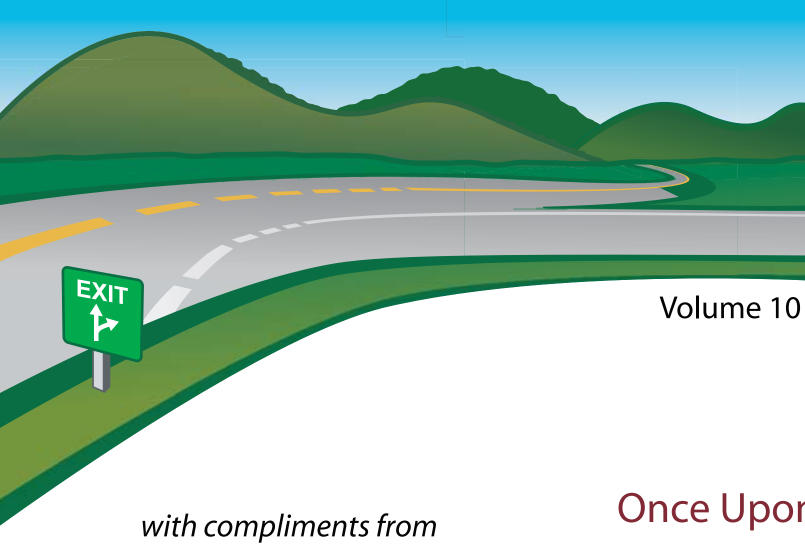

Changing Lanes

Transition planning for entrepreneurs and family businesses

Volume 10 | Issue 1

with compliments from

Edward Rosenfeld
Family Business Consultant
Guiding Family Business, from Now to Next

Once Upon a Time ....

Whether we are nine years old or 90, the title words above never fail to create anticipation of a good story. Cultures in every corner of the globe engage in storytelling as a means of sharing and interpreting experiences. In fact, storytelling is the oldest method of communication in existence. Long before the human race could write, messages were delivered orally, or through gestures, music, art or dance. Remember the numerous discoveries of ancient hieroglyphics like the example below which were used by our ancestors to convey a message.

Consider too, the longevity of some of the more famous storytellers like the Brothers Grimm who brought us Cinderella and Rapunzel, or Hans Christian Andersen whose over 150 fairy tales like The Emperor's New Clothes or Hansel and Gretel have combined irony and humour with moral values since the mid 1800s.

Who doesn't enjoy a good story? Just watch the body language of a viewer, a listener or a reader as they become engaged and/or remember the experiences recounted by the storyteller. This is especially true when its about family history or folklore. The advertising industry understands this. Today's progressive marketers know how to build customer awareness and loyalty through story-telling. Like the famous storytellers of the past, these specialists successfully intrigue, engage and emotionally connect with their target audiences.

So how does storytelling fit with selling your business? You have invested many hours in enhancing the value of your business while you prepare it for sale, so this issue of Changing Lanes will explore how you can "tell your story" - a story of ongoing growth opportunities that will not only attract prospective buyers but more importantly raise their confidence that your company is sustainable under new leadership. They need to see what you see!

Inside....

Are You On Schedule?

If you have been following our process and implementing the recommended steps for preparing your business for both an internal and external sale, you are no doubt feeling a sense of accomplishment already. You are likely excited about what your company has to offer a prospective buyer and confident that you can make a good sale. Congratulations.

As the midnight hour draws even nearer, it is extremely important that you now develop a plan that will go beyond sparking the interest of internal and external shoppers to convince them that this business is a solid investment. In the tenth and eleventh hours in the countdown, you will focus on ensuring you truly shine the spotlight on your business! So let's get started – it's way after ten o'clock.

Hour Ten

Purpose

To raise the confidence of prospective buyers that your company is a solid yet exciting investment.

Process

Develop a 3-year strategic growth plan that is not only sustainable but showcases the potential for future growth.

Payoff

You will have created a plan that is financially viable and can serve as a detailed roadmap for the incoming ownership and management teams to achieve the projected growth.

Tell the Story

When it comes to planning the sale of a business, we can learn a lot from successful storytellers. One of their most profound pieces of advice is to be sure you know your *end* before you figure out the *beginning* and the *middle*.

So when selling your business you first and foremost need to tell the story of where the business is going and then explain how you propose to get there. In business, we call this story a ***strategic plan***.

So where is your business headed? What is the message your strategic plan needs to deliver? Your message is that the business has the ability to grow. Growth opportunities predict a continued cash flow and raise the confidence of the prospective buyer. Your strategic plan needs to tell the story of such growth opportunities. Whether it's through your niche market, a positive outlook for your industry, new products or services, new technology, a possible acquisition, or a planned expansion, a well-written strategic plan will tell the story of how growth is achievable and sustainable.

Back in Hour 4, you identified your key value drivers - those factors that drive profitability and ultimately contribute to a business' transferable value. When managed well, these value drivers result in growth for the company. If ignored or poorly managed, they can lead to stagnation or decline. So it follows that value drivers can greatly impact the future direction of the company and ultimately the price someone will be willing to pay. If you have been diligent in enhancing the significance of these value drivers, your strategic plan will have a neat story to tell.

In her *Pixar's 22 Rules for Storytelling*, storyboarder Emma Coats describes what is essentially a strategic planning process designed to deliver a master story. Rule #4 sums it up nicely:

> Once upon a time there was .....
> Every day .....
> One day .....
> Because of that .....
> Then because of that .....
> Until finally .....

Check out Page 3 for a simple-to-follow approach to filling in the blanks of your story.

A Strategic Growth Plan

The magic number is ***three***. Just like we recommended you take at least three years to prepare your business for sale and enhance the value, we believe a prospective buyer will want to have the confidence that current growth and profitability levels can be maintained over the next ***three*** years.

So if the number one question from a potential buyer is whether or not the business will be sustainable going forward, you must be able to show there is an ongoing stream of both revenue and profit. You need a ***Strategic Growth Plan***.

While similar in structure to the strategic plan you created to run your business in the past, this growth plan needs to go beyond just documenting where you are today and the opportunities ahead. It needs to detail and prove the demand for the company's products and services. It needs to show an increasing lack of dependency on the current owner(s). Above all, it needs to underscore and substantiate your projections for the future.

In a nutshell, your Strategic Growth Plan will:

- Highlight the long-term vision.
- Detail how you will reach that vision – i.e. the strategy.
- Identify key performance indicators along with supporting cash flow and balance sheet projections - projections that support your outlook.

Pixar got it right! With its "unique ideas, compelling stories, visual artistry, and cutting-edge technology" it went beyond its ability to tell great stories to attract the biggest player in the industry and make the deal of a lifetime!

Consider the following table which outlines how you might use Pixar's rule #4 to tell the story of your proposed strategic growth. Your story can fit in a dozen or so pages; it doesn't have to be a novel.

Then see Hour 11 for further details on a SWOT analysis and how it can help set a new strategic direction and/or lead to a a pipeline of new products.

Pixar's Rule #4	How it Correlates to a Strategic Growth Plan
Once upon a time there was	A one-page executive summary that describes the company today: your business model including key products and services, the industry and marketplace you serve, major achievements and the current financial picture.
Every day	What drives the business every day: this is your mission and the principles and values upon which decisions are made. It might include a description of your culture and how that has contributed to your position and / or reputation in the industry.
One day	Where you are going: your vision for the future and how this vision creates or maintains the company's competitive advantage. It should outline what milestones need to be reached over the next three years if the vision is to be achieved.
Because of that	The results of a SWOT analysis: strategies that ensure the company's strengths and opportunities contribute to achieving the vision while preventing the identified weaknesses and threats from derailing the growth plan.
Then because of that	The operational plans that will deliver on the growth strategies: including the R&D plan around products and services, a Marketing Plan for customers and markets, and a People Plan with ARAs (authority, responsibility, accountability) for key roles.
Until finally	Provide a scorecard to measure success. This should include a process to manage and finance capital expenditures, track KPIs (key performance indicators) and ensure projections are met.

Powered by The SuccessCare PROGRAM

Check in on Alex

When we left Alex Greene in Hour 9 of the countdown, he had hired a new VP as part of his 5-year plan to sell the business to the lead competitor in the industry. We pondered whether Alex was:

- Putting all his eggs in the "external sale" basket by focusing on one specific potential buyer.
- Actually setting up the choice for an internal sale to his new hire – someone who had extensive knowledge of the marketplace and many of the key players in this industry.
- Creating competition for the purchase of his company – at least in the mind of the targeted buyer.

Whatever his objective, Alex's next step was crucial. His goal was to increase the value of the operation by 40% in those five years, so he needed a concrete plan of action. He needed a ***Strategic Growth Plan***.

It was through a SWOT analysis on the company's current operation that Alex and his team identified a "deficiency in technology" as one of the roadblocks to achieving their goal which later led to the fulfillment of the Operations Manager's long-time plea for new equipment!

Also from that analysis came some far deeper market insights. Alex's team excitedly identified a need that no one – not even the global leader who was the targeted buyer – was currently filling. (Tune in next time to see how this discovery made a significant contribution to the growth initiative.)

But the excitement really ramped up when Alex and his VP, Kevin, paid a visit to a new distributor in the American Midwest. Their discussions uncovered the demand for a new variation on their core product. Even with time out for due diligence, they had the opportunity to be first to market with this idea. Alex estimated it would take at least two years for the competition to catch on and enter the market. By that time, he reckoned, the global leader would really see the benefits of acquiring the company to obtain this proprietary technology. It would be the competitor's most logical step.

To Alex, the process of developing a 3-year strategic growth plan was like being hit on the head with a two-by-four. It hurt like hell but it made him sit up and take notice. Even though he instinctively knew it was a weakness, Alex had stubbornly held onto the reins for too long. He now recognized the power of allowing others to take the initiative, have more of a say in major decisions, and take over the key relationships. Why would anyone buy the company if much of the intellectual capital left with Alex? So a "people plan" was developed to assess the core strengths required for this impending change in leadership and included a budget for coaching and mentoring a formal management team. This ensured there was a team competent and confident enough to run the operation after Alex exited.

Did Alex achieve his vision? Well, within a year of the new product launch, the marketplace was taking notice. Alex began receiving calls from more prospective distributors. Then it came — a call from someone asking about Alex's exit strategy. Sell us your company, the caller indicated, and you can sit on our board and help manage the transition.

A tempting offer for sure, but Alex decided to stick to his 5-year plan so he could meet his growth and valuation targets. His strategic plan had already led to some key developments and he firmly believed that it would continue to point the way to future profitability for the new owner. Alex wanted the eventual buyer to see and hear the full story.

As you will see in Hour 11, the end result was a company that changed its focus from one of cost control in the production of a commodity to a much more customer-oriented, value-creation entity. Over time, they reckoned that key customer segments would be paying a premium which would subsequently generate more sales, increase margins, and raise profits. The improved operating capital would then help to finance the development of more new technologies!

So did Alex make the right move? Be sure to check out the next issue of Changing Lanes.

Edward Rosenfeld
Family Business Consultant

Guiding Family Business, from Now to Next

2578 Broadway, Suite 116
New York, NY 10025
T: 212.579.2613

W: http://www.edwardrosenfeld.com
E: ed@edwardrosenfeld.com