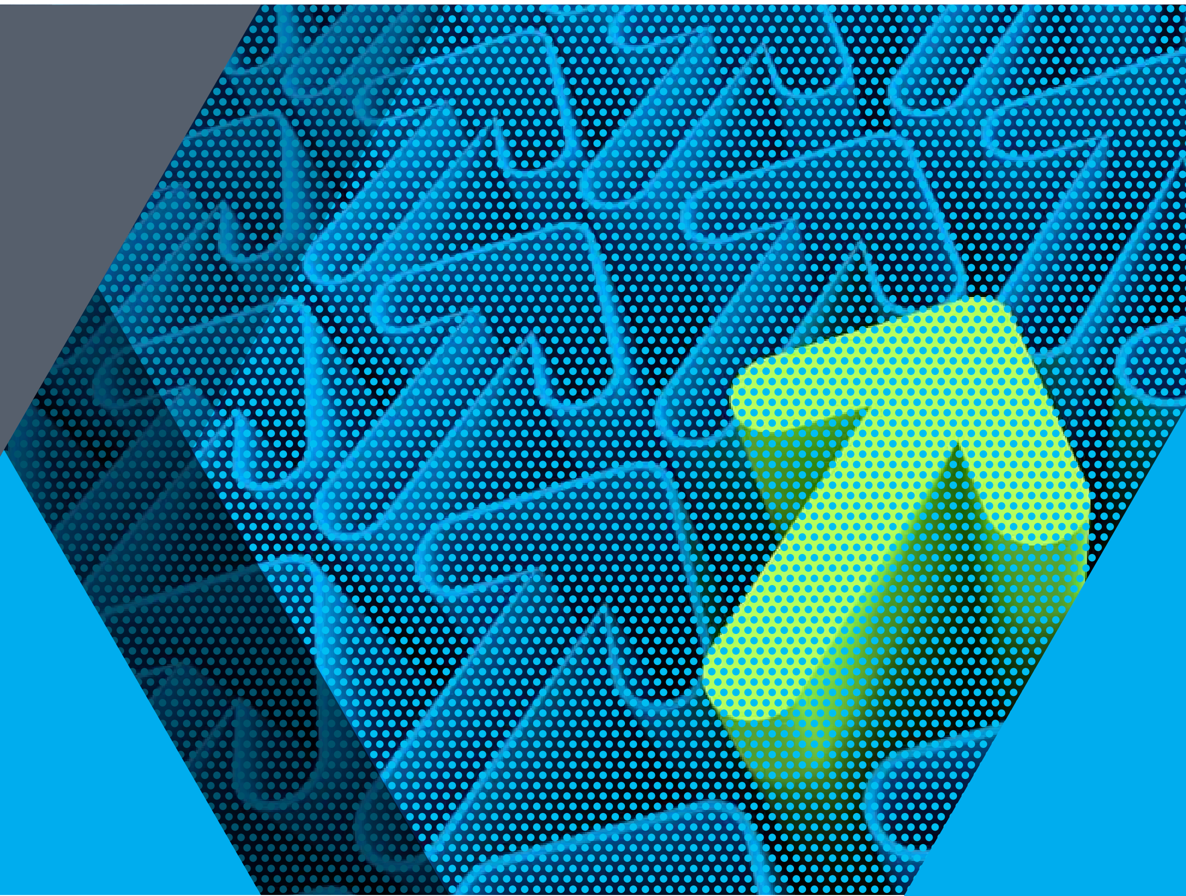
FUTURE-PROOF

Establishing the right business set-up to be ready to seize the next opportunity



Arvind Sridharan

Investing in the right business setup - an investment that will pay off

Whether you are planning to sell your business or not, I firmly believe all business owners should regularly assess their business model, check if existing infrastructure & processes are still appropriate and confirm the strategic plan moving forward is still valid.

It's like a preventative medical check-up: Knowing to the point where your business currently stands, having a strategic plan and being in full control enables business owners to make the right decisions, pro-actively addressing any upcoming issues and taking the business to the next level, e.g. sustainable growth **(please see my separate white paper on this topic)**, acquiring other businesses or selling your own business.

Investing in the right business set-up is an investment that will pay off both short-term and long-term. You instantly benefit every day from more effective operations, increasing productivity and thus profitability.

Should you ever decide to sell the business, demonstrating compliance with good governance, being in full financial & operational control and working towards realising the business' vision will be an important part of proving its value.

Set your business up as if it would be for sale

Being ready for selling your business means

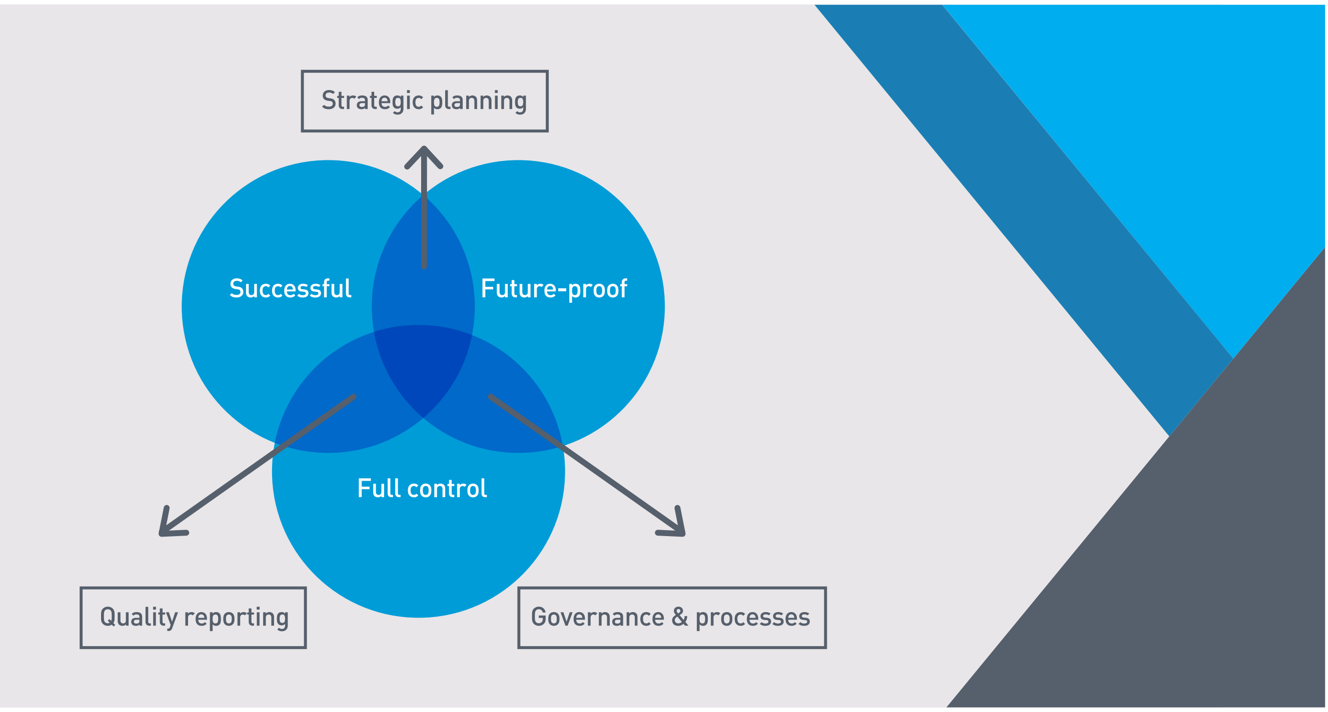
(A) You are running a successful business,
(B) You can prove you are in full financial & operational control and
(C) You can demonstrate your business is sustainable.

During due diligence processes, potential acquirers will carefully assess your current business model:

- Revenues, including underlying information on market, customers, value proposition and distribution channels
- Costs, including underlying operations, key activities, required resources and partnerships and
- Sustainability of the current business model post investment/ acquisition.

This is to determine the commercial and strategic value of the business, and ultimately the price a potential acquirer is willing to pay. More importantly being ready to pass a due-diligence process is the basis for creating sustainable value, no matter if you are planning to sell a business or not.

Be ready to seize the next opportunity –
Set your business up as if it would be for sale



Successful today and sustainable tomorrow - Chasing two rabbits and catching neither?

Aligning today's success and future sustainability often feels like chasing two rabbits and catching neither: Do I focus on current dividends and maximise profitability e.g. by limiting costs, taking responsibility for every business action or minimise CAPEX, even if it is to the detriment of future growth?

Or do I take the risk of an investment, sacrificing today's margin but with the opportunity to realise a bigger return in the future?

Successful business owners of small to medium sized businesses know the marketspace, customers, ongoing projects and are typically involved in everything. However, this means they are caught in the day-to-day urgency trap, and consequently cannot spend sufficient time on setting up efficient processes and building the right infrastructure, both barriers to sustainable success.

Strategic planning - Killing two birds with one stone!

Strategic planning – in fact one of the top reasons why Australian Small & Medium Sized Enterprises (SMEs) fail – is a powerful tool to combine today's and future success.

But how to address it efficiently?

As highlighted in my published article **http://anthillonline.com/is-your-business-sustainable/**: Start with the end in mind!

If you are not clear on your vision, goals and targeted positioning any business decision you make may be going in the wrong direction and consequently be a waste of resources.

The key to strategic planning is to design all business decisions and actions to one objective: Getting closer to realise your vision. Trying to do too many things diminishes focus and the quality of offerings and thus limits future growth.

Quality reporting and governance – Flying blind will make you crash.

It's not rocket science that you need to know your numbers to make the right decisions. If you do not know the cash position, actual payables & receivables and main cost drivers, making the right business decisions is like flying blind: You are either lucky or you are going to crash. And sooner rather than later you will run out of luck.

However, quality reporting includes more than just financials, because strategic planning and risk management is most successful when it is linked to operational performance. Thus, business owners should also be fully aware about the progress of key activities and all external factors impacting the business.

To be in full operational control, all major business decisions and actions should be based on good governance, ensuring legal requirements and internal guidelines are met.

The challenge – Finding the right balance between short-term and long-term business goals

No matter which industry your business is operating in, how old it is or if you want to sell it or not, every business faces the challenge of aligning short-term and long-term business objectives.

Yes, family owned businesses tend to prioritise long-term thinking, maybe even over generations. And yes, businesses up for sale typically are short-term focused, maybe considering only the next few months until an expected sale has been completed. But what if things go another way? What if there's a change in succession planning in a family business or the business is not doing as well as expected and significant investments are required at the same time? What if a business cannot be sold within an expected timeframe because it did not pass the due diligence or potential acquirers are pulling out?

Focusing on either short-term or long-term business objectives can be a threat to your business, because you are losing flexibility.

It's like the trade-off giving a man a fish, which will feed him for the day, versus teaching him how to fish, which will feed him for life.

The challenge for business owners is to find the right balance between short-term and long-term business objectives. Completely neglecting of the two components will limit your flexibility and can consequently diminish value:

If you teach a man how to fish without feeding him in the meantime, he might starve along the way of learning. But if you feed him while delivering the lesson, short-term and long-term business objectives are aligned.

Depending on where your business is at and where you aim to take it, the question now becomes how to align both approaches, how to find a suitable balance. If you are planning to sell your business, you probably would optimise processes, secure quality and minimise cost, but most likely would avoid significant spending on CAPEX. If you're running a longer-term plan, your focus probably would be on investing wisely, e.g. in infrastructure, growth and training, which would be a long-term investment with short-term impact. Both cases show a balanced approach to align short-term and long-term business objectives, setting different priorities without neglecting the other component.

Putting customer benefit in the centre of all activities

Increasing customer benefit enables alignment of short-term results and long-term sustainability: Happy customers will come back and buy more, growing your market share, creating a sustainable income stream and reducing the cost of sales.

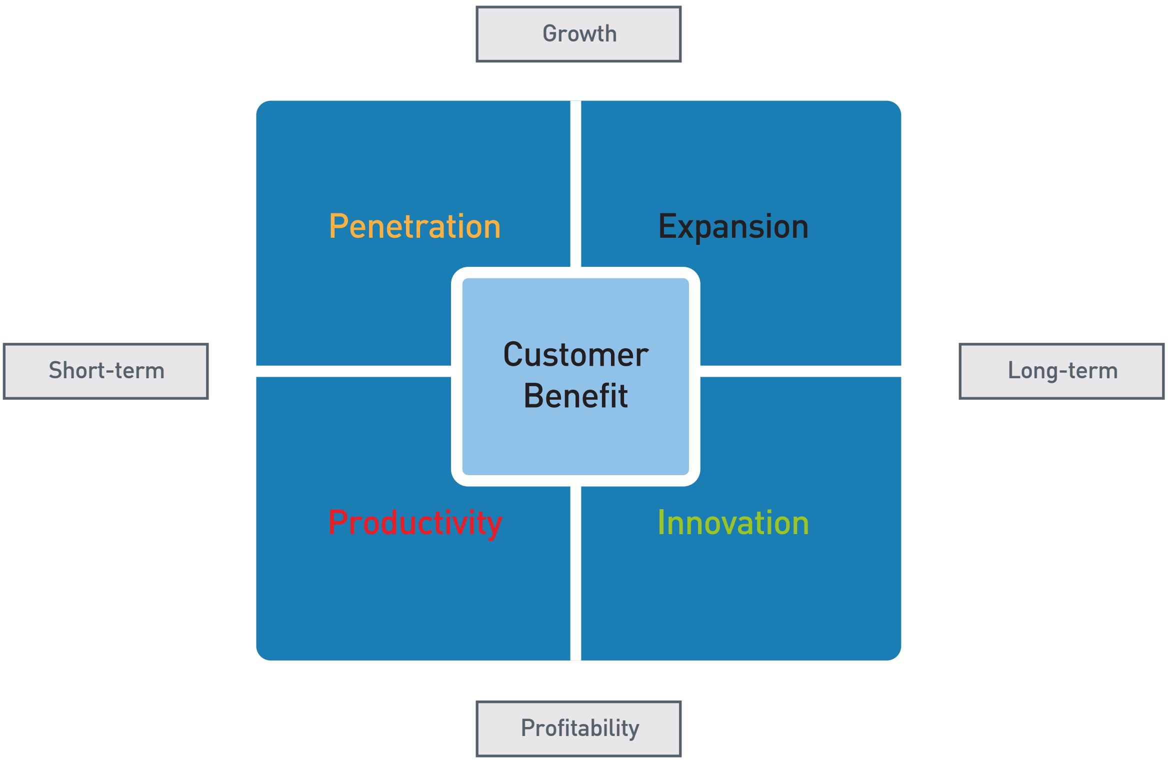
Consequently, increasing your profitability allows you to expand your business and invest more funds into innovation, which again increases the customer benefit and creates sustainable value.

If you want to grow your business short-term, market penetration is probably the best option to promptly increase revenues. Expending your market share with the existing offering – e.g. by driving out competitors or focusing on high-growth market segments - does typically not require a big investment, has a short-to- mid-term impact and thus can be achieved with rather low risk.

As this option typically is limited, ask yourself 'what's next?'.

Businesses with a long-term plan to create sustainable growth typically evaluate their options for expansion, e.g. entering new markets, offering new products and/ or serving new customer groups. Each expansion strategy is angled mid-to-long-term, but has its own risk profile, requiring different levels of investment and operational/ structural adjustments.

How much of a risk are you happy to bear? What's the potential ROI?



If you are focused on short-term profitability, cutting cost is probably the easiest option to achieve this goal. Alternate opportunities to instantly increase profitability include checking, re-negotiating, or terminating existing agreements, streamline business processes and closing non- profitable business activities.

The challenge is to find the sweet spot between cutting maximum cost without harming future growth.

Every product has a life cycle, typically with an inception phase (investment), a growth phase (scale) and a decline phase (maturity).

Investing a significant share of your profits into innovation ensures a steady pipeline of future offerings and thus creates sustainable value.

A great approach of dealing with innovation is being close to your market & customers, focusing on how to increase customer benefit.

Ensuring the right business set up

Should you aim for exponential growth, acquiring another business or selling your own business, allow about 12 months preparation time. This enables you to not only be fully prepared (due diligence, infrastructure, processes), but also to have at least one full financial year of relevant, comprehensive and accurate data available. And ultimately, this provides the opportunity for you to increase the value of your business now, rather than letting the acquirer lift the value post acquisition.

6 ways to pimp your business

1. Demonstrate control
Follow Arvind's structured approach "6 steps to full financial & operational control".

Please contact me for further details.

2. Be prepared to be transparent
The agreement to sell your business will include clauses covering warranty, guarantee and indemnity. So not disclosing relevant information should not be considered as an option.

Instead, better ask yourself "what could be a potential deal killer?" and "what information do I feel uncomfortable to share?" and deal with these issues right away.

3. Separate business from owners
Most business owners don't like to give up control of any aspect of their business. However, going through this process is condition precedent when selling businesses, because it demonstrates that the business can be run successfully without the owner being involved on a day-to-day basis.

Adjust the infrastructure to the business owner working ON the business rather than working IN the business.

4. Data room
Buying businesses is like a marriage, you buy the whole package. Thus, when selling your business, the acquirer and respective service providers (lawyer, accountant, advisor) will ask questions and request information to determine a) accuracy of assets & liabilities, b) robustness & potential exposure and c) commercial & strategic value. Put these questions to yourself first and start populating a data room with relevant information. This will increase your chance to close the transaction successfully.

5 Did you know
Cutting cost by 10% can increase the profit by 40%. In absolute numbers, saving $100,000 can lift the value at acquisition by $400,000. Don't believe it? Have a look:

	Base	10% cost reduction	Impact
Revenue	$1,000k	$1,000k	No change
Cost	$800k	$720k	(-) 10%
Profit	$200k	$280k	(+) $80k
Margin	20%	28%	(+) 40%
Value*	$1m	$1.4m	(+) $0.4m

* assuming the value is determined @ 5 x profit

6. Build post-acquisition business case
By closing the transaction, buyer and seller agree on a purchase price. But how does the buyer realise his return on investment? What are the cost and revenue synergies a buyer could lift? What are the opportunities creating future value? The more you as a seller know about the buyer's potential return on this investment, the better the basis for negotiations during the sale process.

The problem

Many business owners are extremely busy with managing day-to-day businesses. They typically do not spend sufficient time for improving operational and financial efficiency, transparency and strategic planning.

Key issues and challenges include:

- **Too busy with day-to-day business** - no back-up/ support
- **Struggling with upcoming urgencies** - no pro-active prevention
- **Plateauing or shrinking business** - no strategic plan/ positioning
- **Miss out on opportunities** - not ready or not in the position to seize them
- **Underselling business** - no lift in value through 'easy fixes' prior to a sale

Due to not having the right set-up and a lack of information/ transparency, some business owners may feel uncomfortable with taking important business decisions. This blockage may even sow doubt whether the business will still be relevant tomorrow.

The solution

Whether you actually want to sell your business or not, I firmly believe businesses should be set-up as if they would be for sale.

Being ready for sale means:

(A) You can show you are running a successful business
(B) You can prove you are in full financial & operational control and
(C) You can demonstrate your business is future-proof.

These are not only critical factors that will be checked by potential acquirers, these are also critical factors for running a future-proof business and create sustainable value.

My services include:

- **Scoping** – Identifying current issues & potential threats
- **Facilitation** – Pro-actively addressing & solving issues identified
- **Mentoring** - Ongoing support, expert feedback, 'pick-my-brain' sessions
- **NED** – Non-executive director, representing stakeholder's interest

Invitation to collaborate

I have 20 years' professional experience across IT, healthcare and finance in Europe, the US, Asia, and Australia. My insights come from multiple perspectives as an investor, director, shareholder, and CEO.

My objective is to prepare businesses within 3-6 months to lift the value by setting it up for exponential growth, acquiring another business or selling it.

My passion is to enable my clients managing their business with firm conviction, feeling confident with major business decisions and taking their business to a completely new level.

I'm acting like a specialist conducting a preventative medical surgery, enabling business owners and shareholders to make the right decisions, pro-actively address upcoming issues and become ready to seize the next opportunity.

I would be delighted to engage in further discussions about how I can support you with creating sustainable value in your business.

Arvind Sridharan
M +61 (0) 419 015 873
www.arvindsridharan.com
arvind@arvindsridharan.com