Inoculation Strategies

Protect your business from potential dangers ahead

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The constant news stories we are bombarded with can have an impact on dealership owners. Will a new superbug take hold? What will happen with interest rates and the stock market? Are we headed for a recession?

These are all excellent questions, but without a crystal ball, you may feel helpless. However, there are some practical steps you can take to inoculate your business from whatever the future will bring. Following are three inoculation strategies to consider.

Strategy #1: Stop Trying To Time The Market

Many business owners try to time the sales of their businesses to coincide with the peak of an economic cycle. The reasoning is they will get the best price for their business when the economy is booming. While this is true in theory, when you sell your company, you need to do something with the money. Perhaps you will consider investing in real estate or buying stocks. Most investments are impacted by the same macroeconomic environment your business enjoys, which means you will be buying into an inflated market.

The alternative to timing the market is to consider selling when your business meets three criteria:

(1) If your company is on a winning streak, it will command a premium compared to average performers in the industry. Pick a time to sell when your revenue is growing, EBITDA is strong, employees are happy and customers are satisfied.

(2) Time your sale around your personal goals. The biggest mistake some business owners make is selling the business without a solid plan for what they will do next. Selling because you are burned out or bored rarely ends with a positive outcome. In addition, while it may be appealing to sell when the market is strong, if your intention is to exit in five, 10 or more years, any premium you could get today will pale in comparison to the profits you can realize over time.

(3) Do not start the process before you are fully prepared to survive due diligence. After you agree to terms with an acquirer, he (or she) will need some time to verify your business is as advertised. A sophisticated buyer will look into every aspect of your operations, including your financials, service contracts, leases, employee agreements, sales and marketing approach, and just about every other facet of your business. Most business owners are not prepared for how deep the dive will be and how invasive it will feel.

You cannot wait until the start of due diligence to prepare. The volume of questions you will receive will eat up too much of your time. React slowly to an acquirer's request for information and "deal fatigue" will set in. This malaise happens when an acquirer loses confidence in an operation because it is taking too long. Deal fatigue often leads to an acquirer walking away.

The way to immunize yourself against whatever the economy may be in the years ahead is to sell when you are on a winning streak and are prepared to move through due diligence quickly and confidently.

Strategy #2: Pick Your Lane

Many owners in our industry have felt intense pressure to diversify. Industry pundits say things like: "If you don't get into managed services, you'll go out of business." While diversifying may be an excellent strategy for some, it is not in the best interest of every dealership.

There are a couple of problems with diversifying too broadly. First, many dealers who have diversified into other offerings like managed network services (MNS), IT, LED lighting, water coolers, office furniture, etc., do not realize they are losing money in the new offering. Any new offering has a learning curve. Without the right game plan, some never leave the early learning stage. If you are going to diversify, make sure you have the tools to succeed.

Diversifying can also make your business less attractive to an acquirer. Many acquirers shy away from businesses that have divisions they are not well-versed in. We have had too many occasions where we had to sell the divisions of a company separately, leading to extra work and expenses, and a lower overall value.

Remember that acquirers prefer to buy what they cannot quickly build themselves. If you are going to diversify, make sure your new offering is growing and profitable. An acquirer can get startup-level results on his own without an acquisition.

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No matter what the economy has in store for the years ahead, do one thing better than anyone else and you will always have a ready pool of potential acquirers for your business. If you are going to diversify, put in the time, money and effort to make it successful.

Strategy #3: Create a Vision Board

A vision board is a display of images that illustrate where you want to be in the future. Create one by grabbing a stack of magazines and cut out pictures or print images from the internet that appeal to you and communicate the life you want to lead.

A vision board is a compelling way to immunize yourself from the stagnation that can set in once the startup years of your company are behind you. When you are no longer fighting to close the next customer or solving day-to-day problems, running a business may become less exciting. When you no longer need to draw on your creativity and problem-solving skills, one day may flow into the next and you can become content, but perhaps not truly happy.

Think about a time when you were happiest. You were probably doing something new — perhaps in a new place with new people — learning, contributing and growing. Most owners are happiest when they are starting and growing their businesses, but when their companies mature, they can feel stifled.

The problem is, it can be challenging to leave a successful business. Your lifestyle needs are satisfied through your company, so why go? That is where a vision board can be handy. It allows you to decipher the difference between being happy and merely content. When you find yourself feeling comfortable, but not necessarily happy, that might be the perfect time to sell — regardless of what is happening in the economy at the time.

In the end, the success of your exit will be determined by understanding your goals and staying true to them. It is easy to fall into the trap of following others or trying to accomplish what others think or say you should accomplish. Inoculating your business from the dangers ahead will be very much dependent on setting and staying on the course you choose, regardless of what others are doing or saying. ■

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