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# Are you brave enough to make your business less and less reliant on you?

Planning to secure the future of your business, but with you less involved, pays off in many ways.

So, what exactly does the future of your business hold for you, for your fellow business owners and, of course, for your team and your customers as well?

## Start to build capital value...

Unfortunately, most business owners fail to build their business in a way that grows its capital value – all because the business relies so heavily on the owner.

As a result, they fail to build in options that support everyone (including themselves as business owners).

### IN A NUTSHELL

By preparing your business for sale to an external buyer, you create more options for yourself as an owner as well as for all the people you care about in your business.

## It takes bravery to face up to this brutal truth...

It's unlikely that the author and philosopher Eckhart Tolle was considering the lifecycle of your business when he said:



*“The contemplation of one’s mortality... is a liberating act that makes life feel considerably less heavy.”*

However, Tolle’s words point to a brutal truth for all business owners – you don’t live forever and you should work out what you want for yourself and for your business. As Tolle suggests, this ‘contemplation’ (planning) can bring a ‘liberating’ sense of freedom.

Here’s how it can work...

## Freedom is a strong reason...

Even though it’s hard to imagine that you’ll ever want to leave the business you’ve worked so hard to build, for many reasons it makes sense to

steadily prepare your business for sale:

- It could be that your company is your best shot at a financially-secure retirement.
- You may want the freedom to start another business or to get involved in other projects.
- You might like more time at home with your family or more freedom to travel.
- You may want to feel free to sleep better at night, knowing that you could sell your business if you wanted or needed to.

The process of preparing your business for sale involves making it less reliant on the owner(s) – you!

Even if you choose not to sell, preparing your business for sale means



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you create options, bringing a sense of certainty, security and clarity to the future of your business. You also increase the value of your business.

### Take your time, start early...

It's hard enough simply running a business – product and service creation, operations, delivery, marketing, selling, HR, admin and lots more – you're already busy.

Adding to this jam-packed mix of challenges and responsibilities can feel daunting. And so it pays to take your time (if you can), which means starting the process of preparing your business to work without you now, before you need to sell!

**STOP** – waiting until you're ready to sell to prepare your business for sale

**START** – building a better business now by preparing it for sale

### Seek guidance...

John Warrillow has started and exited four companies, selling one to a listed company. He's conducted radio interviews with hundreds of entrepreneurs. He's also helped many business owners prepare their businesses for sale and, in his book *'Built to Sell'*, he shares his experiences.

*"The following eight steps provide a road map for creating a company that can thrive without you."*

– John Warrillow

### Step 1: Focus on one thing...

Most businesses naturally want to do more and more for customers and to create more products or services that customers can buy.

For example, a flower shop starts out selling flower arrangements. They do standard bunches and custom arrangements to order. Then they start doing wedding and funeral arrangements. They pick up corporate contracts and start selling planters. They start a care and watering service for the planters. Now they might as well sell plant pots and silk flowers. Perhaps they could sell coffee and cakes for customers to have while they wait. Could the florist/plant shop/café become a restaurant as well?

Complexity builds as revenues build, typically making the business more reliant on the owner to manage all the moving parts.

Instead, with a focus on capital value growth AND revenue and profit growth (and these are not mutually exclusive), Warrillow talks about finding your 'sweet spot' product or service or 'standard service offering':

- A service your clients find valuable
- A service your business does or can do really well (with a competitive advantage)
- A service that can be taught to others

Productising a standard offering makes it easier to teach others what and how to do all the jobs of creating, marketing and delivering, making the business much less reliant on you and building your capital value whilst maintaining or growing revenues and profits.

### Step 2: Get 'cash positive'

Cash is either a stress issue or a comfort issue for your business.

A future buyer will feel the same way. The level of cash stress or comfort you have in your business will directly affect their willingness to buy and to pay what you want.

As you build a strong and attractive standard service offering, you'll find less resistance to paying in advance or by monthly direct debit. Even a hairdresser or gardener can set up a monthly direct debit for regular customers who might, for example, get preferential treatment and priority booking. A cash-positive hairdresser, unsurprisingly, will be more attractive and worth much more to a buyer than one that simply takes cash at the end of every haircut!

### Step 3: Get others to sell for you...

Your business is stronger when you're no longer involved in the operations, production or delivery of your standard service offering.

However, if you're still the rainmaker (the one who makes the sales), you'll find it difficult to sell your business without a long and risky earn-out period.

John Warrillow is adamant that you should hire people who are good at selling products, not services. Avoid salespeople who come from professional services companies as they will want to reinvent your service for every client and not just sell your standard offering.

### Step 4: More bravery required – stop accepting non-standard projects!

What do you do when you get a large and valuable order for anything other than your standard service offer?

John Warrillow suggests that, if you're serious about eventually selling your business, you'll need to turn down non-standard orders. This can mean saying goodbye to some big contracts and perhaps even offending long-standing key clients! How hard does that sound?!

This is most difficult at the start of the process of preparing your business for sale. Because you're still transitioning your business from a complex multi-service/product business, you may well say 'yes' whilst your cash flow and profits depend on all sales.

However, as you build the sales, profits and cash from your standard service offering so that they dominate your business, you'll find it easier to turn down these non-standard opportunities. This requires bravery and

commitment to your capital value goal.

It pays to be aware that your business value is at risk each time you accept non-standard sales revenues:

- Your team will lose focus; you'll be demonstrating you're not serious about your new business model.
- Clients will see a chink in your armour and start asking you for customisation of their projects, leading you further astray.
- More importantly, an acquirer would see the mixture of revenue from the standard service offering and from project work. They will then conclude that this is just another complex, hard-to-manage business.

Follow through on your increasing commitment to your standard service offering and, eventually, clients, employees and stakeholders will realise you're deadly serious. Buyers will also recognise your commitment and will see greater value in your business.

Warrillow's experience suggests that 2 years' worth of financial statements showing you're wholeheartedly committed to your standard service offering will ensure that your business is extremely appealing to buyers.

## Step 5: Launch a Long-Term Incentive Plan for Managers

You'll appreciate how important a management team is to any acquiring company – they provide business continuity (without you being involved) that builds a prospective buyer's willingness to pay more and to pay a healthy sum up front as well.

Building a long-term reward plan for key managers that appeals to your crucial team members 12 and 24 months after any sale is key. It's interesting that Warrillow suggests that it pays to avoid using equity, as it complicates the eventual sale process.

## Steps 6, 7 and 8: Three moves to make a sale happen...

As you engineer your business for capital value there'll come a time when you're ready to sell. Now it's time to get more help from an expert broker, your accountant and your lawyer.

When you are ready, you'll:

**6.** Find a business broker for whom you will be neither their largest nor their smallest client. Warrillow suggests you make sure the broker knows your

industry (because they'll already know some potential buyers).

By writing an ambitious 3-year business plan that paints a picture of what is possible for your business, you'll appeal to acquiring businesses who have the resources to accelerate growth.

*"There's an art to selling a business well. It comes down to how you package it, the story you tell about it, and the feeling it gives potential buyers when they imagine owning it." – John Warrillow*

**7.** Inform your team in plenty of time to positively prepare management presentations for meetings with prospective buyers.

After all your hard work building your business and your team over the years, it can be very difficult to tell your management team about your desire to sell. However, you may be pleasantly surprised when your team understand your goals and appreciate how an acquisition can mean significant career opportunities for them.

And when your team hear about the

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## 4 helping hands for you...



Increasing the capital value of your business is tied to getting as many buyers bidding for your business as possible. This means building the appeal of your business.

A natural benefit of building a more appealing business is that you're less willing to sell! This may sound counter-intuitive, but it puts you in a much better negotiating position. Because you're likely to enjoy your less-risky, less-stressful business, you're more willing to walk away from a weak deal. However, a day will come when you want to stop and want to sell, so it pays to take the steps needed to prepare your business for sale in advance:

- 1. Commit to building capital value in your business (as well as revenue and profits) – this requires a new way of thinking and requires you to work ON the business, not just IN the business. You start to see your business as a product to sell and start to make it more and more attractive to possible buyers.**
- 2. Start making the business less and less reliant on you – if you were buying a business and had to choose between two similar businesses, where one was highly reliant on the business owner and another worked almost without the owner, which one would you value the most? Work out how to make your business less and less reliant on you.**
- 3. Build a cash-positive business – it makes very little sense buying business debt unless you're paying very little for the debt. Buying cash reserves or cash-positive, cash-generating businesses makes a lot of sense, which is why cash-positive businesses are more attractive and receive higher values. Work out the ways and means of improving cash creation for your business.**
- 4. Get support from outside experts – chances are you'll sell one business in your lifetime, whereas brokers, accountants and lawyers are involved in business sales all the time. Find the best advisors to help you when you're ready to sell.**

Of course, you already take your business seriously. Building capital value is a serious business too – possibly the biggest sale you'll ever make. For more insights to help you build your business for sale, explore the following resources from John Warrillow, and look wider afield as well.

'success bonus' from step 5, they'll be even more engaged in supporting your sale of the business.

**8.** Converting your favoured offer to a binding deal can be both time-consuming and emotionally challenging.

Excitement at the offer, frustration at the due-diligence (60-90 days of sense-checking all elements of the business) and the challenge of negotiating up-front and earn-out amounts are often fraught. Warrillow recommends calm, patience and determination to carry a deal through. He also suggests you treat any earn-out as 'gravvy' – as long as you get what you want for the business up front, you can always walk if things get too complicated and difficult.

And think about how you will feel when you get an email like this from your bank:

"Dear [your name]. We've just received a rather large wire transfer into your personal account..."

## TIME TO DISAGREE:

**"I'm scared about my employees getting the slightest sniff that we might be selling the business – aren't we running a serious risk that they'll want to leave?"**

You're right to be sensitive about this serious issue. The same sensitivity could also be attached to customers becoming aware that you're selling up.

Instead of thinking about selling your business though, think about building a business with greater capital value and a business that's easier to run and, perhaps, more

enjoyable and secure as well. Doesn't this just sound like good business sense?

It pays to let 'business value growth' be the focus of your efforts because it's not until steps 6, 7 and 8 that you're into the 'sell your business' stage.

**"I'm way too busy and stressed, running the business as it is, to invest time getting it ready for a possible sale sometime in the future!"**

Before you started your business, you invested a great deal of time and energy and all sorts of emotions ran high – fear, bravery, worry, excitement. Running your business takes even more of your time and energy, generating even more powerful emotions.

It should therefore be no surprise that when you eventually choose to sell your business, more time, effort, energy and emotion will be involved. But the pay-off is significant. The reward for creating a more valuable business is greater security, continuity and certainty for you, for your team members and for your customers, as well as for any future buyer.

## ULTIMATE ARGUMENT:

**"My business is stable and profitable, so why would I bother changing a successful model?"**

Well done for creating a stable and successful business. However, to build capital value (and increase your long-term options), stable and successful just isn't enough...

Many businesses provide a strong

and stable income for their owners but fail to appeal to an external buyer – all because the financial success relies too heavily on the existing owner(s).

Even a business that has consistent or growing revenues and profits can be unappealing to a buyer because, again, it relies too heavily on the owner(s).

As a result, the business fails to provide a rewarding exit route for the owners or a secure future for all other stakeholders – team and customers. Your options will be limited.

Start making your business less and less reliant on you, over time, and you increase its appeal to buyers AND increase its value AND increase the certainty and security for all the people you care about.

## Want to know more?

When you start building capital value in your business it can feel like a massive shift in focus, which is why it pays to dive deeper into what's involved. John Warrillow has provided a brilliant framework and roadmap for the work of preparing your business for sale.

*"John Warrillow's story gets business leaders to focus on a critical question: If others wouldn't pay a fortune for your business, do you have a business worth growing? This is essential reading for owners looking to build a valuable business."* Verne Harnish, founder, Gazelles, and bestselling author of The Rockefeller Habits



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Use these tools & resources to start taking your business seriously, reduce reliance on you and build your capital value.

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