

BRIDGING THE GAP

How to secure your business and personal future through sustainable business improvement.

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Bridging the Gap

Quite often as an accountant and business coach, I see business owners unsure about what will happen when the day comes to get out.

Yes, it's going to happen, whether it be your choice or forced upon you, but the day will come when you just won't want, or possibly be unable to be in your business anymore.

So what are your choices?

- Sell
- Transfer ownership to a colleague or family member
- Pull down the shutter and walk away

You see, your business is there for two main reasons. The first is to provide an income over time. The second is to be an asset that you can sell at some point, using those funds to either move to the next venture or assist with retirement.

Too often do I come across business owners who have failed to plan and end up having a business valued at significantly less than what is needed for the next step.

We call this the Value Gap.

The Value Gap is the difference between what we call your "Magic Number" and your Business Value.

It's important to realise that the earlier you focus on being aware of, and bridging the Value Gap, the better. Planning starts many years before the day you exit the business.

But before you even think about bridging this gap, you need to be aware of what the current situation is.

Awareness

The first consideration is your Magic Number. This is not simply how much do you need to retire. It requires real thinking about future needs.

If you are not ready to retire and are instead looking towards your next venture, what is that next venture? How much money will the next venture require? How many years will you be in this venture? What will it also need to look like when you do decide retirement is the option

Awareness is something that is typically avoided when it comes to these tough decisions. In fact, we avoid not being in business a bit like death, we know it is going to happen but it will never happen to us.... Yeah right.

Everything and I mean everything in your business needs to be transparent and known.

Why are you in this business in the first place? What is the end game? Let's get aware about these things and let's get serious with our goals.

The second consideration is your Business Value. What would your business be worth if you had to sell today? Do you know the answer?

I have been involved in many business sales and the fact is that most owners decide their business price "inside out". They typically look at the debt that needs to be cleared, the holiday that comes after the sale and the funds needed to tuck away for retirement.

Problem is, that typically this results in a significantly overvalued business. It also

results in a flawed analysis of what the true needs will be post business.

This awareness is part of the value gap analysis. Knowing how far short of your magic number you are allows you to plot out an appropriate cause of action to bridge the gap in a timely fashion.

So what can you do to bridge this gap?

Work on Magic Number Issues

If your magic number is higher than your business value, then it should simply be a matter of reducing your lofty goals in retirement...shouldn't it? Well not quite.

After all, the whole purpose of this exercise is to achieve your goals. Yes, it is true that overly unrealistic goals will not help when the clock is ticking, but it is also correct that you should not sell yourself short.

I will cover shortly the issue of mindset as it relates to value gap, but for now simply consider that you should base your goals on what you want.

Tweaks to consider might be:

- Factor in reduction of size of housing. Will the family home be realised and downsizing return a capital inflow/debt reduction.
- Future Income needs - working with a planner early can make a huge difference here
- Current Investments and increases pre retirement - More non business investments equals improved retirement lifestyle.

So tweak what you can but remember the key is then to determine if the business can do it. And if it can, what is required.

Work on Business Value

This is by far the more flexible area to work on when looking at valuation gap. Once a firm idea of value is arrived at you can address the key areas that may be bringing the value down and make necessary improvements.

Mitigating risks within a business can also be critical.

The area of Business Value is where working on improving your business becomes critical. I have set out in the remainder of this report how each area of improvement contributes to business value. This is not a quick fix as you will see, and real improvement of business value should be done over the mid term as part of a structured accounting and coaching program.

Remember that the key is to be Aware and be prepared.

Planning

Planning Session

Much of the work that needs to be performed to improve the value of your business needs to be part of a clear plan.

Where are you now? Where do you need to be? How are you going to get there?

By engaging in a planning session, you can flesh out your objectives and set the strategies to achieve them. So what exactly happens in a planning session?

A planning session is a facilitated day where your accountant helps you throw mud at the wall and see what sticks.

All ideas, concepts and problems can be workshopped and with your coach's sounding board experience prioritised. The key to an effective planning session is the outcome of a defined plan of action for the business, allowing the detailed work to be implemented.

Budget and Forecasts

The next step from the planning process is to set budgets and forecasts. Many business people we come into contact with don't like the restriction of a set budget, they like to think more on their feet. For business improvement work the key is to not only have traditional profit & loss style budgets but also have forecasts around the key drivers in your business.

What is your forecast level of sales for each division in your business?

What is your targeted average sale?

There are many key drivers that need forecasting and this planning is crucial. What-if scenarios can be run in line with business value analysis to set realistic targets for improvement.

Accountability

Once targets are set for Improvement work, the key will be accountability to those targets. By utilising a business coach and a structured process, accountability can not only keep you on track but also provide real motivation.

It can also provide you with ways of attacking the common challenges that occur when making change in a business.

KPI Monitoring - KPI Monitoring is one of the most common forms of accountability. The first element of KPI Monitoring is the setting of targets for key drivers. We would then typically recommend a business monitor their key performance indicators in a structured manner on a monthly basis. The key is not simply monitoring but interpreting any variances and taking corrective action on an ongoing basis, tweaking and adjusting on your way to your end goal.

Advisory Board - By utilising an accountant/coach to conduct monthly meetings or an Advisory board, you have at your disposal a virtual CFO or management tier that would not otherwise be possible within your business. This allows a sounding board for ideas, a non financial partner in your business and a key source for innovation and strategies that brings a wealth of industry and non industry business experience.

Peer Coaching Groups

Accountability can be gained by being part of a peer coaching group such as "Superstars". Superstars is a business group of like minded executive owners, meeting on a regular basis to share, engage and inspire. Such groups bring together significant experience as well as putting motivation into the equation through required preparation for meetings and sharing of broad category results. For more information on joining Superstars, contact our office.

Improvement

What-If Modelling

What-If Modelling takes your current trading figures and creates additional improvement scenarios. One of the best ways to use What-If Modelling is to break trading results down into key components.

For example, Revenue can be broken down into Customers X Average sale.

Modelling can be performed to look at what would happen if:

- Customer # increased by 2%
- Conversion Rate improved by %%
- Average Sale to each customer improved by 5%

Profitability has a huge bearing on business value and therefore modelling how improvement in profitability can occur allows a business owner to actually see that it can happen rather than improvement simply being a pie in the sky.

Margins & Pricing

Analysis of Margins and Pricing can glean some massive gains for business.

Whilst most businesses now understand that pricing can be increased with very little negative effect, too few are actually implementing this strategy. Even more confusing are the businesses that continually discount to “bring in the volume”. That’s fine if you are Coles or Woolies, but for the average SME it is insanity and it can be proved by the numbers. If you are still unsure, ask us for the proof!

Some significant improvements can be gained by analysing margins on products and also the mix of sales in your business. Selling more of your most profitable products is key.

But too often it is a large volume of low margin work which keeps SME’s overworked and underpaid.

Systems and effectiveness

Improving the systems and effectiveness in your business has a huge impact on perceived risk factors and therefore business value. A business which can be

replicated by someone new to your industry will be worth multiples of one that isn’t. The ability to gain efficiencies from day one for a purchaser is critical.

Mature businesses tend to have high reliance on owners and also typically have reached a comfort level which breeds inefficient processes and labour.

Corrections to these areas can bring great results.

Structure

The old “working on your business” mantra allows an owner to pull back from their business. The aim should be for an SME to adopt some variant of a corporate culture. Moving back from the coalface allows a structure that is succession friendly and as a result increase value.

Key to this though is moving back at the right time. Delegating fully too soon can delay realisation of strong profits by many years

Mindset

What happens though when an owner does not believe fully what can be achieved?

Or an owner that knows it can be achieved but is too tired to continue?

At the other extreme is an owner who simply cannot visualise their business ever achieving and just want out.

The human mind is a complex creature and our coaching arm, Supercoach, work with business owners to overcome blockages, enabling them to move on to bigger and better things.

Change work within businesses requires an owner who is capable and willing to change.

So what can be done with an owners mindset to progress.

Switching on

At times we can activate an individuals drive as part of a simple personal mindset session. Other individuals take a longer period to adapt to the change required.

It is key that they re discover their drive which will allow work to be conducted on all other problems. This individual latency is common and can come from many areas.

Supercoach uses advanced NLP techniques when working on mindset with clients to break the shackles and get amazing results.

Belief

Our beliefs are sometimes restrictive for our business and personal life. We bring with us as individuals all manner of scenarios both past and present which can limit our performance. Changing these beliefs takes time but can be extremely rewarding for a business owner...a bit like clearing a fog.

Superstrength

Whilst each of the powers above can be worked on exclusively to gain results, many clients choose to apply what we call Superstrength to their business.

Superstrength effectively bundles all the powers of an accountant and a coach into a tailored business package. This is a serious commitment and is very intensive

with hands on implementation in your business.

By utilising Superstrength you get to partner with your accountant/coach and quickly realise that you do not have to battle in business alone.

The more you learn as part of your business improvement journey, the more you will need to utilise tailored services.

The issues tend to become more complex, more strategic, and the continual drive and sounding board that an on call coach can provide is priceless.

Many clients who engage in Superstrength actually end up revising their Magic Number upwards based on their results. This becomes a reverse Value Gap if you like, a business worth more than your needs! Imagine that!

Superstrength creates Super Results.

Next Steps

If you are ready then to start with your Value Gap analysis, I'd suggest the following next steps.

1. Book your Free Discovery Session to review where you are currently and discuss how Value Gap analysis could impact you.
2. Magic Number Calculation - We work with you to Determine what your Magic Number is, and how it is likely to be achieved.
3. Value Gap Analysis including Business Evaluation.

This ensures that you can get started quickly with minimum commitment. The work that then follows requires great commitment on both our parts, but the results are massive and frankly, life changing.

So don't wait until it's too late to do anything about your Value Gap. The earlier you start, the bigger impact the work will have on your end result.

Contact us NOW for your Free Discovery Session and start Bridging the Gap.

David Ross is a Chartered Accountant and Business Coach with over 25 years experience working with small business. David is the founder of Direction Accounting and SuperCoach - business coaches specialising in enhancing the knowledge and profits of business owners. Connect with David at david@direction.com.au or on Facebook: supercoachdavidross