Maximising Business Value: The Role Of Your Customer Base

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Kerry Boulton is Australia's most respected Exit Strategy Advisor and CEO of the Exit Strategy Group. Welcome to this week's segment.

KERRY BOULTON: When you're looking at your business and the value that's actually in your business. Only one measure, of course, is the financial results, the profits, but also another measure in and when you're thinking about it strategically, is your customer base. Because the purchaser might really not be too concerned, although they'll use it as a negotiating point in terms of what your profit is.

But what they might really be interested in is who you have as your clients, because they can see the value of bringing those clients into their business and the leverage that they can get from that to grow their own business. And that's where you find those multiples will really increase.

So it's the really good demonstrations of thinking about strategic buyers, as opposed to just simply trying to look for someone who's going to buy your business for a multiple of your profit on the bottom line, and if you think that way, then you can sell it that way. That's what will happen.

So now the rubber hits the road. Let's have a look at the four steps. This is very simple in terms of it being only four steps, but certainly requires you to use your brains and put in a lot of thinking, but you will maximize your business faster if you actually follow these four steps. If you haven't come to the realization already, Exit Planning is simply about aligning all of these areas: your business, your personal goals, your business goals, family, because they're also going to be affected and financial.

Once you align those goals, you'll maximize the returns, not only for your business, but also for your life for the future. So let's have a look at evaluate. So first step is always taking a good look at where you are now, and we've done a little bit of that today, just through the process that we've been through, we've at least started the thinking process. So what do you need to do today to maximize the value of the business? Could your business be sold today, and if you could at a price that you'd accept?

Personal side, when do you want to exit? When you do exit, how are you going to spend your days? How will your sense of self and your identity be affected? For your family, who might be included in the sale decision, and how will your exit impact on every family member? Your Kids want you around if they're still around, they just want money, okay.

And then financially, okay, how much money do you actually need to live the life you want to live? And what might you do to minimize your taxes for the future as well? So once you've identified all those goals, then you need to make sure that they're in alignment. So for as an example, if your financial goal was to sell your business for $50 million and your timing was to be out by your 66th birthday, and you're currently 64. Well, that is probably not likely.

So you're going to have priorities, and you have to recognize what's the most important. If that's the case, but if your goals are flexible, well you can work around them and what needs to be achieved first. So there's variables in all of those, and of course, there'll be outside market influences as well, and you have no control over those. So you would be wise to have some flexibility around the goals that you've set for yourselves.

Next step is to explore, and here's where we empower you with the options and the in depth knowledge that you can have for your succession and exit. So first of all, we'll have a look at all the external channels for your buyer. Could it be financial? Could it be strategic, as I said, both vertical or horizontal. Maybe it's an IPO. You're going to go public. That's always an option for exit. That's when you're looking outside the business.

Maybe there could be inside the business as well, and you look at the internal channels, it could be recapitalization. Do you bring in an investor? Recapitalize the business. Is there someone in the family who might take over? What about if you've got co owners? Could there be one goes out, one comes in?

Management buyout, is that an option? Of course, there's employees. Maybe there's a structure that you can put in place that allows your employees to buy out the business. There's a fantastic business in the United States, Springfield Remanufacturing Company SRC. That a guy called Jack Stack bought as a leveraged buyout from International Harvester. It's nearly 30 years ago now.

If you ever get hold of his book called the great game of business and have a read of it, you can download it from Amazon. It's an absolute eye opener as to what they were able to do inside that business with their employees. And they're not alone. It's happened in Australia. They had philosophy of open book management. The business was losing money hand over fist when they bought it.

I think the leverage was something like 630 to one. It was huge when they bought the business out. But over the course of the next eight to 10 years, they were they turned it into one of the most successful global businesses, and it still is today. With the involvement of the employees, they were actually able to create a whole lot of other businesses.

And the really interesting thing, I believe, in that process, was for Jack himself and how much he had to engage his thinking as to how he was going to support those people when he left the business, he thought the notion was that he'd be out of the business within 10 years. Well, 30 years later, he's just making his exit because of what was created over that period of time. It's a fascinating read. I highly recommend it to you if you have some thinking about getting your employees particularly involved in your business.

So third step, so here's what we look, where we look at maximizing the fundamental values in your business. During a due diligence process, buyers will look at all sorts of areas, and you've got to be able to make sure that you can maximize those and show them to the buyer at on the on the up, rising up.

Don't wait until your business is starting to go over the hill. You've got to have market growth, because when you're selling your business, when there's still a little bit left in it, for the next people, you are going to get the best possible results you can. Once, timing wise, once it gets over the hill and starts to slide, then it's going to be much more difficult for you.

So even though you might be saying, selfishly, I would like, I want, I'm going to hold on for another couple of years, because I think I'm going to get more for my business in terms of the market. Maybe not so, because you can't predict what's going to happen out there in the marketplace. So when you're in a growth market and your business is going really well, that's the time to start looking for buyers.

And lastly, we're going to look at transition. When you think you've got yourself to that stage, the best thing you can do is actually get in somebody externally to do a mock due diligence on your business. And then you go to find out where the gaps are in terms of the information that you need to prepare and what you can what's going to minimize the distractions to you over the course of time.

I mentioned before, selling your business when you've still got a growth market, the timing is crucial. Leaving something in it for the next person is really important, and it's a dynamic process. Like in real estate, as I also mentioned before, if you can get competing buyers, you can conduct an auction.

And the next approach that you'd have in terms of getting out to the marketplace would be either going out and targeting a buyer and marketing to them, and have that as a sale process, or, as I said, create a mini auction, so have competing buyers, like in real estate, the best results that you get from any sale is when people are competing.

And I think it's really important that you're not under any illusion that even when you put your business out there for sale, if it's marketed through putting out information create the information memorandum, which is, in fact, your selling document. It might if you're going through an M and A type person, or even a business broker.

Although Business Brokers tend to deal with smaller size businesses, professionals at the M and A level, deal with largest, larger businesses. But once you put your business out there for sale, you might even send, if it was being spread around the marketplace, it might go to 100 different people, just with a teaser, not a whole information memorandum.

Chances of getting more than half a dozen responses are pretty remote. That's those are the sorts of numbers, no matter how far and wide you spread it. I was chatting with somebody just a few weeks ago who's now actually had their business on the market for three years? Well, that's not a sellable business. Three years on the market is not a sellable business. That business has got to come back and be renovated, you know, in order to make it saleable.

So those are the four steps that you need to take: evaluate, explore, iterate, and transition. And I like this quote, the question isn't at what age I want to retire, it's at what income, good old George Foreman. So now you've got a choice. You can set aside the time that you need to be able to get your business ready for sale, so you can take the information that I've given you today and you can stay where you are, or you can start to take some action and create the future that you want for yourself.

If you don't have a copy of Kerry's new book, ***The Uncensored Truth About Exit Strategy***, please visit freeexitstrategybook.com.au.