

Preparing your Business for sale

Seminar Series Notes Session 4 of 6

Transitioning in a Manager



Rob Young – Platform 1

Turning business owners into business investors.

Business owners who are thinking long term who are spending time doing things they don't want in their business may benefit from Platform 1.

We call it leadership transition rather than 'succession' because that's not a helpful word. It is an alternative to a trade sale and enables the owner to step back from the day to day management.

Well-done you can get more capital out of your business.

In the USA the economy was 80-90% SMEs and most of them are baby boomers and want to sell as they near retirement. Most say they want to sell using a trade sale - I think that's not the best way because it's a very hard way to sell, due diligence takes longer and longer.

I wanted to give owners a better exit than a trade sale and so started Platform 1. Your business is not unique - it may feel like family, but actually it's only an ability to fund your lifestyle - not a child.

Who buy s businesses?

We did a University of Auckland research project and we found that the pool of 30-50 year olds are stagnant. These are the people who should be buying your business - there's a 40,000 shortfall coming in this age group.

The key ones

- Business Owner seeks change and is willing to change
- The Business has to have unrealised potential
- Profitability to support the change

Platform 1 uses an executive search process that starts with a 3-4 hour discussion with the business owner and what it needs to grow. An Accountant like Monteck Carter does an appraisal too. We have to know what the business is lacking so we can grow the business.

Rob approaches people who are not looking to buy a business and persuades them to do it.

The big 'carrot' is the 25% equity offered immediately to the new manager.

The key is accountability and that is part of the governance structure. An advisor is a sounding board to both parties, we introduce KPIs and make sure the 25% deal happens. Those are their 3 jobs.

The owner has 12 months to confirm the deal and be sure that the right person is in place to take the business forward before signing.

This process works for business owners who have around \$300,000 in EBIT.

- Have unrealised potential to grow
- Have shareholders looking for alternatives to a trade sale
- Have shareholders seeking change.
- The business needs to have free funds to support the process.

How do you decide on how much growth potential is in the business? The owner has to supply the information and we do due diligence - but the owners stay in the business for 12-18 months so they have to release the information. Their expertise will help as they know the industry and their business.

The ideal candidate is typically a 42 year male, living in Grey Lynn, a mortgage of \$150k, wife who doesn't work and two children under 15. They have enough equity in their house and savings to raise \$1m in equity. They have the potential to be an entrepreneur but won't start their own business.

They are tired of spending 50% of their time telling their boss what they do for the other 50% of the time!

The Seller 's perspective

Sharon distributes Icom products from Japan. Karen Tobeck has been working alongside Sharon as the business transitions.

She explained "My Father imported two way radios from Japan and one day a month I'd go into his office to process the monthly new stock. I knew nothing about technology - and I grew a passion for these little radios and he had one salesman and the accounts lady plus himself. What we didn't know was Dad had cancer and as he became sick I would spend more time in the business and after he died I came in full time. Three weeks before he died he wanted to recognise the two staff members and he went to Japan and asked them to give 5% of the company to each of the two staff members to keep them with the business. The manufacturers owned 5% at that time and they supported the change.

I was left out the back with the two business owners while I was just unpacking boxes - they were there to drive the business forward and the whole family struggled with this. They got a business manager and he visited once a month from Wellington and he'd go away after giving the some suggestions. My Mum realised it costed a lot of money to keep the manager but long term what should we do with it? 8 years after Dad died, the family was not benefitting from this and Mum was stressed out because she didn't know what was happening. I thought I could do things better and I had done every role in the company by then except accounts.

I bought the business off my Mother and then the GFC happened two months later! I managed to hang on and there was many a day when I thought I should shut the roller doors. I recognised the things I wasn't good at and got people in to help me with those things. I got Pod Consulting and business mentors and suggested things to try and were on hand and more constructive than the guy in Wellington. It gave me fresh ideas. I started thinking about what I wanted to do with the rest of my life with all the stress on me and I thought should I be selling. I could either sell or find someone else to work for me - the industry is very small - we know each other well. There wasn't anyone I knew who could take in and run the business from the industry. I went to Link Business Brokers and went through a sale process and we got 3 really good offers and I was turning over \$3m so when I sell it I would get \$1m. But I kept thinking would that pay enough for my retirement or move me forward?

Then I had to go to Japan because as a distributor 5% owned by Japan I needed to guarantee the distribution relationship. That started me thinking about whether I wanted to sell it or keep it- the figures didn't add up. I went to Japan to ask if they let me sell it and they said yes it would be OK. But the week before I went, a contact that had in a recruitment agency and was a previous mentor of mine knew my business well and he knew someone recently back from UK who wanted a job. He knew the radio industry and I interviewed this guy by Skype!

When I got back from Japan with the help of the mentors I decided to take a new general manager on board. Simon works for me, I pay him \$100k per year- he is underpaid for what he does and I give him bonuses in other ways. He worries about the business and I don't have to.

We have grown from when I took over there were 3 staff and me and now there are 9 plus myself. It's been 2 years since he started - the business hasn't grown significantly but it hadn't slipped at all which I was concerned about. And in fact Simon has made so much more instead of us selling a box with a radio we now sell a solution to people. We are now looking at network solutions to encompass the whole area- this is all because of Simon.

It's allowed me to go back to University in my final year now full time. I'm doing Events Management course doing sales and marketing- all skills I have learnt of the business. The benefits of running the business are growing positively so we have some multi million dollar deals in the pipeline for this year which we never have had a few years ago. It's freed me up to do the University course and I've introduced him to the Japanese shareholders so that in the future the company will be owned by him and have an exit strategy too.