MAXIMIZE BUSINESS VALUE PODCAST - EPISODE 92 Transcript

1 (5s):
The maximize the 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.

2 (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. So as promised last week, I'm making good on it this week. And two weeks ago, this episode is part of our series on getting your business ready for 2020 to bring it on baby. Whether you're, whether you're ready or not. It's here. Business planning is something that often takes a back seat to the day-to-day running of a business, particularly in small businesses. And in this series two weeks ago, we already talked about a bunch of things, actually at the end of last year, budgeting, succession planning, building a green box grows last last two weeks ago, we started with a leaven things that you can do in 2022 this week, we're going to finish that up with 11 more things, 22 things you can do in 2022 to maximize business value.

2 (1m 38s):
Now, if you've been listening over this whole series, you'll find a few things that we've already addressed, kind of peppered in, but there's much, much more. So here we go. Number 12, remember we had 11 two weeks ago. So number 12, sharpen the saw, make

it commitment to sharpening your saw this year. Every lumberjack knows that a sharp saw makes the job of cutting down a tree, much easier. Abraham Lincoln famously said, give me six hours to chop down a tree and I'll spend the first four sharpening my ax. What great advice for business owners seek out seminars and webinars and learning opportunities.

2 (2m 22s):
Listen to podcasts, read blog posts, read magazine articles, and take those lessons and apply them to your business. Number 13, use a business operating system. Now every business has an operating system, whether you know it or not many are home grown and evolved over time and are not as effective as they could be, but it doesn't have to be that way. There is an abundance of great business operating systems out there that are being used by thousands business owners. Every day, they include Gino Wickman's entrepreneurial operating system or EOS as described in his book, traction, Verne, Harnish.

2 (3m 11s):
He gave us Rockefeller habits as detailed in his book, scaling up Donald Miller's business made simple comes from the book by the same name objectives and key results are okay. Ours are detailed in John door's book measure. What matters, James P Womack and Daniel T. Jones coined the term lean manufacturing and their book. The machine that changed the world, which describes the efficient operating system and the efficient model of Toyota. And of course open-book management or OBM as outlined in Jack Stack's book.

2 (3m 56s):
The great game of business I could do this all day long. The point is there are lots of systems to choose from, and most of them have similar elements. The basic premise of a business operating system is to provide a framework for setting goals, monitoring progress, and achieving results. These systems include ways to hold people accountable, and most of them even provide a template for your meetings and the cadence of those meetings. Now, if your business is firing on all cylinders cylinders,

awesome. If however you desire to drive higher efficiency and maximize business value, I would pick one or two of the books that I just described.

2 (4m 41s):
Read them and pick one to implement in your business. And when you do that, I strongly encourage you to get a certified implementer, no matter which system you choose. Sure. You can do it on your own, but you'll go further and faster with a professional number 14, document your processes. If you don't do anything else that I've described, do this one. This recommendation is the single biggest thing that will improve the value of your business. A business with clearly defined repeatable processes is always more valuable than a business that has none.

2 (5m 24s):
The benefits of having solid documented processes are, are really countless. Some of them are, they were deuce the probability of serious errors. They make training, new hires, easier and more efficient. It minimizes the knowledge gap among peers and among departments. It helps adhere to regulations and compliance requirements and defines the expectations on how things should be performed. And it meant a great and mitigates risk. I could go on and on and on without duplicatable processes, it's sort of like running the business, playing a corporate version of the telephone game that you played.

2 (6m 11s):
When we were kids, the owner starts a business hires. The first employee trains them, how to do things later, the business expands and that person hires and trains the next person and so on and so on with each new hire, the training experience changes until one day the owner doesn't even recognize what's happening in their own business. In every business. There could be hundreds, if not thousands of processes that are being performed every day, I'm frequently asked if all of them need to be documented. Well, the simple answer is yes, but for any business that does not have documented processes documenting the critical processes is a great place to start search for our podcast.

2 (7m 6s):
Episode, number 10, for more information on documenting processes, really big one, I encourage you to go out and do that. Of course, all of these are really important. Number 15, use a scorecard. This is one of those magic bullets that every business owner needs identify and track key performance indicators or KPIs that can be measured on a daily, weekly, monthly or quarterly basis. KPIs are known as metrics and are critical to the business thorough and intentional KPIs indicate when your business is doing well and simultaneously hints at things that are not going so well.

2 (7m 56s):
Now we're going to do a whole podcast on KPI shortly once. I can coordinate that with, with my great friend that is going to do that with us, but suffice it to say for now, let me give you a kind of a snapshot. There are two primary types of KPIs, leaving KPIs and lagging KPIs indicators, leading indicators, measure activities that support the achievement of desired results and are actionable lagging indicators measure results. So it's too late to take action that will change the outcome on the lagging indicator indicators. Now a great mix of KPIs includes both leading and lagging indicators.

2 (8m 42s):
Measuring the right KPIs will have a tremendous impact in moving your business forward to the desired outcomes. KPIs must be well-defined and quantifiable. My personal personal preference is to use smart goals, method, George Goran, Arthur Miller, and James Cunningham. First introduced the concept of smart goals in their 1981 article. There's a smart way to write management goals and objectives. Smart is an acronym that stands for specific measurable, attainable, realistic, and timely. I replaced the word attainable with aspirational because I always want to reach a little bit higher, but either one works, there should be a minimum of two or three KPIs for each department in the business, sales, finance, marketing operations, et cetera, et cetera, et cetera.

2 (9m 35s):
The key to selecting the correct KPIs is identifying those metrics that tell instantly whether the business is on track or varying. Off-track some great examples of KPIs that

I've used in my business cash on hand gross profit margin, earning earning percent of revenue. So what are your earnings risk receivables days sales outstanding or DSO inventory days on hand employee turnover, revenue by employee recurring revenue as a percentage of overall revenue, sales, lead, conversion rates, production, error rates, service, quality, service, timeliness, customer retention, and customer satisfaction.

2 (10m 23s):
And there are more and more. There are hundreds and hundreds that you can measure here. Thousands probably there may be more than two or three metrics for each department. Now in my last business, we had about a dozen KPIs that were being managed by each one of our managers in their specific departments. However, as a management team, we selected the most important two or three in each department to review week weekly in our management meetings. For example, in customer support thing, kind of help desk for support for a software company, we measured the number of calls, the time to answer the phone, the time to resolution number of escalations calls by rep calls by product and so on.

2 (11m 6s):
And so on. We measured each of these things daily, weekly, monthly, and by representative and by product because we had a wide range of products. Now, though, our manager was measuring two to three dozen metrics on his dashboard. He only reported on the number of calls and the time to resolution along with any other kind of key metrics that were outside of the ordinary or acceptable parameters each week. Now don't just make a list and measure everything, pick drivers in the business and set goals to achieve them, to achieve the desired results for each metric that you said in doing.

2 (11m 49s):
So the team will know if the business or department is on track or track an excellent place to start. It's benchmarking against your industry, many industries and trade associations, commission, benchmark studies, which are resources for good data, but a caution that while industry benchmarks may be a good place to start, KPI should be specific for your business. They should hone in on the goals of your business. Once the

right KPIs are determined, they have to be measured consistently and then take action to keep them on track. So create that scoreboard and measure those KPIs.

2 (12m 34s):
Number 16, another biggie here, you got a lot of biggies today is make GRA growth, a priority. Many dare. I say most small businesses remain flat, meaning little or no growth for many, many years for them. The business is about balance and let's face it. Growth is a lot of work. If the owner is comfortable with the income that the business provides, why work harder to make the business grow? Well, let me just say it. As plainly as possible, a growing business is always more valuable than a flat or declining business.

2 (13m 17s):
Every or many small business owners don't care about growth because the business has become a lifestyle business, meaning that the business exists to support the owner's lifestyle. Well, there's really nothing wrong with that on the surface business owners who treat their businesses that way, usually miss out on building long-term sustainable value in their business in most industries, businesses trade, and a range of earnings multiples. So for example, let's say that your industry trades at three to six times earnings businesses that are flat almost always trade on the lower end of that scale while businesses that are growing at a reasonable pace as compared to their industry average trade at the higher end of that scale.

2 (14m 10s):
Now I have repeatedly seen that business owners value their businesses on future growth, potential of the business, rather than past performance. They recognize that there is growth potential, but they've not invested in realizing the potential because it's risky and they're just playing comfortable with where they are now. Unfortunately, as I've kind of stated before and over and over in our podcasts buyers value business is based on past performance, not future growth. Now there might be some opportunity to capitalize on future growth, but they base the value of the business on what the business has already done, unless that business has some disruptive technology or service, the buyer will have to make investments to realize that growth potential.

2 (15m 5s):
And so you probably won't be able to take advantage of a higher earnings, multiple. So businesses, business owners with a flat or declining revenue graph for the last three to five years, need to kick it into high gear and get that arrow moving up and to the right profitably that will improve enterprise value dramatically. Number 17, find ways to build recurring revenue. Buyers love predictable revenue and social view. The past performance of a business is very important in determining value of the business.

2 (15m 46s):
However, buyers are ultimately buying the future performance, not the past. The best way to show predictable future revenue is to convert as much business as possible to recurring revenue. And by the way, you can convert nearly everything to recurring revenue. Let me give you an example, 2004, their traditional purchase options dominated the restaurant technology, inter industry software, hardware, and services purchase, or least upfront. That's. When I started to experiment with monthly recurring payments by 2008, we had fully implemented a process to sell software services and hardware for a low convenient monthly payment.

2 (16m 38s):
Now, admittedly, doing so required us to raise capital, to fund the hardware and the delay in profitability. We were able to take our business from 4% recurring revenue in 2001 to over 70% recurring revenue. When we sold the business in 2018, trust me, the buyer loved it. And also turns out that we were on the bleeding edge because now nearly every restaurant technology is purchased via a recurring model. No one thought we could do it when we started and now everyone's doing it.

2 (17m 20s):
Converting revenue streams to recurring revenue is tricky, but it's eminently doable for most revenue models. There are some that you can't do this for. It may require a bit of creativity, but it's worth the effort. If you can find a way to create recurring revenue in your business, it will become more attractive and more valuable in the eyes of a buyer. Number 18, coming into the home stretch here, measure and manage customer

satisfaction. Now I'm frequently asked to keynote or guest speak at a wide variety of events. Whenever I'm in front of business owners.

2 (18m 1s):
I like to ask if customer satisfaction is critical to their business. Of course, when I do that, nearly every hand goes up, but then I ask the follow-up question. How many of them measure and monitor customer satisfaction regularly, almost all the hands go down. Now, wait a minute. If customer satisfaction is important, but the business doesn't measure or manage it, how can that be? Satisfaction can only be managed if it's measured, measuring and managing customer satisfaction is critical to the value of your business.

2 (18m 42s):
When I saw my last business, we had a customer satisfaction issue in one of our operating units and it was furious. We use the net promoter score method of managing customer satisfaction, and we had a negative 27. They run from minus a hundred to plus a hundred. We had a negative 27 in a nutshell, if you don't know NPS score, NPS measures, customer satisfaction in terms of promoters and detractors, based on a one question survey, which is how likely are you to recommend this business to a colleague or friend. And if you don't know about NPS, let me assure you that a minus 27 was a pretty terrible score.

2 (19m 23s):
However, we knew about it and took action to correct it long before putting the company on the market. So we disclosed it upfront as Paul Harvey would say for the rest of the story, then, then you can go back and read new books coming out in a couple of weeks on the I'll give you the rest of the story on that. In that new book, the short story is that customer satisfaction is almost always critical to a buyer. High customer satisfaction provides the comfort that customers would likely continue buying after the transaction.

2 (20m 5s):
And that's important whether the business is going up for sale or not. Customer satisfaction is important to a business's longterm success. So it should be measured

and monitored regularly. Number 19, this is also a biggie. I keep saying that over and over here, eliminate owner dependency, owner dependency is one of the biggest obstacles to business transitions, a lower middle market business, meaning one that does between five and a hundred million in annual revenue that is owner dependent. We'll take a haircut on valuation. A micro-business under 5 million in revenue might be worthless.

2 (20m 51s):
Now become expendable by investing in people and systems. If the business owner is the only person who is not expendable, the business could be worth nothing, not a Zippo zilch, many business owners thrive on being the only person who makes the business tick. Unfortunately, when it comes to selling or otherwise transitioning the business. If the owner is the only one who knows everything, guess what happens to the value of the business when all of that tribal knowledge walks out the door. So take action to document all here. We are documenting processes.

2 (21m 32s):
Again, take action to document those things that only you can do, make a list of them and then relentlessly document the processes. Most commonly that list includes maybe banking, relationship, absurd sales or key customer or vendor relationships. Once the processes are documented, you consider training others to be able to do the work. Now I've always tried to operate my businesses as an investor, rather than an operator. Investors are passive. When it comes to running the business operators are up to their eyeballs in it every day for a business owner who doesn't know whether they're an owner, an operator, or an owner investor tried taking a three week vacation and unplug.

2 (22m 17s):
If that sounds impossible, then guess what? You're an operator. If it sounds delightful, you're probably an investor. Now I practice this regularly. If the place was no worse, I'll take a three week vacation to places. No worse. When I get back then how I left it, then I must be doing something right? The value of the business improves dramatically. The minute it's no longer dependent on the owner, besides if you're tied to the business, that

doesn't leave much time for other fun activities, family, community causes things that you might want to get involved in. So the more business owner can become expendable.

2 (22m 59s):
The more valuable the business. Number 20 plan for management transition. By now, you've heard this ad nauseum. Every business will eventually transition like it or not. We all have a shelf life, and it's ultimately going to come to an end, no matter the desired outcome, whether it's an external or an internal transition, future managers need to be prepared to run and manage the business. If it's an internal transition to family or existing managers, those people need to be prepared to run the business on a day-to-day basis. They need specific training and which will lead to them properly, running the business, which may mean cross-training them in skills that they don't have naturally the same applies for an external sale of the business.

2 (23m 52s):
Because a buyer wants to know that the people remaining after the transition are prepared to carry on the business's mission. An external buyer wants to make sure that the business can continue without interruption rounding the last corner here. Number 21, build a great transition team. When you decided it's time to work toward that dream transition, no matter what it looks like. You'll need to assemble a killer transition team to get the job done. The makeup of the team truly depends on the transition strategy. There are common denominators that work across all strategies.

2 (24m 35s):
We call these core advisors and there are specialists that may be needed for a certain strategy. The core advisors include certified exit planning advisor or a SEPA, which I, you know, I am. We heard here at mastery partners, a certified public accountant, a CPA, a certified financial planner, a CFP, a transition attorney, and an estate planning attorney and an insurance professional. The specialists may include a family counselor for family businesses and Aesop specialists, perhaps a philanthropic advisor, a business broker for small businesses or an investment banker for large businesses among other advisors.

2 (25m 23s):
So get some advice and start assembling your team long before you think you need them. And finally, here we are finished line number 22. I love this, but come an avid reader. I started with sharpening the saw here's another way you can sharpen the sauce. So it kind of bookends on, on this particular episode, become an avid reader. It's often said that people who achieved the most in life focus on self-improvement perhaps that is why they are often such voracious readers. My good friend, Jim Ronnie author of the walk-on method to career and business success and higher, like he just beat cancer recently dropped some amazing wisdom on me.

2 (26m 12s):
He said, and I'm paraphrasing here that reading business books is like getting an MBA for $15. And he's absolutely right. I don't have an MBA, but I know most of the principles they teach in B school because I read a lot in a typical year, I'll read 40 to 50 books some years, more, some years less. I have five Florida ceiling bookshelves. You can see one over my shoulder here. If you're watching us on YouTube five Florida ceiling bookshelves in my office, and they are crammed with books.

2 (26m 53s):
And I have stacks of books on the floor, stacks of books on my desk, which I call the stack of shame. Thanks to my good friend, Mike, the author of Roe power's ROI and the forward to my first book, because I call them the stack of shame because these are the ones that haven't made it to the front line. Yet. Most people can't believe that I find the time to read so many books, but I have a secret weapon. The invention that changed my life years ago was books on tape now. Okay. That's a dated concept early in my career. I covered it to state territory and spent well, when I say a great deal of time, I can't even express how much time staring through a windshield.

2 (27m 41s):
Now, while I love music of all types from classical to pop to everything in between. When you drive 40 or 50,000 miles a year, you eventually want to use that time more productively, which is why I started listening to books on tape. Now, thankfully, I don't have to lug around a case of cassette tapes any longer. And with the invention of

audible, my process is simple. Whenever someone recommends a book, I download it on audible. And if I'm really into it by the second chapter, I also purchased the paper copy because I like to take notes while I read in the margins on scraps of paper, I say between the pages on sticky notes, I personally think that may have personally kept 3m, the inventor of sticky notes in business for the last 20 years.

2 (28m 36s):
Eleanor Roosevelt famously said to learn from the mistakes of others, because you can't live long enough to make them yourself. Most of the things I talk about were either lessons. I learned the hard way by trial and error or from reading books, some would come an avid reader. So there you are. 11 more things you can do right now in total. I've given you over the last couple of weeks, 22 things you can do to maximize business value in 2022, go do it. Take action.

2 (29m 16s):
Today. 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. Be sure to tune in each week, follow us wherever you found this podcast until next time I'm Tom Bronson, reminding you to get busy on your transition strategy. Use this list of 20 things and get started today by you maximize visit spatter

1 (29m 51s):
And tune in to the maximize business value podcast with Tom Bronson. His 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.

2 (30m 37s):
That was perfect. I wouldn't make any changes.