MAXIMIZE BUSINESS VALUE PODCAST - EPISODE 59 Transcript

Announcer (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 fuels our desire to share our experiences and wisdom. So you can succeed. Now, here's your host CEO of mastery partners, Tom Bronson.

Tom Bronson (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 is part two of a short series on why every business owners should take the time to develop a solid exit strategy. These lessons can also be found in my book, maximize business value. Begin with the exit in mind, available on our website masterypartners.com or of course on Amazon last week, we talked about the fact that exit planning can seem like a useless process until the business owner decides it's time to exit the business after all, why in the world would a business owner want to put himself through the effort before it's really needed?

Tom Bronson (1m 26s):
Well, let me tick off a few reasons. Number one, it pates longer than most business owners think to prepare and execute the perfect exit strategy. Number two, improving the value of the business doesn't happen overnight. It takes time and number three, planning grammatically improves the outcome when the time comes. So this week let's

turn our attention to some of the common myths about business exits and let's debunk some of the common assumptions just like last week. This is not an exhaustive list.

Tom Bronson (2m 7s):
It's just some of the high spots. When I asked business owners to tell me about their exit strategy. Here are some of the more common responses I get. I'm not really ready right now. My business will sell quickly. I'll call someone when I'm ready to sell. I already know what buyers will want. I get calls from potential buyers all the time, or there's just too much to do in this business where I had to get this business where I want it to be. I'll start thinking about exiting in three to five years.

Tom Bronson (2m 48s):
So let's break these down. Shall we? The I'm not ready now. Response. I'm not ready or my business is just not ready now, but confident it will sell quickly. So I'll call someone when I'm ready to sell. The unspoken truth about this approach is that if the business owner starts to plan, when they've decided it's time to exit the business, they probably waited too long and the business is not properly prepared.

Tom Bronson (3m 36s):
For transition. Look, 83% of attempted transitions, fail to reach a closing. The odds of landing in that 83% category increase exponentially. If you don't have a plan at the very least, the business owner will likely be in the category of accepting an offer that is far less than they want, or getting stuck in a deal that is less than desirable. Preparing with less than two years before the plan to exit, there is very little, a business owner can do to change the outcome.

Tom Bronson (4m 16s):
It is what it already is. Now look, truth. Be told this approach is way more common than it should be. And of course, the problem with this approach is that most business owners, this is a once in a lifetime event and they probably don't know what they don't know. Now. I recognize that some businesses have little time to prepare usually for unforeseen circumstances. Frankly, if you have less than two years, you should focus on non strategic issues. And de-risking, while these activities typically add little short-term

value, they will at least be the steps in the right direction and will help you position the business for a transition.

Tom Bronson (5m 3s):
But as far as selling quickly goes, there is precious little data on business transactions. But the average of the data that's published, the average takes up out a year. Some take much longer. If everything is buttoned up, perfectly buyer due diligence can drag on for months, prolonging the process and increasing the likelihood of a deal falling apart, apart, or lowering the value of the deal. The, I know what buyers want response. Every buyer of every business has a different motivation.

Tom Bronson (5m 43s):
Some are looking for earnings. Others are looking for revenue growth or recurring revenue. Still others are looking for market share or expanded markets. The truth is no one really knows what a prospective buyer might be looking for in a purchase. A well-designed exit process will turn up prospective buyers that were probably never even considered. Certainly some exits are designed for one buyer, but most buyers are yet to be found. Therefore, how can a business owner know what a buyer wants before they know who the buyer might be? Now? That's not to mean that it's not a good idea to know what buyers might be interested in on the contrary.

Tom Bronson (6m 27s):
A well-designed exit strategy will have clear targets in mind, but a seller should be open to the possibilities. They can even imagine them. Okay, let's move one, two, be buyers are calling response. People call me all the time. Look, there's a dirty little secret here. They're calling everyone they're prospecting. Well, that's work the math. If you're a lower middle a market company. And for the sake of argument, let's define lower middle market. The way the exit planning Institute defines it five to a hundred million in annual revenue.

Tom Bronson (7m 7s):
Then you're being stalked by every private equity firm on the planet. These PE firms have so much dry powder or committed capital that they have to invest. And every one of

them will tell you that you ha they have been following your impressive story and that they have serious interest in your business. But let me be clear. This is not an indictment of PE firms on the contrary. I think PE firms play in a central role in the exit planning process and in wealth transition, but they're all chasing the same targets. According to PitchBook, a leading research organization focused on alternative investment sources.

Tom Bronson (7m 50s):
There are about 3,500 PE firms globally. And for the sake of argument, let's conservative as conservatively assume that they have on average two or three analysts on staff. So think of these analysts as business development representatives most are required to take on a hundred calls a day, but let's just say they actually make 50. So 3,500 firms, times two and a half analyst, times 50 calls that is 437,500 calls a day. Okay. That's how many calls they can make. There are 6.03 million businesses that employ people with revenue under a hundred million in the U S.

Tom Bronson (8m 39s):
So calling all of these businesses with the call volume listed above the 437,500 calls a day would take less than 14 days. So the law of averages tells us that you should get at least one call every 14 days from private equity firms, just like everyone else. And by the way, your chances of being stalked by these buyers dramatically improves when you win awards or get some PO get on some published lists. In my last business, we were on the Inc 5,000 list, four times on the fast tech list, six times.

Tom Bronson (9m 25s):
And I was even a finalist for the Ernst and young entrepreneur of the year award. In addition to numerous other corporate awards and industry awards. Each time we made the list, the phone rang off the hook. These callers had been following us for years and just wanted us to know that they were very interested in our space. Enough said, I'll let you draw your own conclusion. Finally, there, one of my favorites, the, I have too much to prepare call me in three, three years line. I talked to many of them who understand that there's just too much to do to get their businesses where they want to be to exit.

Tom Bronson (10m 6s):

They believe that they will spend time working on the right stuff. And in three to five years, their businesses will be ready to sell. Of course, in reality, most business owners are lost in the day-to-day and won't spend time planning for their future exit. Their businesses just command too much of their time. So erroneously, they think that they'll start thinking about exiting in three to five years, and they say that on average for 17 years before they take it by then, it's usually too late to make a difference.

Tom Bronson (10m 48s):
So what I've been taught talking about here today is in last week's podcast is to build an argument for why exit strategy is good business strategy. The facts are most companies that come on the market don't sell 83% of the attempted transactions. Don't cross the finish line. And number two, the most successful exits are the result of advanced planning. Number three, most business owners just don't know the benefits of solid exit planning.

Tom Bronson (11m 27s):
Chris Snyder, the CEO of the exit planning Institute, and ironically, who will be our guest on next week show has about the best definition of exit planning that I've ever heard. And he says, and I quote, exit planning, combines the plan, concept effort and process into a clear, simple strategy to build a business is transferable through strong human capital, structural capital customer capital and social capital. The future of you, your family and your business are addressed by exit planning through creative value today.

Tom Bronson (12m 15s):
End quote, if you want to take action now to secure the best possible outcome when the time is right, when it's time to exit your business, then call me right now, call me now (817) 797-1488 or at least go out and get my book on our website or on Amazon and join us next week. When we'll talk about the value acceleration method With our guest, Chris Snyder CEO of the exit planning Institute. 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.

Tom Bronson (13m 3s):

Be sure to follow us wherever you found this podcast. So until next time I'm Tom Bronson reminding you to get started on your exit strategy, maximize business.

Announcer (13m 21s):
Thank you for tuning in to 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.

Tom Bronson (13m 50s):
<inaudible> that was perfect. I wouldn't make any changes on that.