key Drivers of Value

1. Degree of owner involvement
2. Sustainable and predictable business processes
3. Reduction of business risks





# Hierarchy of Owner Involvement



Documented procedures



Process compliance



Systems support

**Sustainable  
and  
Predictable  
Business  
Processes**

## Reduction of Risks

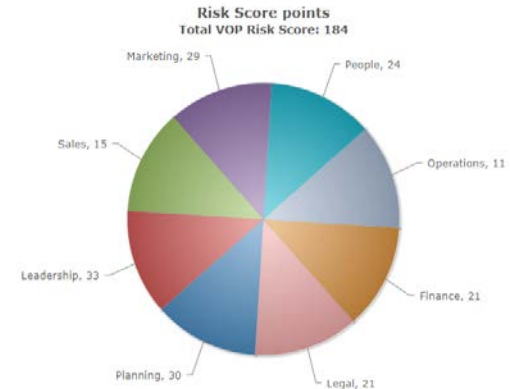
Diversification of  
customers and suppliers

Safe Work Environment

Economic and  
Regulatory Risks

# Value Opportunity Profile

- Alternative Assessment of Value
- Online Tool
- Approximates Value Based on Owner Input
  - 97 Questions about Operations
  - 3 Years Financial History (P&L and Balance Sheet)
- Provides Risk Score and Estimate of Value
- Identifies Opportunities to Improve
  - Corresponding Increase in Value if Implemented



**Get Your VOP Assessment Here:**

<https://vop.corporatevalue.net/vop/register/licensee/191>



**Paving the Way  
for Success**



Structural  
Growth

Cultural  
Growth

# Structural Growth



ORGANIZATION  
STRUCTURE



BOARD OF  
DIRECTORS

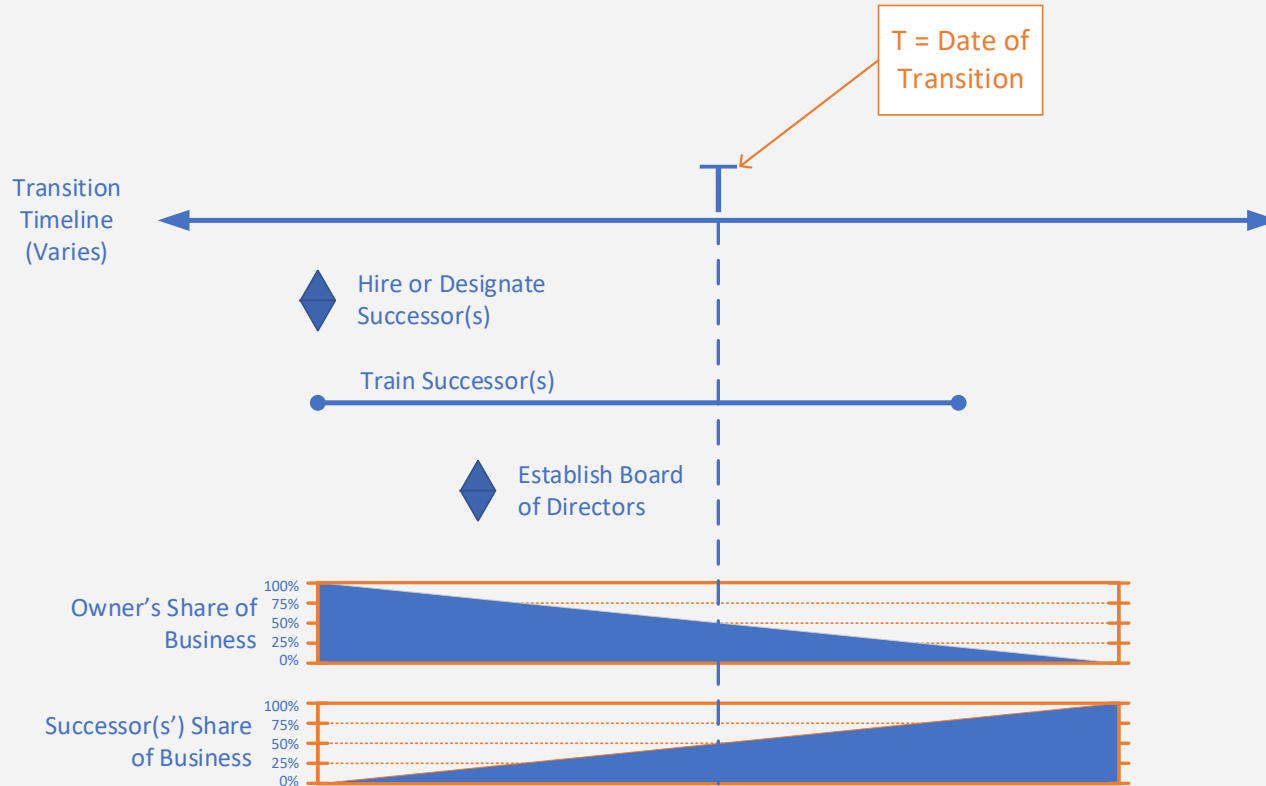


MANAGEMENT  
TEAM



MANAGEMENT  
COMMUNICATIONS

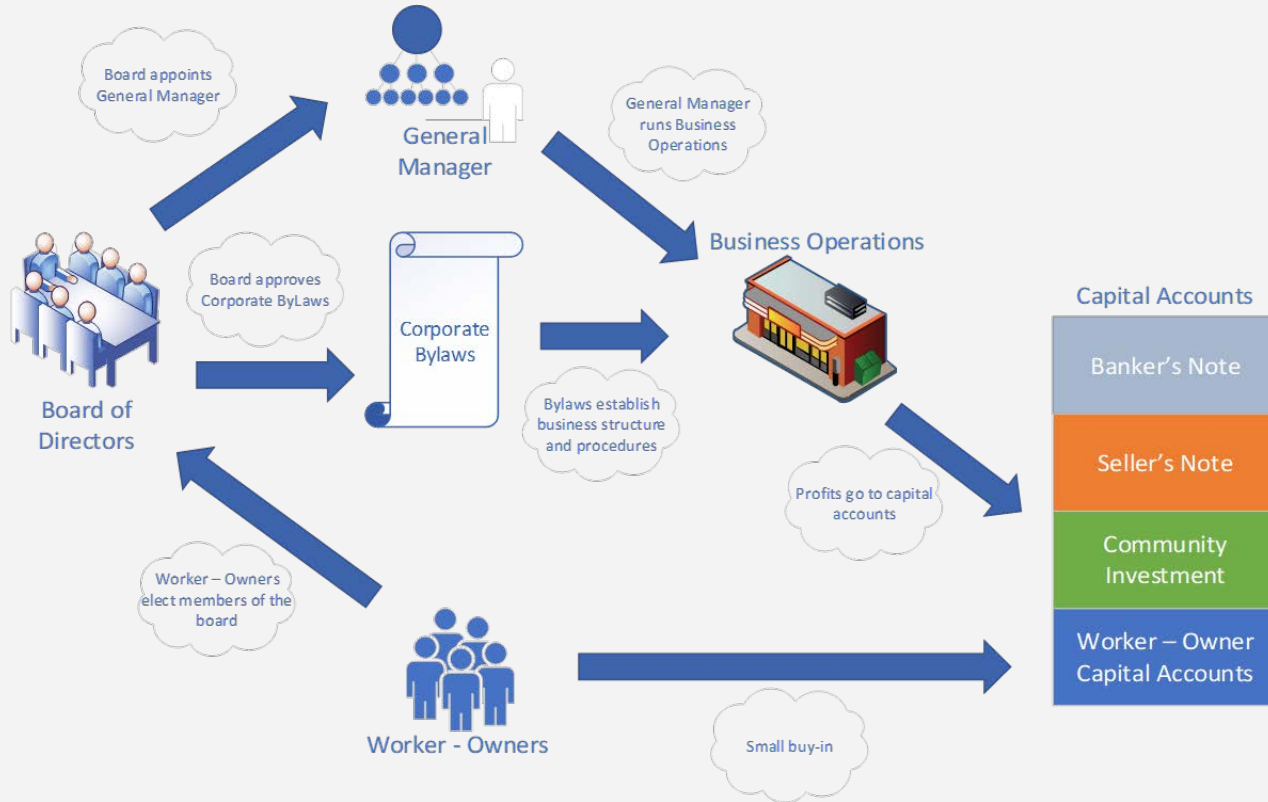
# Transition Strategy for Stability and Growth



This strategy should help reduce the risk of failure



# Typical Cooperative Governance Structure



# Cultural Growth

## Transparency

- Open books
- Decision-making
- Employee financial involvement

## Collaborative

- Problem-solving
- Decision-making

## Fact-based

- Impassioned
- Data-driven
- KPIs & Performance Management

Training &  
Mentoring  
Required  
For Both  
Management &  
Employees

# Questions

*Please use the Q&A feature*

# Webinar Schedule

*All webinars are on Thursdays at 1:30 PM CT*

*Save your spot by registering at [www.ruralgrocery.org](http://www.ruralgrocery.org)*

<b>February 18</b>	Assessing Markets & Community Needs
<b>February 25</b>	Planning your Business
<b>March 4</b>	Funding the Transition
<b>March 11</b>	Recruiting Store Managers
<b>March 18</b>	Mastering Grocery Store Nuts & Bolts

# Upcoming Webinar

*Assessing Markets &  
Community Needs*

Thursday, February 18  
at 1:30 PM

Communities change over time, and ownership transitions present an opportunity for the grocery store to adapt to community needs. Are there new services that should be offered, does the store need a facelift? What about partnering with another business to provide an additional amenity for your community? This webinar will discuss methods for assessing an existing grocery store, involve your community and gauge the store's market in order to facilitate a successful business transition.

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# WEBINAR SERIES

## Keeping Groceries Alive: Successful Ownership Transitions for Rural Grocery Stores

**K-STATE**  
Research and Extension

