Preparing Your Business For Selling

Summary Notes

Session 1 of 6

Monteck Carter

energise **your** business

chartered accountants

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Why we decided to have these seminars.

We know a lot of our clients will be looking for funds for retirement from business sale - this may not happen if the business is not in a good condition for sale. 80% of businesses put up for sale do not sell - you want to be part of the 20% that do sell.

Any client over 50 years old should be starting to think about your future plan. Our goal is to help business owners find the options and choose the one most suitable. Article: "Why Baby Boomer business owners may retire with nothing".

The baby boomer owners will be retiring in the next 6 years. 458,000 businesses in NZ are SMEs (97% of NZ business) and employ 31% of all employees. Most businesses are owned by men aged 35-59 years. There will be many of these businesses coming up for sale.

The business lifecycle has 7 stages - Expansion, Mature or Exit are the last 3. Graph illustration.

Expansion - it needs to continue to grow to ensure it's saleable.

Mature - complacency can set in but are ripe for new entrants becoming a threat. If you can't prove future growth is possible the price of sale can fall.

Exit - profits can reduce close to sale as owners are older and don't start new initiatives. They need to move back into growth and do something different.

The 4 Learnings of Business

1. Learn how to be in business
2. Learning your business
3. Learning how to lead your business
4. Learning to let go

Part of planning to sell your business is to ensure you have other activities that will interest you after your business is sold.

Tom Wilson. Shears and Mac

Tom has a background at KPMG turning round failing businesses.

Transitioning out of your business is one of the most scary things you can do. This is a great programme that Monteck Carter is putting on and I wholeheartedly endorse it.

I worked with Radius Heath Group when it was a startup company and over 5 years we grew it to $200m turnover. It had 46 pharmacies which Pharmacy Brands bought and we also had 20 medical centres and the payback on that was 12 months - a great investment. We had a couple of retirement homes, and a home services business - At Your Request, and a home security company too. We had 3,000 staff nationwide. We were probably about 5 years ahead of our time. We had Bahraini private investors in it too.

Shears and Mac is a 30 year old business and it operates in retail and interior construction - shop fitting. We manufacture joinery in our Penrose site and then we do the interior construction for the building. We translate that activity into another area, commercial space. We do apartment buildings - kitchen, bathrooms. We did the BHP head office in Melbourne last year. We also do hospitality - bars and clubs.

The firm started as a merger of two businesses - based in Penrose and North Shore. Both were doing well up to the end of 2007. They merged in 2008. Before then they had net profit at 15% pre tax which is pretty good. Mr Shears and Mr Mac exited at this stage and private equity company took 40% Looking back when I first joined 12 months ago, the culture was stuffed. They didn't deal with it at the point of merger.

A merger brings a disruption curve of losses to every business. The smartest thing you can do is to make the disruption as small as you can. It always happens. The net profit margins went from 15% to 4.5% in the recession. The owner saw what was happening - he grew turnover from $18 - $30m over 5 years. He saved a lot of jobs and moved into the Australian market. The big issue he faced was cash to carry stock. The firm doesn't carry much stock but it does have a lot of debtors. They went into firefighting mode and that sucked all the cash out and it became distressed. The whole process of the business slowed down but when you're under pressure people stop making decisions because they became scared - the pace slowed down.

What did we do about it?

The issues I saw were - the culture was disruptive and not unified. people were closeted and covered their own backsides and didn't talk. I put everyone in the same room instead of solitary offices. That forced them to talk.

The capital structure wasn't right - working capital was negative.

The first thing I did was to get some money in to solve some problems - new owners joined and I found a bunch of new owners mostly out of the forestry industry - Timber Lands from Bay of Plenty. We also went to the bank and asked them what they wanted to do - take capital and write it off while they new owners put in money or they could face an insolvency. We renegotiated the bank deal and they were superb. We got enough cash to clean up the working capital to get everything current. And park enough cash to spend on continuing to grow the business.

Overnight half the firefighting mentality flew out of the business. I brought in a new management team - some were bought out and needed to go - some were part of the culture problem and there were tough decisions. I kept the CFO; found new production and operations managers and a new sales and marketing manager in July.

The systems and processes in the business were slower to change. The guy holding it together was smart. I took $1m out of the back end of the business and I was too slow doing it. I should have done it earlier. 80% of that was people who'd got into a rut and who didn't want to bring in the new culture. I had to remove the culture barriers. That was the tough stuff - nobody likes that. You think about the families and their kids - they probably hated my guts.

I introduced customer centric culture phraseology, which I've done in my past 3 companies. I told everyone what it means and really reinforced it. Everyone can now make decisions and 85% of the time you'll be right. But every one you make think about how it'll improve the customer. If you don't know what to do just think about that. it's ok for the 15% I'm not going to fire you. Don't be scared. We will fix it. I started to empower people to make decisions and slowly the pace of business started to increase as people felt more relaxed. Sales up and Costs Down.

It's actually a difficult concept to understand for some people. It was almost too fancy. So the other word I introduced was co-operation. With each other and the customer.

Then I did the theoretical stuff - I went and talked to all the staff about it. i have a beer with them, tell them what we won and what we lost. Then I added discipline. We started 100 day plans process. I'm now onto number 5. I started with really little stuff - everyone got a copy of it and there were some responsibilities. Every month when I met the staff I reported against the plan - a report card of how we were going. Then we ticked that off and did another one.

We developed the strategic plan - I write it between Christmas and New Year. Then I started to involve everyone in reading the document; I coach people along. I have 3 Directors and they're hopeless at strategic plans - they're the worst strategists in the world! They help change and adapt it. The management team and directors added to it and improved it. One page plans are the most useful. The plan format is in the handouts.

Then the customer focus and strategic initiatives. First do the annual plan. My process is to eliminate things from the long list and find the 5 things that will make you the most money in the shortest timeframe. Never lose that list. Those 5 things from the SWOT analysis become your objectives on the RHS. Don't do any more than 5 because you won't do them. In the middle is financial stuff - high level. I made this my report card with the Directors to present what I thought we'd achieved int he past 6 months. We had 23 strategies to achieve and had done 11 of them. I continue with the 100 day plans which go into a whole lot of detail month by month to reconcile what we want to do over the whole year.

Having these documents as due diligence when someone comes in to look at buying your business gives them confidence. I think they give 15-20% added value in the business.

Here's the scary bit. Do all this stuff but trying to get everyone involved in it. I got all the staff in separate groups. 7 teams in the joinery factory - I got them in 2 teams at a time; the sales people; the accounts team. I had a whole week of staff meetings. I gave every one of them a copy of the company strategic plan Every one had a copy of the 100 day plan. If they'd wanted to stuff our business they could have given them to the competition. It was a big call. No-one cheated. I explained what it would do to their mates if they gave it to the competition. I said I trust you. We can't get this business spinning unless you know what we're doing. I spent 3 hours with each group. It was hard work for some of them. I told them if I find out that someone is leaking information I will walk with you to the gate and you can piss off. I don't mind about getting sued. You will be hurting your mates. I only said it once.

As owners of small business - I bet you hate sharing sensitive information with your staff. I shifted the pendulum over to transparency. I haven't been let down. They had my trust.

We were doing lean manufacturing and I believe in the principle. If people can think of a smarter way, they are empowered to make decisions to make it better.

The outcome is it's still tough out there for our business. We did put some pace in and that's still improving. Culture change takes 12-18 months. Our growth in sales is now at $36-40m. I'm seeing confidence and more self belief in making decisions. I don't think I've been in an industry that is so tough. It's a tender market now - before it was a negotiated contract. It's still tough - a supplier is going into receivership now and two competitors have closed. We went down to Christchurch in March, we came back with our tails between our legs. It's a disaster down there. We went back in July and won't go back until next March. The cost to get buildings out of the ground is very expensive - 60% dearer than conventional construction costs. The rents they're asking for CBD are 40% dearer than Queen Street in Auckland. Developers aren't moving because demand has moved out of the city centre and it will take time to move back. I think the first tenancies will be all Government Departments who will pay the increased rents and that will slowly drive the commercial energy back. If we had relied on that for this year we'd be broke.

An outcome for tonight - think about the planning discipline. Do the whole seminar series. I hope you can do this process. Think about your culture - be respectful about the power of people. Don't be scared about sharing information with staff. Information is power. If you put a boundary in place and tell them you trust them. Make decisions, you've got advisors, they will guide you. Your accountants and lawyers are your Trustees, they know and understand you - take outside advice. Think about the customer centric attitude and co-operation.