MAXIMIZE BUSINESS VALUE PODCAST - EPISODE 233 Transcript

(1s): Tom Bronson

Welcome to the Maximize Business Value Podcast, brought to you by Mastery Partners, where our mission is to equip business owners like you, to maximize your business value and achieve the exit of your dreams, whatever that means to you. With insights gained from over a hundred business transactions, we share real world strategies, lessons, and expert advice to help you build long term sustainable value in your business. Each episode is hosted by one of our Mastery certified partners, their seasoned experts who've helped countless business owners navigate the complexities of growth, scaling, and building value.

(45s): Tom Bronson Cont.

They bring firsthand experience, actionable insights, and a passion for helping you build a business that thrives. So, let's dive in.

(57s): Dave Casey

Hi, this is Dave Casey, and welcome to Maximize Business Value. This is a podcast for business leaders who are really passionate about growing their business and, and building long-term sustainable value in their business. So this show is really intended for business owners who are serious about this type of their, this aspect of their business and making their business future ready. So, my name is Dave Casey, and today we're pulling back the curtain on one of the, I would say, one of the most overlooked things in business values sales, and how it's evaluated in our transition readiness assessment or the TRA.

(1m 38s): Dave Casey

So, joining me today is one of our seasoned experts from Mastery Partners, Darren Williams, to walk through what makes a sales organization value rich or value risky, and how business owners can benchmark where they are today. So welcome, Darren,

(1m 54s): Darren Williams
Dave. Yeah, thanks for having me. I look forward to digging into this today. Yeah,

(1m 59s): Dave Casey
So we're, we're both, I think came from the kind of the sales side of the world. So this is kind of old hat for us, but doesn't mean we haven't made mistakes along our careers as well. But really, I'm gonna start with the basics. So for those that are new to the concept, what is the TRA and why is that a game changer for business owners?

(2m 19s): Darren Williams
Yeah, so yeah, great question. So the TRA is, it's the transaction transition readiness assessment, right? And, and really the way I describe that is it's, it's our way of coming in and performing due diligence on your entire operation, top to bottom, soup to nuts. And really what we're looking for is several things. Ultimately, we're looking for gaps in the organization. We're looking for what's great. We're looking for secret sauce, what makes you valuable, what you do better than anybody else, but we're those things. To sit down at a table with a buyer might kill the deal, right?

(3m 3s): Darren Williams
Might derail the whole transaction because those things happen. And, you know, among the partners at Mastery Partners, we've all had similar experience with mergers and acquisitions and buying and selling companies from, from different angles, but we've all seen deals get derailed Oh, yeah. For different

(3m 23s): Dave Casey
Reasons. And it's that, so that's really

(3m 24s): Darren Williams
Blind spot.

(3m 25s): Dave Casey
Yeah, yeah. That blind spot that maybe the owner can't see until suddenly somebody from the outside looking at their company goes, whoa, stop.

(3m 35s): Darren Williams
Right? Or something they may not think is a big deal. They think, well, I mean, we do lots of revenue, we have lots of sales, what's the big deal? But then a professional buyer comes in and, and it is a big deal, right? Yeah, definitely, definitely. Whatever that

thing might be. And sometimes it's compliance, sometimes it's something legal, sometimes it's systems and processes, right? You bet.

(3m 54s): Dave Casey
Well, today we're gonna be talking a little bit about sales. So I'm gonna kind of zoom in on that, that portion of the TRA. So one of the questions that we ask is, do you have recurring revenue? And If so, what percentage of your revenue is recurring? So why is that such a big deal from the buyer's perspective?

(4m 13s): Darren Williams
Yeah, so, so really one word that we kind of wanna zoom in on is this idea of predictable, right? So think of recurring revenue, and frankly, not every business has recurring revenue, but think of it like a subscription model, right? It shows up every month. It's, it's, it is that very idea of recurring,

(4m 36s): Dave Casey
It's automatically billed. Really, the customer probably doesn't even think about it. They just, they just, you know, it, it's, it's buried in their books somewhere. So they're not conscious really, that they're purchasing on a monthly basis.

(4m 48s): Darren Williams
Yeah. Like a, a great example is like your Netflix account, right? It, it hits your credit card every month. Netflix bills you every month. It's just kind of there and it's absolutely recurring. So recurring revenue, when, when you start, again, start talking about mergers and acquisitions, recurring revenue is more valuable than other types of revenue. So if you can ever get a piece of that in your business, the more you have, the more valuable it's,

(5m 14s): Dave Casey
Yeah. And I, and I've seen that lead to much higher multiples. When you start looking at multiples of ebitda, if, if that EBITDA was generated by recurring or say a hundred percent recurring revenue, that business would, generally carry a higher multiple, I would think.

(5m 29s): Darren Williams
Yeah. Typically that's the case. And if you have a significant number of, or percentage rather, of recurring revenue, it's like, we might even consider breaking that out and valuing this revenue one way and the rest of the revenue a different way. Yeah. Yeah.

Especially if there's different divisions in the company. It's that level of detail you really wanna get into and prepare for.

(5m 50s): Dave Casey

And certainly buyers will do that. So, and like I said, what, what, what our job is, is to take a business owner through this process, well, before they, the buyer actually takes 'em through the process. So, so that there aren't, there shouldn't be surprises when we, when we get into that. So, the next topic I want to tackle myself, and you can weigh in what you've seen, but we, we definitely ask if, if every customer is under a contract relationship with, with a company, and I've got plenty of companies that I've dealt with over the years. They say, well, we, we just have loyal customers, you know, we don't wanna ask them to sign a contract with us.

(6m 30s): Dave Casey Cont.

We think that'll, that'll get between us and our customer. And that, that, you know, they're, they're gonna question why are we doing that? And, and those type of things. But what, what's the, what I've seen is that there's, there's a difference between loyalty and contract obligation. And again, the buyer looking at it, he doesn't know the history. He, you can describe it to him, but he doesn't really know what happened. And you could say, well, you've done business with x, y, Z company for 10 years, never had a signed contract with 'em. They're free at, you know, they can go do business with anyone they like tomorrow morning. They're gonna, they're gonna discount the value of that business, I would think and just say, you know, because you're not under contract with 'em, no matter how loyal they are, no matter what the track record is, if you don't have that contract, you're, you're probably gonna have some issues.

(7m 20s): Darren Williams

Yeah. And I think the important thing is there's all different types of businesses, right? So if you're a software business that's very different from retail, very different from, you know, maybe, you know, what we call the trades, you know? Yeah. So home services, that type of thing. So, and it's possible that, you know, whatever the industry standard is, maybe these conditions apply or don't apply, you know, in your industry. But to go back to your point about the TRA, it's like, these are the things we wanna discover. Yeah. And we don't wanna discover that we're outside of the norm for our industry sitting at the deal table.

(7m 57s): Dave Casey

Yeah. Yeah, that's true. And, and, and that probably would prevent you doing a lot of, of, legwork and tracking stuff down for something that's gonna be immaterial to the buyer too. If you know the type of buyer that might go after that company, then, but I, I guess I always default to try to get all the ducks in the row that you can see, see what we can do there. Another question we ask in the TRA and, and, and I've had business owners ask me, why is this important? But what percentage of your revenue comes from your top 10 customers? Why is this important in your eyes?

(8m 36s): Darren Williams
Well, we're, we're looking for, you know, we're looking for concentration, right? And, the reason we're looking for concentration is risk. Right? And, you know, it's funny, I mean, sometimes you, we, we ask that question in the top 10, and, and sometimes it's the top one, right? Exactly. I've, I've had, I've literally had clients I'm sitting with and it's like, well, you know, we've got one client that's 40% of our business. And it's like, man, that's a lot of concentration risk.

(9m 5s): Dave Casey
And they don't, they don't feel like that's a problem at all sometimes, you know?

(9m 8s): Darren Williams
Well, and it's, but again, what, what we're encouraging, what we're encouraging everyone to do is look through the buyer's eyes, assume you were buying this business. Yeah. And, and what we need to do is answer that question, what am I buying? Yeah. And so that question comes to, okay, this one client is 40% of your business, or your top 10 is 50% of your business, whatever that is. If we lose one or two or multiple of these clients, like we've had a significant impact to the business, how do we guard against that? And then as a buyer, how do we value that if that, and what is that risk? But, but yeah, that, that's one of those questions we absolutely look at and go through. And then we gotta have a good, good way to explain all that.

(9m 49s): Darren Williams
Yeah.

(9m 49s): Dave Casey
Yeah. The other side of that, that, you know, and I've, I've had this conversation multiple times with people, is that, well, we understand it's a risk, but, you know, we, we all know each other really well. We're, there's many reasons why these guys can't buy from somebody else. You know, we are their preferred buyer. And, and a lot of that, you know, comes into play. I think the challenge is an unexpected event could happen. You know, there could be a change of, of ownership or a change in management at the customer at their company that represents 40%, you know, of their revenue. Or there

could be something happening in their business and that they need to sell the business. Now, maybe there's a health issue or something that the business needs to be put on the market and sold pretty quickly so they don't have time to fix that kind of thing.

(10m 37s): Dave Casey
So that's, that's the thing where I, I try to urge people, as tempting as it is to continue to focus all your time and effort with this big customer, that's a very profitable customer, and it's easy to do business with that doesn't strengthen the overall, you know, value of your company. So definitely what I've seen. Yeah.

(10m 55s): Darren Williams
Yeah. And I think part of this is really about awareness, right? Yeah. Yeah. And do these things need to be fixed or, or not? Do we just need to be aware of them, right? And frankly, how do we present whatever these conditions that exist, how do we present them to a buyer in the best light and make it make sense? So again, we can answer that question as like, as a buyer, what am I buying?

(11m 20s): Dave Casey
So I'll ask you this next question, and we'll, we'll probably both tackle this one. But when you see a business that just is an amazing business, has a great product, great services and everything, but just has a very broken or totally undocumented sales process, what's your gut reaction when you, when you get to that?

(11m 42s): Announcer
Thank you for tuning in to the Maximize Business Value Podcast. This episode is the first of a two-part release. Part two will be posted next week.

(12m 6s): Tom Bronson
Thanks for joining us for another episode of the Maximize Business Value Podcast. I hope today's conversation sparked new ideas on how you can continue driving value in your business. But remember, it's not just about listening, it's about taking massive action. Visit our website Mastery Partners dot com for more resources. Grab a copy of any of the books in the Maximize Business Value series on Amazon or via the links below. And don't hesitate to reach out if you want to know how to apply these concepts to your business.

(12m 46s): Tom Bronson Cont.
So until next time, I'm Tom Bronson reminding you to relentlessly execute while you Maximize Business Value.