CRANK IT UP

THE PROVEN WAY TO DRIVE YOUR BUSINESS TO GREATER WEALTH

Warren Otter

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Warren Otter is a Business Advisor who utilises a set of proven big business strategies to help private business owners grow profitably in a short period of time. He provides best results for business owners and CEO's who are forward thinking, energetic and looking for real growth solutions.

Warren has the practical experience from being a successful and award winning business owner himself; who grew his initial manufacturing business fivefold (in a low growth sector).

Warren believes so strongly in the benefits of this strategy that he now works alongside other businesses to take their company's to the next level of growth, profit and professionalism.

He has a Business Degree in Accounting and is a qualified CPA, also holds a Masters in Business Administration, which gives him the combination of both the required educational background as well as practical experience that has been developed over many years.

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PREFACE

When a yachtsman first goes out to sea, or an entrepreneur first launches his business, he is more likely to fail than he is to succeed. In fact, one in three new businesses capsizes within their first five years.

If he makes it through the choppy shallows, great things wait for him. He reaches smooth waters and strong winds that propel him towards his destination. As things start to move more quickly, he might pick up some more sailors, or invest in new equipment. He finds he needs more and more to maintain his speed.

After years of strong tail winds and relatively smooth waters, our sailor notices that he's slowing down. At first it doesn't both him – he's been making such good time so far and his sails are holding up, so there's no need to make big changes or find a new direction. If they keep going the belief is that things will pick up again.

Things don't pick up. The wind dies, or he hits a headwind, and his crew can't seem to pick up the slack. They undertake a series of tacking manoeuvres, trying one thing after another to reach their destination; however, the effort is greater than when the wind was behind them and the progress, if any, is not matched by the resources and time spent.

They buy a new sail and then a new keel, but these make no real difference without a friendly breeze.

These new sails and keels, these tacking manoeuvres, are the same as many of the tactics and mini-strategies that businesses undertake when growth slows, and conditions are not as favourable as in the past.

In a business sense, the headwinds or light breeze that slow or stifle business growth may be brought about by new competition, slowing of the economy, evolving technology, stagnant market size, or even key staff becoming less effective or leaving, among numerous other challenges.

This raises the question: do you keep up your tacking manoeuvres and/or add some new sails to assist, or do you realise that conditions have changed (maybe permanently), and it's time to think outside the square and buy a motor for your business? Crank up that old yacht and bolt on a motor to propel you forward.

I've been a business owner for over 20 years and have found that personal frustrations in my business have been amplified when growth in the business started to slow down. As a business owner you can experience years of strong growth, but when growth in sales and profits starts to slow, or even decline, then you have a more difficult set of circumstances to deal with. I've learnt that when this occurs, as a business owner, you needed to do something different; otherwise the business will consume you, along with any remaining enjoyment and profits.

All too often I have met business owners who have successfully grown a business through the start-up phase (which is the most difficult stage), then steered the business through several years of strong growth only to then find that the growth entered a slow-down phase, in some cases slowing to a trickle.

This invariably causes frustration for the business owner. I have experienced this myself and also experienced the range of behavioural patterns and issues that the business owner goes through.

However, by bolting a motor onto your business, you create immediate growth and build momentum, getting back on track and passing many of the other yachts that continue to tack aimlessly into that headwind, or sit idle with no breeze in their sails. They blame the weather, the water, the economy, and their staff and hope the wind will change.

However, by buying a motor you stop waiting passively for a friendly wind. Instead you can keep buying more motors and by increasing your engine capacity propel your business/yacht with greater ease towards much stronger results. Buying a motor for your business is like replacing the tail wind that you had in the initial growth years, and it can install a real sense of excitement and energy into your business.

This book has been written to assist those frustrated owners of small to medium size companies turn their business fortunes around and create wealth and enjoyment in their lives.

INTRODUCTION

I strongly believe that the next wave of business growth and wealth generation is going to come from the business owners who are both, clear on WHY they are in business and secondly, are the quickest to adapt to opportunities as they present themselves.

> ***"It is not the strongest or the most intelligent who will survive, but those who can best manage change."***
>
> CHARLES DARWIN

As stated by Charles Darwin, survival (and, in my view, increased prosperity) will be there for those business owners who can best manage the changing environment.

However, many business owners don't manage changing environments well.

They survive the initial start-up phase and manage to establish a 'sustainable' business, only to discover that, after years of strong growth, the rate of growth then starts to decline.

They search for and explore methods of improvement and growth, only to find themselves becoming busy 'doing stuff', or in other words tacking, in a series of well-planned and thought-out tactics that, in most cases, do not get the results that are required or expected.

Typically one of two things happens: they either keep doing the same things over and over again, each time with a different focus or angle, or just accept that the tactics are not working and stop trying to make any significant improvement, justifying this by saving the cost of implementing or trying these tactics and waiting for the market to improve. However, businesses that wait for improvements in the economic climate to solve their problems invariably are disappointed; while the drop in growth may appear to have been triggered by the slowing economic conditions, the real issues lie within the business itself, and the mindset of changing its own destiny.

We can all keep ourselves busy and believing we are improving the business by tacking, but the real question is, "is all the activity and stress actually making any significant, measurable improvement, or is it just making everyone in the business feel that they are trying?" Don't get me wrong; we all need a sense of urgency and to be constantly actioning a range of plans and strategies; we just need to ensure that these actions are aligned with an effective strategy and are yielding a decent return.

When growth starts to slow down, and it does, a business needs a different set of solutions to those that supported the business in achieving success in the first place. Too often I see business owners labouring under the belief that it was hard work that made them successful, therefore they must put in more hours to solve the current growth problems and turn the business around. The business owner not only starts working longer hours, but starts constantly worrying about the business out of hours, leading to higher levels of stress and a lack of quality family time, which, in turn, makes him or her feel guilty about why he or she is in the business to start with. The business was supposed to benefit the family.

A lot of businesses try to tweak old ideas, adding extra sales reps, launching new marketing campaigns, and creating product extensions and/or offerings. They also focus on cutting costs to make the business more efficient. What happens is that, while these tactics have their benefits, they don't yield the strong and timely bottom-line results that the owner expects.

As a result, the owner's level of frustration and stress increases. Most of these businesses are generally still strong and viable, but the owner's know at their core that they are facing continued underperformance and eventually, they will start to see signs of financial stress. They know they need new and effective solutions, but unsure what direction to take.

Many business owners rely heavily on key members of their long-term staff to turn the business around. Many times, while these staff are fiercely loyal and committed, they often don't have the skill-set or drive to make the differences that are really required to kick-start the business's regeneration. This means the reliance on these core managers can create a bigger problem for the owner because, deep in his or her soul, the business owner knows he or she has a stark choice – either develop these managers so they become more effective, or hire new managers to help turn the business around.

Additionally, some business owners become a little cynical about new ideas, so when the business actually needs new ideas to turn around, their cynicism can sometimes block out those ideas and creative input. I find it is at these times that businesses need to look outside the square and consider new strategies, analyse them and compare these to other results and track records, rather than continuing to use variations to tactics that the business has been using since the beginning. The yachtsman may need to consider more than just another modern sail or keel; they may need to open their mind to the idea of bolting on a motor to drive the turnaround.

Albert Einstein once defined insanity as "doing the same thing over and over again and expecting different results."

In the current climate, I find that a lot of business owners are waiting on the economy to improve to help turn around their business fortunes. However, I believe we are living in a fundamentally new world and this situation may just be an ongoing period of flatness in economic demand. Hence, it is those companies that are consciously undertaking different and more proactive strategies who are turning things around in a positive manner and moving ahead, rather than waiting for the wind to turn and strengthen.

IT'S TIME TO CONSIDER A NEW STRATEGY

Businesses that are nearing the end of their growth phase, or which have entered the maturity phase (see Figure below), can't keep tacking in the breeze. If they want to continue growing, they need to consider a motor, being the metaphor for a strategic business acquisition, as part of a medium-term plan for the business. An acquisition strategy at this stage can boost the maintenance of the business growth cycle, and should quickly add significant growth to the bottom line and the value of the business. While acquisition strategies should not be undertaken at the total expense of organic growth plans; as organic growth skills are still critical and will be beneficial when adding new products, services or clients to your expanded business.

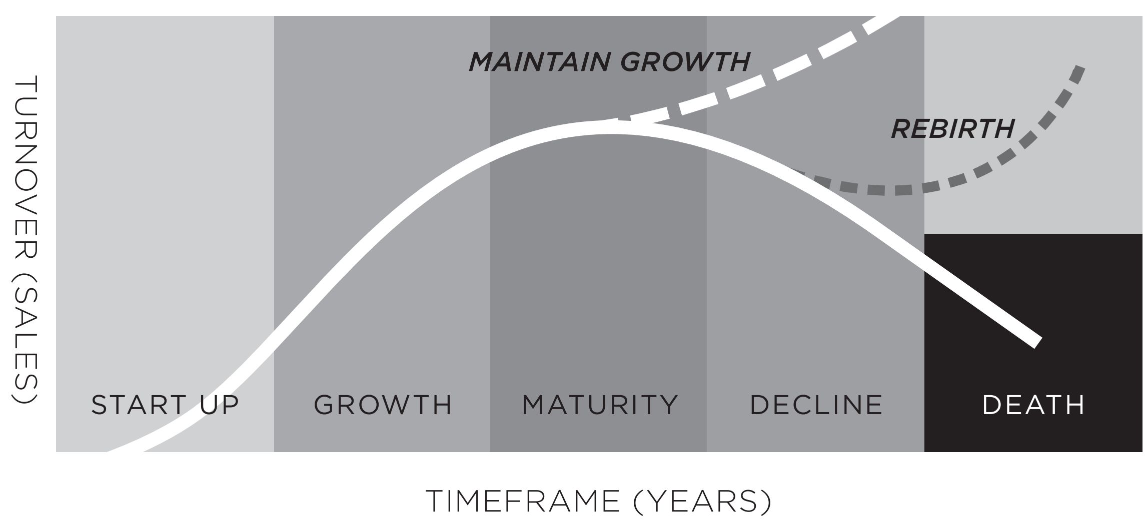

FIGURE 1: **5 Stages of the Business Lifecycle**

While many business owners have heard of the mergers and acquisitions sector in the big end of town, where multimillion, and sometimes multibillion, dollar deals are done, most private business owners unwittingly leave acquisitions as a strategy off their list of options when they are trying to inject growth into their business.

This is unfortunate, because the benefits to be gained from successfully implemented acquisition strategies mean there is every reason to use the exact same principles at the small to medium enterprise level. In this book I will introduce you to the grass roots version of acquisitions, tailored to small and mid-size organisations.

A private business that has had growth below 5% for more than two years is potentially going to struggle to turn that growth around into anything meaningful unless it fundamentally changes how it approaches growth. Growth rates of this level indicate that the growth phase of the business is past and the traditional organic growth is largely exhausted. The business has moved into the maturity phase. The quicker that the business realises this and starts to act in a proactive manner the quicker the results will be.

While the focus for any business is growth in profit and available cash flow to generate an increase in wealth for its shareholders, I also believe sustainable growth in revenue is what will generate energy, excitement and opportunities for the staff and the owners within the business which will enable them to continue to add profitability and add value to the business.

To improve profitability, some companies concentrate on cost-cutting. However, increases in profits via cost-cutting and efforts to gain operational efficiency can only work successfully for a relatively short period (be it one, two or three years) before incremental benefits to the profit reduce. This can also turn into a dangerous strategy to rely on too much because constant cuts can damage a business's culture and staff mindset, as well as take the focus away from growing the top line.

By contrast, ***growing organisations are generally more vibrant and fun to work for; hence they attract and retain the best employees which are required in any organisation to produce the best results.***

Large corporations have used the strategy of continual growth via acquisitions since there have been companies. Microsoft, for example, while it had a great vision and product development led by a dynamic CEO/co-Founder in Bill Gates, he was clear on how to accelerate and continue the growth of the business, and he used both acquisitions and self-developed organic growth. Gates raised capital via shareholder offering, and his company Microsoft has purchased over 164 companies and taken the majority stake in another 60 companies in the past 20 years to ensure the organisation's growth continued along the same path. It has not rested on the success of previous years, and continues to look forward for both organic and non-organic (acquisition) growth.

However, my experience is that when someone puts an idea to a business owner to grow their business via acquiring other companies, the initial comments are along the lines of "Are you kidding, I'm struggling with this one already!" "How would we pay for it?" or "Why would I want to take on someone else's business headache?", among many other negative reactions. Many quickly dismiss this as something that only large and aggressive companies undertake, and do not consider that it is possibly the most lucrative strategy for growing a business profitably in the shortest amount of time.

> ***"If you do what you've always done, you'll get what you've always gotten."***
>
> TONY ROBBINS

WHY THERE HAS NEVER BEEN A BETTER TIME FOR ACQUISITIONS

22% of business in Australia today are owned by the Baby Boomer generation, and these Baby Boomers are looking for an exit strategy.

The Baby Boomer generation were born between 1946 and 1963, and the first of this generation turned 65 in 2011, while the early retirees have been selling their businesses since the mid-2000s. Each day more and more of these business owners are considering their exit strategy, and they are either putting their businesses up for sale formally, or planning for the sale process.

Additionally, many of the children of Baby Boomer business owners have decided not to join the family business. As a result, there is no natural successor for the vast majority of these businesses.

And, as in any market, when supply outweighs demand, it becomes a buyer's market, which means there has never been a better time for acquisitions.

The Baby Boomer owned business sector is what you would consider to be the low-hanging fruit in the area of acquisitions.

We are living in a time of abundance of supply, which means now is a great opportunity for business owners to buy good quality businesses.

Additionally, not only is there a large number of businesses available, but also a great variety with many different business sizes and industries in the pool. As an entrepreneurial business owner, this gives you the opportunity to pick and choose which businesses best suit your growth strategies.

Many of these businesses are actually extremely strong and profitable businesses, they are starting to get a little tired because the owners have had their eye on retirement for several years now, and may have slowed down the level of reinvestment in the business. This does not necessarily mean that the business is a poor business; it is just a matter having the foresight and skill to find the businesses that will offer the best opportunity to assist your business grow profitably in the shortest time frame.

This is a once in a life time opportunity – to have two generations of business owners assisting each other in a way that is mutually beneficial. With the Baby Boomers looking at exiting and retiring from their businesses, and the next generation of business owners /entrepreneurs looking for ways to grow their businesses profitably. This new generation can assist the Baby Boomers' exit by buying their businesses and at the same time benefit themselves by growing their own businesses and personal wealth.

One of the keys to this strategy is by reducing a lot of the duplication of costs across businesses in each industry or sector. By consolidating businesses through acquisition you create greater efficiencies and less wasted effort which in turn creates increased overall wealth for the owners.

WHAT ABOUT THE RISK?

While business is risky, not implementing effective strategies better and faster than your competitors is a much riskier proposition.

Standing still or just tweaking around the edges in an effort to improve results is dangerous, as competitors are finding ways to step around those businesses that are less effective with their changes.

Business (and the way in which we go about business) is undergoing fundamental change. Many traditional methods for business growth no longer work as effectively. Thanks to the internet and other market forces, buyer behaviour has also changed beyond all recognition. The rules of the game have changed, and even the playing field has changed shape.

So, how do you grow a business in today's economic climate – particularly one that is at the end of its organic growth cycle?

Many advisers recommend that a business consider the following basic ways to grow its profits:

1. Increase prices
2. Sell more volume
3. Cut costs

Others might advise a business on improving its business systems or increasing efficiencies.

While all of this advice is correct, I've found that these strategies all assume that the underlying industry and economic cycle is just that; cyclical. Unfortunately we now live in a fundamentally different economic landscape; the winds are unpredictable and unreliable and, for most private businesses, these strategies alone will not yield positive results quickly enough to keep the business afloat. These tactics do not satisfy the business owner's needs, nor do they address the fundamentals of a sustainable growth model.

So, how do we proceed in unfriendly winds and uncharted territory?

One way is to apply some of the principles that many large companies are applying. One of those strategies is growth through strategic acquisition, in other words, buying a motor. Although not always front of mind for business owners, business acquisitions can represent a viable strategy. If done right, such a strategy can offer the acquiring business important potential synergies, valuable earnings enhancements and tremendous opportunities for superior long-term growth as well as significant increases in business value and personal wealth.

The aim of this book is to help you avoid the frustration of reverting to the old, organic methods of growing your business. I know when you are trying to turn your business around and inject real growth it can feel like you are banging your head against the wall. This book offers a proven alternative method to get results back into your business.

WHAT'S POSSIBLE WITH ACQUISITIONS

In my opinion, with an open and entrepreneurial mindset, a $5 million business can become $10 then $15 million business with accompanying strong profits in a relatively short period of time, with the right strategies and with the right structures in place.

When larger companies sell they generate a higher multiple of their profits. So the goal by undertaking these acquisitions is both to increase the profitability on a year-on-year basis to improve cash flow, and to increase the overall value of the business when it sells. For example, a company with $10 million worth of sales and $1 million of EBITDA (earnings before interest, tax, depreciation and amortisation) may be worth a three times multiple (i.e. 3 x $1million EBITDA being $3 million sale value).

When this same company undertakes just two medium-size acquisitions each of, say, $3 million in sales with $300,000 EBITDA, and pays a multiple of 2.5 (so $750,000 each, being $1.5 million in total), the company will now have an EBITDA of $1.6 million (it's original EBITDA of $1 million, plus the total EBITDA of the acquisitions, which was $600,000). And that's without adding other synergistic benefits! As a result, the company could expect to get a multiple of its EBITDA of up to 4 times creating $6.4million in value, when previously the business was valued at just $3 million.

The combined cost to achieve this result was $1.5million. In this instance the net increase in value after the cost of the acquisitions has been $1.9million extra value in the business. The leverage factor is impressive to say the least.

The reason the business now has a value based on a multiple of four, or possibly even more, is because as businesses grow larger and more stable they become more attractive to private equity firms , small public companies and overseas purchasers as targets. Not only are these sized companies willing buyers, but they have a history of paying higher multiples for target companies that are in the right sector and at the right size. Many public companies are actually valued on the stock market multiples above 8 to 10 and in many cases much higher.

In addition to the numbers, other benefits of strategic acquisitions include:

- Creating greater economies of scale quickly by absorbing other businesses
- Considerably improving profits, cash flow and business value
- Adding stimulus and interest to your business
- Diversifying the business into higher growth sectors/ products
- Introducing the business to new geographic markets
- Creating a broader customer network to sell associated products
- Taking out a competitor before someone else buys them
- Attracting top quality executives (who can assist in running the business, and working towards an eventual sale or exit)

This book will demonstrate via case studies not just how this is possible, but also how other business owners have already used an ongoing acquisition strategy to grow profitably and create much higher levels of personal wealth than previously.

HOW TO AFFORD THE ACQUISITIONS

You may be wondering how you might go about financing growth through acquisition. Currently the banking sector is also suffering low growth pressure and is constantly seeking ways to grow their lending book in a low-risk manner. They do have large reserves to lend and are more than comfortable to lend to proven long-term clients who have a good business story going forward. Most business bankers are struggling to find strong opportunities to lend money; and my experience has shown that most banks will support a well-planned and researched acquisition story. Although in saying that, be prepared to put some of the acquisition's funding up front yourself.

Banks/financiers will want to see that the target business has been thoroughly researched and understood. They will also expect that a proper arm's length due-diligence has been undertaken. Many times the incremental profits generated by the acquisition will self-fund the repayments on the purchase.

START BY CREATING A CLEAR VISION

Business owners need to be clear that, for their businesses to be successful, they require strong and clear leadership. Each situation requires a different set of leadership skills to ensure the entire team drives the business forward. What I have found is that ***"Where there is no vision, the people perish"*** —Proverbs 29:18.

One of the best ways to start the process of creating growth in your business is to have a clear and powerful vision for your organisation. This will greatly assist in inspiring your key staff to take ownership of, and to drive the necessary plans. When leadership is demonstrated by providing a team with a clear direction as to where the business is going and why, it becomes much easier to achieve the desired outcome, because the team is firmly behind the plan and committed to the leader in order to achieve the outcome.

CHAPTER 1

WHY ARE YOU IN BUSINESS?

RE-ENGAGE WITH YOUR PURPOSE FOR BEING IN BUSINESS

It might sound fundamental, but you need to review your purpose or reason for being in business.

This purpose has probably changed over the years, so before you undertake an accelerated growth path via an acquisition strategy, you need to understand why you're in business NOW, and also what you want out of your business in the future.

Many business owners start their business for different reasons, but fundamentally the majority of them want to earn a much better income on their own terms, rather than working for somebody else. I frequently ask business owners to review and evaluate (both in their minds and with their families) whether they have been successful in achieving their original business goals. Are they getting the balance of income and lifestyle that they believed they would, by owning their own business? Or has the business started to take over their lives, to the extent that they spend most of their time working in or on the business to get the outcomes they desire? Many business owners spend their daylight hours working in their business and their out-of-business hours losing valuable leisure or family time by working on their business.

If you have managed to take a business beyond that difficult start-up phase and then through the growth phase and now have a business that is fundamentally sound and stable, are you able to take an extended period of leave without its performance sliding? If the answer is 'no', then what you have probably unwittingly created is a very large job; a business that relies on you to personally attend to it to achieve success. In saying that, you are also a very small step away from leveraging off the systems and structure that the business likely has in place to allow you to start looking beyond the current structure and size of the business.

On reflection, is the business generating personal and family wealth beyond your original expectations, or is it just allowing a modest (or just better than modest) level of income? Is this income level in proportion to the amount of time and effort you are putting into business? If, at your core, you still wish to grow the business to a much higher level of profit and generate the wealth you want for your family, then it is time to start to think outside the square and consider the opportunities that strategic growth via acquisitions will provide for you and your business.

I subscribe to the fundamental philosophy that anything that you want to achieve is achievable if you want it hard enough and keep on track with your core purpose. ***Too often business owners have a fundamental core belief and purpose as to why they went into business, but then the daily pressures of the business take***