ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT COLLECTION
Scott Shane, *Editor*

The Business Wealth Builders

Accelerating Business Growth, Maximizing Profits, and Creating Wealth

Phil Symchych
Alan Weiss

BEP BUSINESS EXPERT PRESS

The Business Wealth Builders

The Business Wealth Builders

Accelerating Business Growth, Maximizing Profits, and Creating Wealth

Phil Symchych
Alan Weiss

BEP BUSINESS EXPERT PRESS

The Business Wealth Builders: Accelerating Business Growth, Maximizing Profits, and Creating Wealth

First published in 2016 by
Business Expert Press, LLC
222 East 46th Street, New York, NY 10017
www.businessexpertpress.com

ISBN-13: 978-1-63157-290-6 (paperback)
ISBN-13: 978-1-63157-291-3 (e-book)

Business Expert Press Entrepreneurship and Small Business Management Collection

Collection ISSN: 1946-5653 (print)
Collection ISSN: 1946-5661 (electronic)

Cover and interior design by S4Carlisle Publishing Services Private Ltd., Chennai, India

First edition: 2016

10 9 8 7 6 5 4 3 2 1

Printed in the United States of America.

Dedication

To Phil's wife, Kerry Ottenbreit, and daughters, Anastasia and Julia. Thank you for making life much more rewarding, interesting, and fun.

To Alan's grandchildren, Alaina and Gabrielle, may they grow up in a peaceful and prosperous world.

To business owners around the world, who drive our economies, innovate, take risks, employ people, and provide us with the highest standard of living that we often take for granted.

Abstract

The Business Wealth Builders provides pragmatic advice for business owners of privately held, small and medium enterprises (SMEs) on how to grow their businesses, increase top-line revenues and bottom-line profits, enhance the value of their companies, and build their business wealth. This book is written for business owners, managers, executives, family business members, business advisors such as accountants and bankers, industry and trade associations, entrepreneurs, and students and professors of entrepreneurship and business. SMEs drive half of the economy in North America and generate the majority of net new jobs, so their performance and contributions to our standard of living are critically important. As large companies downsize, rightsize, offshore, and onshore their operations, entrepreneurs are innovating, hiring, and growing their businesses. Readers will benefit by learning techniques to sharpen their strategies, attract and retain more customers, deliver better products and services more quickly, charge higher prices, increase profits, and create businesses that are more valuable, more saleable, and more attractive to future owners, employees, and customers.

Keywords

How to grow your business, Business funding, Business financing, Business growth, Business capital, Business growth strategies, Business owner, Entrepreneur, Profit, Business value, Business equity, Wealth builder, Wealth building, Succession plan, Family business

Contents

Acknowledgments

Thanks to my first business mentors: my parents, John and Phyllis Symchych, and Uncle Peter and Aunt Norma Drosdowech, who purchased and operated Clear Lake Lodge for almost two decades. We learned a lot when interest rates were 20 percent.

This book would never have happened if not for the supreme mentoring and years of wise advice from my mentor and friend, Alan Weiss. Alan, the wisdom you share, from technical consulting, to marketing, to how to live life to its fullest, is priceless.

I extend gratitude, respect and appreciation to all clients, especially: Ewen and Shirley Morrison, Dale and Teresa Hensrud, Donna Dynna, Doug and Gloria Archer, James Archer, Tracy Rogoza, Garnet Bjornerud, Dave and Denise Peter, Wayne Morsky, Lorne Schnell, Gilbert Chan, Frank and Lana Shewchuk, Randy, Jason, Colin and Brock Hrywkiw, and all of my business clients and SME Advisors. You have all contributed to the ideas in this book.

I've worked closely with many excellent accountants, lawyers, and bankers who proactively help their clients, including Doug Yaremko, Lon Sokalski, Jeff Pietrobon, Ron Boychuk, Stuart Pollon, Dave Kowalishen, and my trusted advisor, Kelly Ozem.

Phil Symchych

I'd like to acknowledge my global mentoring and coaching communities which serve as both my laboratory and motivational fuel. And I thank my coauthor, Phil, for this opportunity to learn so much about small businesses.

Alan Weiss

Disclaimer

Every business situation is unique. We recommend that you obtain professional advice regarding all technical matters including, but not limited to, accounting, tax, legal, and other information. We accept no responsibility for the outcomes of any actions taken as a result of the information in this book.

Introduction

Closely held business hiring comprises almost 100 percent of the net new jobs created in the United States annually, according to the Bureau of Labor Statistics. Fortune 1000 firms replace jobs but do not create new ones, thanks to technology, outsourcing, off-shoring, and cost reductions.

Hence, what we colloquially call “small business” (which can easily be in the hundreds of millions in revenue) are the economic generators of the country. Not many people realize that, including people who own these businesses. They are often neglected in the media, in investment, in development, and in public appreciation.

This book is intended for the owners of those firms, who deserve to be rewarded more handsomely, gain more recognition for their entrepreneurialism, and sleep more soundly knowing their wealth is protected and legacy intact.

We have the rather distinct backgrounds of having consulted with top Fortune 1000 companies globally, with closely held businesses through North America—from about $2 million to $200 million in revenues—and are the owners of small businesses ourselves for several decades. We think those frames of reference provide us with some unique value to offer in terms of best practices and pragmatic advice.

We deeply respect the intricacy of managing family issues and business needs that are so often inextricably woven together in these business segments. We acknowledge the need for the intellectual decision alongside the emotional realities in such environments.

What we've tried to provide—and hope you find—is the most direct and fastest path to a highly profitable business and extremely rewarding life, with options along the way to ensure the proper mid-course corrections.

They may call it “small business,” but it's of large import.

Phil Symchych, Regina, Saskatchewan
Alan Weiss, East Greenwich, Rhode Island
June 1, 2015

PART 3

Build Your Business Wealth

CHAPTER 7

From the Vault: Financial Strategies to Accelerate Profits, Valuation, and Wealth

Flash reports: Why Waiting for Your Month-End Financial Statements is Like Reading an Obituary

"Dad, how many more miles? Are we there yet?"

As a parent, I can now answer that question by saying, "Check your iPhone, what does Google Maps say?" Now, they tell me how many more miles remain. So does the car's navigation system, but it's fun to teach the kids how to figure things out for themselves.

Flash reports are like your car's GPS and tell you where you are, in real time, every day. Flash reports also empower employees to measure—and improve—their performance. You don't want, and in fact can't wait, for the month-end financial statements to tell you the most important data about your company. If you receive your month-end reports by the middle of the next month, some of that information is already six weeks old and you still don't know what's happening today.

Financial statements are useful as lagging indicators because they tell you what happened in the past (like an obituary) from a financial perspective. They are not useful to improve financial performance in real time. That's why flash reports need to measure and report—on a daily basis—three critical areas of your business: the sales pipeline, production volumes, and cash.

Wealth Building Blocks: Tracking three flash metrics every day—sales pipeline, production, and cash—will empower your team to dramatically and continually improve performance.

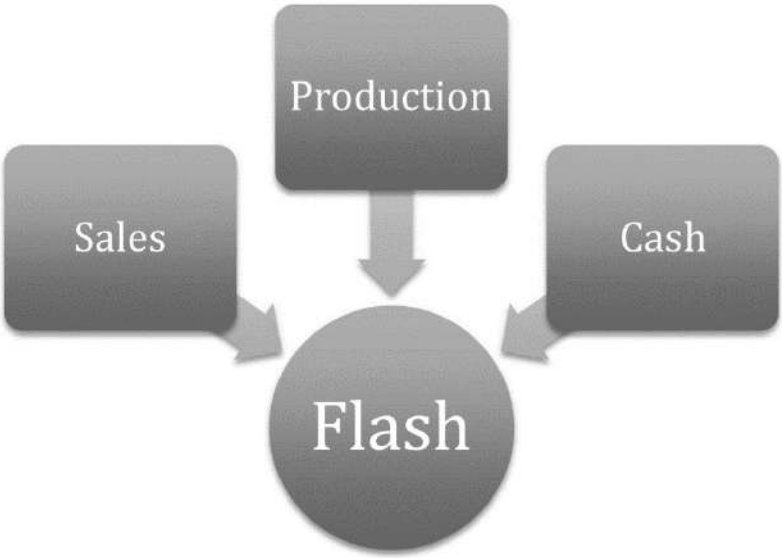

Figure 7.1 Flash reports

Tracking these, even if it's on a sticky note or white board, will generate great ideas from the front-line people on how to improve the numbers. The best ideas, and true innovation, come from the front lines. They don't come from head office or weeklong strategy retreats (Figure 7.1).

The best way to improve performance in a critical area is to report on that performance every day, compare good days vs. bad days, and continually share what is working on the good days to ensure that all days keep getting better. In fact, there's something about human nature that says we want to know the score. That's why we always kept score while playing street hockey or stickball. Keeping track of production allows everyone to win as they improve performance and results.

Look for the distinctions in failing to meet expectations and surpassing expectations, and eliminate the former while exploiting the latter.

Many companies start by measuring one factor daily. Some examples and ideas are shown in Table 7.1.

All companies have internal best practices that are likely invisible. Flash reports help to identify areas of strong performance so hidden best practices can be shared across other departments or divisions.

The sales pipeline is important because it shows business that is sold and promised to customers. In other words, it includes only real numbers.

Table 7.1 Daily flash metrics

Industry	Daily Flash Metric
Service company	Billable time—improved from 45% to over 80%.
Construction firm	Daily project hours—improved project management and completion.
Industrial company	Safety statistics and near-misses where all infractions had to be called in to the CEO within one hour. —Resulted in significant improvement in safety awareness and culture.
Consulting firm	Number of marketing calls and actions per day—resulted in new client projects and revenues.

This does not include projected or estimated sales based on arbitrary and artificial numbers as these create a false sense of security that results in busts when the sales don't materialize, according to Colleen Francis, author of *Nonstop Sales Boom*, *published by* AMACOM, 2015.

The production volumes show actual speed, quality, and results. *This allows you to divide the sales pipeline by the production speed to determine how many days, weeks, or months of work you have right now*. That's a real number. How long is your production pipeline?

All businesses, especially high-growth businesses, need cash to survive. If you generate your own cash, then you can fund your own growth. The formula for cash is: Cash = Margin × Volume × Velocity. You can determine your cash burn rate—how much cash you consume per day or week—and see how long you can fund your own operations. Ideally, you have access to short-term cash that will increase your capacity for growth.

Cash is an important part of your overall working capital. Next, we'll show you how working capital improvements can accelerate profits and build business wealth.

Working Capital: How Improving Your "Total Days to Cash" will Fuel Your Business

How have you funded your business growth? Did you increase your borrowing, inject your own money into your business, lean on your suppliers, or beg your customers to pay you more quickly? Those are all valid sources of cash. I want to show you how you can generate more cash from internal operations and processes.

Many mid-market companies have successfully grown their businesses by selling more to larger customers. These larger customers often take longer to pay. As CFOs of global companies conserve cash by slowing down payments to you, their suppliers, that causes ripples that feel like tsunamis to growing companies hungry for cash.

In fact, many profitable companies that are growing quickly will run out of cash long before they run out of profits. That's why focusing on the "P&L" or income statement is very dangerous. It's the working capital items on your balance sheet that create—or consume—cash. These items include cash itself, raw material inventory, accounts receivable, accounts payable, lines of credit, and other deferred liabilities. However, to really accelerate your "Total Days to Cash," we want to focus on all of the inputs that initially consume, and ultimately create, cash.

> **Wealth Building Blocks:** For capital to be working, it needs to move . . . quickly. The keys to strong working capital are speed and leverage.

Let's look at this model that shows the inputs and eventual outputs of your cash cycle. It looks at the initial cash outlays for wages and overheads as soon as you turn on the lights in the morning (Figure 7.2).

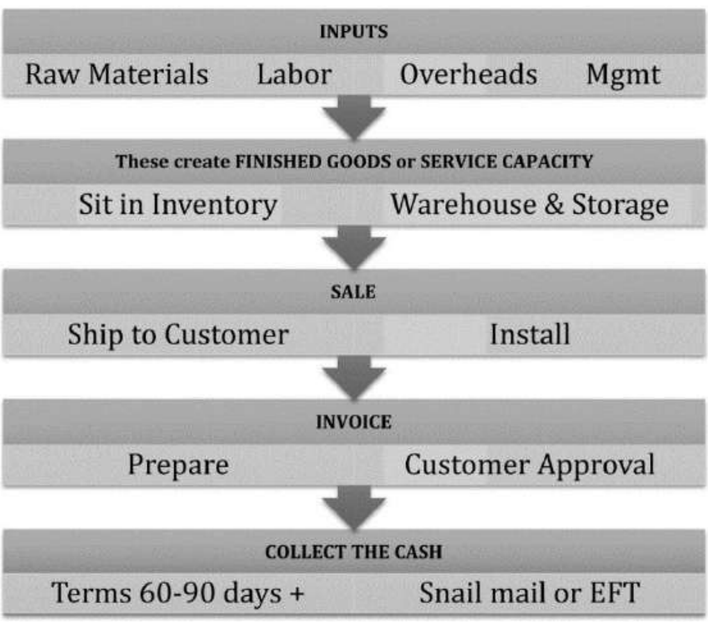

***Figure 7.2** The "Total Days to Cash" cycle*

Many businesses use "Days Sales Outstanding" (DSO) to measure cash flow speed. It has limited usefulness because it doesn't start until an invoice has been prepared. If it takes your company 30 days to manufacture, 45 days to sell, and 15 days to invoice, then you've already got 90 days into the cycle, *yet DSO shows one day* because it just starts when you send the invoice. That's a huge distortion of reality.

That's why I recommend "Total Days to Cash" which includes the original payroll, raw material purchases, and overheads that you paid for weeks (or months) ago.

Using this framework, what is your "Total Days to Cash" number? How can you improve it?

Here are five ways to improve your working capital.

1. Don't use cash (or your operating line) to purchase long-term assets such as equipment. Use leasing or term debt as this matches the financing terms to the asset's useful life. This leaves cash for operations.
2. Focus on speed everywhere throughout the process, including information flow, paperwork, and physical flow. This is where supply chain gurus have made a positive impact on mid-market companies. For example, order materials and supplies in smaller batches as you need them, so you're not wasting time storing and moving materials. Caution: Apply common sense and beware of the fanatics who are sixth-degree black belts in some artificial model that a consultant created to make money.
3. Don't store raw materials if you don't have to. Push that role to your suppliers, just as the auto manufacturers have done with just-in-time inventory with their suppliers.
4. Ensure that you have an adequate and margined operating line of credit for continued growth. If you are growing at 25 percent or more per year, it will be difficult for a nonmargined line of credit to keep up. Margined means that the limit fluctuates up and down with the level of clean accounts receivable (less than 60 or 90 days old) and inventory. You might obtain more than 75 percent if your customers are publicly traded or government.

5. Measure how long everything takes and continually try to do it faster. When I owned a drywall construction company, we could issue an invoice in 10 minutes. We asked our customers to pay us in 10 days because we were a start-up and needed to generate as much cash as possible.

Working capital is about speed and leverage. In addition to the operating line of credit, let's discuss financing your business with other people's money.

Financing the Future: The Good, the Bad, and the Ugly of Using Other People's Money

Has your accountant asked you if you wanted to minimize taxes and did you agree? If so, shame on both of you! Next, you probably heard your banker say, "Sorry but we can't lend you more money because you're not profitable enough." Welcome to the accountant–banker dilemma.

Your goal as a business owner, and your accountant's goal, should be to *maximize your after-tax cash flow to build your wealth*. That's a huge difference from minimizing taxes.

> **Wealth Building Blocks:** Minimizing short-term taxes is a terrible strategy if you want to grow your business and build wealth.

Here is an example to prove this point. Feel free to use your own numbers and tax rates here. Better yet, ask your accountant to crunch these numbers for you.

Let's assume that you have $1,000,000 in profits and that you want to keep growing your business. Your accountant says, "We can eliminate any taxes by declaring and paying a bonus to you (or your holding company)." If you accept this, then this doesn't actually eliminate the tax; it defers or shifts that tax burden from your operating company to your holding company or to you personally. And, you actually need to fund that $1,000,000 payment with cash. The entity receiving the payment will need to pay tax (but probably next year, based on tax deferral!). Accountants are famous for deferring tax. This cash could be put to better uses. Let me show you a better way.

If you have $1,000,000 in profits and pay out $1,000,000 in a bonus to yourself, you've got a net profit of zero and therefore zero tax. If you leave all of the money in your company, and assuming that you pay tax at 30 percent, then you will pay $300,000 of tax and have $700,000 of cash left over. This also means that you will have added $700,000 of equity into the retained earnings on your balance sheet.

Bankers don't lend from your income statement. They lend from your balance sheet. Bankers do this by applying a simple ratio called "debt-to-equity" to set a limit on how much you can borrow. For a mature, growing business, this debt-to-equity is typically set at two-to-one. In other words, for every dollar of equity you retain in your business, the bank will allow you to borrow—in total—two dollars.

In the above example, you added $700,000 to equity. Now, you can borrow up to $1,400,000 more, using the two-to-one ratio. Let's assume that you borrow $1.4 million and invest in inventory. If you turn over inventory four times per year at a gross margin of 50%, then you will have generated $11.2 million (4 × $1.4m/50%) in sales. The cost of sales will be $5.6 million (4 × $1.4 million). Thus, you will net $5.6 million in pretax income (assuming no other costs), and $3.92 million in after-tax income (at 30% tax).

In other words, you paid $300,000 in tax, left the excess money in your company, borrowed against the retained earnings, and generated an additional $3.92 million in after-tax profit. And, you still had the first $700,000 to use in other ways to drive your growth.

$3,920,000/$300,000 is an ROI of 1,307 percent. That's not bad for paying $300,000 in tax. Conservatively, even one-half of that gain would be more than 650 percent ROI.

Wealth Building Blocks: Minimizing taxes will reduce your borrowing power, hurt your business growth, and seriously reduce your long-term wealth. Pay the tax and invest in your future success.

Good debt includes the following:

1. Operating lines of credit to bridge the gap between paying suppliers and collecting accounts receivable.

2. Long-term debt to acquire assets such as land, buildings, and equipment that will last three or more years. Long-term debt may require personal guarantees to the bank. This has its limits so negotiate carefully.
3. Leases—either operating or capital—to finance the acquisition of equipment lasting less than five years. Leases often don't require personal guarantees.

Doug Yaremko, associate vice president at a global bank, says that retained earnings allow banks to lend more money to help fund their clients' growth.

Interest rates are at historically low levels. Good debt represents an excellent way to grow your business and build your wealth.

The best way to measure your business wealth is from your financial statements.

Financial Reporting: It's About the Past, the Present, and the Future

Is your accounting department focused on providing useful and timely reports for your management team or are they focused on preparing historical compliance reports for bankers, government, and other third parties? The former will increase your profits and the latter is just an expense to be minimized. Which description fits you?

How would you feel if you had to publicly report your quarterly results for the last quarter and state your goals for the next quarter? If this terrifies you, you're not alone. In fact, many business owners hide critical financial information from some (or all) of their management team. How can those managers be held accountable for results if they don't know the results? It's time to get corporate and share your critical information.

A good accounting department will balance its time and generate useful information about the past, the present, and the future. If they are taking two to three weeks to generate last month's financial reports about the past, they won't have much time to focus on flash reports showing the present situation or updating future plans to give you confidence about where you are going.

That's scary. That's like driving forward with your windshield covered up and only seeing where you've been in the rear view mirror.

Wealth Building Blocks: The most useful financial information shows exactly where you are now and where you are going to be in the near future, just like a good navigation system in your car.

The Past

Historical financial information in standard accounting format summarizes and distorts reality because it's formatted for third parties, not managers. Managers need detail—the gold—that's hidden in that historical data. Ask your CFO for the following information on a monthly basis:

- Sales by line item or major category to show patterns and identify opportunities to predict—and improve—the future.
- Gross profit dollars and gross margin percentage by product or service line, by customer, and by location.
- Contribution margin by discrete product and service to show your true winners and losers. Often, a loser can be turned into a winner by decreasing the price and dramatically increasing total sales as the product becomes more competitive.
- Aged accounts receivable by customer and sales person and ensuring that payment terms are being followed.

Even simple accounting systems can create this information. A good accounting system will make you money. You should receive this information by 10th of every month. When do you receive it?

The Present

Managers need to see key metrics on sales, production, and cash flow every day. The flash report should be on your computer every day by 9:00 a.m. It's that simple, and that important.

The Future

The most difficult thing to predict in any company is future sales. Just ask any public company CEO or CFO. Public companies get rewarded or punished for hitting or missing their targets, respectively. Your company may not report quarterly results to the public, but you do need the corporate discipline and focus to set and pursue targets. More importantly, you need to compare your results against your plans. That way, you continually get smarter. Without goals and plans, you're not in control.

Future reporting builds on the patterns and trends observed in the historical and flash reports. Specifically, you need the following information:

- Rolling 13-week sales projections, production schedule, and cash flows. If you can see it coming, you can control it, and you can improve it.
- Brief projections of future cost drivers such as labor rates, overhead, and interest rates. (What if interest rates climb to 5 or 10 percent? These are simple calculations that help you to stress test your business.)
- Rolling 13-month financial projections showing key ratios on your balance sheet, income statement, and cash flow. You never want your banker advising you of covenant violations after they occur.
- Major economic trends impacting your customers and suppliers. What if oil stayed below US$50 per barrel?

The goal of future reporting isn't total accuracy, since you'll never hit every aspect of your plan. The goal is to increase your confidence and control about the future.

Wealth Builder Financial Dashboard

Use Table 7.2 to organize key financial information.

Table 7.2 Wealth builder dashboard

PAST (monthly)	PRESENT (daily)	FUTURE (monthly)
Sales Details: Sales by line Sales by customer Gross profits by line Gross profits by customer Contribution by product	Sales Pipeline: Dollars sold Weeks of work	Sales goals and status (on target, ahead, behind)

PAST (monthly)	PRESENT (daily)	FUTURE (monthly)
Sales Trends by Line: Customer sales Trends Costing trends	Production: Volume Speed	Next Quarter: Rolling 13-week reports
Balance sheet ratios Income statement ratios	Cash: Total Days to Cash Aged accounts receivable Aged accounts payable	Next Year: Rolling 13-month reports

Now that you have your financial information organized, let's discuss how your management team can use this information.

Financial Management Best Practices: What Your Financial Statements Aren't Telling You

(Note: There is some excellent, technical, financial process information below. You may want your financial people to read this section and discuss it with them.)

A banker called and said, "I've got this great client who wants to grow his business. His customers love him, he takes great care of his employees, but he needs a financial expert to help him grow his business." Little did I know that this one call was going to turn into seven years of excitement.

When I showed up at the business, I discovered that five administrative people were sharing a single-user version of QuickBooks. They took turns working in the system, yelling to each other to log out. I was shocked. Before I left that first day, I made sure that they purchased a multiuser license and everyone was instantly more productive.

How strong are your financial management practices? Does everyone have the information they need to run and grow their business?

There are four best practices to financial management: information, reporting, planning, and decision-making (Figure 7.3).

Information is the relevant data often buried or invisible in your organization. The first step is to track the relevant information. How do you know what's relevant? Ask your front-line people what they do all day and measure that. Then, ask your managers what they need to know to improve production of the first factor and generate that information.

Figure 7.3 Financial management process

All of this information should be automated or, ideally, on a computerized system, such as an Enterprise Resource Planning (ERP) system, that includes all sales, operations, and financial data—yes, the Flash Data—in one place. You can turn a basic accounting system into an ERP type of system by recording key activities as one-dollar items in your income statement and then set up a contra account to offset this item.

For example, if your service people deliver 1,000 hours on Tuesday, then you would record 1,000 in the Hours Delivered account by date and negative 1,000 in a Contra Metrics account. The net is zero and won't affect your income statement or tax calculations. Next, you could record how many hours were billed using the same process. Now, you have a powerful metric showing billing efficiency: hours billed/hours delivered. A full scale ERP system will record this data by date, technician, project, customer, manager, and location.

When your system records all of this information, it can generate reports that organize and summarize data that is relevant for your managers. Different people at different levels get different information. The major opportunity is to use real-time information to monitor sales and operations as those factors create financial results. If you just use financial information, which is a lag indicator, you're missing reality and you can't improve results.

Real-time metrics should be available daily. Monthly financial statements should be ready by the 10th of the next month, at the latest.

Some business owners balk at the large cost of a good ERP system. Yet, its cost is equivalent to a few people, and these people are probably already performing redundant (and delayed) data input. Most ERP systems pay for themselves in a couple of years. Some pay for themselves in one year by saving on project losses. You want to acquire a system that is essentially set up for your industry and requires general ledger account mapping. Beware of highly powerful systems that are entirely customized from scratch. Those are expensive messes waiting to happen.

A good ERP system will maximize the value of your business because information is a foundation for growth.

Planning is simply the process of setting goals and then comparing your actual results to those goals. The purpose isn't to hit your goals as you will usually be over or under them. The purpose is to make you smarter—every day—by identifying what is and isn't working to your expectations.

Decision-making is best done in real time with accurate information that shows your actual results against your expected results. Without a baseline, you don't know whether you're doing well or improving. Comparing to the same period last year is useful only if you know why things happened in both periods. Comparing to plans is the best way to grow your business.

Wealth Building Blocks: A good information system will provide managers with real-time information that improves their decision-making and drives results.

The four steps of information gathering, reporting, planning, and decision-making are the foundation for great financial management. The company mentioned at the start of the chapter grew revenues over 300 percent by following those steps.

Case Study: Morsky Group of Companies

Lorne Schnell, president of Morsky Management Group, advises: "With a high growth company comes extreme demands for capital and people. Strategies around capital requirements are easy – get as much working capital as you can, as fast as you can, at whatever rate you can get…Develop strong relationships with various lenders; talk to anyone and everyone, and cement relationships with those that are most supportive…about your business prospects. The same goes for people, although this can be challenging …But you could make the case that THE key to leadership is promoting the core purpose and core values of the company in the marketplace, and attracting talent that will thrive in a high growth environment."

Now that you have financial information to control your business, you can focus on maximizing growth and building your wealth.

CHAPTER 8

Five Secrets to Building Your Business Wealth: How Firing Yourself Can Make You Rich

Personal Balance Sheet: You're Richer Than You Think

My grandmother lived past 102 years. At the age of 93, she was still riding her three-wheeled bike down Main Street to pick up groceries from the local co-op store, her Toronto Blue Jays ball cap holding her white hair firmly in place. The buses and trucks slowly followed her as she held her lane. She told me many times, usually after she spent the afternoon in her vegetable garden, "If you don't have your health, you don't have anything."

Many business owners make more significant contributions to their communities and their economies than the high-priced, multimillion dollar professional athletes whom we watch on TV. Yet, the athletes take much better care of themselves—mentally and physically—than the business owners do. In fact, some business owners take better care of their cars than they do of themselves, their families, or their personal relationships. Your health is your most important personal and business asset.

> **Wealth Building Blocks:** The main economic driver for your business and your family is your health. Are you in peak condition?

In business, your balance sheet represents what you own (assets) and what you owe (liabilities) at a specific point in time. The difference—assets minus liabilities—is your equity. The assets are used to generate

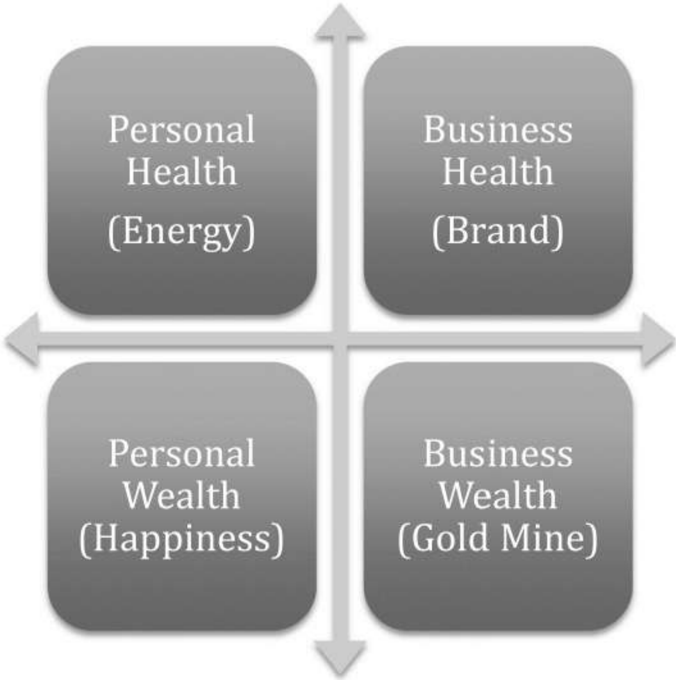

Figure 8.1 The wealth builder cycle

the results that show up on your income statement and that create cash. The liabilities are hopefully productive leverage that allow you to create faster results.

This applies to your personal life as well. Your main assets are your health and your wealth. Your health includes your energy, creativity, passion, relationships, and disposition, and these *all unite to create your wealth* (Figure 8.1).

To increase your personal health:

- Get at least 30 minutes of exercise each day. Our bodies are made to move, not to sit at a desk or computer all day. Go for a walk. Putting your feet on your desk is not exercise.
- Eat healthy. All calories are not created equally. A mixture of proteins, high-fiber carbohydrates, and healthy fats like fish oils and olive oil will give you much more energy and will protect your heart, according to Harley Pasternak, physical trainer and health advisor to the stars. Allow yourself a one-day exception every week to find the ultimate cheeseburger.

- Positivity is priceless. Surround yourself with positive people who support and encourage you. We can choose our friends, so choose carefully. We can't choose our family, so minimize contact with negative people who suck the energy out of life. There is an entire discipline of "positive psychology" which posits that the way we talk to ourselves determines our success.[1]
- Utilize your talents and strengths in productive ways: set big goals, get things done, and then reward yourself. This positive cycle will keep your energy and momentum high. We're not here to stick our toes in the water, but rather to make waves.
- Keep your health checkups current so that you can prevent or catch major health problems before they undermine your strength.
- Manage your two major health risks: waste circumference and stress levels. Get professional help when needed. (You have to embrace positive stress and minimize dangerous stress.)

To strengthen your business health and brand:

- Ask your customers what the best results are that you've created for them.
- Continually strengthen your brand by quantifying your results, proving your ROI to your customers, and using those specific metrics to attract new and larger customers. Don't be afraid to "blow your own horn."
- Have your customers do your marketing for you in terms of referrals and word-of-mouth advertising. Their referral will be much more effective than likes on social media. This is the heart of "business evangelism."

To build your business wealth:

- Set your prices based on the unique value you provide and the results that you create for your ideal customers.

---

[1]For example, see Dr. Martin Seligman's *Learned Optimism.*

- Create and build up your cash flow where cash comes from: Profit Margin × Volume of Sales × Velocity of Payment.
- Continually maximize the profitability of your company so as to strengthen its strategic value.
- Use debt and leverage *wisely* to accelerate growth and profits.
- Don't minimize taxes; maximize after-tax cash flows.

To develop perpetual personal wealth and happiness:

- Wealth is about discretionary time and the mindset to enjoy it. It is about an abundance mentality, not a scarcity mentality.
- Use positive daily affirmations and self-talk, as per Martin Seligman, the father of positive psychology. Not only are we "what we eat," we are also "what we tell ourselves."
- Keep things in perspective. We're on a huge chunk of rock that is rotating at 1,037 mph[2] and is traveling through space at approximately 66,000 mph[3] around an exploding star. Whether you realize it or not, you have faith.

By taking actions every day to strengthen your personal and business health, you will build both your business and personal wealth.

Since the purpose of your business is to provide you with wealth, and we define wealth as discretionary time, we're going to explore this further.

True Wealth is Discretionary Time: If You Have to be there, You Don't Have a Business, You Have a Job

When I first started my solo consulting practice, I came home at 11:00 p.m. after working late on a project but couldn't unlock my front door. The key wouldn't open the lock. Frustrated, I kept trying the same key,

---

[2]Dr. Sten Odenwald, http://image.gsfc.nasa.gov/poetry/ask/a10840.html accessed on May 17, 2015.

[3]Callister, Jeffrey. *Brief Review in Earth Science*. New York: Prentice Hall, 1990: 38. (Calculation: 29.77 km/s /1.625 km/mile × 3,600 sec/hour = approx. 66,000 mph)

since I knew I was at the right house. My wife heard the commotion and let me in. She took one look at the key I was holding. "You're trying to unlock the house with your office key," she coolly advised. That was the day I realized that nothing good happens from working late. I always made it home for dinner after that.

Prior to my consulting practice, I worked as a controller for an oil and gas subsidiary of a government corporation, and commuted two days per week to Calgary, a one-hour flight each way. After two years, I had built up enough Westin points to take my wife on a free trip to Ixtapa, Mexico. Since we were newly married, we were very excited about this free trip, and booked it for March. As March approached and I realized the enormity of my workload combined with business owners wanting their financial statements and advice, I had to cancel the trip. My wife understood. However, I stopped traveling, forgot to renew my Westin points, and lost them all.

I learned the hard way that a business is like a black hole with infinite gravity to consume all of the time and energy that you offer. The business will never be satisfied. Or, so I thought. I was wrong.

In his great book called *The Goal,* Eli Goldratt talks about the theory of constraints. It's not about increasing volume, he says, to increase production. It's about decreasing batch size to increase speed and thereby increase volume.

In other words, we need to sprint to achieve our goals as quickly as possible. We can't pursue 10 goals at a same time. We need to pursue one or two goals, achieve them, reward ourselves, reflect on our successes, and then repeat the process.

Wealth Building Blocks: Discretionary time comes from pursuing and achieving goals in sprints and then taking time to enjoy your results and recharge your batteries.

You can increase your discretionary time in both your business and your personal life. This is very important because you actually have only one life. The same principles apply to both parts of your life (Figure 8.2).

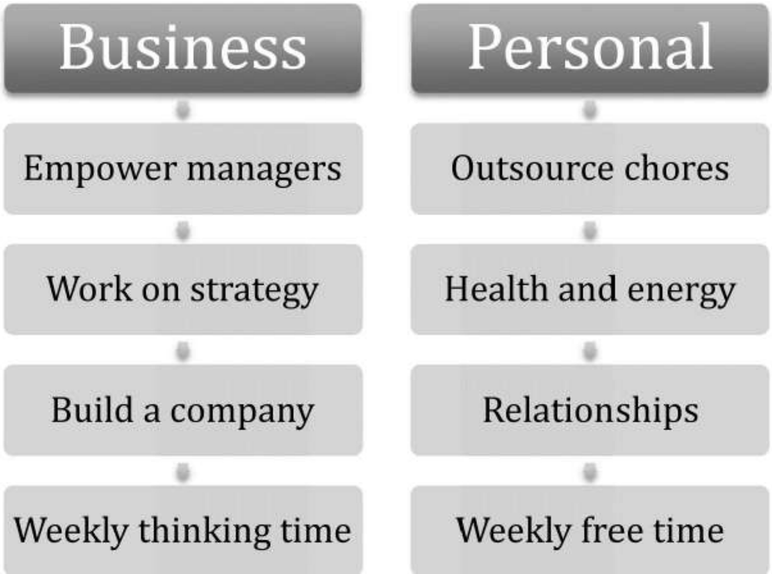

Figure 8.2 Creating discretionary time

What would you do if you had the privilege, like a tenured professor, of taking a sabbatical for an entire year? Most business owners would relax and unwind in two weeks, create ideas for new ventures in the next week or two, and be chomping at the bit to start implementing their plans by week five, at the latest. An annual sabbatical is totally unrealistic—and unnecessary—for most business owners. What you need is a weekly sabbatical (popularized by Alan Weiss in his trademarked video series, The Weekly Sabbatical).

In the days of yore, professionals took Wednesday afternoons off to play golf. Although I don't consider golf a sabbatical in any way, a regular break from work is good for the mind, the body, and the balance sheet.

In his book *The Power of Habit*, Charles Duhigg states that we all have habits, some positive and some negative. We can change our habits of working too hard or failing to delegate in our personal or professional lives by changing the *routine* in the "cue–routine–reward" habit loop. What this means is that we can't readily change a bad habit, so we have to substitute a more positive habit that gets us the same reward.

<u>Case Study</u>:

I was working with the president of a Fortune 50 company division (equivalent to a mid-size, closely held business), who worked from six in the morning until eight at night. His wife was furious. He was at a loss as to how to get out from under the weight of his habit.

We created a triage: work that he had to do personally, work that could be delegated situationally, and work that could be delegated permanently. That took an hour to decide. We then agreed that he could accomplish his personal priority from eight to six.

We made a great improvement for him and his family.

Going home early (or on time) is good for your business. A major factor in business valuation is whether the management team is empowered to run the company in the owner's absence.

By increasing your discretionary time in your business, you will make the business more valuable. Next, we'll discuss other ways to boost your valuation . . . and your wealth.

Valuation: Why Strategy, Systems, and Management are More Important than EBITDA

The valuation of your company is based on three important factors:

1. How attractive you are to an ideal buyer.
2. How scalable your business model is beyond your existing market.
3. Establishing a bidding war with competing buyers.

If you are highly successful in the first two factors, you may not need the third because you may decide to keep your company, since you've now turned it into a gold mine. Or, you may seek to impose your strengths on other companies and become an acquirer. Given the low returns in the bond market and the volatile stock market, your best bet may be to position the business for sale but actually keep it much longer (Figure 8.3).

Figure 8.3 Your future options

Show me the money

First, we'll focus on maximizing the valuation of your business. Although the stock market represents someone's expectations of future earnings, your situation is much more complex, and that's a good thing. Given the huge number of baby boomer business owners who plan to retire and sell their business in the next decade, it's crucial for you to differentiate yourself in this crowded market in order to attract a buyer.

An ideal buyer is a strategic buyer with deep pockets—usually a larger competitor or even a supplier—who wants to leverage your talent, your intellectual property, and your competitive advantages into other markets. If your business has been chugging along with low or no growth, that's not very exciting to a purchaser. If you could grow your business at 30 percent, 50 percent, or much more, with the right partner and additional capital, your business will be very attractive.

Why are you selling your business?

A far too common reason for selling a business is health: the business owner is sick of the business. A purchaser doesn't want your problems and worn-out equipment and people. Focus on the positive potential.

Buyers want to dramatically increase revenues and market share. They need your proprietary processes, protectable competitive advantages, and new ways to utilize your business to generate multiples of your gross revenues. It's about the top line, not the bottom line.

The accountants and the valuators will be looking backwards at your EBITDA and historical earnings. In the worst-case scenario, a valuation based on historical earnings would be a price floor. This technique is most useful for valuation for complex tax transactions or litigation and divorce situations. *Don't use these valuation-minimizing professionals to sell your future potential.*

Wealth Building Blocks: Your future earnings potential is much more valuable and exciting to a buyer than the historical earnings.

These valuation booster concepts can be applied whether you're selling or keeping your business (Table 8.1).

Table 8.1 Valuation boosters

Valuation Factor	Valuation Booster Tips
Strategy and competitive advantage	Protect your intellectual property with patents and trademarks. Prove your strategic advantage by measuring the results that you create for your customers. Continually invest in innovation to stay ahead.
Processes	Ensure that your work processes, sales methods, and information flows are thoroughly documented to improve training, compliance, and performance. Implement flash reports to show real-time results.
Management	Create a five-year organizational chart that shows management succession, career paths, and developmental plans.
Talent	Strengthen your culture to attract and retain talent. Implement performance-based compensation to reward high performers. Formalize mentoring to transfer best practices to future leaders.
Brand	Protect your brand with trademarks. Ask your customers to strengthen your brand with testimonials, case studies, and success stories.
Revenue growth	Develop high-growth plans that show how you can achieve 200% to 500% growth.

Always hire a professional! An M&A (mergers and acquisitions) specialist or corporate banker will have the broad perspective and the network to obtain an ideal buyer. John Warrillow, author of *Built to Sell*, advises to be cautious of professionals who are only presenting your business to one of their large corporate clients. The process will take several months. Keep focused on running and growing your existing business while you go through the due diligence and negotiations.

There are two remaining factors that are more important than price. They are the following:

- Terms and Conditions: These specify all of the factors relating to your planned exit and transition, including payment terms, noncompetition, any promises made regarding employee retention, working capital adjustments, and anything else up for negotiation. Focus on your "musts" and be flexible on your "wants."
- Earn-outs: Minimize this period and minimize the impact on the price. You don't want to be carrying all of the risk while you're delegated down to an employee role and someone else has all of the control and reward.

Most business owners only sell their business once. With proper planning, you have years to build up the valuation and attractiveness of your company.

Next, we'll discuss ways of flowing wealth out of your business while you still own it.

Show Me the Money: How to Convert Business Equity into Personal Wealth

"The best advice that you ever gave us, and you've given us lots, was to set up a holding company and a family trust," said Teresa Hensrud, owner and CFO of Industrial Scale Ltd (www.industrialscale.ca). Industrial Scale was founded by Vaughn Hensrud, and then taken over by his son Dale Hensrud, who is married to Teresa. Dale and Teresa have two adult daughters, and the daughters and their husbands all are working in the business. We'll talk more about them in the family business chapter.

First, always seek professional legal and tax advice about your corporate structures, as these structures need to be created correctly so that they are bulletproof.

The basic structure looks like Figure 8.4.

Your main business is your operating company. This "OPCO" conducts business with customers and suppliers, hires employees, and conducts the day-to-day operations. This is your wealth engine. The OPCO may be owned by a holding company or "HOLDCO" that you control. It is a separate legal entity.

In many situations, it makes sense that the HOLDCO owns or holds the land and buildings that your business uses in operations. The HOLDCO can also hold cash and other investments so that these funds are protected from creditors of your OPCO.

On the top of this structure, you can have a *family trust* that owns the shares of the HOLDCO. There are different kinds of family trusts—ask a professional—and they can be very powerful in terms of reducing taxes by paying dividends to adults in lower tax brackets, for example.

Figure 8.4 Wealth building legal structure

Wealth Building Blocks: Creating separate legal entities including a family trust, holding company, and operating company will allow you to *create and protect wealth while minimizing taxes.*

The key to using this structure to create wealth is to position the operating company for maximum success. In other words, don't minimize taxes in the operating company. It needs fuel to grow and it needs a healthy balance sheet to be sustainable in the long-term. As the operating company generates superior profits and is able to fund itself (with or without debt), then you can transfer surplus cash to the holding company as a dividend.

Once the holding company receives the cash dividend from the operating company, it can do any or all of the following:

- Keep the cash and invest it in securities or insurance (check with your professional advisors)
- Acquire land and buildings
- Own other long-term assets that it can rent to the operating company
- Pay a dividend up to the family trust

The family trust does not typically hold assets. It receives funds and then distributes them to its beneficiaries. It may be required to send distributions to all beneficiaries equally, similar to dividends paid to a shareholder class in a corporation. Or, it may send dividends of different amounts to different beneficiaries, at its discretion, and this is called a *discretionary trust.*

In some jurisdictions, adults may receive approximately $40,000 of dividends and pay little to no tax if they have no other income. This is a very useful method of funding your child's university education or transferring cash to them for starting their lives.

In addition to the major advantages of a proper corporate structure, you have other following options for obtaining cash from your business:

- Implement a dividend policy in which a portion of earnings are always paid to the shareholders, just like some large public companies do. This instills financial discipline in management and positions the business properly for what it is: your source of wealth.

- Hiring family members as employees. You need to pay them fair market value salaries for their time and work.
- Declaring a management bonus to yourself to top up your personal income.
- Holding official board meetings at resort locations so that you can deduct the trip as a legitimate business expense. Check with your accountant on what you can deduct.

Always work with professional advisors to create legal and tax structures that help you to create and protect wealth, not just minimize taxes. The best advisors charge for their advice and don't sell products. The worst ones give away advice for free and make commissions from selling you things: Avoid these at all costs. Make sure that they are focused on your goals. Force them to explain everything in simple language. If you can't understand it, it's not going to work.

Next, we'll focus on the important mindset issues so that you can permanently shift to an abundance mentality of wealth.

True Wealth: How to Shift—Permanently—From Survive to Thrive

Do you own a 20-year-old business that's repeated its first year of start-up 20 times, and are constantly chasing cash, customers, and talent? Or, are you on cruise control, where your money is rolling in, you can ride out any dips, and you know that you can overcome any challenge? This chapter is about solidifying you in the latter position.

It's about your mindset. You either have an abundance mindset or a poverty mindset. An abundance mindset is knowing that you can create wealth and revenues. A poverty mindset means that you think you don't have any control or choices available and that your wealth is continually at risk (which it is). Abundance is about accelerating growth and poverty is about slowing shrinkage.[4]

An abundance mindset means that you know—don't just think, but know—that you can create more revenues and more wealth (discretionary time). Business owners are very unique in that power. The fastest way to generate new revenues is to develop new products or services and

---

[4]For an entire book on this subject, see *Thrive* by Alan Weiss (Las Brisas Research Press, 2010).

offer them to your existing customers who already know you and love you. What percentage of your revenues is from offerings that didn't exist three years ago? This number should be more than 20 percent. (Even a giant such as 3M used a strategic "must" that 25 percent of revenues had to be generated by products that didn't exist five years prior. That's how you stimulate innovation.)

This is the purpose of your business strategy: to be continually innovating and developing new things that your customers are willing to buy from you rather than your competitors. One of your strategic core competences needs to be developing new ways of doing what you've always done, improving delivery, enhancing speed, making it easier for your customers to buy, and making it harder for your competitors to copy you.

Wealth Building Blocks: The most powerful source of wealth is your continual persistence to offer new value in the market.

<u>Case Study: Clear Lake Lodge</u>
When my family owned Clear Lake Lodge in the early 1980s, interest rates were hovering around 20 percent. The accountant threw up his arms and said, "I'm amazed that you're not bankrupt." As you can tell, that wasn't useful advice!

We were all working hard and saving money to meet the payments. If we didn't meet the payments, we could lose our houses, as my parents' and my uncle's and aunt's houses were remortgaged for bank security. Clearly, this was not worth the risk. *Abundance comes from taking prudent risks where you can control the outcomes. Poverty comes from being controlled by the economy, the bank, and other external factors.* Just because the bank is willing to lend you money, this doesn't mean it's a good business strategy. It only means that the bank is well-secured.

Here are seven ways that you can thrive in your business and your life.

1. Protect and enhance your creative, entrepreneurial power by taking risks, rewarding yourself for efforts, and celebrating failures. Those failures mean that you're now even closer to the next success.

2. Create the reserves that you need to remove self-doubts. Operating businesses should have at least three months of operating cash on hand and ideally six months of cash. This cash can sit in your holding company which can make it creditor-proof from your operating company.
3. Implement a dividend policy where your operating company regularly transfers surplus cash that is not needed for growth into your holding company. This way, you can eventually become your own bank.
4. Although it may be useful to have a trusted advisor act as devil's advocate for major initiatives, don't accept any unsolicited advice, ever, from unqualified people (often family) as it's for the benefit of the giver, not you. In fact, distance yourself (permanently) from negative people who don't understand an entrepreneur's DNA. You can hear them a mile away: They talk about pensions and going home at five o'clock.
5. Make sure that your spouse supports you. If they're worried about pensions, for example, create a financial plan and build up the investments so that this topic doesn't come up any more. One business owner simply keeps a large cash balance in the house operating account and the spouse isn't worried any more.
6. Tell yourself the truth: You've made it. You're not a start-up any more. Nobody will take away your house or family.
7. Live well. Travel well. First class isn't an airline ticket, it's the mindset that you deserve to be well taken care of in everything that you do.

Once you've got the mindset to continually thrive, you're ready to take on significant challenges of succession planning and positioning your business for the future.

Index

OTHER TITLES IN THE ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT COLLECTION

Scott Shane, Case Western University, Editor

- *Growing Your Business: Making Human Resources Work for You* by Robert Baron
- *Managing Your Intellectual Property Assets* by Scott Shane
- *Internet Marketing for Entrepreneurs: Using Web 2.0 Strategies for Success* by Susan Payton
- *Business Plan Project: A Step-by-Step Guide to Writing a Business Plan* by David Sellars
- *Sales and Market Forecasting for Entrepreneurs* by Tim Berry
- *Strategic Planning: Fundamentals for Small Business* by Gary May
- *Starting Your Business* by Sanjyot Dunung
- *Growing Your Business* by Sanjyot Dunung
- *Understanding the Family Business* by Keanon J. Alderson
- *Launching a Business: The First 100 Days* by Bruce Barringer
- *The Manager's Guide to Building a Successful Business* by Gary W. Randazzo
- *Social Entrepreneurship: From Issue to Viable Plan* by Terri D. Barreiro and Melissa M. Stone
- *The Chinese Entrepreneurship Way: A Case Study Approach* by Julia Pérez-Cerezo
- *Enhancing the Managerial DNA of Your Small Business* by Pat Roberson-Saunders, Barron H. Harvey, Philip Fanara, Jr., Gwynette P. Lacy and Pravat Choudhury
- *Five Eyes on the Fence: Protecting the Five Core Capitals of Your Business* by Tony A. Rose
- *Hispanic–Latino Entrepreneurship: Viewpoints of Practitioners* by J. Mark Munoz and Michelle Ingram Spain
- *Open Innovation Essentials for Small and Medium Enterprises: A Guide to Help Entrepreneurs in Adopting the Open Innovation Paradigm in Their Business* by Luca Escoffier, Adriano La Vopa, Phyllis Speser and Daniel Satinsky

The Business Wealth Builders

Accelerating Business Growth, Maximizing Profits, and Creating Wealth

Phil Symchych • Alan Weiss

"For anyone who owns a business, or who wants to, don't miss this book. It is your go-to guide for the many unique challenges and opportunities of closely-held organizations."—**Marshall Goldsmith, PhD, MBA, author of the *New York Times* and *Wall Street Journal* #1 best seller *Triggers*, widely acknowledged as the finest business coach in the world.**

"This book is chock full of best practices for small business owners, including solutions specific to family-owned businesses. If you're a small business owner, you'll find the encouragement and practical support on just about every page."—**Daniel H. Pink, *New York Times* and *Wall Street Journal* bestselling author of *Drive* and *To Sell Is Human* and host of National Geographic Channel's "Crowd Control."**

This book provides pragmatic advice for business owners of privately-held, small and medium enterprises (SMEs) on how to grow business, increase top line revenues and bottom line profits, enhance the value of their companies, and build their business wealth. SMEs drive half of the economy in North America and generate the majority of net new jobs, so their performance and contributions to our standard of living are critically important. Readers will benefit by learning techniques to sharpen their strategies, attract and retain more customers, and deliver better products and services faster.

Phil Symchych is an expert in helping mid-size companies accelerate profitable growth and create wealth for their owners. He has worked with high growth firms including EMW Industrial, Knight Archer Insurance, and hundreds of others.

Alan Weiss is the only non-journalist to receive the Lifetime Achievement Award from the American Press Institute. He has authored over 60 books which are in 12 languages. His clients have included Mercedes-Benz, Merck, Hewlett-Packard, New York *Times*, and over 200 others.

ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT COLLECTION
Scott Shane, *Editor*

ISBN 978-1-63157-290-6

BUSINESS EXPERT PRESS