<b>Joanna:</b>

Hi it's Joanna Oakey here and welcome back to The Deal Room Podcast. A podcast proudly brought to you by our commercial legal practice aspect, legal. Now today we have back the fabulous Mark Ostryn from Strategic Transactions and we're talking all about digging into a new tool for determining how fit businesses are for sale. Now Mark is the Director of Strategic Transactions who work in the food and beverage health and beauty and technology space to make businesses more valuable and he then takes them to market. So I think this will be a really interesting discussion today as we dig into this new tool and some market insights that have come from its use so far. So Mark, welcome on board. Good to have you.

<b>Mark:</b>

Fabulous to be back again. This is my third time and a great to talk to you again. I was just looking on my phone this morning. You've got 120 podcasts.

<b>Joanna:</b>

Oh wow. Isn't that? And that's just here, I've also got Talking Law that's done about almost a hundred. That's also, it's, it's who knew when I started that we we'd get to this sudden number.

<b>Mark:</b>

I have to continually congratulate you on your quality and your consistency? Longevity. I mean you are like world number one in what you're doing.

<b>Joanna:</b>

Well, I'll tell you what, I absolutely love it. I love, I love the discussions and you know, I love the insights that I get and you know, all of my guests bringing on so many different perspectives that are just feel I'm the one who benefits most and it's just super cool that then that I can then share it widely. And I'm still, you know, these days I often walk into a space where there's people in the industry and they'll often say, hi, I listened to your podcast and that just blows me away. It's just crazy, you know, to think that we can get reach and the, you know, I guess we're serving a bit of a hopefully useful purpose out there as well.

<b>Mark:</b>

Look, I think we've all benefited from this. I mean, the way that we've all learned about each other's expertise and professional skills, it's just been fantastic throughout the whole industry. Thank you.

<b>Joanna:</b>

Oh, that's awesome. Oh Mark, that's so sweet. Okay. Well look, let's launch into it. So today we are talking about this new tool that you've developed for determining how fit businesses are for sale. And I think this is,uit's just such a great,useeing to, to have somewhere that, you know, something that's automated so the businesses can just jump in and get a bit of an idea of where maybe they've got gaps if they thinking about exiting in the future. Because I think this education piece for businesses that are hitting into exit, is the one thing that is massively lacking. And of course that's, that's why I've put together this podcast in part because I've seen a massive information gap. But I think tools like what you've created were just really important for feeling that information gap.

<b>Mark:</b>

Oh, thank you for that.

<b>Joanna:</b>

Is that why you designed it? Like what? What was the idea behind it? Maybe if you can give us a little bit about, you know, what it is and then why you designed it.

<b>Mark:</b>

A number of things. First of all, I love doing quizzes. I love, I mean I used to sit there with the weekend with my, with my partner doing travel quizzes from the Sydney morning Herald.

<b>Joanna:</b>

Well I going to make no comment. I like travel.

<b>Mark:</b>

Yeah. You know how it is. When you really know something and you compete against somebody in a travel quiz, you know, you feel sort of motivated to sort of show off your skills. I thought, I wonder if this owners sort of want to do the same kind of thing to show what kind of grip they've got on their business. That's the positive side of things. Now the negative side of things, and I gotta be honest with you, I don't know if you've found this Joanna or not, but I'm finding that the readership, of articles that you post on platforms like, like LinkedIn seems to be declining.

<b>Joanna:</b>

Yeah 100%.

<b>Mark:</b>

I'm wondering whether people are just absolutely over this whole concept of having some, you know, self interested consultant, you know, writing this writing this four or five paragraphs on how you can improve this and that. How they can do things better you know. I'm just wondering whether that's a, that's a phenomenon now that's gone and I thought, well let's put a quiz together. That way people can sit there, they can fill in the questions and then they can see for themselves, all right, what's good about their business and what isn't and they can find out before the due diligence people come in and do it for them.

<b>Joanna:</b>

Yeah, absolutely. Absolutely 100% and so have you had much feedback from people who've gone through the quiz yet in terms of anything that they've found surprising coming out of the quiz?

<b>Mark:</b>

Oh, well the, I think the, the main feedback I got from somebody a couple of days ago, was I didn't really realize my business was such crap.

<b>Joanna:</b>

No, it's here. If you're going to do the quiz, we're not suggesting you're going to find out your business is crap.

<b>Mark:</b>

I'm sorry. Just an observation here. I, I've looked at hundreds of businesses over the last 10 years or so. Most businesses are crap. Most businesses are a bit rubbish. Yeah. Most businesses, most companies are held together with a proverbial chicken wire and gaffer tape. Entrepreneurs only think that other entrepreneurs are doing really well and they're not doing really, really well. And it's only when we all come together and talk with each other, we all realize that we've all got similar kinds of problems. That's the big secret.

<b>Joanna:</b>

Mm. So what are these similar sorts of problems then? I guess we can talk, you know, outside of the quiz, but also inside of the quiz. So let's talk about inside of the quiz at the moment, has it revealed anything to you that was a little bit surprising?

<b>Mark:</b>

Look there was a number of things that really, really did stun me both in a good way, in a bad way. I'm going to share a couple of these things with you cause I know that you're personally interested in them as well. But yeah, what we did with the quiz is this I typically break down the, the assets of a business into eight. So I'm looking at eight aspects of the business, financial, the product side of the business, the customer side of the business, the people, the systems that they have their competitiveness, the branding of the business and the intellectual property. So the quiz basically comprises of a few questions in each of them and I've made it really, really simple. I've got, you know, multiple choice and there's really only three answers and asked various questions and I've tried to make some of the, some of the questions a little bit creative, give people a bit of a laugh, et cetera. But I have had some, I guess some depressing and some interesting insights as well. Do you want me to share with you?

<b>Joanna:</b>

Wow. Okay. Yeah. how about we go, interesting first and then we'll go to depressing later. I'm an optimist. Let's start with the interesting.

<b>Mark:</b>

Okay. I think you're going to love this one.

<b>Joanna:</b>

Oh good, I'm ready.

<b>Mark:</b>

Based on a lot of the great work that you do outside your own business, 48% of business owners said that their employees would regard the business as being ethical and being driven by causes beyond mere profit.

<b>Joanna:</b>

Oh, that's fabulous. I mean that's fabulous. But the only thing I just look at that statistic and I say shit, that means 52% of businesses then feel that then not ethical and being driven by just profit or the main thing of profit. So isn't that, I mean that's really interesting isn't it? You know, I'm glad we're at least at 48% but there's still a lot of room, isn't it?

<b>Mark:</b>

Absolutely. But don't forget also this is, this is a trending upwards figure. You look at the, a lot of the market research that's been done on millennials, millennials much prefer to work for businesses. They've got a social conscience. And also there is that statistical correlation and causation between doing good and actually being more profitable.

<b>Joanna:</b>

Oh, that's fabulous. I just love that saying that that's just absolutely awesome. So, and it's really nice then that as you say, this is something that we can look at and say well look at here is a way that you can actually increase the performance of your business by doing good. So and you know, in terms of your being able to create a vision,

<b>Mark:</b>

I think the important thing is to back this up, you know, organizations now have access to much cleverer, and more organized ways to actually give as well. And I'm thinking really specifically of the B1G1 with the growth and the enormous number of people that are using B1G1 as part of their giving

<b>Joanna:</b>

Yup. Which we are a massive, massive advocate of. So you know, it's good to give B1G1, a bit bit of a plug here because they, they're just such an amazing platform. But the point here is that businesses who are aware of that and using platforms are just doing whatever it is that works for them to think about something outside of mere profit and to think about something that creates a vision that not just their staff but certainly their staff, but their staff and their, their clients and their, you know, business partners can, can get on board with is a really positive thing. So that what an awesome thing to come out of the study. Okay. I love that one. And you're right, I did like that point. And what's the next one Mark. What other insights?

<b>Mark:</b>

I put a couple of joking ones in just to see how they went to this. I found quite interesting. I've written a question here that said many of our senior and middle managers perform below average, but I've not let them go because of loyalty and dependence on them.

<b>Joanna:</b>

Wow. And what was the result for that?

<b>Mark:</b>

17%

<b>Joanna:</b>

17%, wow, isn't that interesting? Yeah, right.

<b>Mark:</b>

One in five of managers should not be around.

<b>Joanna:</b>

Yeah. Yeah. Wow. That's, I mean that's a really good point, you know, to get people to really check in to hopefully just the process of answering that question, you know, shines a bit of light on the business owners that are, you know, going through the quiz process.

<b>Mark:</b>

Yeah, absolutely. Can I share a couple more of more, more things with you?

<b>Joanna:</b>

I'd love them. Share it, share away, share away.

<b>Mark:</b>

This really validates my reason for wanting, to give wanting to produce this quiz. Only 33% of businesses agreed that many of their larger competitors within the street would find them an attractive acquisition prospect.

<b>Joanna:</b>

Wow. Okay. All right.

<b>Mark:</b>

Two out of the three would not believe that their company was sellable.

<b>Joanna:</b>

Wow. Isn't that interesting? And of course like then they're cutting out a large component of perhaps an even more profitable part of an acquisition market if they're cutting out being sold to a larger competitor. Why is that do you think, Mark, what is the reason that two out of three don't think they'd be an attractive acquisition prospect by a larger competitor?

<b>Mark:</b>

I haven't thought about it to be honest with you. I mean, it's all right for, you know, for people like you and me to, you know, to bang the drum of exit planning and, and the like. But you know, we still are in our infancy with regards to sort of having this as a recognized industry and this is despite of the fact that, you know, the market sector that you and I deal with, the average age of an owner is 58 years old. So we've got these baby boomers are looking for exits over the next few years. And I think also to be honest with the mentality of a lot of business owners is, and though it shouldn't be, I bought myself a job and that's quite frightening when it comes to the, the, the midmarket. I'm actually, maybe I'll get your advice on this Joanna. I'm actually toying with asking another question. The question is would I earn more the same or less if I now worked in a middle management job in a mid sized company?

<b>Joanna:</b>

Oh, that's a good one. Mark, add that in. Yeah, I think so

<b>Mark:</b>

Here is another one to go with it, would I more the same or less than I do now per hour if I worked in a middle management job in a mid size company.

<b>Joanna:</b>

But I guess you know, the other component, the other component to add onto this and, and you know, this is probably in the information that you're providing them post-survey, but the business owners are building this asset as a business and, and you know, it is absolutely important that they're focused on, you know, what is their return now? And, and I think quite often they'll focus on, you know, I'm building this value for myself to one day exit in the future to get to these like massive pot of gold that I believe I've created. And then that's when the real disappointment comes in when, you know, the advisors get on board and say, okay, well like the reality is in the market, it's, you know, the value isn't what you thought it was. And so then that's why it becomes really important for us to focus on that. Well, what are you taking out now in comparison to where you could be? But I guess the other component that really interlays into this is, okay, if you're not getting as much now as you would be, or you know, you're on par or not getting enough of an uplift for the extra sort of time, emotion and attention that you give your business, that if you were an employee, it's about, well, how do you make that payday the best deal of your life? You know, like how do you then turn that payday when you sell your business into something that really shoots the lights out, that makes it all worthwhile other than obviously, hopefully you're building your business in an ethical way.

<b>Mark:</b>

Absolutely. Look, you've got me on my, you've gotten me on my pet topic. I love this sort of SMEs space so much. I, you know, if for, you know, I, I, I'm as you can tell from my accent, I'm a Palm, just like you

<b>Joanna:</b>

I did pick it.

<b>Mark:</b>

You know, I'm very, I'm very grateful for the lifestyle I have here. I'd like my kids and grandkids to enjoy the same kind of lifestyle. And the only way that we're going to do that is we have, you know, is we have entrepreneurs, we have great entrepreneurs that build fantastic businesses. You know, we can't trust, we can't trust the mining companies to, to keep us rich. And we certainly can't trust the, you know, the oligopolies whether they're, you know, Cole's worth or the banks or anything like that because then, you know, they're not, they're looking after their, their shareholders rather than actually thinking towards the future. And so it has to be, it has to be the entrepreneurs. Now an entrepreneur is going to be far more motivated to start a business and go through all the hassle if they know at the end, you know, there's this, there's this rainbow, there's this pot of gold. And so we have to be continually working on bringing this, bringing entrepreneurs in. And the only way that we can do that is to show at the end of all the heartache. It's happy days.

<b>Joanna:</b>

Yeah. And hopefully a little bit of happiness on the way through. We'll try. Now I think one of the questions that you have in your quiz relates to the operational impact of being forced to remove yourself as a business owner for the business from a month or two. Can you tell me what's the upshot of the answers to that question at the moment? I'm really interested to hear

<b>Mark:</b>

Okay. I think the question you're referring to was if I were forced to remove myself from the business for a month or two, the operational impact would be catastrophic. 54%.

<b>Joanna:</b>

Oh wow. And what were the options? So it could be catastrophic or

<b>Mark:</b>

Catastrophic or look I need to think back to that. I think one would be a minimal, one would be minimal. The second one was problematic and the third was catastrophic.

<b>Joanna:</b>

Isn't that amazing? Wow. Okay. And so this is where I think real work needs to be done with businesses, you know, to free because then the value in the asset that you have in your business is just constantly under this massive cloud of risk, isn't it? You know, for all of these businesses that are in the 54%

<b>Mark:</b>

Absolutely. And if, if I can point out something as well, the sample at the moment is actually the sort of the medium size business rather than the smaller business. So it's not like an owner with with two or three employees saying, well I can't go on holiday. We're talking here now about an owner, a management team may be small, maybe three, four people in the management team and still the owner hasn't handed over the reign sufficiently so that you know, they could go on a cruise for um probably not a good example at the moment.

<b>Joanna:</b>

Well they'd be out for more than a month then weren't they?

<b>Mark:</b>

The owner couldn't effectively cut themselves off for a month and not sort of that when they came back the the, there, the business was a smoldering wreck. Again, probably not not another group.

<b>Joanna:</b>

Yeah. Okay. So I recall there was a question that related to problems or how the organization deals with problems if they occur with their customer and so, you know, problems and faults with the products and services. What, what was the response that you got in your survey to that question?

<b>Mark:</b>

It actually surprised me that nearly 60% of business owners actually admitted that their clients will not get high quality support when they encounter faults or difficulties with their products and services. All right. 60% of owners now, bearing in mind that owners tend to be sort of fairly optimistic about their products and services. I think that's a stag, an absolutely staggering admission, an absolutely staggering admission. And I have to say, you know, I mean, good luck to the 60% that were honest about it. But you know, I look at some of the biggest businesses in the company, I think to myself, you know, they could make life for their customers. So, you know, so easy if they only thought from the customer's perspective about the, the, the, the issues of, of, of service and support. I mean, yesterday, I don't mean to bag a, I don't mean to bag back up to South, but I spent hundreds and hundreds of dollars a month with Optus. Okay. So when I go to the Optus web website, there's a good chance that I'm mainly going to be interested in either getting some sports or something or working out why my network's down or something like that. Right now they know they should know me. So by the time I get to the Optus website, they'll, they should know who I am. Yeah. Especially when I bought in but every time I go, they're trying to sell me a smart phone. Now I already bought, I've already bought my iPhone 11, so why am I going to need another smartphone? You know, I'm there for support now. That's why I'm visiting them.

<b>Joanna:</b>

Yeah. So, and, and, and I guess this is a little bit about sort of having empathy for your clients and being able to, you know, understand what it is that they're actually after and you know, different parts of the buying process or, or transaction process that they're in. But it's interesting like many of these questions that you've talked about are actually like really good important questions but interestingly quite often not driven into by buyers who are looking at assessing a business. So I just wonder, you know, to what extent this is actually quite a useful, interesting quiz for buyers out there as well in terms of giving them, you know, discussion points in terms of drilling into understanding where the holes are and the businesses that they're looking at purchasing that are a bit outside of the normal say for example, due diligence list that they might be going through just as I'm thinking about this, I'm thinking maybe, maybe this is a really good tool for buyers as well. Yes.

<b>Mark:</b>

Yes and you've given me a great idea for another quiz there.

<b>Joanna:</b>

I think it's in here though, Mark. I think, I think the thing is like, there's two comments I have about the quiz as a whole. I think the point is if you're about to head to market, there's not a lot that you can do about these, these items you know, like if you're just, if you're at listing tomorrow, it's too late for you to remedy some of these things. So the real point is if you're thinking about selling in three to five years or 10 years time, like now is when it's worthwhile for you to get in and just start thinking about what are some of these you, you know, what are some of these changes that you can make? And maybe we'll just have a quick chat about how making changes in these areas changes the value of the business. But on the flip side, you know, my second point is maybe a really good an insight out of this as well is, is making it easy for buyers to understand more deeply the business that they're looking at buying outside of the traditional due diligence areas for an SME, which mostly just focus on financial first, obviously. And then you know, if you're lucky, a bit of legal DD, but a lot of SME acquisitions don't, don't look deeply at things outside the financial quite often don't look deeply at things outside of financial and and legal. So I think this sort of quiz could be really useful to help them you know, assess their you know, businesses that they're buying.

<b>Mark:</b>

Yeah, absolutely. Let's, let's go a bit scientific though with this, cause this is an interesting point you raised. I'm, I'm going to advocate to you having sort of come on this podcast in order to flog the quiz that maybe this is maybe not, not flogging cause it's free. But, but, but let's just actually look at this. There's two types of buyer. There's a, there's a, we've got a financial buyer and we've got a strategic buyer. Now, Joanna, you decide tomorrow that you don't want to be a, be a legal person anymore. You want to go and buy a food business. All right? You have no previous association with the food in food industry. You just want to go and buy a healthy snack food product. Yeah. Which you want to sell. Now this quiz is going to be interesting to you because you're going to, because basically you don't have any association with the food industry at the moment. All you basically want is a good quality businesses not going to give you too much hassle and that's achieving steady growth rates. So you are going to be really interested in these eight assets and what the business scores for it. Yeah. Okay. Now instead of you now being a being Joanna, you're going to be a mergers and acquisitions manager at Nestle. Hmm. All right? Now you're looking at this small package, snack food, healthy snack food manufacturer, okay. You don't actually care to be honest with you certain aspects of the business. All right? You don't care about the manager manufacturing facility for this small business cause all you're going to do is close it down anyway, aren't you? Because you're going to manufacture it under Nestle, right? So you're not, you're not interested in their systems or their processes. You're probably not particularly interested in their people because you're going to have your own people in there, you're not interested in their plans and equipment. What you're basically going to be interested in is, is, is the things like the brand. Yeah. To what extent could you take that brand and have it become a Nestle brand? You're interested in the product assets. So for example, you say you worked for Peter's alright and you wanted to buy connoisseur ice cream, you say oh it's great connoisseur has got this fantastic niche in the market. I'm not just going to sell tubs now you know, I'm going to sell in a stick and I'm going to sell empire flavor and waffle flavor and I'm going to expand all these different product offerings that you produced based on this great brand name, this connoisseur brand name. So you're a strategic buyer so you're not actually interested in scores of a lot of these businesses. And so let's now rewind to how the seller should think of it. The first question the seller needs to ask before they start improving their business is to say, who is going to buy me in five years time or in 10 years time or whenever. All right. That's the first question. And it's only then when they realize that it's going to be Joanna Oakey, the tree changer rather than Joanne Oakey, the and MNA manager for Nestle that's going to buy them, do they actually start improving their business. And that's the key in shift.

<b>Joanna:</b>

Yeah, that's a really good point. And so we've talked about some of the insights in terms of the interesting sort of data that has come out of the quiz and and presumably out of the quiz, the businesses who are taking it can get a bit of self-assessment themselves and a bit of insight into where their strengths are and where their weaknesses are as well. But then I guess what's the next step and what's the lead time that you think businesses need to give in terms of once they've done this, they work out what the issues are. So where do they take that insight? I guess

<b>Mark:</b>

What did they do? So they sold, so they've got this score called back in, it says a whole bunch of forty percents on it. What do they do next? Okay. First of all, they need to know what their type horizon is before exiting. Then they need to know who the buyers are potentially going to be. And then they need to think, and this is a, this is an exercise that's best done with a, with a third party. They need to say, what are those buyers going to be looking, looking for in five years time? All right, so they almost need to do a Porter's five forces model to say, what are the impacts in the industry going to be in five years? What's the industry going to look like, what's part a buyer's going to be looking for, et cetera. And then really decide this, decide on the shape of that business. Now they may need to grow organically. They may need to form ventures or partnerships. They may even need to need to acquire a smaller businesses, but they're, they're aiming towards this target and this targets moving. And this is really where the outside insights of the consultans that regularly listen to your podcast and my business, a fit for sale in particular, really, really coming to give them this sort of outsiders view, this ability to sort of brainstorm the ability to, to create a bit of vision for the business and to use the, you know, that that awfully often quoted mantra now to working on the business rather than in the business.

<b>Joanna:</b>

Absolutely. Which, you know, is the the aim of many, many entrepreneurs but so much harder to to, to get in practice I guess. So I guess there's a benefit of working with consultant.

<b>Mark:</b>

Absolutely. But the upside is, you know, a lot of the analysis I've done it's been something like adjusted, you know, just in food and beverage technology platform and health and beauty small and medium sized businesses. There's been something like two or 300 of them that are being purchased by a publicly listed companies, both in Australia and overseas within the last three years. So there is, if you get it right, there is a massive, massive payoff. And you know, and that payoff can be seven, eight, nine, 10 times a profit as a valuation.

<b>Joanna:</b>

Absolutely. Okay. All right. Well look, that was just fabulous Mark. Thanks for walking us through the quiz. I guess the question that is obvious next is how do people find the quiz? So, so firstly it's a free quiz. We should have said that in the beginning.

<b>Mark:</b>

Oh, more important than that. It's anonymous. We're not sucking people's email addresses and then bombarding them with junk forevermore. It's absolutely anonymous. What I really want, what I really want to do this is to aggregate some scores and really get some feel about the way the markets are moving.

<b>Joanna:</b>

Yeah, yeah. Okay. Fabulous. So how do people find the quiz?

<b>Mark:</b>

You're going to put that in?

<b>Joanna:</b>

100% I am absolutely. It's, it's a long URL. Is it?

<b>Mark:</b>

It's one of these bit leaf things that goes a scored J 41, you know, lowest score et cetera. It wouldn't be enough time, but I need to mask that first.

<b>Joanna:</b>

Okay, got it. Well, so for now, just head to your show notes and we will link straight through to that quiz if you're interested in trying it out yourself or if you have clients that you think would really benefit from having a bit of a deeper insight into you know, the areas of their business that relate to the things that they should be looking at to understand whether or not their business is fit for sale. And once again I, I don't know if we've actually even talked about these but, but the areas of people's customers, products, financial, IP, brand competitive and systems. So they're all of the areas that you, you'd review in this quiz map.

<b>Mark:</b>

I do. And look, a lot of the work that I do do with my customers actually involves working with consultants. And I know you have a lot of consultants tuning into this. Yeah. Have specialist skills in you know, HR or branding or IP or something like that. And so really this is as much a call from my perspective too, to get to know people who are listening, who have specialist skills in, in, in, in one or more of those areas so that when I have clients that score low in one of those areas you know, I'm not a, I'm not a, I'm not an IP specialist, I'm not an HR specialist. And you know, I'd love, I'd love to, to form partnerships. I think, you know, partnership is what the world's all about now. And so if people want to work with me to improve the value of a particular business that I'm involved in, you know, here I am.

<b>Joanna:</b>

Yeah. Fabulous. Okay. All right, well that's excellent. Mark, thank you very much for coming onto the show today. And just as a comment, if people go to your website, can they get to the quiz from there as well

<b>Mark:</b>

They will be by the time this podcast is brought up,

<b>Joanna:</b>

I guess for you, Mark the good news is I'm well-planned, we're quite a bit ahead at the moment. By the time you're listening to this, if you go to strategictransactions.com.au you'll be able to find their link straight through the quiz, but of course you will also be able to find it in the show notes. Well, Mark, I just want to say a massive thank you for coming onto the show today. It's been great having you.

<b>Mark:</b>

Thank you. Oh, the other way to do it of course is to say is to Google, is your business fit for sale?

<b>Joanna:</b>

Okay Google is your business fit for sale? I love it. Excellent. Okay. Wonderful. Well look, thank you so much Mark. And thanks to you, our listener. If you want to make sure you catch any of those links that we were talking about to the quiz or in order to get through to Mark at strategic transactions, just head over to our website at the dealroompodcast.com or check out the show notes of course. And on our website you'll also be able to download a transcript of this podcast episode if you want to read it in more detail. Of course there you'd be able to find out how to contact Mark and you'll also be able to find out how to contact our lawyers at Aspect Legal if you or your clients would like to discuss any legal aspects of sales or acquisitions. Well look, thanks again for listening in. You've been listening to Joanna Oakey and the deal room podcast, a podcast proudly brought to you by our commercial legal practice Aspect Legal. See you next time.