

EPISODE  
**197**



Podcast Replay: Secrets from the Inside – the top areas of insight from 30 years at the coalface

## *The Deal Room Podcast*

Episode 197 – Podcast Replay: Secrets from the Inside - the top areas of insight from 30 years at the coalface

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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 have

another podcast replay as we mentioned in our first podcast replay episode, which you can access by checking the show notes below podcast replays when we share with you one of the most popular and most listened to episodes of The Deal Room podcast so in today's podcast replay we have an episode with a fabulous Allan McKeown, the founder and CEO of Prosperity Advisers Group. During this time of recording, Allan had celebrated 30 years in business and in this episode, we talk about the secrets from the inside the top areas of insight from 30 years at the coalface this episode is the first half of a two-part series, our discussion will be all based on Alan's 30 years of experience in dealing with clients who are buying and selling businesses, and also based on the multiple acquisitions that his own accounting firm had also been involved in this episode has been one of the most downloaded episodes, and we can't wait to share it with you again. Here's our podcast replay.

**Joanna:**

Allan. Hello. I'm really excited to talk to you today about all these areas of insight that you've had from 30 years at the coalface.

**Allan:**

Thanks, Joanna, time flies when you're having fun. Mergers and acquisitions are really exciting area energizers. Anytime that we get involved in a project of this nature, and of course, there are lots of intricacies involved in each project. So I'm delighted to share some of the things that we've learned along with our 30 years of practice.

**Joanna:**

Yeah, fabulous. Okay. All right. And I guess let's start off, perhaps we'll just start off right from the beginning. I guess today we talking about a number of areas of insight that you've seen over time. So what's the top area, I guess, that you feel buyers and sellers should think clearly about. And before they come to that point of exit,

**Allan:**

I think the sellers in particular got to understand how they got to the position of preparing their business for sale. So there are generally three categories of the seller, there's the serial entrepreneur, that finds an opportunity takes it as far as they can and flips it as soon as they can to maximize their capital return, there are those that have no intention of selling, and they were approached with the Godfather would say an offer, they may not be able to refuse, or at least an offer. So it comes completely from left field. And there's the other category. And I think this is a really interesting one that we probably see most of and that's the long term business owner-operator might be family business might be a business, they've started or acquired. And often they've just run out of something they've either run out of energy, they've run out of passion, sometimes they've run out of money, they've run out of ideas, and they just feel that they blocked and often there's a way of unblocking those things.

And I guess, in our role, sometimes it's a psychologist to try. So I call us as much as a business structure advisor to try and work through those issues to say, Well if you did this or that, would you really need to sell the business is the time right now? Or can you fix these things and go on to maximize the value of what you have

**Joanna:**

such a good point that you make there? Because I was actually it's strange that you bring this up because I literally about an hour ago got off the phone to a client who had been running headlong into the sale process. And then now he's at the point of signing and suddenly said, Hold on, I actually don't think what I needed to do was sell. And it's a lot of wasted time and effort for all of the parties involved. I mean, for him, his eyes been off the ball of the business as well, because he's been focused on the sale. And it's only just had this revelation that maybe that's not what it's about. Maybe if you can share with us, you know, do you recall any examples where this has played out in a big way? Or you know, I guess examples of when you've been able to have this discussion with clients early enough to pick up the signs.

**Allan:**

I think there have been plenty of those, but it's probably where we haven't been able to convince them they've sold the business. And I think that the really salient point is when you're a business owner-operator, you're just used to being in business and running something and having the personality attached to the business. You get into a routine and a pattern. When that stops people sell the business, they bank the check, take the long holiday, and then come back and it's now what. On many occasions, we then see someone but many people go back into business again. Because that's what they know. That's what they really like. And they were really just in a pressured position that force them to leave. And sometimes even worse, they get into an entirely new business with a new to the industry that I really don't know, anywhere near as well as their previous occupation. And don't do it well. And classic was quiet I had that similar thing and bought the motel thought that would be great a bit of a lifestyle thing. And of course, it was the absolute opposite, like trying to run for detail was a disaster for them and ended up upselling.

**Joanna:**

Yeah, I've had a number of clients that I've seen that have bought businesses like restaurants and, you know, hospitality type things that have been in exactly the same situation like that. So really good point, not just for sellers, but also for buyers, as well to stand back and really think about why it is that you're progressing down this path. So then from a really practical perspective, Alan, maybe can you tell us what are the strategies that you've come to overtime in terms of how you have that conversation? What is it that you say, what is it that you do?

**Allan:**

I think like a potential seller, you need to find someone that you know or a trustor who is experienced enough to have that conversation with that can speak directly and frankly, to you about the options and things that you need to consider. And quite often, the owner-operator will need to change some of the things that they do to go to that next level. So if it's finance, they may need to release some of the control of the equity in the business, if it's a management blockage, will again, they may need to delegate and create new positions. So it's a bit of a decision about whether they're really up for those things to free the blockage. And if they're not, maybe the best thing is to sell and be unable to transition to that stage.

**Joanna:**

Any of these things you're talking about it perhaps not necessarily things people link together with a discussion with their accountant, I like you know, some of these topics. I mean, is that something that you have come to overtime, and that is part of prosperity, a broader approach to talking with clients about these things

**Allan:**

yesterday that there are no doubt numbers are the language of business success, however, you need to look through the numbers. There are always other considerations largely around people in value capture as well, that often are just reflected on the balance sheet or the profit and loss, but are just so important in any business transactions, but particularly a purchase or sale.

**Joanna:**

I think they're really, really good points. Okay, so we've run through some of the insights that you've had with potential options and exit strategies. What else is it that you've identified over time?

## Unknown Speaker

I think from the other perspective, with acquirers, I think we've had clients get to a stage where we've worked with them on a strategic plan, it's now time to expand the business through acquisition, a number of regretted they didn't do it earlier. So we all think about organic growth, and often just borrow to finance that organic growth, but there is real value, if you've got your structure, right, you're good at what you're doing. Quite right marketing a business plan in acquiring another business or businesses that that fit well under that you can leverage up your growth and profitability quite significantly. Now, the risk is if you're able to pull it off, and that's the entrepreneur backing themselves. But we've been through that journey with clients and running a business well, they're able to, again, successfully run an expanded business and make it fly.

And I regret not considering that early because it's scary. And we know we can see feel and touch by taking on another group of staff and a new client base or customer base. It's challenging for many. But again, if true entrepreneurs were good at what we're doing, it's worth taking the challenge.

**Joanna:**

I'm sure you've seen that done well and done not so well as well. And so maybe what are some insights over time that you have, in terms of you know, where acquisition as a growth strategy has worked really well, what categorizes that type of business or business owner?

**Allan:**

I think the most important thing is understanding why you're doing it. So I talked about growing and having a larger business. It's not just about that. It's not just volume unless it's the volume for reason. So the usual things that are important merging or acquiring to obtain specific skills, so it might be a different type of product that's, that's associated to your product, but one that you don't currently provide. So you've got that product and you've got access to a broader client base. It might be the skills of particular people in the organization. It might be a geographical footprint, so you might be based in New South Wales, you want to expand into Queensland rather than set up a greenfield site. You'll get fast attraction if you can find the right business and work off an existing system base. And those types of things were emerging for a specific reason or thing that led to your business give you a greater nothing's guaranteed to give you a greater chance of success.

**Joanna:**

And so am I right to say you over the I guess history of prosperity have like dabbled in all of those areas yourself personally, as well?

**Allan:**

so as well as advising clients, we've grown our own business through mergers and acquisitions. Not often but probably every two or three years, every the 30-year history we've acquired or merged business or practised with our broader firm.

**Joanna:**

And so which of those strategies for your own practice Do you think works best? So you talked about different strategies of acquisition or different approaches to acquisition, which for an accounting practice, do you think were fit?

**Allan:**

We were probably one of the early adopters to providing holistic advice. And so we started providing financial planning advice.

And our firm in the late 90s, we had a view that holistic advice was the future for accounting firms. And so we merged with financial planning practice. And so that bought individuals with that specific skill base and background in that discipline that our own partners and colleagues would have taken years to develop.

**Joanna:**

And so working with your clients, how was it that you work with them through the process? You know, how does it usually work? Do they come and say, we really want to grow, we're thinking of buying another, you know, buying another organization, and then you sit down and have the discussion about how that might play out best for them in terms of the strategy of who it is that they're going to go after and how they're going to use acquisition as a growth strategy?

**Allan:**

So ideally, it comes out of that business planning process, with a vast number of our business advisory clients, and that is, firstly, what are your long term goals? And with most of them, it is growth? And obviously, those are the options, organic growth, or do you supplement that by merger or acquisition? And then if it's well as it sometimes is like to do both? It's then Well, what is the merger and acquisition look like? And it just be an iterative process of trying to define what works well for that particular business. What they see is that they need to turbocharge the growth and be successful in their market and has been some interesting strategies. You had one client who was a supplier of a particular product to some larger supermarkets. And he embarked on a program of buying up all of his opposition within Australia, we completely dominated the market that took him a number of years. But then flip the I guess, the leverage position that the largest supermarket chains have been driving down the price to him being that really the only monopoly supplier and had some tremendous profit results and ultimately sold the business very successfully.

**Joanna:**

That's really clever. We like stories like that. Are there any, I guess, standout stories on the flip side of you know, I guess, really wrong calls that perhaps were quite foreseeable?

**Allan:**

Any specific disasters? I suppose there are some that don't go as well as, as management would have liked. And I think we all overestimate the speed with which you're able to put an organization into another or deliver on your business plan. So some of the things take a bit longer. And I think mainly, where that's happened is not so much around the strategy. It's misjudging the people issues. So either placing more faith or trust in, in those that don't know, well, well enough, or alternatively, or not having the right people on the team at the right time.

**Joanna:**

I guess that's such a hard one to do. Of course, numbers can tell a lot in terms of a story, but people often were, you know, it's a little bit more difficult to predict and to model. And I guess on that modelling point, do you do a lot of work with clients within prosperity in financial modelling and coming to financial models of outcomes to create a strategy?

**Allan:**

It's really important when you flesh out a strategy such as a merger and acquisition, one, two, so what does that mean financially? There's certainly the profit element, and no one would do it unless there was an appropriate return for the risk you undertake. But the thing that people often miss or don't think about is what's the working capital investment in doing that? That's a really important consideration in that modelling. So you just don't switch on the benefits from the added business from day one. There's always gear up period and that's, that's a significant often a significant cash drain. You either need to find that internally or make sure you've got the lines of credit to support it.

**Joanna:**

Yeah. Fabulous. Okay. All right. So I think we've covered off well here, options for both buyers and sellers, and different options and strategies. So what then would be the second area that you've identified over time as issues and insight that you've seen in this area?

**Allan:**

I think for anybody that owns and operates a business, it's always been in the marketplace. That even though you might not be considering sale at the moment, all it takes is an event, it might be a financial one, it might be a healthy one, it's important to have it in the back of your mind if it's not a short term matter for you and that's about being a well known making sure you've got a profile and making sure you mix in the industry circles and knowing other organizations will say, Well, look, I like those guys, they've got a similar culture, their competitors, and you just never know where, where things may lead. And that works from the flip side as well and would assist you in identifying businesses that you might like to acquire or merge into yours. So it's spending time in the right circles. And often it's hard to justify that investment. So there are industry associations, all the rest of it many views that is, you know, die out of the business, but you need to be focused on that long term value and opportunity and building those networks, getting to know the broader environment of firms in your industry. So you can identify good m&a opportunities if the need presents itself.

**Joanna:**

That's interesting, I rarely hear people talk about that as a strategy, it's it actually makes a lot of sense. I like it, it makes a lot of sense. I guess that's in particular in relation to the possibility of buying into or selling into within the same industry, rather than as you're talking about before the, you know, adding different types of business units, but it's a really good point. And often because the multiples from between different industries can be very different valuation formulas, I think, also, you know, having a finger on the pulse of what it looks like within your industry, not just a general understanding of business valuation, but business valuation within your industry can be a really useful thing because as you were saying, we certainly see quite a lot businesses who weren't necessarily aware that they might be about to sell, and then they're either approached, or they suddenly decide that they want to buy another business or whatever. And having no, no concept at that point of what the valuation criteria are ease means that, you know, you're coming at it really cold. And it leaves you with a disadvantage, I guess, you know, at the negotiation table, is that something that you've employed in the accounting industry? Like, is that how you were you out there looking for practices through industry events?

**Allan:**

Yes, we are as again, business owner-operators. We are mindful of that, and it's having a profile within the industry. So being approached by our people looking to deal with their practice or business on the basis of what they've seen or read about us or awards we might have wanted. It's building that, that credibility within your own ecosystem, I think can help draw some of those opportunities towards you.

**Joanna:**

That's a really good point. The other thing is you've got here as cultural fit versus worst strike. Yes. So what's the link to the buyer-seller identification?

**Allan:**

So I guess that strategy just spoke about being in your market. And identifying people that are close. That's one strategy. And they always say, make sure there's a cultural fit. I've also seen it work where there hasn't been a cultural fit. And where I see you're buying the, you know, worst house in the best street, so the culture may not be equivalent, but there are other assets within the business that make the acquisition worthwhile if that makes sense.

**Joanna:**

Yeah, yeah, absolutely.



**Allan:**

And the value you pay is cognizant of that. So you're paying less because there's something there's some cultural mismatch with the business. But if you can work through that, and realize the value in the assets, it may well be worth the differential.

**Joanna:**

But I'm sure you've seen many examples. I mean, I've seen many examples of cultural fit, take enormous cultural fit issues, taking the enormous toll post-acquisition, even when, you know, the feeling was by the acquirer, that the assets were something that they could really utilize. How often do you see businesses actually being able to deal with that cultural fit element properly? Do you know what I mean? I just often say cultural fit as being that one element there that many people in acquisition mode feel they can get across the line of but it still ends up being this constant thorn.

**Allan:**

it is very, very, very tough work and not for the faint-hearted. And I have seen people achieve significant enterprise value from working through it. But it requires hard decisions, it requires early decisions, it requires almost immediate action on addressing those cultural issues and not tiptoeing around we'll just leave both businesses as they are for a period of integration. Yeah, yeah. Which I think is a good strategy on most, most occasions. But when it clearly isn't a fit, then it needs to be mapped out for everyone sooner rather than later. And particularly in that early period, when people are expecting things going, well, he's the new firm or the new company, what are they going to do and if it drags on, it just it's harder to achieve the change, then that you're perhaps contemplating in the first place when the deal was put together.

**Joanna:**

And I made a good point, this sub-point of yours is under this concept of buyer and seller identification. So it really is about identifying that issue of cultural fit anyway, right. In the beginning, I guess that's the first point, identifying that cultural fit, you know, is there might be a problem within the organization that you're acquiring, or being acquired by as well. Okay. All right. So what else sits in this buyer-seller identification piece Allan?

**Allan:**

Again, I think it's a little bit around, you don't know what you don't know. So by being in the marketplace, talking to people, in similar companies, and maybe in other geographies, and we, from prosperities perspective, we meet with our international lines, counting firms from around the world. So you find out what they're doing and the types of businesses that they're getting involved in.

And there's a lot of diversification. So a couple of our colleague firms have merged in data analytics businesses. Now, I think that's a really important area that the accounting profession is heading towards. So unless you're out, you don't find the firms that are getting involved in that or find the smaller firms that have developed that as a strong niche. And yeah, maybe there's a good fit in coming together with an organization like that, for example.

**Joanna:**

Hmm, yeah, that's a really good point. Okay, great. All right. So I think moving on from the buyer-seller identification, what's the next main area of insight?

**Allan:**

As a seller, once you've made the decision that the time is right, or that you're preparing for sale, it's preparing the business to make sure that you're maximizing the value. And this might be strange coming from an accountant. But it's not just about the net profit. It's not just about the profitability of the business, there are so many other things that purchasers obviously, we're not obviously, but purchasers will look at it, they'll add often premiums to organizations that have robust systems and processes within them that might have you know, some really well skilled rising stars within the business that is laid out succession plan, you're not gonna necessarily command the person dependent on one or two people. If there's that good supportive management team. I'll give some consideration to that culture issue we talked about earlier. But also, what's the innovation quote, like in their business, if it's relevant? I mean, we're all transitioning our business models these days, and no matter what business or activity you're involved in, so So what's the adaptability quotient of the workforce? And how willing are they to change and develop new ideas? I think that's an important consideration. There are other measures that are just financial. So have you thought about running a net promoter score system to demonstrate that you have got good customer service and loyalty from your customers, rather than just saying that are pointing to, to rise in gross sales, that you've got a, you know, world-recognized method for, for proving that and with your people? Is there a 360-degree feedback system into saying, Well, you know, we working with our people to become better managers and, and leaders and so forth?

**Joanna:**

Alright, and for Prosperity Advisers, you're Smith and McKeown.

**Allan:**

Yes, that's right. Interesting.

**Joanna:**

All right. Okay.

**Allan:**

It wasn't about preparing for sale. It was for their business planning, growing the business in wanting to be an East Coast advisory firm as we've tried to become in different markets. It wasn't about a small number of individuals was about building a name and a brand that made sense in any of those marketplaces. And, in our case, we did as a differentiator that gave us the opportunity to prompt discussion about holistic service when we talked about the name and why people would come to

**Joanna:**

yah, yah, yah, And I guess, with all of the things that you're talking about in terms of building the value, none of these are something that you can do in sort of one month or two months or three months or probably even one year, you know, if you if you're rebranding, you really need time for that to set in. Obviously, for systems and processes, it's not something that happens overnight for building talent, and having a management team, all of these needs proper preparation. But, you know, I often find business owners think about this concept of exit at the point of exit, rather than in advance. So how is it you know, what are the practical, what's the practical way that you, you help your clients grapple with these issues well in advance so that they there, they actually take and have an impact in time for sale?

**Allan:**

When it's all about business planning. And sadly, most business owner-operators plan is to be in business in a year's time. Simple as that I mean, they're busy putting out the fires and you know, selling the widget, whatever it might be. An important process we go through here is the longer term, what do you want to end up with? What's the retirement piece look like for you? Whether that's five years, 10 years, 20 years out? Where do you want to want to finish? And that might involve a number of things, not just numbers. But where is it as a number, where it is a quality of life supported by our financial underpinning, we then work backwards to say, well, let's value your business? Now. What's that number? Here's the time in between. What do we need to do to your business? To get into a position where it can be solved for that number? For you to realize your retirement? What do you ever want to do what you want to do when you will post work career, and that's a really important process, it gets people to think through the day to day and start to understand the value of these longer-term investments and strategic decisions. And to understand that they need to do those if they want to get to that ideal position.

**Joanna:**

And so and so do those. Did those discussions occur within prosperity principally in the wealth management financial planning side of your business? Or do you think, in prosperity? And I guess I'm talking here about other accounting practices as well, you know.

What does that look like? If it's not just within a financial planning practice, if that makes sense?

**Allan:**

So it's more common in financial planning on an individual basis? And that's exactly the methodology. It's what you want to retire on? What are your assets now and your income? And how do we fill in the dots, it's much more complicated in a business owner-operator sense because there's generally one big asset? And it's not just savings that'll get you there or smart investment decisions. There are a lot of intricacies in building your business value. So you've got to unpack that and work out a strategy and a detailed plan to put all those things in place. So we certainly do it in financial planning. But we've used that background and learnings to introduce that to our business services and the advisory section as well.

**Joanna:**

And I guess given that you've had your practice for 30 years, you must now have that experience of having had these discussions or had had these clients where these discussions have been had within prosperity, where they've really gone from one picture to a very, very different picture over time. Are there any examples that you can sort of think of where these, this discussion early in the piece has just made a massive difference to the way business owners have been conducting the business and then what it looks like at the outcome?

**Allan:**

There are some very rewarding things of being in a business like ours, one is seeing your own people grow and utilize their skills. But secondly, importantly, is to see your clients go on and achieve fabulous success. There have been plenty of examples of that I'd like to take responsibility for actually doing that I know right, only holding their hat and coat while they're having the fight. And that we just providing the structure, the sounding board and the advice, but they've got to get in there and do it. And that's the thing that's not lost on me though. They always know their business 10 times better than any one of us on my partner's will it Prosperity. We're about the structure process, challenging their assumptions, and so forth. But once the plan is put in place, we'll certainly monitor work with them, but they've got to get it to get in there and do it. Yeah. I guess our role is to have the hard discussions. And when they come up with a plan that's not feasible, it doesn't make sense that we actually, in a gentle way, have that discussion with them. And sometimes financially, that is a classic example, I can't name names where one of my partners spoke with a client about the reality of, well, if you really want to want to achieve success in this opportunity in front of you, you'll need to sell your house, rent for a while, and put the proceeds of that sale into the business to realize the opportunity. Now, that's not with everyone's risk profile. And what we're about is, is presenting clients with options.

That was an option they chose to take. They've grown that into a multi-million dollar profitable business that's expanded internationally. And it's been a great success story. Again, we don't take the credit for that. It's the people involved that made that decision. But somebody's got to start the discussion. And I'm proud it was one of my partners that did that.

**Joanna:**

What a great story. Because that's not a move for the faint-hearted, selling your house and throwing it all behind your vision, I guess.

**Allan:**

And many might scoff at that advice, and it wasn't doing it. But here are the choices. And we can tell the client was a great business, great idea, but they were just stuck in a financial hole. And this was just the only way out at the time. And it's a matter for them to, to seize the opportunity, which they did.

**Joanna:**

But there's the power of, you know because I've seen many business owners make car high-risk decisions as well. But I think what you're talking about is the power behind those high-risk decisions, making them on the basis of also having a really clinical look at the numbers and someone with less emotion, being able to stand back and give an opinion and objective opinion on it as well. So, you know, I guess that's just my comment on that story that you're telling before everyone goes and sells their house and throws it into the power of the right advisor. I think Alan, that's what I'm saying here.

**Allan:**

I think it's at this time, I should give some sort of financial advice, a disclaimer. Seek specific advice and circumstances.

**Joanna:**

Just general Yes. Generally in nature? Yes, absolutely.

**Allan:**

Sharing experiences.

**Joanna:**

Well, look, and I think at that point, Allan, this is the end of part one of our two-part series. And maybe this is a really good point for you to just talk to us very briefly about Prosperity and maybe how our listeners can get in contact with Prosperity Advisors if they're interested in getting a bit of this holistic advice that you've been talking to us about today.

**Allan:**

Well, thanks, Joanna. We're a broad-based advisory firm, we really give advice on most financial matters other than insolvency, that, that gives clients a 360-degree view of their whole financial landscape. The bulk of our clients is business owner-operators. So that's how we grew the business initially. So that DNA of helping people develop, grow their business and ultimately sell them for appropriate prices is well ingrained in what we do here. But we also spend the time to look after the other aspects as well make sure that that wealth is protected in all sorts of insurance, and that there are investment plans in place, that the right tactical and tax moves are taken as well, to ensure that is our appropriate return for the effort and risk and our operators take in doing what they do.

**Joanna:**

Absolutely fabulous. I just love I love the model. And how can people get in contact with Prosperity Advisors Allan?

**Allan:**

Through our website, we'll provide all the details, Joanna. So it's [prosperity.com.au](http://prosperity.com.au)

**Joanna:**

excellent, wonderful. Thank you. We're really looking forward to having you back Alan to go through part two.

**Allan:**

My pleasure, Joanna.

**Joanna:**

Well, that's it for this episode of the deal room podcast. I hope you enjoyed our podcast replay of Episode 115 Secrets from the inside the top areas of insight from 30 years at the coalface with Allan McKeown. Just a quick recap of this episode, we shared not only Alan's three decades of experience of dealing with clients but also from his on the ground experience of acquiring for growth many times over.

We talked about how to evaluate your options in exit strategies, how to identify buyers and sellers in the market and we look into building value in a business. If you're interested in talking to our lawyers about anything related to this topic, then head over to our website at [www.aspectlegal.com.au](http://www.aspectlegal.com.au) to book a free 15-minute discussion with our legal team.

**Joanna:**

Well that's it I hope you enjoyed what you heard today if you did please subscribe to the deal room podcast on iTunes or your favourite podcast player to get notifications straight to your phone whenever a new episode is out. We'd also love to hear your feedback so please leave us a review and rating if you're already one of our subscribers or even if you're listening to this podcast for the first time. Well, thanks again for listening in. This has been Joanna Oakey and The Deal Room podcast a podcast proudly brought to you by our commercial legal practice Aspect Legal See you next time.