

# LEGACY PLANNING

Presented by the North Central Small  
Business Development Center at Central  
Lakes College



# WELCOME FROM THE NORTH CENTRAL SBDC



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# Today

- 01** Intro to Legacy Planning
- 02** Layer 1: Ready
- 03** Layer 2: Set
- 04** Layer 3: Action
- 05** Choose Your Own Legacy Adventure
- 06** Next Steps





# INTRODUCTION TO LEGACY PLANNING



## Definition

Commonly called succession planning or exit planning

Legacy Planning summarizes that your goal likely is: **to leave a legacy**-- something of your own creation that continues to exist for generations to come

***It's never too early to start thinking about what legacy you and your business will have***

## 3 Layers of Legacy Planning





**LAYER 1:  
READY**

# Layer 1 Activities

- Get your **personal affairs** in order, including making a will
- Register** with your local SBDC for assistance
- Get the **business affairs** in order. Write out (at least briefly) your **Mission, Values, Vision**.
- Get your **business organizational records** updated and centralized. This can include leases, copyrights, website, SOS filings, insurance, account passwords, etc.
- Create or update a **business history**
- Invest in a **Strategy Mapping** workshop-- may be offered by an SBDC consultant



**LAYER 2:  
SET**

## Layer 2 Activities

- Compile job/position/role specific **handbook and instructions**
- Create a plan** for each position and the position employee
- Consider the **legacy options**
- Discuss possible legacy** with potential successor to assess their interest and determine their next steps and timeline
- Determine **your timeline**



**LAYER 3:  
ACTION**

## Layer 3 Activities

- What will your plans be after retirement? **Write down a personal plan.**
- Work with an SBDC consultant to **value the business**
- Obtain **other valuations**, if desired
- Select the person** that you are going to transition the business to



**CHOOSE YOUR OWN  
LEGACY ADVENTURE**

## Meat the Millers LLC



John and Mary Miller own Meat the Millers LLC and want to retire in the next 5 years. How should they proceed?

# Meat the Millers LLC: Background

John and Mary Miller had been running their small business, Meat the Millers LLC, for over thirty years. It had been their pride and joy, and they were excited to watch it grow from a small custom milling and hog butchering operation to a successful business that served the local community and supported 12 well-paying jobs.

John and Mary would like to retire within the next five years. They have three options who could potentially buy the business: an employee, their daughter and son-in-law, or a miserly local realtor. Another option is to continue operating until they can no longer work and then figure it out at that time.

The business:

Meat the Millers LLC is a solid performing business. John and Mary Miller found their stride a few years ago and have been staying the course without really innovating or looking at process improvement. The covid-19 year put a damper on things a bit, but the Millers were flush enough in personal cash that they were able to weather the storm. Upon studying the financial statements, it looks like the business produces decent cash and the owners take home beefy annual wages as well as an annual distribution.

Average Revenue: \$910,000

Average Gross Profit: \$510,000

Average Owner wages: \$120,000

Average Owner distribution: \$80,000

Average Net Profit: \$64,000

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**What should John and Mary do?**

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## Worry about it later...

Mary had been in favor of meeting the SBDC consultant and learning how they could get maximum value for selling the business, but things had been going smoothly with running the business and making money. It was almost easy! Taking home, on average, \$200,000/year made for a comfortable life. John thought it was too early to sell. “I’ll sell it when I’m done working,” he had said.

And then John was done working, but not at his choosing.

John fell 30 feet from the rafters as he was adjusting a hog hook, injuring his back to an extent that he was wheelchair bound for almost a year. In a financial pinch personally and with the business bleeding cash, John and Mary called the Miserly Realtor and sold all business assets to him for \$3,500,000. The Miserly Realtor paid them in cash and the Millers were unexpectedly hit with a \$645,000 tax bill.

The Miserly Realtor immediately fired all the employees, closed operations, and leveled all the buildings and the hog holding pens. Within 10 months The Miserly Realtor had sold the property to a housing developer for \$5,600,000.

**THE END**



## Meet with a local SBDC Consultant

In the initial meeting, John and Mary hear about the steps to succession and it seems like a lot of work. Maybe too much work! Their consultant explains that the process can be a long one, but the consultant is there to walk with them through the entire process, and they should take it one step at a time. The consultant explains he would like to begin by valuing the business.

John and Mary are caught off guard when the consultant asks them “how much do you need from the sale of the business?” John thinks for a couple minutes and then blurts out “\$4 million dollars, the land alone might be worth that”. Mary is slightly more discerning and says “I don’t know for sure, but \$4 million would be nice!”

The SBDC consultant recommends that the Millers meet with a Personal Financial Advisor as the consultant gets to work putting a potential value on the business. “We’re busy,” John says. “That sounds like a lot of work. Let’s just sell it for \$4 million and skip the valuation and the Financial Advisor.”

Mary is shocked, there is no way their daughter, Brenda, could afford to buy the business for \$4 million.

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**What should Mary do?**

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## If the Realtor...

John and Mary leave the meeting with the SBDC consultant and immediately call The Miserly Realtor.

“You still want to buy our business?” John asked him?

“Yes,” said the realtor.

“We want \$4 million dollars for it,” John responded.

The Miserly Realtor told them he’d have to do a market assessment on the purchase, and he’d call them back. After a week, the Miserly Realtor gave the Millers an offer of \$3,800,000 in cash with an immediate close.

John and Mary accepted the offer. The Miserly Realtor paid them the \$3,800,000 in cash and the Millers were unexpectedly hit with a \$711,000 tax bill.

The Miserly Realtor immediately fired all the employees, closed operations, and leveled all the buildings and the hog holding pens. Within 10 months The Miserly Realtor had sold the property to a housing developer for \$5,600,000.

**THE END**



## If look at all options...

“John,” Mary says, “we owe it to the employees and the town to consider all of our options before we make a decision.” John nodded his head in agreement.

After the meeting, John and Mary met with a Financial Advisor who informed them that, based on an assessment of what they have and how much they would likely spend annually to live the way they want, they need \$90,000/year in income.

The SBDC Consultant did a debt-service valuation of the business, and it came back as \$1,600,000.

When they met again with their SBDC consultant, and they heard how much debt the business could support, they both fell into a deep depression. John and Mary hadn't considered that the buyer of the business would have debt service. John and Mary had owned the business free and clear for so long, they hadn't considered the new owner would have debt. “What can be done when the asset-value of the business exceeds the business-value of the business,” they wondered.

**John and Mary spoke with their SBDC consultant about each possible buyer of the business...**

## Option A: The Employee

Amanda began working at Meat the Millers LLC six years ago. She has been a model employee who is passionate about custom milling. She has never shown interest in butchering hogs and finds the practice detestable. Her boyfriend, Devin, is the butchering operations manager. She has told John and Mary that she wants to buy the business and Devin can “run the hog thing”.



## Option B: The Daughter

Brenda grew up in the business, having pulled hog carcasses using her Radio Flyer wagon when she was just four years old. There's a framed photograph of her doing so, hanging above the door to the Meat the Millers LLC main office. Brenda works in the office seasonally when she isn't blogging her world travels as an aspiring Instagram influencer. Brenda's husband, Evan, has a business degree but has never held traditional employment. He has unsuccessfully tried twice to launch an online AI powered virtual life coach business. The Miller's daughter, Brenda, sees the financial statements when she is working in the business office and salivates over the belief that owning the business will feed her world travel obsession.



## Option C: The Miserly Realtor

Carlo is the city's top realtor, being named to a national list of the most successful realtors in the country. Local reports place Carlo's annual earnings at more than \$1,000,000. Carlo is also known as the worst tipper in town and refuses to sponsor any local benefits or youth sports teams. A couple years ago Carlo made an off-cuff comment to Mary Miller regarding the potential value of the land to a residential developer. The business sits on 60 acres with the Mississippi River flowing along the eastern boundary.





## The Millers Consider

With a debt-service valuation of \$1,600,000 on the business, the consultant tells John and Mary that they most likely would need to “carry paper” if they proceed with selling it to either their daughter or Amanda, the employee.

After discussing everything with their SBDC consultant, John and Mary realize that they should meet with more people before making a decision. The SBDC consultant recommends meeting with the CPA and the Miller’s business attorney. The SBDC consultant recommends getting both the CPA and attorney in the same room to meet together, and that the SBDC consultant would be happy to facilitate the meeting.

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**How should the Millers proceed?**

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## If drag their feet...

John and Mary left the meeting with the SBDC consultant and Mary recommended stopping at the liquor store. “Let’s get a bottle of wine and figure this out,” she said. By the time the night was over and the bottle of wine was empty, John and Mary had booked a long-discussed heritage trip to Peru and Guatemala. They ignored the SBDC consultant’s emails and phone calls, and eventually all contact from the SBDC consultant stopped. The heritage trip was fantastic and things with the business were going well until John fell 30 feet from the rafters as he was adjusting a hog hook, injuring his back to an extent that he was wheelchair bound for almost a year. In a financial pinch personally and with the business bleeding cash, John and Mary called the miserly realtor and sold it to him for \$3,500,000. The Miserly Realtor paid them in cash and the Millers were unexpectedly hit with a \$645,000 tax bill.

The Miserly Realtor immediately fired all the employees, closed operations, and leveled all the buildings and the hog holding pens. Within 10 months The Miserly Realtor had sold the property to a housing developer for \$5,600,000.

***THE END***

## If meet with CPA and attorney...

John and Mary had a great meeting, facilitated by the SBDC consultant, at the end of which they thoroughly understood both the tax implications and legal implications of selling to the various interested parties. There was a long discussion of values and goals:

The best outcome financially (if financial considerations were the #1 objective) was to sell the business to the Miserly Realtor because the asset-value of the business exceeded the business-value. Their choice, summarized:

- Sell to the Miserly Realtor for upwards of \$4,000,000.
- Sell to either their daughter or the employee for an amount that was reasonable to continue operating the business:
  - \$1,600,000 business, buildings and 20 acres. John and Mary retain 40 acres.
  - Of the \$1,600,000 selling price John and Mary “carry paper”, approximately \$300,000

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**Who should John and Mary sell to?**

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## If sell to the miserly realtor...

The Miserly Realtor was happy John and Mary reached out to him. “I was expecting you,” he said as he wrote a check for the full agreed upon amount of \$3,900,000. Since John and Mary had met with their CPA, they were prepared for the \$725,000 tax bill. They paid the taxes, gave their daughter a \$500,000 gift, and then got on with their planned retirement lifestyle.

The Miserly Realtor immediately fired all the employees, closed operations, and leveled all the buildings and the hog holding pens. Within 10 months The Miserly Realtor had sold the property to a housing developer for \$5,600,000.

**THE END**

## If sell to Amanda, the employee...

John and Mary gnashed their teeth for weeks trying to decide if they should work with Amanda, or their daughter Brenda, on the purchase of the business. “We need to sell it to who we think is best poised for keeping the business operating and keeping people employed,” John said. Though they knew their daughter would be upset, John and Mary chose to sell the business to their employee, Amanda.

Upon purchasing the business, Amanda and her boyfriend, Devin, consolidated operations and downscaled employees from 12 to 8. They focused the custom milling operation to a single “intake product” of custom farm tables and soon their brand was popular throughout the five-state region. The hog operation went online, with Devin learning how to create an online marketplace for shipments of monthly membership boutique bacon. Shipments went national and consideration is now being given to exporting to Mexico and Canada. The business flourished and, after five years of operating Meat the Millers LLC, the same SBDC consultant put a debt-load valuation of \$9,700,000 on the business.

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ohn and Mary sold the remaining 40 acres to the Miserly Realtor for \$1,700,000, then promptly took their daughter, Brenda and her husband, Evan, on a cruise from Ft. Lauderdale, around Cape Horn, to Los Angeles. At a port of call in Buenos Aires, Brenda and Evan told John and Mary that they were going to stay in Argentina “until they were destitute”. John and Mary bid them farewell and didn’t hear from their daughter for three years. Shortly thereafter she came home with Evan, got jobs at the flourishing Meat the Millers LLC (Brenda as Manager of Potential Global Export Markets and Even as AI Implementer) and they bought a cute little house in a brand-new housing development just a stone’s throw from work

**THE END**

## If sell to Brenda, the daughter...

John and Mary gnashed their teeth for weeks trying to decide if they should work with Amanda, or their daughter Brenda, on the purchase of the business. “Blood is thickest,” John said. “Let’s keep it in the family.” Though they knew Amanda would be upset, John and Mary chose to sell the business to their daughter, Brenda, and their son-in-law Evan. Amanda and Devin immediately quit.

Upon purchasing the business, Brenda and Evan met with the remaining employees and told them “nothing is going to change” and then they promptly changed the name of the business to BE World Products LLC, which made no sense to anyone.

“We need to travel the world to find new products,” Brenda told the employees at an employee meeting before she and Evan departed for a six-month backpacking trip in Europe. “Just keep working and we will call in every now and then.”

BE World Products LLC eventually was unable to meet its financial commitments, including the “owner carry” debt payments, and it defaulted on all the debt. John and Mary Miller lost their “owner carry” amount as it was unsecured. The bank foreclosed on the business, and by time Brenda and Evan came back from their backpacking trip, the business was shuttered and all employees were gone.

“What now?” asked Evan. “We are right back where we were.”

John and Mary had sold the remaining 40 acres to the Miserly Realtor for \$1,700,000, and new construction had begun on some cute ranch-style homes. “This development is getting too close to our business,” said Brenda.

Brenda called the Miserly Realtor. The Miserly Realtor was happy Brenda reached out to him. “I was expecting you,” he said as he wrote a check for \$1,200,000. Just enough for Brenda and Evan to pay off all their remaining debt, except the debt owed to her parents.

The Miserly Realtor immediately leveled all the buildings and the hog holding pens and sold the property to the housing developer for \$1,600,000.

Brenda and Evan, after paying off their debt to the bank and the SBA, did a tour of South American youth hostels for five years before coming back to permanently live in John and Mary’s basement.

**THE END**



# THANK YOU!

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