

Strategic Mindset to Increase Profitability and Build Business Value

Matt Allison

ROCG Consulting
business transition & value growth specialists

matt.allison@rocg.com

americas.rocg.com

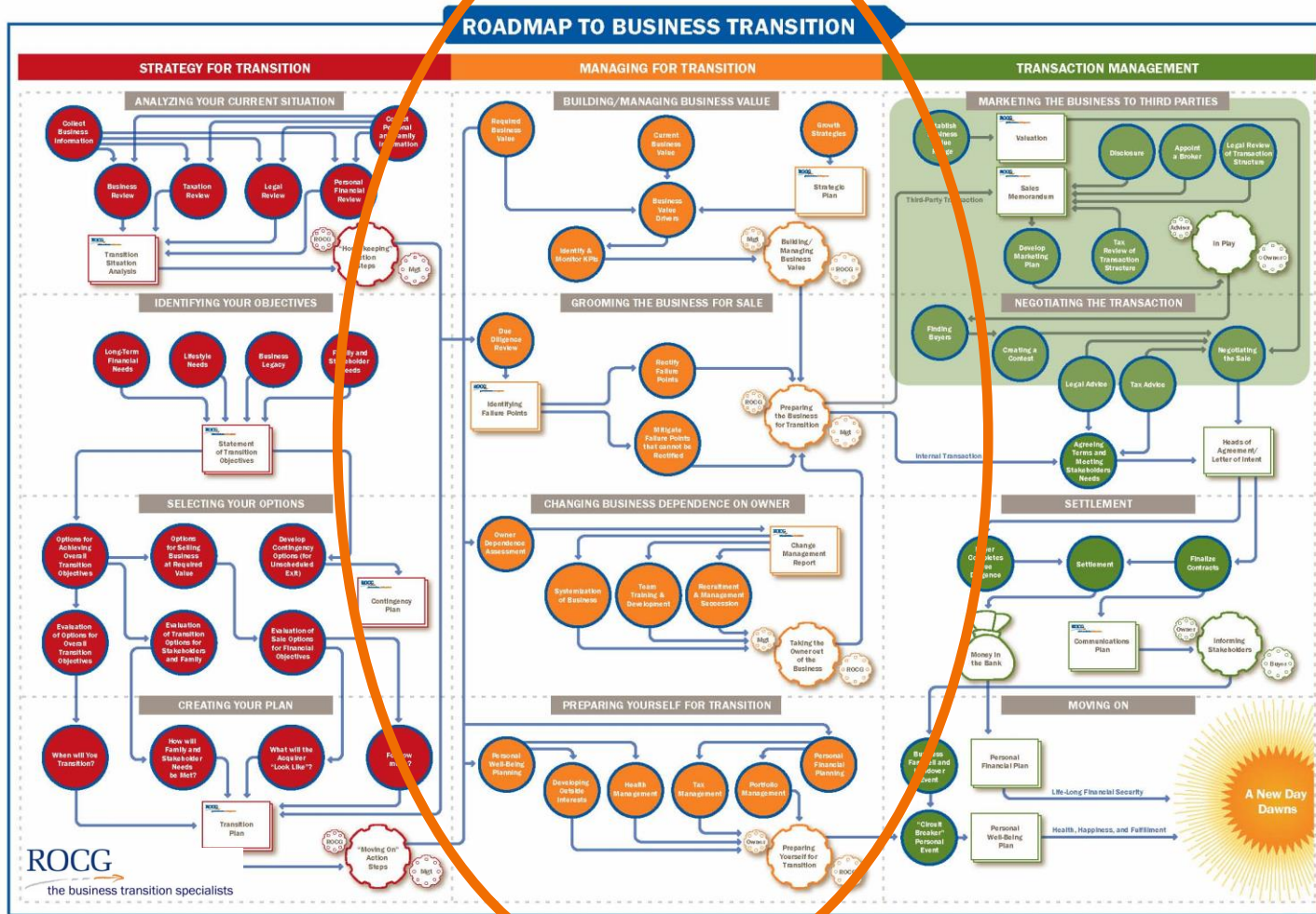


**Tactical Skills
for the Growing Business**

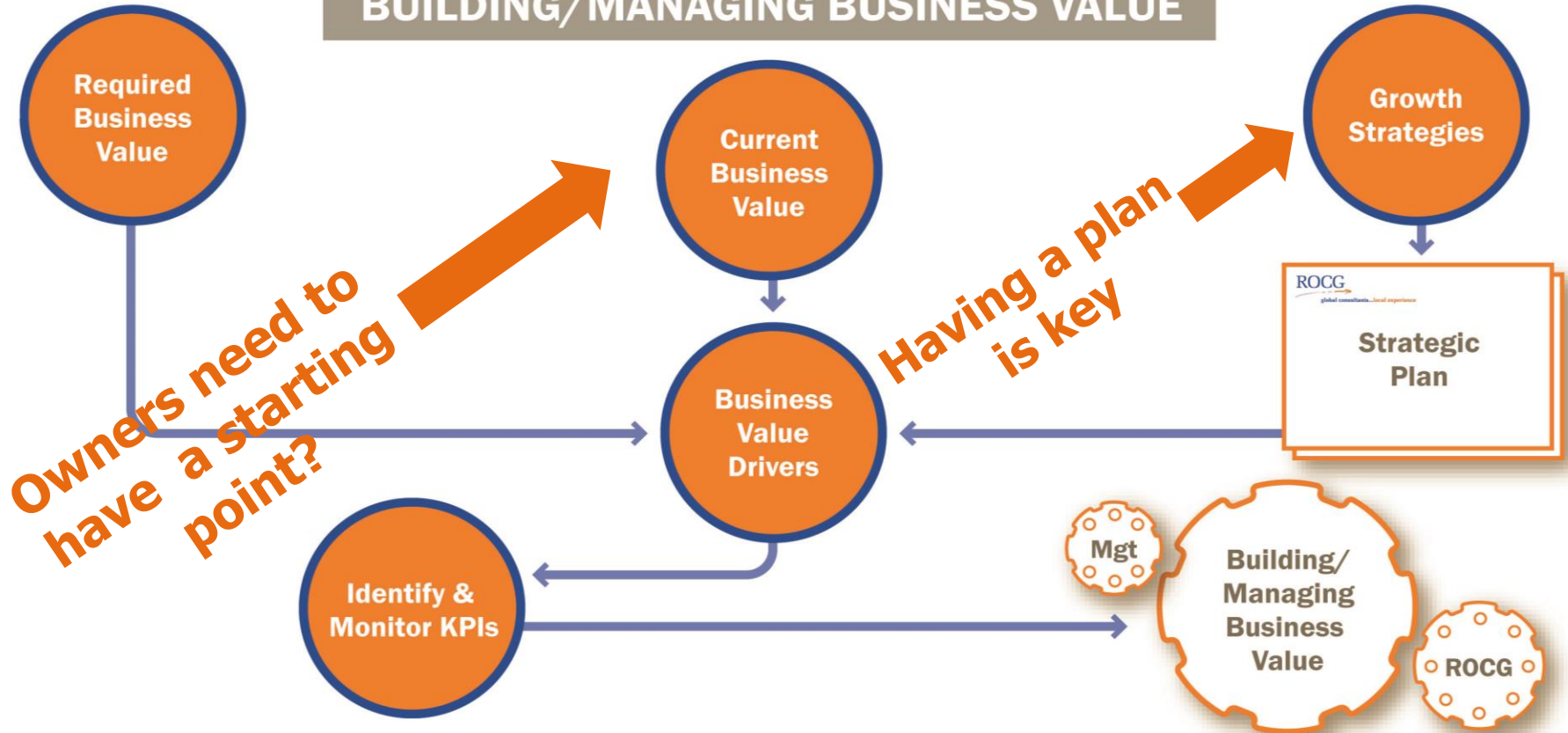
Purpose of Today's Seminar

To challenge the way you look at
and run your business
to help build a stronger and
more profitable company with greater value.

ROCG Proprietary RoadMap Process



BUILDING/MANAGING BUSINESS VALUE



Part 1 – The Basics

#1 Change in Mindset

A Change in Mindset

Are you living the Entrepreneurial Myth?

“The romantic belief that businesses are started by entrepreneurs risking capital to make a profit is a fallacy.”

Michael Gerber
The E-Myth

A Change in Mindset

“Most business owners aren’t in business for growth and building value, but for lifestyle, Gerber was right”

Robert Slee
Investment Banker,
Business Owner, and Author

A Change in Mindset

Why are you in business?

- For growth, to build value that you can later cash out?

Or

- For lifestyle?

Your answer to these questions will determine how you should conduct and PLAN your business life going forward

A Change in Mindset

According to Rob Slee:

80% of privately owned businesses are not currently increasing the value of their companies

Why?

Owners get caught up in the 'doing' rather than 'what ought to be done'

A Change in Mindset

Tactical thinking affords the owner a pay check

Strategic
thinking
creates VALUE



Definition of Investor

- An individual who commits money to an investment with the expectation of a financial return, while holding the investment, and again when selling it.
- Generally, the primary concern of an investor is to minimize risk while maximizing return.



Building Business Value requires CHANGE

- Change from an owner to an investor mindset
- Change from being activity based to being strategically based
- Challenge 'the old ways' of running things.
 - Empower support organization
 - Establish a culture of creativity
 - Avoid the easy path of complacency



Building Business Value

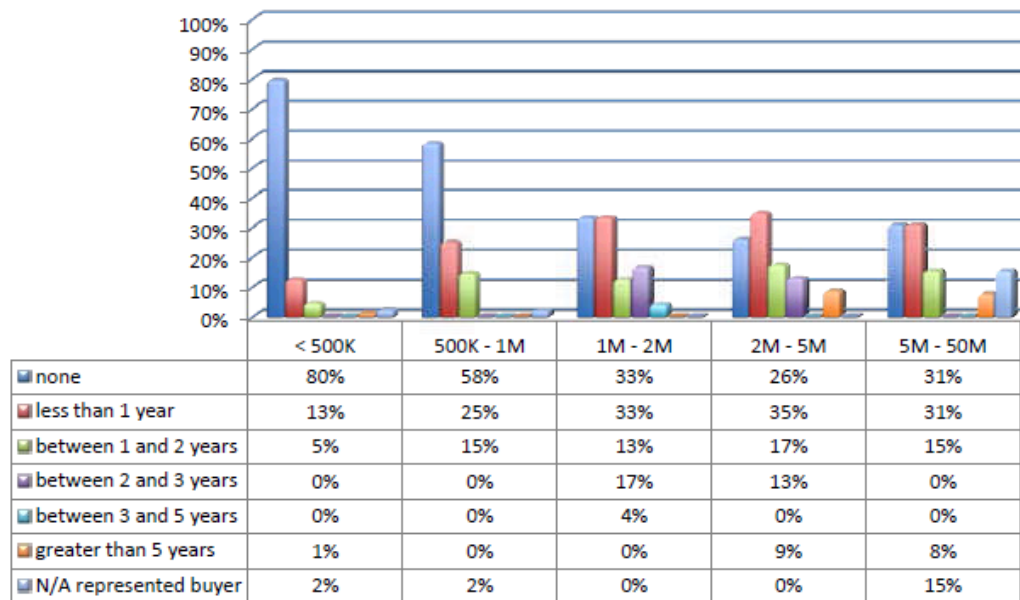
#2 The Importance Of A Formal Plan

Planning Preparation

PEPPERDINE PRIVATE CAPITAL MARKETS PROJECT | PRIVATE CAPITAL MARKETS REPORT – 2019

BROKER cont.

Figure 114. Amount of Exit Planning Prior to Marketing Business



The Value of a Formal Plan

- Owners work hard
- **Undirected** diligence isn't efficient
- Important people are intentional about the hard work
- **Planning places effort, where effort is most needed**

John Wooden
Pyramid of Success

Why a Formal Plan in Writing?

The correlation between having written goals and achieving greater success has been well documented.

Original Masterpiece Study – Napoleon Hill – *Think and Grow Rich*

I hope I reach the finish line!



The Need For Planning

A strategic plan...

- to grow and/or become more profitable
- to build business value
- to maximize your financial pay day upon exit
- to protect and accumulate wealth

HOPE IS NOT A STRATEGY

#3 Begin With The End In Mind

Begin With The End In Mind

Owners

- Get caught up in the doing and lose sight of where exactly they're going
- Often get so intertwined with the business, it takes their life over and...
- Unconsciously allows the business to become the end game instead of the means to an end... the fulfillment of their personal goals and objectives

Begin With The End In Mind

It's just good business sense to have a plan that is focused on the owner's personal goals and objectives 'end-in-mind'

A plan with

- Goals that are **both financial and non-financial** (it's NOT all about the money!)
- A holistic plan aligning business strategies with an owner's personal goals
- A holistic plan bringing better life/work balance and greater overall enjoyment.

Identifying The End Game

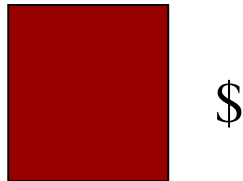
- Removes the subjectivity in the general thought process of “I want to grow the business”
- Answers the question of exactly how much you want to grow
- Allows owners to ‘build business value’ with direction to get to their end-in-mind

Note: It doesn't mean it's the “end of the game”, planning gives owners options when they get there.

Begin With The End In Mind

What's needed from the business to live the lifestyle of your choosing?

Current
income stream/business
value



- **Income stream for current needs**
- **Needed income stream to fund retirement lifestyle objectives**
- **Business value desired**

Income
Stream/Business
Value Desired

\$\$\$



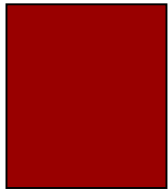
#4 Knowing Your Starting Point/Playing Field

Knowing Your Playing Field

Is There A Wealth Gap?

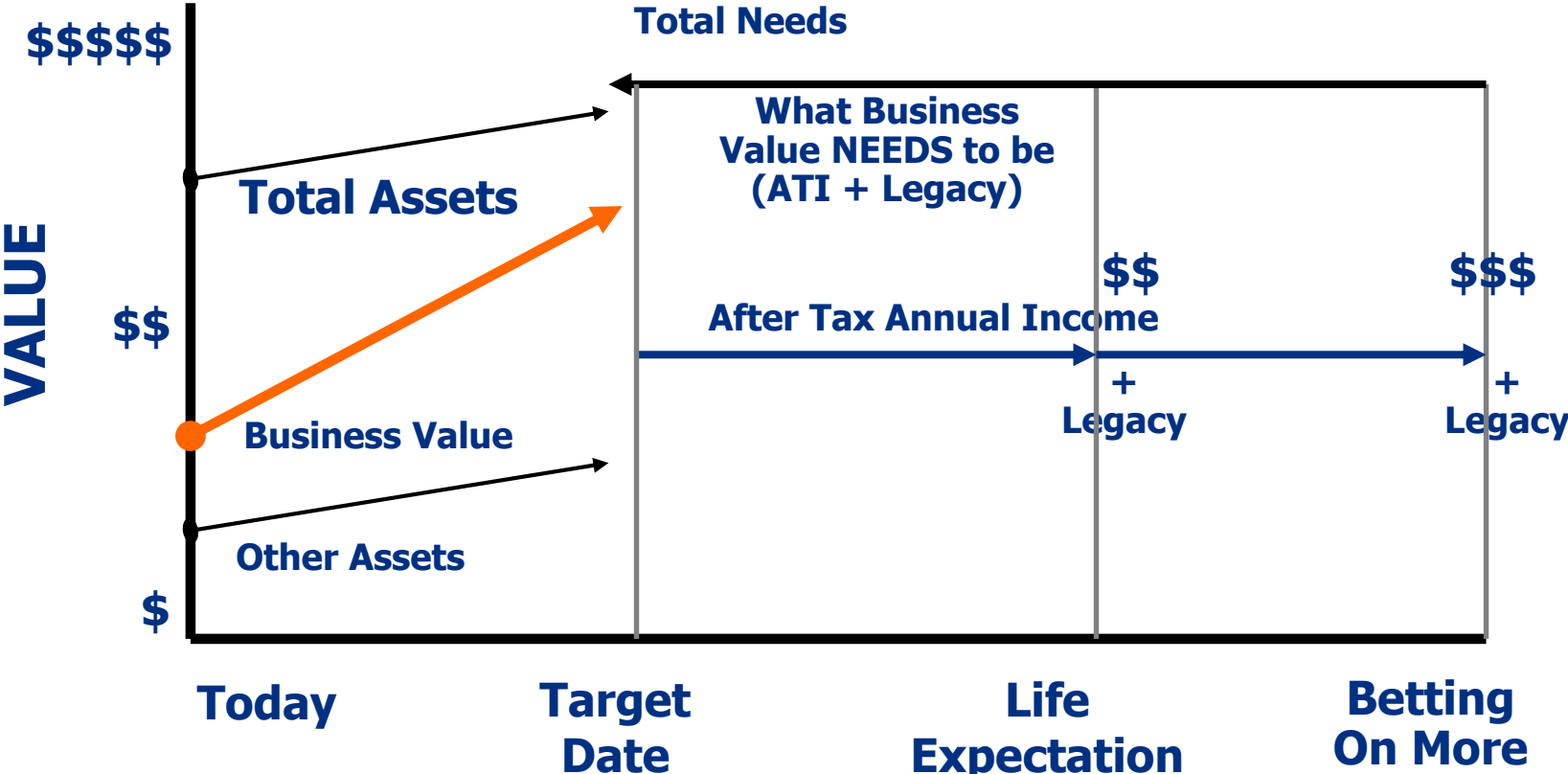
What's needed from the business to live the lifestyle of your choosing?

Current
business
value



\$

Knowing Your Playing Field



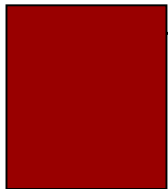
Knowing Your Playing Field

Is There A Wealth Gap?

What's needed from the business to live the lifestyle of your choosing?

Requirements on exit to fund your post transaction needs

Current business value



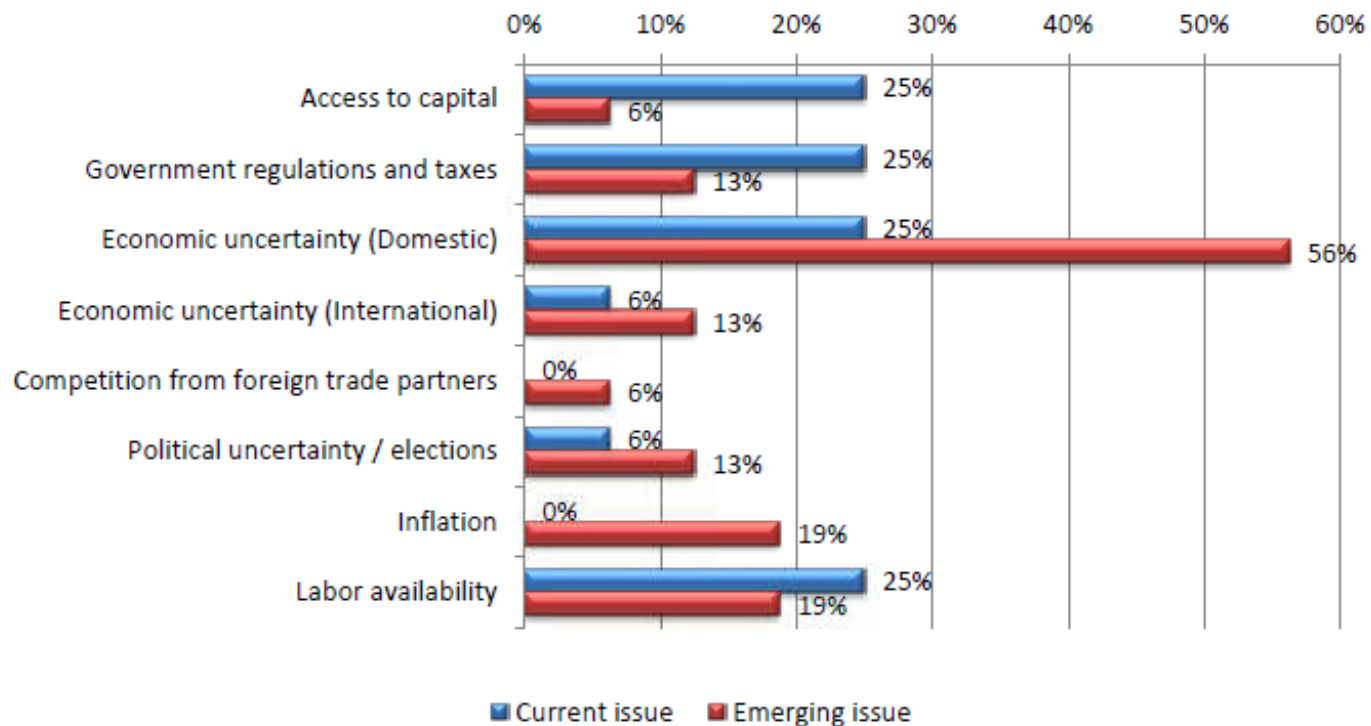
\$

\$\$\$



Knowing What's Coming

Figure 124. Issues Facing Privately-Held Businesses



#5 Execution

The Value of a Written Plan

The “all-important last 95 percent” - **EXECUTION**

- Amateurs talk about strategy
- Professionals talk about logistics (action)

EXECUTION is the job of the business leader

Tom Peters
The Excellence Dividend

#6 Understanding Business Values

Understanding Business Value – Value Worlds

- Market Value – what the open market says the business is worth
- Fair Market Value – what the IRS/Courts say it is worth
- Owner Value – what you say it is worth
- Investor Value – what an investor says it is worth
- Collateral Value – what the bank says it is worth
- Others: Economic; Bankruptcy; Insurable; Early Equity (Venture Capital); Public; Fair Value...

Robert Slee
Private Capital Markets

How An Owner Sees The Value



ROCG Consulting
business transition & value growth specialists

Stampede To The Exit®

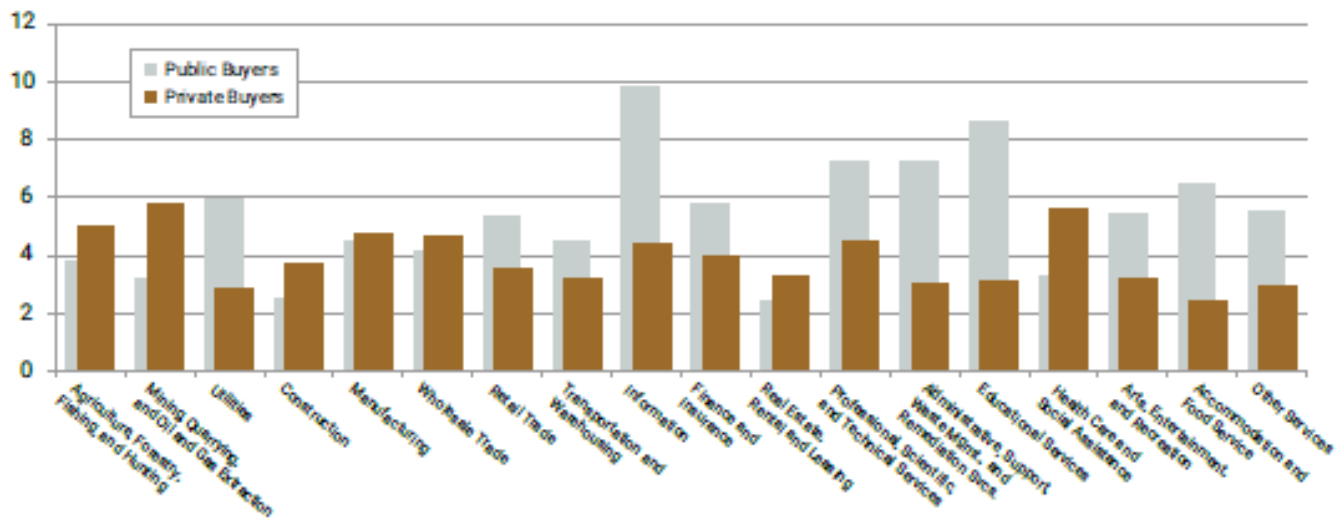
**BUSINESS FUNDAMENTALS
BOOTCAMP**
Tactical Skills
for the Growing Business

How A Buyer Sees It!



Public vs Private Buyers

**EXHIBIT 16. SELLING PRICE/EBITDA
(PRIVATE TARGETS)**

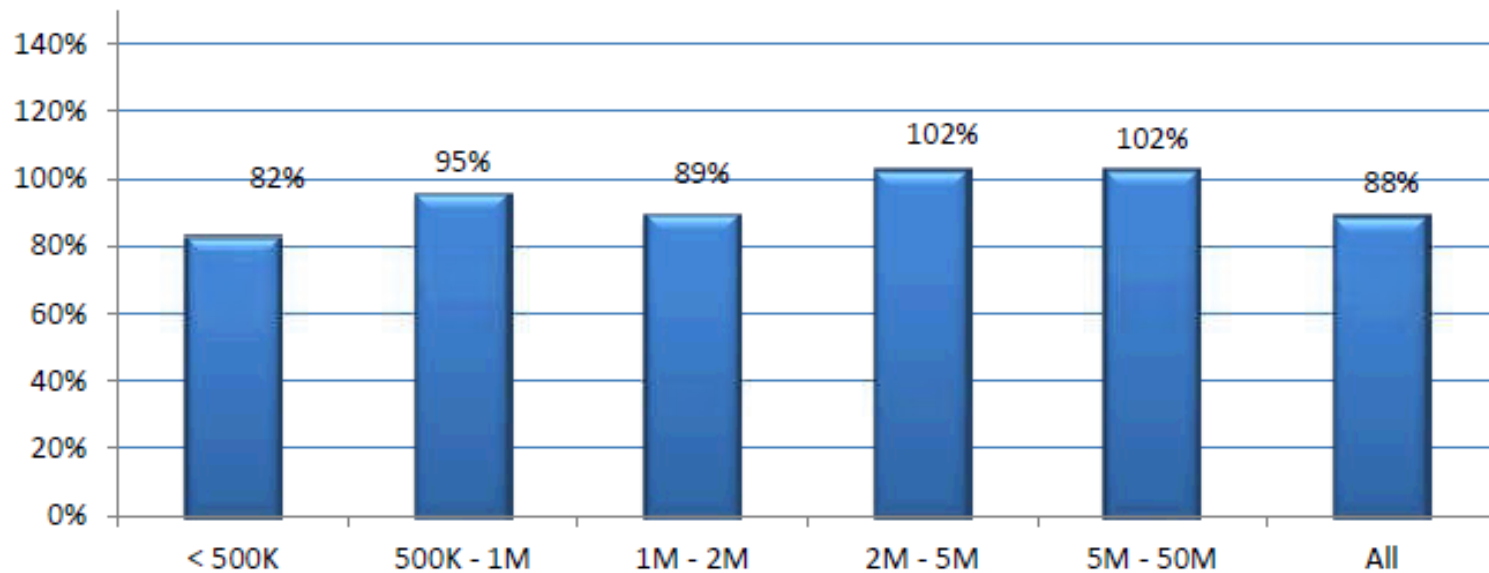


bvresources.com/dealstats

DEALSTATS VALUE INDEX | 3Q 2019

Final Settlement

Figure 111. Median Percentage of Final/ Selling Price Realized to Asking/ Benchmark Price by Deal Size



#7 Understanding Value Drivers

Understanding Value Drivers

Identifying the Drivers of Value

- Normalized earnings and the cash flow from business



Predictable and proven future earnings

Understanding Value Drivers

Identifying the Drivers of Value

- Normalized earnings and the cash flow from business
- The multiple used by a buyer to value the business (*the fewer the dependencies the better*)



Predictable and proven future earnings



Reflects the risks to the buyer

\$ x multiple



Range of Business Value

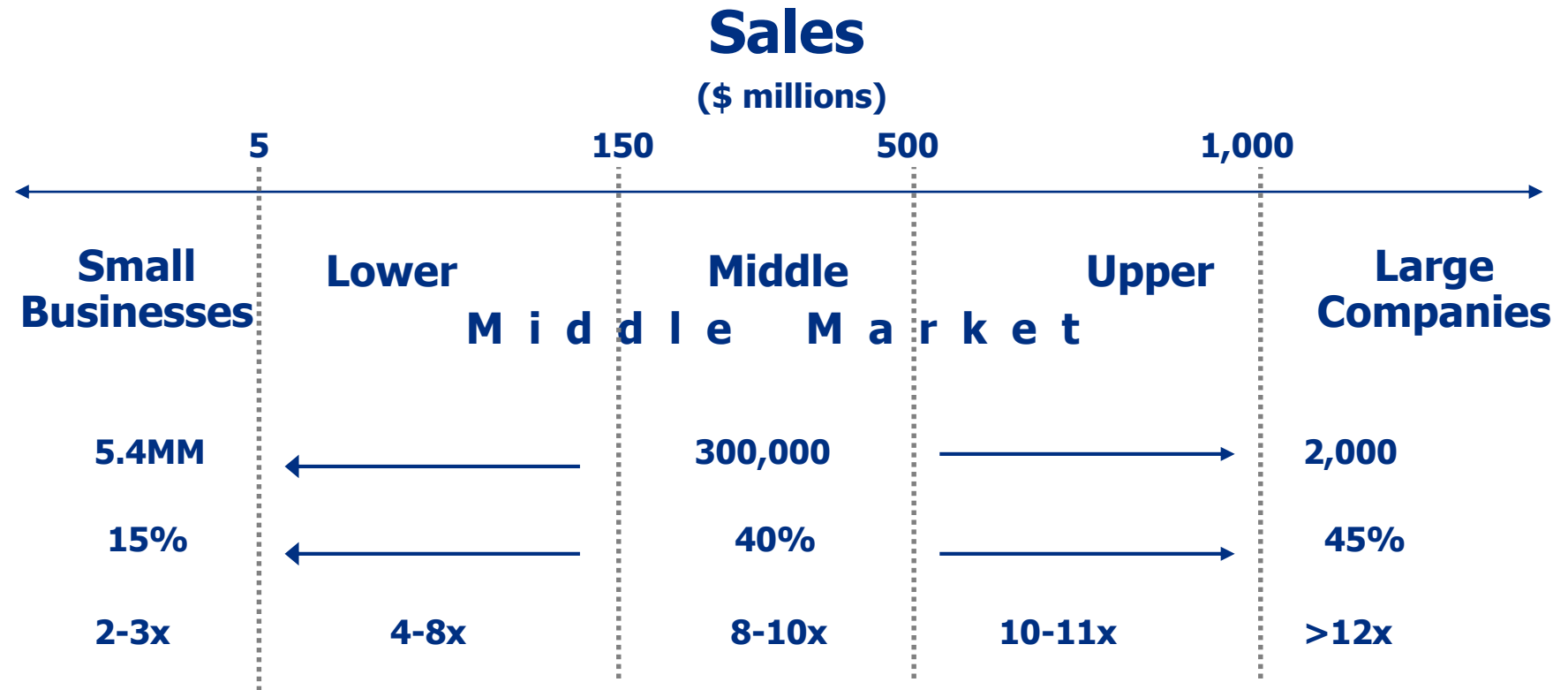
Managing RISK Factors

Perceived Factors that increase Buyer risk – decrease the multiple

- Smaller is riskier
- Reliance on owner
- Lack of management depth
- Over-reliance on key personnel
- Instability of the industry
- Lack of product diversification
- Over-reliance on too few customers
- Over-reliance on suppliers
- Fluctuating earnings

Knowing
Your
Value
Drivers

Understanding Scale To Drive Value

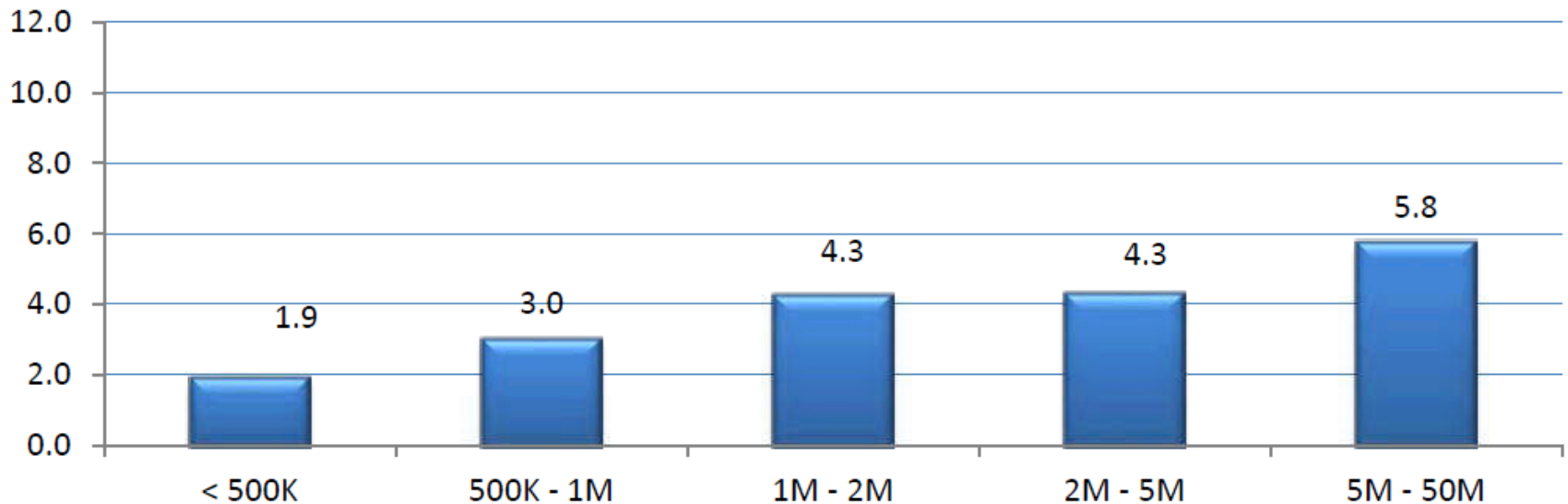


Source: Robertson & Foley Investment Bankers

#8 What's My Business Worth?

So What Is My Business Worth?

Figure 105. Median EBITDA Multiple Paid by Deal Size



Source: Pepperdine Private Capital Markets Report - 2019

So What Is My Business Worth?

Table 27. Median Deal Multiples by EBITDA Size of Company

EBITDA	Manufacturing	Construction & engineering	Consumer goods & services	Wholesale & distribution	Business services	Basic materials & energy	Healthcare & biotech	Information technology	Financial services	Media & entertainment	Average
\$0K - \$999K EBITDA	5.0	3.5	4.3	5.5	3.0	5.0	4.3	7.0	5.5	4.0	4.7
\$1M - \$4.99M EBITDA	5.5	4.5	5.5	5.5	4.8	5.5	5.5	7.5	6.0	5.5	5.6
\$5M - \$9.99M EBITDA	6.5	5.0	5.8	5.8	5.3	6.0	7.3	8.0	7.5	6.0	6.3
\$10M - \$24.99M EBITDA	7.5	6.5	6.5	7.5	6.0	6.0	7.5	8.5	7.8	6.5	7.0
\$25M - \$49.99M EBITDA	7.5	9.0	8.0	7.5	7.0	6.5	8.0	9.0	8.0	8.3	7.9
\$50M+ EBITDA	8.0	n/a	8.0	N/A	7.0	7.0	10.0	10.0	8.0	n/a	8.3

Average total leverage multiples observed by respondents varied from 2.8 to 6.2.

Source: Pepperdine Private Capital Markets Report - 2019

Part 2 – Business Value Growth Strategy

#1 Look From Buyer's Perspective

Strategy Planning – Value Drivers

Values buyers look for:

- Can this business operate independently of you?
- Does the business have a **unique differentiator** that sets it apart from all others in the industry?
- Is the business generating **sustainable profits**?
- Is the customer base diversified and **capable of further business development**?
- Is there an **untapped market** for the products or services?
- Are the **systems and processes** considered first rate for the industry?
- Is the **right team** in place for growing the business?

Strategy Planning – Value Drivers

Values buyers look for:

- What's the **strength of the management team**?
- **Are there proprietary assets** that have future value?
- Does the **business have contracts with key stakeholders**-customers, suppliers, employees, other owners?
- Are there **potential liabilities** that could damage the future value of the business?
- What is the **strategic outlook** of the business?
- Is there a **business plan in effect that has been followed and demonstrates future growth potential**?

Strategy Planning – Value Drivers

Minimizing the Dependency on You

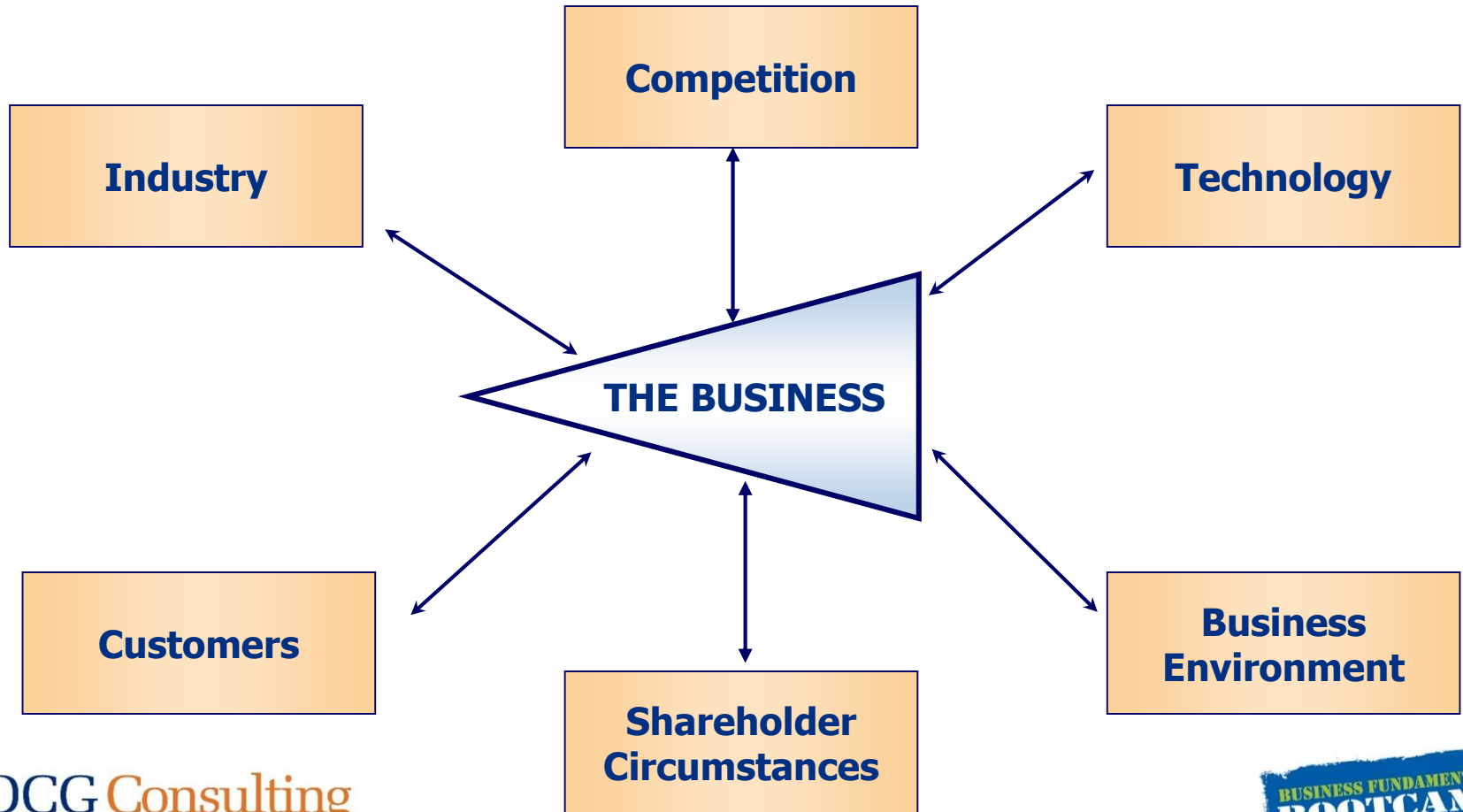
- Systematize the operations
- Develop your team
- Empower them to make decisions (*even the bad ones*)
- Manage Expectations



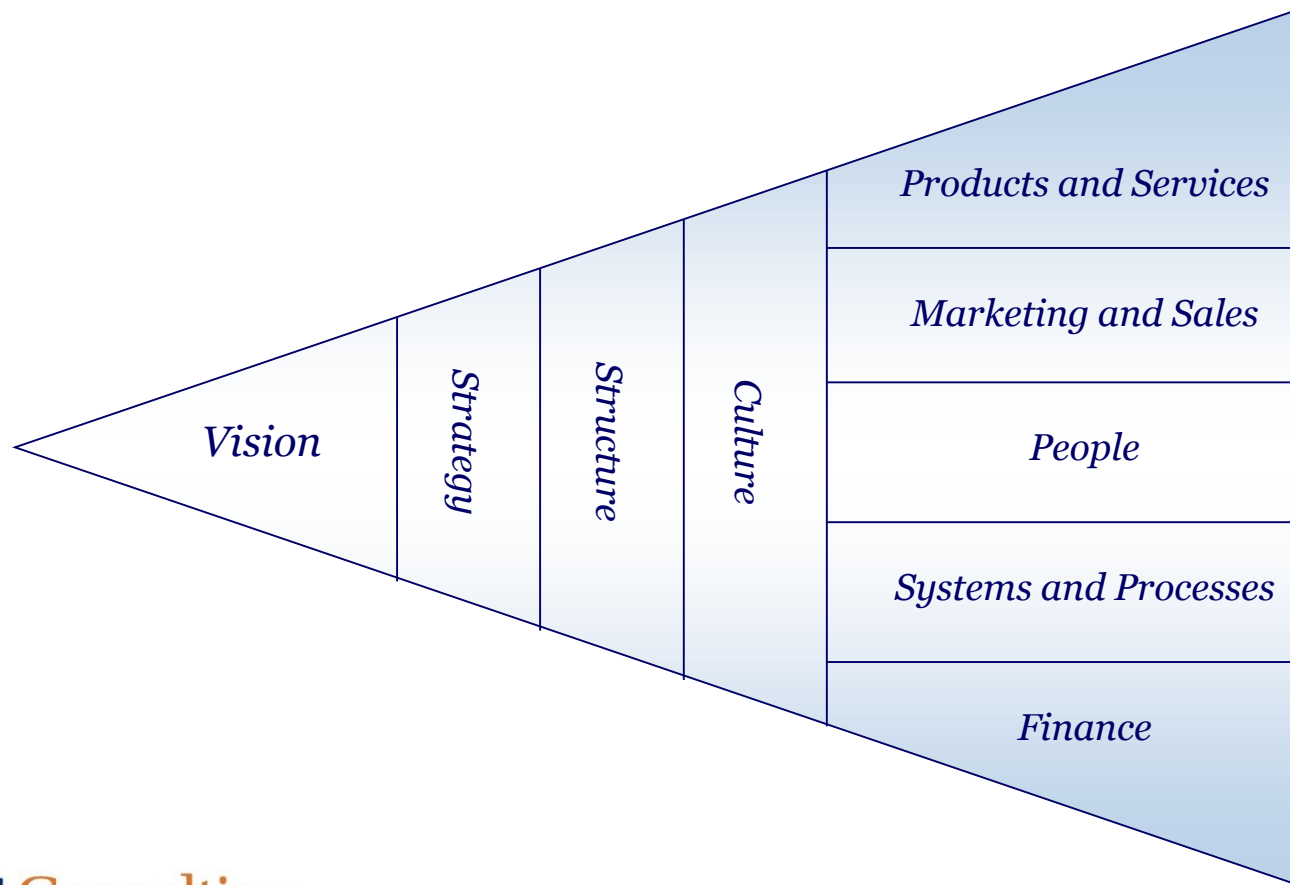
**Your business
is much more
valuable if it
can run
without you!**

#2 SWOT Analysis

ROCG Framework – External Environment



ROCG Framework – Internal Environment



Growth Strategies – SWOT Analysis

- Understand your **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats
- Leverage internal strengths to pursue external opportunities
- Counter weaknesses and threats (internal and external factors that undermine successful strategy execution)

Growth Strategies – SWOT Analysis

- Analysis reveals issues that your strategy must address:
 - Is the **right organizational structure** in place to support growth?
 - Are there **gaps or holes** in the management team?
 - Is there a **recruitment plan** in place to ensure a steady workforce stream?
 - Are adequate **processes and systems** in place?
 - Are there **effective communication channels** throughout the organization?

Growth Strategies – SWOT Analysis

- Analysis reveals issues that your strategy must address:
 - Is there a **contingency plan** in place in event of disability or premature death?
 - Are there **new market segments** the company might enter?
 - What is the best role for **new products and services**?
 - Is an **acquisition** needed?

#3 Strategic Growth Analysis

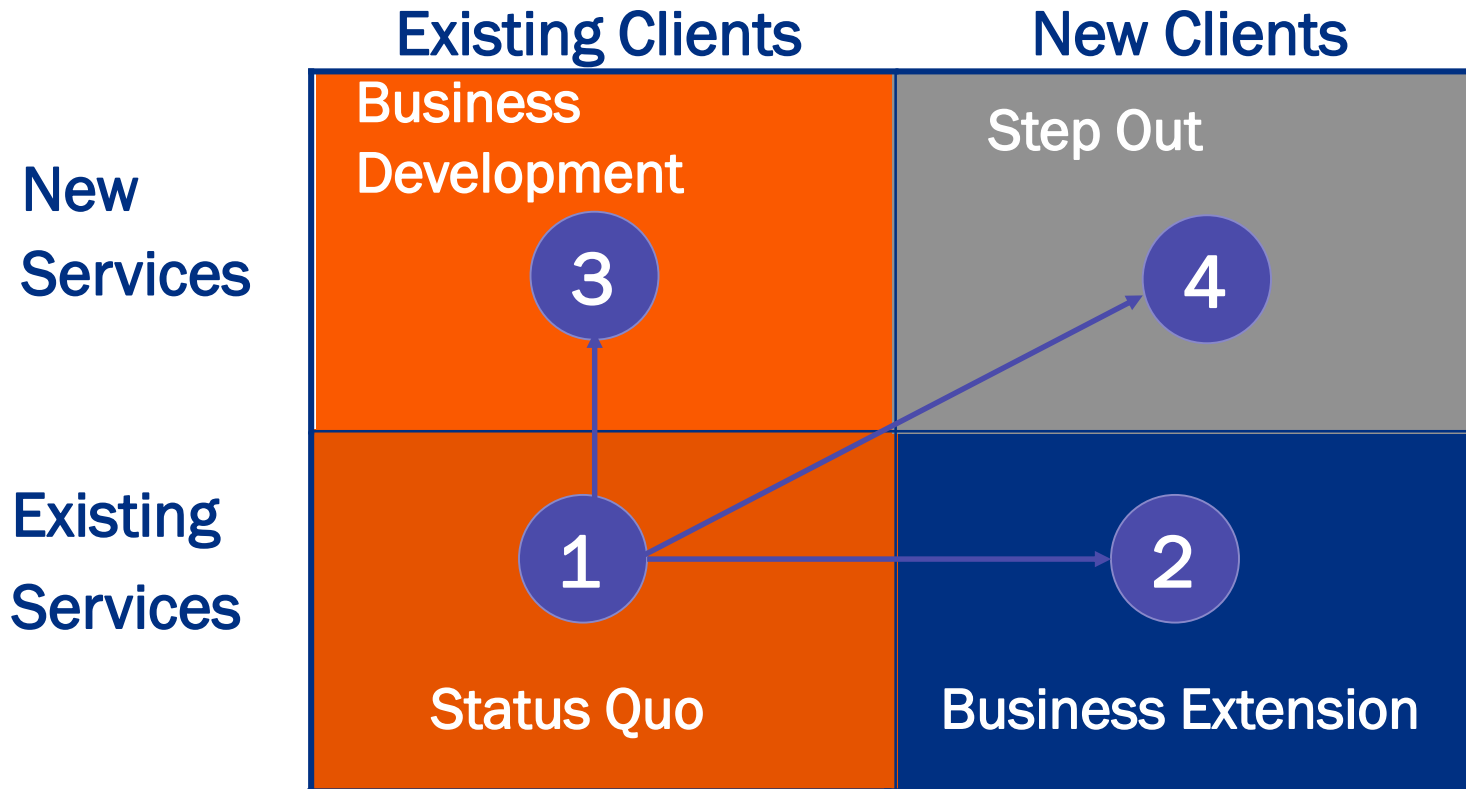
Business Value Growth Strategy

Carefully consider your growth investment strategies

- **Increase market share** by taking advantage of competitor's cutbacks/economic weaknesses;
- **Enter new markets** where weakened competitors are;
- **Seek M&A** opportunities for potentially discounted deals on **complementary platform additions & vertical integration**
- **MONITOR CASHFLOW!!!**

Growth Strategies

Strategic Ideas Fall Into One of Four Areas



Building Business Value Growth Strategies

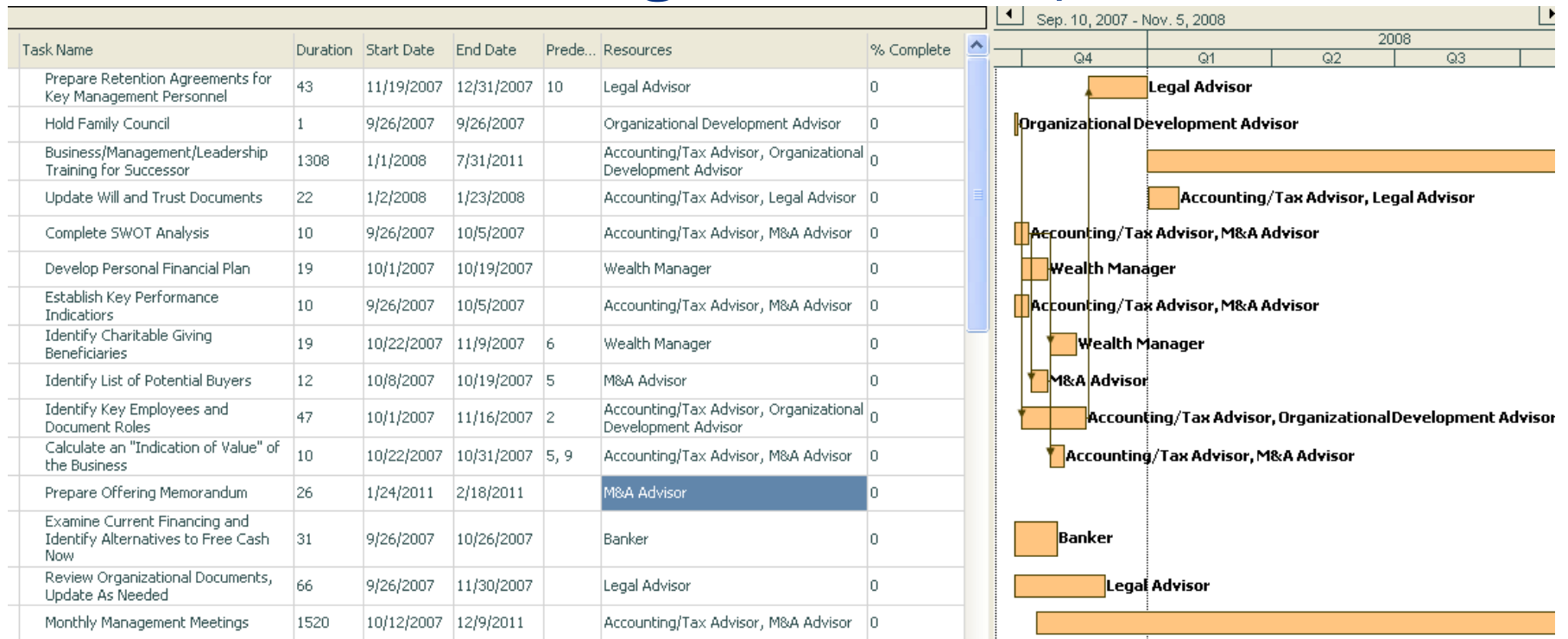
Strategic Ideas Fall Into One of Four Areas



Part 3 – Strategy Execution

Putting It All Together: Your Custom Designed Plan

Moving On Action Steps



Success Key #1 Team Alignment

- Culture takes years to build and moments to break
- Develop aligned vision
 - Set long term (5 years) and short term (1-2 years) goals and objectives
- Develop team communication plan sharing the vision
- Tie in remuneration/performance bonuses to company goals
- Recognize and plan for future retirement and/or transition

Success Key #1 Team Alignment

- CULTURE
 - Creating and engaged and empowered workforce is one of the most powerful strategies a business execute
 - Develop training and success factors, mentor and develop
 - Practice what is preached, in a recent Gartner survey:
 - 69% of employees don't believe in the cultural goals set by their leaders
 - 87% don't understand them
 - 90% don't behave in ways that align
 - Closing this gap can have a dramatic increase on productivity!

Success Key #2 Financial Management

REVENUE IS VANITY;

PROFIT IS SANITY; CASH IS KING

- Monitor your cash position and requirements on a regular basis
- Beware of growth's "cash land mine". Growth demands working capital investment. Don't run out of cash!
- Carefully plan new product or service offerings that will tie up and consume cash
- Carefully plan business expansion strategies that will tie up and consume cash

Success Key #2 Financial Management

REPORTING

- Timely information
- Identify critical success factors
- Measure with leading indicators (*versus lagging*)
- Monitor KPI's daily/weekly
- Be wary of using old historic benchmark averages as guidelines



Other Considerations #1 Identify Customers at Risk

- Ramp up communication
- Meet with them
- Resolve issues/concerns
- Flatter them with attention
- Continually monitor performance by asking for feedback



#2 Stabilize the Business – Gross Margins

- Analyze products profitability
- Address major gross margin problems chewing up cash
- Eliminate product lines/services with losses or low margins



#2 Stabilize the Business-Expense Review

EXPENSES

- Analyze every expense annually complacency versus necessity
- Review employee needs to match both current sales activity and future growth plans

#3 Revisit Your Value Proposition

Does your value proposition need changing?

Is it:

- Still meeting customer's needs?
- Powerful enough to help fuel growth strategies?

#3 Revisit Your Value Proposition

Why should people buy from you versus
the person down the street?

#3 Revisit Your Value Proposition

The Three Legged Stool

- Leg 1 What are you doing to create demand for your product/service? **RESONATE**
- Leg 2 Why choose you versus others? **DIFFERENTIATE**
- Leg 3 Why should they believe you? **SUBSTANTIATE**

From: Michael Schultz & John Doerr
RAIN Group

#4 Work the 4 Ways To Grow Your Business

4 Simple Growth Strategies to Improve Your Business

- #1.** Increase the number of new customers.
- #2.** Increase the number of times they come back.
- #3.** Increase the average transaction value.
- #4.** Increase the effectiveness of each process.

#4 Work the 4 Ways

The Power of Synergy

Let's look at an example of how this can work for you.
You have a customer base of 1,000

- You are able to increase the number of new customers by 10% to 1,100
- You are able to increase the number of times each customer purchases from you by 10% (from once to 1.1)
- You are able to increase your average sale by 10% (from \$100 to \$110)
- Improvements in your business processes have allowed all 3 of these things to occur

#4 Work the 4 Ways The Power of Synergy

Assuming everything else is equal, by what overall percentage will the business grow? By 10%, right?

Wrong! When all 4 areas are increased by 10%, it has a multiplier effect of 33.3% - or \$33,100 more income – not \$10,000!

Think about it and then later on take a few minutes and calculate what this effect would have on your own business.

#4 Work the 4 Ways

The Power of Synergy

- Rather than simply viewing sales revenue as a single line item, 3 of the Ways gives you better insight into where the potential lies by breaking it down into where sales come from
- Focusing on just one could mean you miss opportunities for greater profit
- The whole is greater than the sum of its parts

ANY FINAL QUESTIONS?

Matt Allison



matt.allison@rocg.com
americas.rocg.com

Remember to Complete the Speaker Survey:

Supportingstrategies.com/bootcamp > 'click' event name > scroll to
agenda > select your speaker