

KEEP YOUR BUSINESS

LOCAL

WHAT YOU CAN DO

Ready to retire but want your business to stay put? Here's what you can do to **SECURE YOUR FIRM'S FUTURE.**

BY DAWN PEAKE

MIKE ROTH LEFT BANKERS SYSTEMS AFTER 20 YEARS with the desire to acquire a local business and build a family culture he had come to respect. But he struggled to pull together enough money.

Roth doesn't want other local businesses to struggle with financing the way he did. Last spring, he started an investment company called Tricouni Enterprises LLC with seven members of the St. Cloud-area Bernick family. The investors aim to grow and hold local companies.

The number of locally owned businesses has a direct impact on philanthropy, involvement on nonprofit boards and civic engagement in a community. Local business owners historically invest more time and resources in the community. That can be seen at the United Way of Central Minnesota where almost all of its 25 board directors represent locally owned companies.



TEACHING OTHERS: Rick Bauerly (left) of St. Cloud's Granite Equity Partners volunteers to teach middle managers the skills they will need to become executives.

PHOTO BY PAUL MIDDLESTAEDT

In the 1990s, the sale of some of the area's largest employers — Bankers Systems, Herberger's and Woodcraft Industries — to outside buyers shook the area's foundation because layoffs and uncertainty followed. It prompted leaders to protect existing locally owned businesses and create new opportunities. Leaders are evaluating succession plans, forming Employee Stock Ownership Plans and starting investment groups such as Tricouni to build financial, intellectual and social capital.

"They are all tools in the toolbox," said Lee Hanson, attorney at Gray Plant Mooty law firm in St. Cloud.

He helped lead efforts to start the Anderson Entrepreneurial Center, aimed at grooming the next generation of leaders and businesses, and Granite Equity Partners investment firm in St. Cloud.

Outside owners play a key role in the local economy, accounting for more than half of St. Cloud's 15 largest employers. Leaders recognize the challenge

is not to prevent mergers or acquisitions, but to foster the next generation of homegrown businesses and their leaders.

A critical time

The tools become critical as a large number of baby boomer business owners prepare to retire. The number of business owners in that group is expected to more than double to 750,000 by 2009 from 350,000 in 2006, according to a 2001 study that NFO WorldGroup market research and consulting firm updated in 2006.

One-third of those owners plan to sell to an external buyer, and another one-third is betting on a family member, according to the survey. About 18 percent plan to sell to their employees.

The path those business owners take will make a difference.

The older generation of local leaders has refurbished the Paramount Theatre, created the Coborn Cancer Center and

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LOCAL RESOURCES

► ANDERSON ENTREPRENEURIAL CENTER

LOCATION: St. Cloud.

SERVICES: Classes on growing your business and refining your leadership skills. Classes include: Emerging Companies Forum, Managers' Forum, Owner-President Forum.

PHONE: 320-251-5420.

WEB SITE: www.haec.org.

► ST. CLOUD SCORE CHAPTER

LOCATION: St. Cloud.

SERVICES: Workshops on Going Into Business, QuickBooks, marketing and finances. Provides business counseling.

PHONE: 320-240-1332.

WEB SITE: www.stcloudscore.org.

► INITIATIVE FOUNDATION

LOCATION: Little Falls.

SERVICES: Provides nonprofit grants and business loans in its 14-county area. The Technology Capital Fund is one of its five loan programs.

PHONE: 320-632-9255.

WEB SITE: www.ifound.org.

► CENTRAL MINNESOTA COMMUNITY FOUNDATION

LOCATION: St. Cloud.

SERVICES: Emerging Leaders Forum — a local philanthropic group for people in their 20s, 30s and 40s; it facilitates philanthropy through a variety of vehicles and funds.

PHONE: 320-253-4380.

WEB SITE: www.communitygiving.org.

coverstory

supported agencies that help needy families.

In 2005, those leaders asked who's next and hoped to find the answer at the Emerging Leaders Forum. The philanthropic group, started in 2005 by the Central Minnesota Community Foundation, has raised more than \$40,000 from membership dues and community grants and donated most of that money to local youth and safety programs.

"You can measure the heart of a community — just like the heart of a human — by how well it takes care of its poor people and underprivileged, and what it does to create a safety net under them," Hanson said.

Giving at the Community Foundation continues to grow. Its assets tripled from \$20 million more than eight years ago to \$60 million today.

The sales of local businesses boosted philanthropy. The typical donation upon a business sale ranges from \$100,000 to \$500,000, said Steve Joul, president of the Community Foundation. Some former Herberger's executives chose to diversify their stock holdings and set up charitable remainder trusts for their tax advantages and ability to give back to the community, Joul said.



IN TRAINING: Darin Golombiecki checks binding and printing of a Neiman Marcus catalog at Nahan Printing. Golombiecki is in a training program for future leaders in the company. PHOTO BY JASON WACHTER

insurance agents.

"You're growing, and every day, someone cuts off the branches," said John Babcock, an attorney at Rinke Noonan law firm in St. Cloud. "The question is how to accelerate growth despite the loss of those branches."

Grooming leaders

Business leaders often feel a responsibility to their employees and customers and would like family members to take over ownership.

business to secure the company's future.

"Even before they get into the business, they should be thinking about the end," Babcock said.

Linda Linn remembers binding and delivering orders, sweeping floors and cleaning toilets at her parents' printing company when she was as young as 6.

"We did anything that little kids can do," said Linn, executive vice president of Nahan Printing in St. Cloud, one of the area's 10 largest employers.

"We learned at a very young age to work together as a family and for the good of the job that has to be done," Linn said.

Linn brought her son to work with her at a young age and had him shred papers, sweep and do clerical duties. Now in his 20s, he works full time at Nahan and attends leadership training.

But Nahan goes beyond family to groom the next generation of leaders. The company started a program called First Things First a year ago to prepare interested employees for leadership positions. About 120 of the company's almost 600 employees attend leadership classes.

The company promoted 70 employees last year and five of them to key management positions.

THE NUMBER OF BUSINESS OWNERS PREPARING TO RETIRE IS EXPECTED TO MORE THAN DOUBLE TO 750,000

BY 2009 FROM 350,000 IN 2006, ACCORDING TO A STUDY BY NFO WORLDGROUP.

Longtime radio station owner Andy Hilger sold four of his stations to Regent Communications Inc. of Covington, Ky., in 1999. But he donated his two-year-old Christian radio station, Spirit 92.9, and its parent company, Gabriel Communications, to the Diocese of St. Cloud in 2000. The \$2.7 million gift was the largest donation made to the diocese at the time.

But the loss of locally owned companies has a ripple effect, particularly because those companies no longer rely on local lawyers, accountants, banks and

"That's the preferred outcome of almost all business owners," Babcock said. "It's kind of the unspoken dream of all of them."

Owners recognize an outside owner can lead to a loss of employees, clients and a local location, and they are reluctant to expose their business to that.

"It's almost like one of their children," Babcock said.

When owners are in their 40s, they should identify a person within the family and engage that person in every level of the

"We want our leaders to own their departments," Linn said. "It's like they are running their own isolated company."

When business owners wait too long to groom leaders and don't see a family member stepping up, they look to outside buyers.

But "the right buyer is not necessarily the one with the most money," Babcock said.

Anderson Entrepreneurial Center offers succession-planning classes to help business owners develop and execute an exit strategy.

The center also strengthens Central Minnesota by educating business leaders

through classes such as its Managers' Forum. The Managers' Forum, started in fall 2003, helps area managers explore the role of each business function and prepare for executive positions.

Looking to employees

When Larry Meyer prepared to sell his St. Cloud marketing agency, Meyer Associates, he knew his daughters were not interested, so he turned to his employees. He decided to form an Employee Stock Ownership Plan, or ESOP.

ESOPs transfer ownership to key managers and provide employees benefits for retirement.

Five years ago, Meyer sold 40 percent of the company to the ESOP and identified five managers interested in investing. They bought 7 percent of the company's shares then with the promise that Meyer would match their contribution if they stuck with the company until he retired. They did, and now they own 14 percent of the company. The ESOP owns the remaining shares.

Meyer and his wife, Peggy, have a history of selling their companies to local interests. The couple in 1998 sold Meyer Commercial, then the largest commercial real estate firm in Central Minnesota, to Merit Leasing of St. Cloud. They sold Meyer Marketing to two employees in 2000.

Meyer took his cues on forming an ESOP from Marco founder Gary Marsden. Marco shifted to partial ESOP ownership and partial management ownership in 1989 before becoming entirely employee-owned in 2001. The move led to solid sales and increased profitability for the St. Cloud business supply company, Marsden said at the time.

The St. Cloud area has a long history of transferring ownership to ESOPs, with Traut Wells being among the first to make the move, Hanson said.

But ESOPs are becoming more popular. Creative Memories, Automotive Parts Headquarters, DCI, Stearns Manufac-

turing, Industrial Products and Wilkie Sanderson recently formed ESOPs.

"There is a growing trend to have employees have a greater stake in the outcome and have a piece of the pie," Babcock said.

Making an investment

Local investor groups have surfaced in the past five years to help businesses grow with a shot of capital.

In 2001, about 80 investors pooled their money to form Granite Equity Partners in St. Cloud and started a 10-year fund to invest in businesses worth \$10 million to \$30 million. The first five years are focused on investing in the businesses, and financial growth is expected in the second five.

Most of Granite Equity's board members represent family-run businesses that have grown in the St. Cloud area in recent decades.

"We were seeing all our best companies become foreigners," said Hanson, a member of Granite's board and an investor.

Granite Equity invested in seven companies from the first fund and collaborated with other outside investors on some of those ventures. Granite Equity's most well-known effort is returning the DeZurik valve plant in Sartell to local ownership, but not all of its investments are in Central Minnesota.

Investors last summer sold Granite Equity's first company from the first fund, Unique Screen Media, to New Jersey-based Access Integrated Solutions.

All of the investors received a significant return on their investment and committed to starting a second fund this year, said Rick Bauerly, principle at Granite Equity. The company plans to invest in 10 to 12 businesses, and in January it invested in two Minnesota companies, All Flex of Northfield and Circuit Tech of Maple Grove.

Tricouni and Clear Path Investment

Continued on Page 12 ▶

FAQS ON ESOPS

▶ HOW DO THEY WORK?

Companies typically borrow money from a bank and lend it to the plan. Then the Employee Stock Ownership Plan buys stock from one or more existing shareholders. After the purchase, the company makes an annual tax-deductible contribution to the ESOP, and the previous owner receives a payment from the bank.

▶ CAN I DO A PARTIAL ESOP?

Business owners need to sell at least 30 percent of the company to the ESOP.

▶ HOW MUCH DOES IT COST?

Drafting a plan and related documents costs about \$25,000, and the initial appraisal costs about \$10,000. Private companies pay for ongoing administrative costs to keep records on the shares as well as an annual appraisal, which costs about \$4,000.

▶ IS MY BUSINESS A GOOD CANDIDATE FOR AN ESOP?

Before pursuing an ESOP, a company needs to demonstrate stability, predictability and a solid management team. Typically, companies with fewer than 40 employees are not good candidates for ESOPs. Service or professional businesses can be small, but manufacturing companies should have about 200 employees.

Source: John Babcock, an attorney at Rinke Noonan law firm in St. Cloud; Lee Hanson, partner at Gray Plant Mooty law firm in St. Cloud; Marty Moran, president of Clear Path Investment Partners and Clear Path LLC in St. Cloud; Larry Meyer, founder of Meyer Associates Inc.

NINE INVESTORS FROM TRICOUNI ENTERPRISES BOUGHT THE NAMING RIGHTS TO MEETING GROUNDS IN NOVEMBER AND ARE REVIVING THE ST. CLOUD AREA'S ONCE-DEFUNCT BUT POPULAR COFFEE CHAIN.

Partners have similar missions, but they focus on smaller companies, worth \$1 million to \$10 million.

St. Cloud RAIN Fund invests in local high-growth startups and expansions in technology and manufacturing. Local investors collaborated with an established statewide equity to form the fund in October 2005. Members manage each RAIN fund. RAIN is an acronym for regional angel investor network.

Tricouni's nine investors bought the naming rights to Meeting Grounds in November and are reviving the area's once-defunct coffee chain. In January, the company reopened the former Meeting Grounds in Waite Park.

The acquisition diverts from the company's focus on growing and holding local companies, but Roth said Tricouni wanted to carry on the Meeting Grounds name and expand the brand because of its history in the St. Cloud area.

Tricouni also bought Stone Holding Co., a wholesaler of natural stone products. The previous owner wanted to retire and did not have family members to take over the business.

Roth now serves as president of the company and plans to add employees within the next year.



OPEN: The Waite Park Meeting Grounds has reopened next to Great Harvest Bread Company. PHOTO BY KIMM ANDERSON

Tricouni plans to acquire one more business this year and hopes to create a portfolio of seven companies — all growing at double digits — within five years, Roth said.

But these investment groups are not just about providing the dollars. They also are focused on serving on boards and steering strategic goals.

"If there is someone who is just looking for money, it's probably not a good fit," said Marty Moran, president of Clear Path Investment.

Moran started the investment group in October 2005 after seeing a need for capital while working with companies through his management-consulting company, Clear Path Consulting. Clear Path is evaluating two investments in Central Minnesota and expects to invest

in four businesses in the Midwest with the 10-year fund.

Providing guidance

Moran also leads a new program at Anderson Entrepreneurial Center aimed at helping entrepreneurs take their businesses to the next level. The Emerging Companies Forum, started in late February, assigns a mentor to participating business and involves a network of some of the area's most notable leaders to provide advice — and help secure financing when necessary.

That advice otherwise usually comes with a hefty price tag and is out of reach for many entrepreneurs, preventing them from growing and sustaining their businesses.

Justin Wampach started Adjuvant Technologies in 1998 with a local physician

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and created an electronic on-call scheduler for doctors. But soon the company realized scheduling was subjective, and a rule-based program did not best meet needs of its medical customers. The small company developed a blueprint on how to produce a customized program and is seeking funding to bring the product to market.

Adjuvant is the first of up to four companies Moran expects to help this year through the Emerging Companies Forum.

Wampach expects involvement in the Emerging Companies Forum will help refine Adjuvant's plans and bring it to the marketplace. That will grow the company and add technology-

related jobs.

Obstacles ahead

Efforts of these local leaders boil down to bringing jobs to the community and tapping well-educated college graduates of St. Cloud State University, St. John's University, College of St. Benedict and St. Cloud Technical College.

Babcock sees opportunities in St. Cloud State's computer science program and believes the community needs to encourage those graduates to become entrepreneurs. Potentially 95 out of 100 of those businesses will fail, he said, but the five that will survive are key to growing high-paying jobs, boosting local control and strengthening the economy.

Often regulations and the hoops that entrepreneurs need to jump through stand in the way, leaders said. The Anderson Entrepreneurial Center, St. Cloud SCORE Chapter and local attorneys try to streamline the process, but Babcock said changes need to be made on the state-government level to provide a one-stop shop to get applications and file necessary paperwork. That would prevent entrepreneurs from failing to meet requirements and facing costly consequences that could cripple a business.

"We can't allow that environment to exist because that's what's disheartening to businesspeople," Babcock said. **ROI**

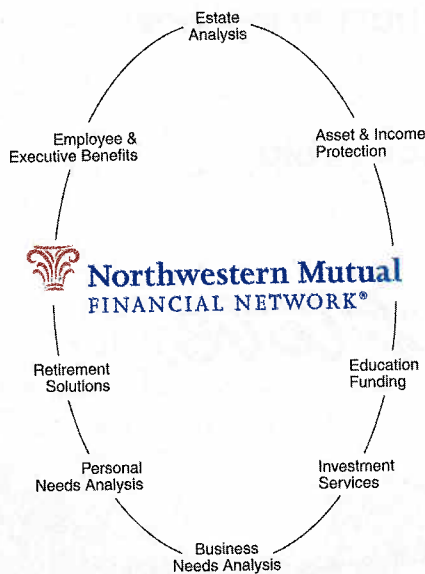


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