The Deal Room Podcast

Episode 136 – "What? My business has no value?" - Turn your unsaleable business into a business with value at exit - Part 1

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Transcript

Joanna: Hi 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 are talking about a topic that is very dear to the hearts of many business owners and certainly many advisors in the business sale and acquisition space. It relates to that terrible moment when business owners sometimes realize that they have spent years building a business that has no value at sale.

So today we have a two part series all about that moment of reckoning when you realize that a business has no value at exit and indeed how then to turn that unsaleable business into a business with value at exit. Now in order to talk about this very juicy topic, we have onboard the absolutely fabulous Glen Carlson from Dent Global. Now Glen is an absolute delight to speak to and to work with and he runs a really fabulous structured accelerator program that produces entrepreneurs that stand out, scale up and make a positive impact in the world all while moving their business from one that may not have any value at sale to one that is absolutely brimming in value. The which can be particularly helpful at exit. In fact, Dent Global itself has three acquisitions under its belt in technology, media and publishing and so Dent knows a thing or two about the concept of value at sale and acquisition.

And in this two part series, Glen walks us through his own story, which is a really interesting story of his moment of reckoning earlier in his business career when he found that a business that he'd put his blood, sweat and tears in for many, many, many years was actually completely unsaleable, had no value at exit. When we talked to Glen about what he learnt from that experience, how he managed to turn it all around and the lessons that he can pass on to you, our listeners. So buckle in here we go for part one of our two part series, all about how to turn an unsaleable business into a business with value at exit.

Joanna: Glen. Hi, welcome to the deal room podcast.

Glen: I'm excited.

Joanna: Glen, I am super excited as well.

Glen: Thank you for inviting me. I hope I do it justice.

Joanna: My absolute pleasure. I've been looking forward to this one for a while because you have got a fabulous story. So maybe give us a bit of an overview. Cast your mind back to I guess a decade, was it a decade ago that you're in your previous business?

Glen: Yeah, no, two decades, it was 2002. That's the start of the first business.

Joanna: Yep. And tell us a bit about it. What was the business?

Glen: So I also find it's interesting if I, if I can contrast where we are now. So currently we do about about 10 million in revenue as a group. We've acquired three different businesses and we've expanded from one city to now we've had operations throughout the UK, USA, Singapore, Australia and Canada. And we have a valuable business. We have shareholders. And it was not that in the GFC. So our business got destroyed. 2008, 2009 and everything we learned in that 2008, 2009 period, we tried to reverse engineer and go, all right. And I think we were late twenties, maybe late twenties at the time. And so we thought, okay, this clearly happens as a cycle, right? Cause we actually started our first business on the back of Y two K and nine 11, right? So 2001, 2002, but we were too young to kind of know that this is, this is a recession or we're just like, Oh, this is what it is. And so we started, right? And so then we got hit in the face in the real GFC, and then we thought, okay, how would we want to design our business to become valuable scalable, but also resilient the next time, you know, the economy kind of falls off a cliff.

So if I go all the way back to the, to the first business, I mean essentially Joanna were promoters, we'd promote speakers. So we were marketers that ran a boutique, small marketing agency to promote business authors and speakers. And we got very good at promoting people basically. And we, within year three, we're doing about 10 million in sales. And look, there's, I know we don't have a huge amount of time. So there was high highs and low lows. The whole thing fell apart. We had to rebuild it. I mean, we're mid twenties, we didn't know what we were doing. And then we expanded to the UK. So we're doing about 150 events a year. We got pretty damn good at promoting people. We start get a got a really good sense of actually has very little, and this is the whole premise of our business now. It had very little to do with the marketing of the person and it had so much more to do with the positioning of the person in the industry to start with. And so we'd go in and we'd help them write books and we'd help them make sure that they were winning awards and showing up in social media. So when people Googled them, we made sure they had a really powerful message. So when we marketed them, we had something to market I suppose. So we would, we would say it would be very easy to fill an audience for some people and very hard to fill an audience for others.

And that was kind of the insight. But anyway, so we had these insights that we didn't really know were valuable, right? We were just, we were packaging up these people to make our business more successful and our cost per cost per lead cheaper essentially. And you know, this is back before Facebook and all that sort of stuff, we were using fax broadcasting and broad sheet newspaper advertising, you know, old school. And then we expanded to the UK. And at the time we were running about four or five speakers.

So we were promoting some people back in Australia. We're promoting some people in the UK. And then, you know, these silly buggers with their credit default swaps went and screwed the world up. And we had some big exposure to the U S dollar. The pound dropped 40% against the dollar overnight. And that was the first punch in the face. And it didn't stop for about a year. And we didn't know. We didn't know to radically drop costs. We didn't know how long it could go. And anyway, it got to the point where when we tried to sell the business, now here's the thing, we were still doing millions in revenue. We had a great team, we had a great culture and yet everyone that was looking at our business from an acquisition perspective just said, it's worthless.

Joanna: And why?

Glen: So we had all these assets in the business cause we, we did our first year of uni before we dropped out and we do the counting one Oh one. And we learned about plant machinery and capital. And so, you know, we thought we'd been smart because we run events, we bought all of our own AV equipment. We had a truck full of AV equipment and we're building a database and you know, we had a culture and we kind of assumed that all those things were valuable, but when it came to sell they just rip it apart and go, yeah. But you can, you can jump on Amazon and buy audio equipment second hand on the cheap. So really that's not worth anything. But what about our database of a hundred thousand people? It's like, well, okay, how much does it cost to acquire a lead about three bucks at the time.

So, okay, that's worth 300 grand. What about our culture? Yeah. And yeah, for a small business like, yeah, nah great team yet. Now systems. Yeah. You know, systems you could pay someone a few months to, to develop and you know, all of a sudden, so all of a sudden, you know, what we, we thought were these kind of rock star business owners that were doing all this cool stuff and all of a sudden the businesses worthless. The GFC is coming on with a vengeance and we're cooked, absolutely burnt out. And the MNA guy that was kind of giving us some advice and just pointing out our inadequacies said the trick is unique IP, right? The trick is how to develop unique IP. What makes Coke valuable is not Coke's logo or you know, the contracts that has to get cheap tin for its cans or whatever it is. Yeah, it's in the secret ingredients of Coke, right? It's, it's, it's the fact that Pepsi can't quite get Pepsi tastes like Coke that makes Coke, Coke and you know, Colonel Sanders, secret herbs and spices.

These were, the analogies were given. Like you got to find your own. And we're like, well what do you mean? And he pointed out, he's like, you guys are in the business of promoting speakers. Look at Stephen Covey. He was still alive at the time. Stephen Covey's seven habits of highly successful people and were like, Oh yeah, we can relate to that. Cause we sort of promoted people like him. He's like, well those seven habits are unique, right? You can't get them from any other business consultant in the world if you want. The seven habits in your organization. You've got to go through Stephen Covey. Now, the fact that he licensed that unique IP to, I think it was 4,000 coaches, which is how he was able to sell the business for 130 million.

Now we had no idea, but we're like, Oh wow, that's pretty serious. And he pointed it to us and he said, you guys have got, you guys know how to position people as influences in their industry. This was before influencers was a word. This was before Instagram, before any of that. But you guys know how to do that. But you've been doing it with a grand total of maybe 10 people over the last 10 years. What if you help thousands of people understand those things that you've learned how to do in a, in a very serious way and build a very serious business around. But the problem is you haven't, you know, you went and developed the personal brands and reputations and positioning all of your clients, but you didn't do it for yourself.

Joanna: The irony.

Glen: Yeah, we're plumbers with the leaky taps. So we had to go and do it for ourselves. And that was the, I guess that was the light bulb moment that the most valuable stuff in an organization is not the stuff you buy from someone else, so from somewhere else, but it's the stuff that you come up with on your own and literally create out of your head and put it on a piece of paper and then publish it or package it up in some way that you can own. And then all of a sudden that's really unique and that's really valuable. And it was just a total mind flip for us.

Joanna: So I mean, I love the story because it demonstrates what we talk about with our clients so often about the issue that we see at where businesses come to the point of exit and suddenly realize that there's either very little value we'll know in need of value that they had anticipated they get at exit.

That's a really hard discussion at any point. But particularly when someone has spent their life building a business and they only realized this right at the end when they're at retirement. So you know, you had the luck where you got yourself out before that point. Right? and learn that lesson really early on. And I think it's such a critical lesson because you don't want to be the person that discovers that that disappointment, you know, right at the end when he can't do anything about it.

Glen: There's really got to be a more thorough understanding of assets, I think from a business perspective because if you had a house that was dilapidated, you wouldn't expect to sell it for a lot of money, you know, and you build a bit developer house or create a house. But over 10 years, 20 years, 30 years, which is how long lots of people have been building their businesses before they want to try and sell them. You know, the house has fallen apart again. But I mean, businesses, they're so hard to see that because it's so intangible. It's not until someone tries to value your business with a checkbox of, you know, 200 little little squares or they need to put a tick in to develop this value that they start seeing, Oh yeah, I know there's mold on the corner there and there's water leaking through the wall over there and the electrics are shot, the plumbing shot and the other foundations cracked and it's like ah, there is at least in a property you can, it's, it's, it's visually arresting.

You know, if you've got an asset deficiency where the asset deficiencies in businesses tend to be hidden unless you're actively looking to I guess document, codify, benchmark, all the different kind of categories of assets you've got in your, in your business. But look, I hear it a bit all the time as well. One of the things that I say to people is, look, your business value will double the moment you go away for six months and it makes still makes money.

Joanna: Yeah, a hundred percent correct. Because I think what happens, and you know, this discussion that we're having about the disappointment at exit, I have time and time and time and time again with business brokers and corporate advisors who are working with business owners that exit, right? So they, they totally get it. But businesses are really slow to understand. And I think the reason is because the mechanics of running a business, and you sort of alluded to it earlier when you were talking about your story, the mechanics of running a business require that as business owners we have a really strong eye on revenue and profit. And I think there's this belief that revenue and profit equals value in sales.

Glen: That's what that was our, that was our paradigm. We're doing millions in revenue, we're making profit. This is great.

Joanna: Because everyone talks about, you know, businesses worth X multiple at exit, but no one talks about when you actually take it to market. It's not just about, yes, multiples of what are being used to publicly compare. But that is not where the value in a business actually is. You know, it's in the ability of the systems, the business to run itself, the ability of the business...

Glen: And it's the difference between a multiple of three and 13.

Joanna: A hundred percent. Yeah, absolutely.

Glen: It's what makes up that little multiple little lines that cross out. There's a lot in that multiple.

Joanna: Yeah, absolutely. Okay. So in how you work with businesses now use a lot of businesses. So I guess you have the opportunity to say across industries and across many, many businesses. So businesses coming into when, when you initially see businesses, how many businesses do you think in SMEs we're talking about here? Are caught in this reality of having a business that probably has very little value at sale?

Glen: 99 and a half percent.

Joanna: Yeah.

Glen: Yeah. I mean you got to look, I mean I think what a thousand businesses sell a year in Australia and the vast majority of those are sort of corporate mergers, acquisitions, spinoff, things like that. The amount of small businesses that actually sell. I mean, the moment that most people get their head around the fact that the business isn't really worth anything. And look, when I say sell, I'm saying, why bother? Unless it's going to be a life changing amount of money. All right. And for most businesses to be worth being bought, they've got to be doing about 10 million in revenue, 2 million in profit or it's just not worth the paperwork, you know?

Joanna: Yeah,

Glen: And if they do sell it, it's certainly not for life-changing amount of money. Right? Unless there's some radical, unique thing that you have that some big company wants, like they're buying your talent or, but that's, you know, typically you'll be doing much larger, you'll be at a much larger level than the SME then than just that. So no, I find that the vast majority of businesses just aren't even close to being saleable. Most businesses that I see have been cobbled together out of a business owner kind of reacting to market forces and just trying to build a job and then build a business and you know, put their kids through school and they're kind of reacting to the noise of the market and the business and team and systems and processes and government and tax. And it's just this big reaction.

So no, I think, I think the vast majority are woefully under equipped to even consider exiting. Um and I think, you know, for the vast majority it's a three year build of focus. Like we're going to sell this thing for the max and it's gotta be a total overhaul of systems, culture, assets, sales, marketing, operations, leadership brand and how all of those things can knit together and continue to perform and even grow while the founders on a holiday totally unplugged. And that's what say like, you know, your value of your business doubles when you can go away for six months, comes back and it's still working.

It's like the most valuable thing you can do is not be in your business. And that's just often for the vast majority. It's a total, I mean, most businesses are revolutions of jobs and people just bring that same mindset of I've got to work hard in my business and they'll find a way to work hard and they'll find a way to build themselves into it. And so many people get so much personal satisfaction from that. They've been trained that, you know, your value is in how hard you work every day. And that's just not how I see the world.

Joanna: I love it. I love it through your lens, Glen. I love it through your lens. I absolutely, I agree with everything that you're saying here because we see it day in, day out, you know, and I just think that it's so sad as I said before, that that businesses only recognize this as not just at the point of retirement. It can also be businesses come to a point of exit because they're a bit like perhaps you were back in the days before you tried to sell your first business. They're worn out. You know, being a business owner, being an entrepreneur is like a bloody exhausting process, you know?

Glen: Yeah, which is the worst time to sell a business, right? The moment you want to sell the business, it's the worst time to sell the business. The only time to sell a business is when you don't want to sell the business. That's the time to sell the business. So get the business to the point where you're like, actually, I don't want to sell this thing. That's the time to sell it

Joanna: Because it's running so smooth without the effort and the energy.

Glen: Yeah. Why would someone else want the piece of shit that's run you into the ground?

Joanna: Yeah. I'm with you. I hear you.

Well, that's it for part one of our two part series all about how to turn an unsaleable business into a business that's brimming with value at exit and indeed therefore making it a much better business to run. In the meantime, in this episode we looked at the importance of getting your own IP, having a thorough understanding of your assets, the mechanics of running a business and the best time to sell a business. So if you found this content interesting, which I certainly did, then make sure you tune into part two of our two part series which we'll be delivering to you next week as long as you have subscribed to this podcast. And in part two we look at handling asset deficiencies.

We look at learning the lessons, resetting and reinventing. We look at strategies for turning a business into a saleable business and grooming for sale. And we also talk about the fastest way to create a breakthrough. Now if you'd like to learn more information about this topic or indeed if like to find out how to contact Glen or get involved in his program at Dent Global called KPI Key Person of Influence, then just head over to our website at thedealroompodcast.com or to the show notes. And there we will link straight through to Glenn and Dent Global and you'll also be able to download a transcript of this podcast episode. If you're one of those people who really liked the detail on wants to read through it in detail, well we have the transcript for you, There you'll also find details of how to contact our lawyers at Aspect Legal.

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