

BEYOND THE POWER OF ONE: LEVERAGING YOUR BUSINESS

Some business owners are sitting on a time bomb – or, more accurately, an age bomb. As baby boomers start to think about the next stage of their lives, some will be confronted by some harsh facts:

- There will be a glut of businesses in the market
- There are fewer willing buyers among the baby boom tail-enders and people born in the 1960's

Suddenly, the retirement nest egg feels hollow. Many people have ploughed their profits back into the business in the expectation that they would recoup it (with interest) when they come to retire. The simple law of supply than demand means the sale price will go down.

This is not an issue for the distant future: it is happening now. We work with a number of people who have experienced this reality. For many, the disappointment has been even greater because the attempted sale process has forced them to confront the fact that they really have nothing to sell because the business fundamentally depends on them as the owner. In other words, there is no leverage in the business.

Check yourself against this list:

- My best customers/clients expect to deal with me because I know them and they know me
- Over the years I've worked out the best way of doing things, and it's always quicker and cheaper for me to do it myself
- Most of my new business comes from referrals from people who know and like me
- My business is too small to bother about business planning: we know what we've got to do and we just get on with it
- Our business processes are so well-established they're second nature to the team, and they've never had to be written down.

If you ticked two or more of the above, the business is not leveraged and is therefore worth very little without you in it.

When you come to sell your business you will either have to drop the price or stay on as an employee or part-owner for an agreed period of years so the new owners can learn what you know.

None of these are attractive options. Just when you want to start doing something else, you will have to go back to basics and show new people how the business works.

What's the solution? In my view, every business owner should have an exit strategy, even if (especially if) they aren't going anywhere.

An exit strategy forces you to think about the fundamentals of your business. The starting point with an exit strategy is to think about what the business will look like when you decide to sell. You're then thinking of it in terms of an entity that is separate from yourself, and that paradigm shift is the first and fundamental step. You then work on how to create that entity out of today's business.

The exit strategy makes you think about exactly what you are selling, which is primarily the goodwill in the business. The goodwill will translate into greater saleable value if it represents leverage through:

- Your customers' relationship with your brand, product or service, rather than you personally. Customers will continue to purchase whether you or someone else owns the business, meaning that there is greater certainty of revenue
- Reliable production processes that others can perform rather than your personal technical expertise. The product or service will continue to be produced to the same standard when you have gone, which creates greater revenue and cost certainty
- Documented marketing systems and processes as opposed to your experience of what works in the industry. The new owner doesn't have to re-invent the wheel, and can tweak business strategies with confidence
- Formal performance management systems for your team rather than your personal knowledge about how to get the best out of your individual staff. The new owners can have confidence that the staff will continue to do their job to the same standard as when you were there
- A definable, positive organisational culture rather than a reflection of your personality. Culture is how people behave when you're not there, and it is a product of a clear vision, a strong business model and values that fit the organisation

Does this sound like too much fuss and paperwork for what is really a simple business? Perhaps it is, but there are a couple of things to remember. First, lots of complicated things look simple when you have worked them out. It doesn't mean they're simple to someone from outside. Second, you don't have to spend the time to organise your business now, so long as you accept you won't have as much money to spend from its sale. In this case, you would be well advised to take as much out as you can while you can, and invest it in different wealth creation vehicles (eg property, other business etc).

The first step is to set a timeframe for transferring the goodwill from yourself to the business. Generally it takes 2-3 years but the good news is that very often process reviews lead to immediate efficiency gains and cost savings.

The next step is to identify the high priority areas, ie those that have the most impact on the value of the business. For many that will be the marketing and/or production processes. These processes have to be identified, reviewed and documented.

Along the way, there will be technical areas to clean up, such as ownership structure, tax structures and issues, historical “deals” with key customers and suppliers (you will probably need help from your accountant and your lawyer with these). Many of these issues get put in the “too hard” basket. Take them out of there and put them in your “to do” list, as these are precisely the kinds of messes that at worst deter a buyer completely and at best cause them to reduce their offer.

Planning is the easy part. The real rewards come from implementing the plan in a steady, focused way that gets things done without disrupting business as usual. In our experience to get to the next level most owners need to:

- formulate their goals with greater clarity
- work within a formal structure that provides focus as well as improvement strategies
- become personally accountable for proactively improving their business processes and outcomes
- operate a formal planning and review process that helps them see how far they’ve come and what else needs to be done

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