The Talking Law Podcast

Episode 109 – 6 steps to increasing the multiplier of your business - Part 3

Note: This has been automatically transcribed so will be full of errors! We are not providing it to you as a word-perfect version of the podcast but just as an easy way to provide you with a different way to be able to see or scan what kind of information that might be relevant to you if you are the kind of person that likes a transcript.

Transcript

Joanna: Hi, it's Joanna Oakey here and welcome back to Talking Law a podcast proudly brought to you by our commercial legal practice Aspect Legal. Now today we have the last part, part three of our three part series all about the most important steps in increasing the multiplier effect. business, ie how to achieve exponential growth in the value of your business. I thought this was an absolutely bumper, three part series that we recorded with, of course, the fabulous Marc Johnstone from Shirlaws group, and Nathan Williams from Customer Return.

Now, if you haven't listened to the first two parts of this three part series, then I highly recommend you go back to the two episodes that precede the episode you're listening to right now, so that you can hear us go through what it is and what it means to increase the multiplier of your business and why you would care. And when we step through the first initial steps in increasing the multiplier of your business. Now, of course in this episode, we finish it all off. And we have some great case studies that we look at today and some really big ones. In terms of growth in business value that has come about because of following these six steps, so buckle in and here we go for our very last episode in our three part series all about increasing the multiplier of your business.

Alright, let's move on to step four. Now, what is our step four in terms of increasing the multiplier of the business.

Step 4: Channel Extension

Marc: Step four is channel extension creating distribution channels. And along with product extension, it's the two most valuable things that an SME owner can do. And channel extension in and of itself is the most valuable because what creating channel extensions does or creating channels to market, it actually creates future income. So a lot of us receive referrals from individuals on an adhoc basis. But actually going out there and targeting the right referral partners, the right channel partners diverse multiple referrals means that we can create not only an increase in revenue for this year, but most importantly, identifiable future revenues. Because if we have six or seven or eight channel partner agreements where they're going to send us eight clients a year, we can then count on 64 clients a year coming into our business next year. And what that says to an investor is there is that future pipeline is, is almost guaranteed. And most importantly, when we start to think about it strategically, what we're able to do is once we own a channel to market, we can then put other products through that.

So you know, an example of a channel to market is Facebook. It started as a product and it is now along with Google, one of the largest advertisers in the world. And people pay a premium, just like they pay a premium to get in the App Store, because they own a channel to market so they own and a user clients. So once we create those relationships, what we want to do is once we've built those channels, the reason they're so valuable is because we can charge or, you know, other people will pay us for access to our database, etc. So the channels to market are hugely valuable in the future growth of the business. And thirdly, and most importantly, it builds in a builds risk management with respect to our product. Because if we just focus on a product and the market shifts, or there's a technological change, our business value proposition goes out the window, but if we own those channels to market, we can then with new products that might disintermediate our old ones.

We can then now put those through a different way. And a great example of that is the newspapers, you know, 25 years ago, you know, 26 of 27 newspapers in the United States were in chapter 11 because they thought they were in the printing business. They didn't realize they were in the content, business and it took 10 years to get Since their old management teams, that they actually weren't in printing, but they are in content creation and content distribution. Now, all of us can look back 10 years later and scratch their heads as to why that happened. But as someone who was doing a masters of a business at the time, it was Yeah, it was mind blowingly old fashioned in the way that we're thinking because they just couldn't get their head wrapped around one day our product will be delivered differently. And that channel you know, that channel is to Twitter today was worth 23 point 6 billion United States dollars, and it doesn't make any profit. But what it has is the channel

The easiest way to implement channel extension

Joanna: Wow, what what are examples then have taking an SME through this process? Maybe let's even go back one step. What are some of the easiest sort of examples, easiest ways that they can start to implement this?

Marc: Step one, and the easiest way to do it is firstly to build the right channel relationships. So what we see in SMEs is they'll have a business develop someone doing the DM work, Development Manager work. And that person might have 700 names on their contact list. And their job is to bring referrals into the business not so it's not traditionally sales activity, which is a one to one sale. Channels or about one relationship bringing 25 into the business. And the mistake a lot of SMEs make is they try and do more. And they don't do it with the aligned position.

So what the SME needs to do is the three criteria channel partner must have is they must match you culturally and commercially. They must be able to pre sell you to their clients, and they must be able to send you pre qualified leads. And that ability to pre sell is what we call, you know their trusted advisor. So, as someone who provides business coaching and consulting services, the only there are only five types of people, organizations that can, pre sell us with an SME and send us an SME or an SME will listen to SMEs won't listen to their IT guy, they won't listen to their marketing guy they won't listen to the person collecting the trash, and SME owner will listen to their lawyer, your accountant or financial adviser, their Banker slash investor and their lawyer, the five people they listen to.

Build the right channel relationship

Marc: So what we do is say build a referral relationship with the right sort of folks. So, as an accounting firm accountants are our largest referral sources, but we've never targeted PWC for referrals. I used to work there for five years. There used to be a client of mine in the US for two years. And there are the best accounting firm in our sector. But our referrals only come from third tier accounting firms. So first tier accounting firms will never refer Shirlaws, they're going to refer McKinsey because they're both big firms. second tier accounting firms are spending a lot of their time trying to make up the first tier, so at Shirlaws, we work really well with third and fourth tier accounting firms who are in the glass building at the business park look and feel like us, where are and Williams those sorts of things. Well, and they've got $10 million SME clients, we can help. And we can refer the right sort of clients. So when you build channels, you've got to get really focused on building the right relationships. And once they're built, that's when you can start to get strategic about them and say, Look, there's actually some commission of income here.

So one of the things that we can do is give an opportunity for the accounting firm to be licensed be in our IP so that they can actually keep the revenue stream themselves because we don't offer or accept commissions for referrals. It's all done in the clients best interest. So once you've built those relationships, then you can introduce things like joint ventures acquisitions. Hmm, but you've gone through the dating process before getting married. One of the risks of growth by acquisition is that you get married after the first day. What you got to do is get to know each other, go on holidays, etc, etc. So one You've got those channel relationships, they're tight. And they will then refer you to their network. So what we've found over our growth years is our channel partners that send us referrals. And we refer back. We're like, we're informal partners. We want each other to be successful. We want to help each other, we have the unvarnished conversations because we're human beings.

But once you know, as an SME, once you've got those five or six channels built, you can then have the right commercial decision around joint ventures, which does create that multiplier growth. So the first step is to build them, then the second step is to monetize them for everyone's benefit, most importantly, our mutual clients. And then thirdly, you know, once you've got those channels, look at other opportunities. So in our business out, one of the channels we are now working with our channel partners on is we have an online education product that we're about to launch. It's on a platform called learningstone.com and we've been furiously building it so that we can actually then give that to our channel partners as a commercial opportunity back.

Case Study example

Joanna: Can you talk through how that works, I'm interested in that. So how will that actually work as part of the strategy? Can you walk us really quickly through it?

Marc: So once we have our online component and our patient component with, so we have, we're licensing our IP, so one of our product innovation and productizing is create 994 bits of IP. So what we're doing is saying to other providers who have a relationship with SMEs, rather than refer us why wouldn't you take a license, license our IP, and then deliver that to your clients as another revenue stream? If you're an accounting firm, and you've got 100, SMEs, we can say, Well, if 20 of them buy our product, there's a certain amount of revenue.

And it's another revenue stream for you. It's a stickier client. We'll support you through our online learning system in our training processes. And where we get away from the traditional problems of franchising or income relationship. We also try and create equity value in that for them as well. So we always look for the equity. So there's an example where we've built our product along the way as a business. And then the next layer was to say, well, then how can we actually help our channel relationships, our traditional partners in referring actually create another revenue stream? Because, you know, in the accounting sector right now, there's a significant amount of firms that are up for sale, or owned by baby boomers. And part of the risk when you hand over a service business, when there's humans involved, whether it's a law firm accounting firm or consulting firm is there's a lot of personal relationships from the existing partners into the clients.

And sometimes that internal succession doesn't work. So actually building ways to de risk that internal succession planning Adding other products, other revenue streams within their business means that the clients will be stickier. And actually through that handover, because if they're not sticky, they may go to someone else, especially effect clients going through succession themselves. 70% of SMEs in Australia are owned by baby boomers. Which means, you know, and the oldest baby boomers 74. So that means there is going to be the largest transfer of business ownership in history in the next five years. So it's both for us as professionals, but also for us, as you know, as as taxpaying Australians. It's in all of our interest to keep those SMEs as healthy as possible so that they can continue growing because if there's not a succession strategy, well, that SME owner isn't going to monetize their lifetime's work, because this not the demand for the businesses. Mortgages are too expensive.

Joanna: Absolutely, and of course, also right in these times of COVID that this discussion is even more relevant than ever. Okay. All right. So I think that was step number four. So I think we're up to number five. Do you guys concur? We're up to the right step.

Nathan: I'm just falling on the back of what Marc was talking about. Look over the last 10 years who have helped a lot of businesses close what we call the the referral gap. So alluding back to those client feedback surveys I was talking about before and this is absolutely relevant for referral partners as well. What we found is that when asked the question, would you refer this business at the end of a feedback conversation? What we found is 90% of people on average, and bear in mind these are normally the highly engage clients and or referral partners of a business. 90% of people say yes, when we then start asking the cheeky follow up question, have you referred that business only 10% of people had in the last 12 months, so my point there is there's a big gap between the intention to recover or to become a channel partner and the action of that actually happening.

So just to draw down quickly, on a few points Marc was talking about, beyond the obvious examples of people not having a referral goal or a specific goal around channel partners, and channel extension, often, you know, getting feedback from prospective reviewers about how they feel about the relationship or they're not just going to go ahead, a lot of people will waste a lot of time having these conversations, because they see the upside of the potential channel partnership or a referral partnership that don't address the potential fees as well, all the bariers. And so, you know, I think it's really important to have a really clear message about what you're about as a business, why you're seeking a channel partnership or referral partnership with a particular business. And then beyond that, have a clear process about how to do that.

You know, so a lot of businesses I find common answer what I think is some fairly basic questions about who to refer to them? when to refer to them? How to refer to them? why to refer to them? those questions and what to refer for? So we have for our clients they are really basic, it's basic, but the simplicity is the power of it a one page referral checklist, answering those sorts of questions was an intuitive businesses go about thinking about new channels and new referral partnerships, but don't address the questions in the mind of the of the prospective referral? I do refer, when to rerer, how to refer etc. So you really got to drill in and have that process in place and answer those questions for the prospective referral for it to actually happen.

Joanna: Absolutely Fabulous. All of these are really great points. And we've covered it partly, I think, by this idea of focusing in on, you know, the creation of IP and licensing, but one of the issues in creating referral relationships is how you can do this at scale. And I guess as you're talking about here, it's about making Sure you messaging is clear, and that your process is clear.

Marc: And you're prepared to, you know, enter into high growth markets if you Maloney, you know, the Maloney family, they started a mining services business and sold for $800 million a few years back, purely because they picked a high growth market. So that ability to piggyback like think like an investor, pick the growth markets piggyback into that, you know, specifically target those high growth markets, sometimes the gap that SME understand, because when a high growth market happens, all the startups immediately jump into it and try and follow it to prosecute the strategy and investors do but SME owners sometimes we don't do that. This is what we do on the tools. But you know, it's the old Union Pacific thought they were in railways, didn't realize they're in transport.

Step 5: Positioning

Joanna: Yeah. Brilliant, great example. Okay, so Step five, step five of our six steps to increasing the multiplier of your business. Take it away.

Marc: This is one of the most strategic conversations to have when running a business. And the critical thing to understand with positioning is it's the perception in the consumers mind of your business. And most when I think about our businesses, certain ways that the business we are really in is what the consumer thinks are businesses. So that's both the industry we're in and our business. So what we often see is with positioning, people are limiting themselves by not actually recognizing the value of what they have and the assets within their business.

Sighting examples

Marc: So we had a client in when we first started our business, actually, in 2000. And it was a conference management business in Paddington in Sydney, Australia, which was run by two partners 61 and 63 years of age and they were looking to exit. They had 43 staff $11 million revenue, but around only 3% margin sales. profit was around $50,000. And they go Got a valuation on the business of $50,000 times 4 and a $200,000 valuation. And so we looked at the business and we looked at what was in the business, and they actually had a whole bunch of assets that were valuable to others in the industry. So they thought they were in the conference management sector.

And that's a really risky market. You know, it's not it's low margin. It's highly reliant on personal relationships, which is why the, you know, the valuation was so low. So what we identified was that there was another position in the market or another sector of the market called corporate travel, that someone might want to buy a business who was in corporate travel with a lot of experience because the corporate travel marketplace was a growth industry at the time and a lot of new entrants. And this specific company had a certain amount of data that was that was its IP, they had relationships and knowledge around their clients. So what we did was we went to that market and said, we're actually not going to sell the business, but we're going to create a corporate travel business.

And what that created in the marketplace was then a bidding war amongst established players who were going to who viewed it as a defensive investment. Is there a established players, and if this business entity with the relationships they had, and the right funding, they could make a go of it, and we also positioned it for other people entering the market as a buy or build which was as another company who had a balance sheet, it might take four years for you to build this and it might cost you a couple million bucks and then you would get there. So we lined up the buy or build folks against the defensive and the highest bidder bought the business for $11 million.

Joanna: That is ridiculous. That is such a good story Marc. I love that one. So that is a difference in valuation. Between $200,000 and $11 million, okay? All right now run me through how long this took

Marc: 18 months,

Joanna: Get out of here 18 months?

Marc: Three months to convince them. Their response was like yours. Three to six months to actually develop the strategy, research and extra about nine months. The sales process only took around three months. Because again, because the advantages if you're if there's a buy or build conversation for existing your new entrance and also defensive investment for existing players in the market, people will pull the trigger on a defensive investment, much more to protect what they've built much more quickly then we've got a fantastic opportunity.

People, you know, repositioning the business in that way, just allow that allowed us to be to choose the right pose, who didn't have to take it to 70 people and go to market, it was really 12 players who were active opportunities. And part of it is, actually, yeah, as an advisor, you know, whether you have your law hat on or your, your accounting hat, you know, part of our job as advisors is to help our clients, you know, coach them through that process of, you know, this is the opportunity this is this is the, this is the the scripting, we need to do the pitch deck and coaching them through that because it was a mindset shift. You know, I'm just saying that people have run a business for a couple of decades. Well, you think you're in conference management, but you actually could position into this market and this could be the value proposition. You know, it's just like, you know, the newspapers 20 years ago, they didn't realize they're in content.

Joanna: Maybe it's all about, you know, the longer you're in a business as well, the stronger those blinkers are, you know,

Marc: We always had the most courageous management teams or leadership teams are the ones that cannibalize their own business and I corrected myself on the difference between management and leadership. Management will never make a courageous decision whereas leadership will and as I said, their leadership team that cannibalizes its own business before a competition be reborn another way or to get to create another product, they're really courageous. And we used you know, the story of Union Pacific you know, Union Pacific thought they were in railways and had been for 50 years. They didn't realize during transport and if they need their own transport, they would have bought Ford Motor Company in 1989.

They would have bought the IP to fly an airplane from the Wright brothers in 1905. They thought they were ailways we don't have to worry about aircrafts, travel and and car whereas the company that used to make the sleepers for Union Pacific and which was called South Pacific rail infrastructure network. Well this company used to do was chop down trees and lakes. But they didn't think they're in the sleeper business. They knew they were in the infrastructure support business. So South Pacific rail infrastructure network is now known as sprint in the United States, and they provide cell phone towers, and all those infrastructure supports to modern day giants 140 years later, so they've been around 140 years longer than Union Pacific, because they kept evolving their business to their core skill, which was infrastructure support and as new industries rose and declined, they kept adapting their value proposition you know, that requires a really diligent leadership process and and some courage.

Step 6: Identifying Scale

Joanna: Brilliant. Okay, wonderful. Well, look, guys, this is it. We are up to number six. The last step, the final step in our six steps to increase the multiplier of your business. Tell us what is that sixth step

Marc: It's the most valuable, but it's not rocket science. It's about identifying scale. And it's led on the top of some of our conversations before, which is if you think about your business differently and get off the tools and think about your business, as an investor, you start to change the product opportunities, the product extension, you start to build different channels to market, think about licensing your business. And then, you know, create those opportunities that we talked about, around repositioning your business, because you're thinking like Sprint, not like Union Pacific. So why I referenced venture capital.

Before we see you know, 98.4% of the returns come from the asset class, you're in not your company. So that's why mining in the last 15 years has outperformed banking, because every mining company in Australia is made lots of money because iron and ore prices were so high. So what they look what the venture capitalists look for in Silicon Valley is either a market in decline, which is their aggregation opportunities. Most importantly, a growth market. So the number one criteria when investing in a firm is, is there a significant growth? Is this a growth market we can piggyback into? Do we have a product that can make money? And do we have the management team skills to grow that, which is what they often refer to as putting the band back together, those high growth companies.

So we're scale cities if you're an SME, and what we need to do is spend that time in your business seeing around corners, which is predicting the future Now none of us can predict the future anyone that tells you they can selling you something. But by actually spending the time off the tools looking at industry trends, looking at opportunities, looking at market Intel proactively, you can start to see around corners or identify trends and position into them. So we had a client in the states in Silicon Valley that was venture capital backed and they had their product one was a product around engaging customers on the iPhone when it first started so the world's most iconic venture capital firm, Kleiner Perkins gave them $4.4 million at a $10 million valuation and their P1 was failing spectacularly. And we sat down with a Chief Technology Officer Sam said, Sam, you're spending 86% of your time on what he deemed OS tasks - Oh Shit tasks.

Joanna: Right. Hahaha

Know where the growth market is

Marc: And the second product which was called my nightclub Sydney, which was this way to engage people to become the mayor of a nightclub and you know, millennials and Gen Xers and all these sorts of folks, what we were seeing was this thing called sticky eyeballs. So where scale sits is one of the assets that Twitter has that's not on their balance sheet is people are on it. It's called sticky eyeballs and you're engaging with it. So what we realized was that this was a sticky eyeball product and that the market was moving in the iPhone. This was 2009 the iPhone market was exploding. So the question we sent to Sam was declining give you $4.4 million at a $10 million valuation to fix a failing product? Or should we redeploy all the resources and those about 100 staff in the business to create my nightclub city and scale into that market? And of course, the answer was obvious. And so nine months later, a gentleman called Jim Bri, who was a seed investor in Facebook invested $20 million was at 100 million dollar valuation, in their product.

So the Val went from 10 mil to 100 mil in nine months all off the back of a scale because if there is a scale opportunity, but if you have a product to position into that and to get those sticky eyeballs, other investors will pay overs to piggyback and protect themselves. Just like Facebook paid a billion dollars for Instagram on its 500 and 17th day in office. Because it was a defensive play. So what scale represents is where's the growth market? Can I sell shovels in a gold rush? In 49, there's been gold rushes around the world, and Levi's makes the most money.

Most critical step that you need to pay attention to

Joanna: Yeah, Oh, look, I absolutely love it. And you guys have just had some fabulous insights that you've brought to today. I've just got one last question. For both of you. Out of these six areas, which one do each of you feel from what you've seen is the most critical for if businesses could only do one of them could only do one of the six steps because they're short on time or short on ideas? I don't know energy. If they could only do one. Which one would you recommend?

Marc: Product extension.

Joanna: Product extension for Marc? Okay, and how about for you Nathan

Nathan: Wouldn't have a bit each wave. I'm going to say product and channel.

Marc: Haha I am trying to get on top of it.

Joanna: Marc was being compliant Nathan. Hahaha

Nathan: No, that's alright, I'm gonna say product and channel. Hahah

Joanna: Break the rules. I don't care the way you ask the question. Im going to answer it my way. Okay, product and channel. Okay, I love it. Look guys, I just want to say a massive thank you. It's been an absolutely fabulous discussion today. And I want you both back so that we can really hone in to the some acquisitions discussion as well, where one plus one equals four. I think that's the way you described it to me. I'm with you.

I absolutely, absolutely love it. So let's come back together another day soon. And we'll talk more about acquisition as a growth strategy, which is some a topic that I absolutely love. So I think we'll probably have another bumper number of episodes too. About that, but just a massive thank you for coming on the show. Before we go, please just tell us some how our listeners can get in contact with each of you. If they'd like to find out more about what it is that you do or find out how to engage your organization services. Marc, we'll start with you.

Marc: It's simple www.shirlawsgroup.com or mark.johnstone@shirlawsgroup.com but just go to our website www.shirlawsgroup.com Okay, thanks everyone.

Joanna: Nathan and over to you.

Nathan: Thanks Joanna, on the web at www.customerreturn.com.au

Joanna: Brilliant guys, once again, a massive thank you. I've had a blast. I hope you have to.

Marc: Thanks Joanna.

Nathan: Thanks Jo.

Joanna: Well, that's it for part three of our thre part series all about the six steps to increasing the multiplier of your business. Now, if you have forgotten what those six steps are, please let me remind you, we had number one, talent capability and culture, we had number two, product innovation, ie recurring revenue, which is certainly a very interesting and topical subject at the moment. And I think, you know, we gave it a lot of color in discussing it in part two of our three part series, so that's back in the last episode. So we also talked about number three product extension and distribution channels. And we also talked a little bit about the opportunities for acquisition here, step four, which is channel extension.

Step five, positioning and Step six scale. So I hope you enjoyed that walk through the six steps to increasing the multiplier of your business. Of course, we had on board the fabulous Marc Johnstone from Shirlaws group, and Nathan Williams from customer return. Now if you'd like to find more information about this topic, then all you need to do is head over to our website at talking law.com.au where you'll be able to download a transcript of this episode if you'd like to read through it in fine detail. There on the website and in our show notes. You'll also find details of how to contact Marc Johnstone and Nathan Williams and you will also find details of how to contact Lewis at Aspect Legal, if you or your clients would like to discuss how you can use legal strategy to help build the foundation of your business and set it up well for growth so that as you grow you don't blow yourself up cause many distracting fires along the way. Of course we work with clients both big and small and have different types of services depending on size and complexity.

So don't hesitate to book an appointment via our website at talkinglaw.com.au or over at aspectlegal.com.au we have a free enquiry booking service just booked yourself in and you can have a chat to one of our legal Eagles about how we can assist you or your clients today. Well that's it. I just want to say a massive thank you for listening into this three part series. I really enjoyed recording it. I hope you enjoyed listening to it. And I just want to say a massive thank you for listening in. You've been listening to Joanna Oakey and Talking Law, which is a podcast that is very proudly brought to you by our commercial legal practice Aspect Legal. See you next time.