MAXIMIZE BUSINESS VALUE PODCAST - EPISODE 90 Transcript

1 (5s):
Welcome to the maximize business value podcast. This podcast is brought to you by Mastery Partners, where our mission is to equip business owners to maximize business value so they can transition their business on their terms. Our mission was born from the lessons we've learned from over 100 business transactions, which feels our desire to share our experiences and wisdom. So you can succeed. Now, here's your host, the CEO of mastery partners, Tom Bronson.

0 (35s):
Hi, this is Tom Bronson and welcome to maximize business value. A podcast for business owners who are passionate about building long-term sustainable value in their businesses. This episode is part of our series on getting your business ready for 2020 to bring it on baby. Well, it's here, whether we're ready for it or not. Business planning is something that too often takes a back seat to the day-to-day of running a business, particularly in small businesses in this series, we've talked about budgeting, succession planning, building at green box and growth.

0 (1m 15s):
Today, we're going to start a, two-part close to this series where I'm going to give you 22 things, 11 things this week and 11 next week for you to do in 2022 to maximize your business value. If you've been listening to this series, you'll find a few things we already addressed peppered in, but there is much, much more. So here we go. Number one, create your business like an investment. A business is an investment. It's not a job. It's not a child.

0 (1m 55s):
It's an asset. Many business owners start their businesses because of some need. Perhaps it was a need for a new product or a service, perhaps it was a need to secure income after a job loss, perhaps it was simply to be the boss way back in the beginning. It was exciting. It was new nearly every day. It's stretched you beyond any reasonable comfort zone and every owner dreams about the day that they'll be able to sell their business and retire rich. Unfortunately, somewhere along the way, perhaps once the desired income was reached, it became a job for most business owners.

0 (2m 41s):
The business became successful by society standards and the business owners started enjoying all of the trappings of being a successful business owner. It's at that very same moment that the owner stops thinking about the business as an asset and switches to what I call maintenance mode. They need to maintain their standard of living. So maintenance and risk aversion are the new mantra. Well, there's nothing wrong with having a business that delivers a great lifestyle. In fact, it's a wonderful thing, but in fact, it's just a stable job.

0 (3m 24s):
After all over time, the business owner starts thinking about the business as a child. How many business owners have described their businesses as their baby? Well, I'm sorry to say, it's not, it's not a child. It's not a baby. It's an asset. It's an investment. The business owner invested time and money to build this business. And it's likely to be their most valuable asset and business owners should treat it like an asset. An asset needs care and attention, just like a home or a boat or a classic car.

0 (4m 7s):
When those assets need attention, we perk up and take action. A business should be no different. And business owners should take action every day, every month, every year to increase the value of that asset. So that over time, once the transition occurs, it will keep delivering the lifestyle they have become accustomed to and deserve. Number two, what would your business is worth? The number one reason most transactions fail to

reach the finish line is that most business owners don't understand the enterprise value of their business.

0 (4m 48s):
The simple fact is that most business owners have an unrealistic expectation of enterprise value. They haven't taken the time to understand how businesses are valued in their space or obtain an estimate of the value of the business. And that's a big mistake. We provide an annual valuation update for our clients to ensure they're tracking in the right direction. It's important to have the right expectations when it comes to enterprise value. Now we provide a free estimate of enterprise value to any business. Just click the link at the bottom of our website, masterypartners.com. And by the way, we're also starting a new maximize business value masteryclass participants in that class get an opinion of enterprise value.

0 (5m 38s):
So if you sign up, you can cross this one off the list. More information is available at www dot M B V. The like maximize business value, MBV mastery, class.com. Number three, know your numbers. Every business owner needs to know their numbers, but you can't know them unless you get financial statements in a timely fashion. So let me ask you, how frequently do you get your financial statements? Now I'm astounded by the number of times, I've talk with business owners who say they don't use interim financial statements.

0 (6m 19s):
Instead they get them a year in when the accountant does the taxes business owners need to review the financial statements on a routine basis, at least monthly by the 15th earlier, if possible a financial statement is nothing more than a history book, but it's a history book that can give you clues to the changes that need to happen to hit your financial targets. The quicker the owner has the information, the more likely they can change course. Now there's not a lot of action you can take on history. If it's not fresh, the quicker you get your financial statements closer to the beginning of the month, the more likely you can take action on something that doesn't look right.

0 (7m 6s):
So if you get pushback from finance and accounting, who might think it's just too hard to produce in 10 or 15 days, challenge them to set a target for minor improvements and then relentlessly monitor their progress. I'm here to tell you that if we could do it in some of some of my ridiculously complex businesses, anybody can do it. It is easier than you think. If you just get started, be proactive about your financial statements by the 15th business owners who look back months later, find it really hard to remember the details.

0 (7m 47s):
Number four, budget for 2022, taking the time to plan a budget, forces you to think strategically about your business. If you have trouble getting out of the day-to-day of running your business, I encourage you to step back and take a day right now to focus on the future. You'll thank me in a year, setting a budget is like setting a target. Imagine if you will running a marathon that has no finish line. Well, that's what it feels like. If you don't have a budget, budgets help you set goals for revenue and expenses, and we'll give you a measuring stick to monitor your progress.

0 (8m 33s):
Now I'm a huge fan of setting an aspirational, but realistic budget. If nobody believes the budget is achievable, then it gets challenging to hold managers accountable, which leads me to number five, share the budget. Your company's budget is no good. If it just sits on a shelf collecting once you have it, use it, share the budget with key people in the business and hold them accountable for the results it helps to create and use a scorecard that shows key results compared to the budget. Once you assign the numbers on the scorecard to key individuals they'll know exactly how their results are being measured.

0 (9m 19s):
Creating the budget should be a team exercise. Otherwise the team will resent the numbers and it will give them every opportunity to make excuses for missing the budget. If the group is involved in making the budget, it becomes their budget, not the owner's unrealistic numbers. And if it's their numbers, it's easy to hold them accountable. Number six, measure return on investment on everything. The long running

joke in my businesses is that if I couldn't articulate the ROI on toilet paper, we would not purchase it. Fortunately for all my employees.

0 (10m 0s):
And for me, I understand the ROI of toilet paper. If you don't understand it, give me a call. I'd be happy to explain it to you. Of course, this is just a tongue in cheek example, but it does point up an essential tenant of my business philosophy measure ROI on everything. Fundamentally, the reason every business owner starts a business is to get a return on the investment. Perhaps that investment is capital or time, sweat equity, or a combination of both, but every owner wants a return on their investment at the end of the day, why shouldn't that apply to everything else?

0 (10m 43s):
Now a huge risk taker. I have very few barriers to making investments, just ask my wife, Phil Italia. However, I only pull the trigger on investments. If I can clearly articulate the return on that investment. This guiding principle is especially true. The closer a business is to transition any investment made that does not deliver a return before the anticipated transition lowers enterprise value. Now, on the other hand, investments that start paying returns before the anticipated transition will provide a strong argument for increased enterprise value.

0 (11m 25s):
It's worth mentioning that not every investment returns cash, some investments reduce time to preserve this for adults, which lowers costs, which ultimately returns cash and value. So business owners should base investment decisions on a myriad of factors, but ultimately dial them down to the things that increase business value. Number seven, review your corporate documents for goodness sakes and make sure that everything is in order. Every business has corporate records and many businesses keep those records in a corporate records book.

0 (12m 7s):
However, you keep your a book or in a file wherever you keep them are your corporate records up-to-date unless you're in the tiniest minority of businesses. The answer is

probably no. Now we talked to hundreds of business owners each year, and I always ask that question. When we start our signature transition readiness assessment engagement, that's one of the first questions out of my mouth of the hundreds of TRAs we've completed. The most common answer we hear from our clients is no, occasionally we hear almost, but they haven't been updated for this year.

0 (12m 51s):
These records should include organizational documents, corporate filing receipts, stock certificates, stock ledger, soon names, certificates, board minutes, corporate resolutions. And if you have bank debt, you surely have signed a corporate resolution authorizing that, that for the bank and much more. If the business is not required to maintain certain records like board minutes, for some types of businesses, it's always a good idea to maintain them anyway. So why is that important to the value of a business? Now, the fact of the matter is that every business on the planet will eventually transition when it's time for a business to transition.

0 (13m 37s):
Particularly if that business sells to a third party, the buyer will put the seller through what we call due diligence. Now there's lots on due diligence and you can go back to prior podcast on the dreaded due diligence. But the due diligence process of reviewing is, is a process of reviewing the corporate business records to ensure that the seller has appropriately represented the business. However, having been through the due diligence process over a hundred times in my businesses, I can tell you that due diligence is designed for one thing. And one thing only to adjust the purchase price.

0 (14m 18s):
One of the first things a buyer will ask for and due diligence are the corporate records. If the corporate records are incomplete or unorganized, the buyer will dig in because that is a sign that perhaps additional things are not being properly maintained. This disorganization will make the buyer wonder what else they're going to find. Now, on the other hand, when records are organized and accurate, this indicates to the seller that the documents are in order and moves the process along much faster. Disorganized records just slowed down due diligence.

0 (15m 1s):
And if there's one thing a seller wants, it's a speedy due diligence process, the quicker, the due diligence, the faster, the closing. So get your corporate records in order number eight, settle any outstanding legal disputes, lawsuits accomplish one thing for sure, they make lawyers rich. Okay, now that's a cheap shot and most lawyers don't deserve it, but the good ones would probably agree in my experience. Most lawsuits are not worth the effort. I have a hard time thinking of a really good reason to file a lawsuit, but it's taken me a long time to get to that opinion.

0 (15m 46s):
And I've filed lawsuits and fought legal battles on principle before. And in retrospect, almost none of them were worth tens of thousands of dollars in legal bills and the countless hours of discovery, depositions, and trial prep that distracted me from running my business. Let me give you a great example that stands out for me many years ago, a customer filed a lawsuit against one of my businesses alleging that our product destroyed his business. And after repeated attempts to settle the matter the client would not budge unless we refunded his entire purchase price because we had a firm legal standing in the matter.

0 (16m 30s):
And unfortunately it boiled down to a matter of principle for me. We stood our ground and fought the suit. We eventually won in court, but the judge even admonished me for not settling the matter before it got to his courtroom, the nerve. So let's analyze what we won. The original sale of the product to the customer was a little under $15,000. It cost us over $30,000 in legal fees and hundreds of hours and time was it worth it? You do the math look, we live in a highly litigious environment.

0 (17m 12s):
Lawsuits will come up from time to time. Business owners should think rationally defined a way to settle them amicably, especially the closer the businesses to a transition. Any business caught in a legal dispute will find it hard to transition in the business value could suffer in the meantime, number nine, make corporate culture a

priority. You know, it's the little things that mean everything. When a business owner adds up all the little things, they have the equation for their corporate culture.

0 (17m 52s):
Now I happen to think that the most important role of any CEO is to be the chief culture. Officer culture is not an event or even a series of events. It's a way of life. A friend of mine recently defined a corporate culture as how people act when no one is watching. I love that early in my career, I learned from one of my many mentors that if a business owner takes care of their people, they will always take care of the customers. And you don't have to look very far to find one of the thousands of studies on what motivates people.

0 (18m 35s):
And most of those studies show that money comes way down. The list of things that motivate people recognition. On the other hand, almost always appears at the top of those lists. So think about your culture. A business with a great culture always drives higher value than one with a toxic culture. Number 10, coming around the last curve here, cross train your employees. Cross-training employees is always a good idea in any business, but it's essential in small businesses. Many small businesses have only one person trained to do various tasks and most haven't documented those processes.

0 (19m 23s):
So one person and no documented processes, that is a dangerous combination. What happens when that one person who knows the critical process is in an automobile accident or has a prolonged illness that keeps them out for weeks or even months. Of course the business will muddle through and will probably survive, but not without a great deal of unnecessary pain and suffering through the years. I found that when I cross train all employees, they love it from their perspective. It's a benefit to be cross-trained in areas where they might be interested and get projects that the business is proactive when it comes to their stability and wellbeing.

0 (20m 10s):

And by the way, cross-training means you to suppose all the tribal knowledge that resides in the owners head is not documented elsewhere. In that case, the business may never be able to transition. And at the very least it will be less valuable. So take the time to cross train your people. Finally, for today. Number 11, implement incentive plans throughout the organization. It's almost always a great idea to put incentive plans in place at every level in the organization.

0 (20m 51s):
Most companies have incentives in place for sales and for management, but not throughout the rest of the organization. I get it because it's hard to develop a good incentive plan. One that drives results at all levels in the organization. However, businesses that find a way to provide incentives, to achieve results in every functional area, drive greater results and ultimately higher value for the business. So it's important that incentives be tied to results and not become some sort of entitlement. That's not tied to a specific target. The best way to do this is to determine the most important objectives for each job in the organization, objectives that drive higher value for the business and then tie incentives to them.

0 (21m 40s):
And there should always be a profitability component. It doesn't make sense to pay incentives if the business is unprofitable. So the objectives should have some earnings component incentives don't have to be monetary either. There are all sorts of creative ways to provide incentives to employees. I've used parties, lunch trips to bowling alleys, and even a dunking booth on a rather cold day in Chicago, much to my chagrin, as incentives to achieve team target studies show that most employees are not money motivated.

0 (22m 20s):
I already mentioned that. So find out what motivates the team and use that as the incentive get clear about your objectives and the levers that drive value. So you can use them to put incentive plans in place. So there are 11 things you can do right now. Next week, I'll give you a 11 more. So you'll have 22 things you can do to maximize business

value. In 2022, this is the maximize business value podcast, where we give practical advice to business owners on how to build long-term sustainable value in your business.

0 (23m 4s):
Be sure to tune in each week and follow us wherever you found this podcast. Give us a comment or a suggestion on a future podcast promise we will respond. So until next time, I'm Tom Bronson reminding you to get your 20, 22 on while you maximize business.

1 (23m 27s):
Thank you for tuning into the maximize business value podcast with Tom Bronson. This podcast is brought to you by mastery partners, where our mission is to equip business owners to maximize business value so they can transition on their terms, learn more on how to build long-term sustainable business value and get free value building tools by visiting our website, www.masterypartners.com that's master with a Y masterypartners.com. Check it out.

0 (24m 13s):
That was perfect. I wouldn't make any changes.