Stick or Twist

(and "deal or no deal")

In case you haven't read my **occasional guest column previously, Magus Partners advises entrepreneurs and management teams on Strategy, Corporate Finance and M&A (Mergers & Acquisitions). I also act as an adviser to Boards of Directors or as an appointed "Non Exec" Director.**

These activities put us and our clients bang in the middle of all kinds of high-level, strategic business issues. How is the business performing relative to its competitors? What should we be aiming to achieve in the future and how do we go about it? Do we need more funding and where will it come from? Should we be selling out? How about making investments or acquisitions?

The $64,000 question, of course, is should we stay as we are ("stick") or change ("twist")? And, do we have any choice in the matter?

My view is that all businesses have to change constantly, although perhaps only by degrees – change doesn't have to be of the "wholesale" variety. Even so, it's tough enough to deal with the day-to-day machinations of any business, particularly in the current uncertain and volatile economic climate, without such "big ticket" things to think about. So, I thought it might be helpful to outline a very simplistic "road map" to help you on your way to considering these issues.

Firstly, you must know "where you are". That means up-to-date KPI's (Key Performance Indicators) and financials, a good understanding of the short-term future - your order book, sales pipeline, etc (the relevant period will depend on the dynamics of the industry, but probably 3-12 months) - and what's going on in your marketplace. Yes, I know that discussions with your competitors are fruitless – all everyone does is talk about how well they're doing. But, actually, developing relationships with your competition can prove valuable – for example, in reducing the chance of taking on customers who don't pay, buying product that doesn't sell, etc. And whether or not that strategy works, get the vibe from talking to your suppliers and customers – they'll know what's going on in your space.

Assuming you know "where you are", you can start thinking about where you want to get to, and how. So, more forward planning – don't just assume it will be "last year +/- x%". Think about the myriad of factors that you can't control. Set targets – how many customers do we expect to lose and why? How will we replace them? Should we focus our marketing on trade exhibitions or press advertising, online strategies or PR? How should we approach pricing if we get the chance to pitch to a "major player"? Do we have "disaster recovery" plans? What if sales demand falls unexpectedly or we lose one of our top customers without notice? What if a supplier goes bust? What if raw material prices carry on rising and our customers won't accept increases? What if currencies move against us?

I could go on. All of these things can – and should - be considered and planned for in advance. You won't know the right answers, of course but, just by thinking points through clearly and having (preferably documented) Plans B, C and D, which can be dusted down if needed, will put you in better shape than your competition and, perhaps most importantly, give you the confidence to handle "bad news" if and when it comes. It will also help you to maximise the opportunity from "good news" – how often have businesses won a new contract and then (proverbially) spent the rest of the week jumping up and down with excitement, subsequently acting impulsively and making commitments without thinking through the consequences - capacity constraints, lead times, etc.

I've deliberately left the two most important considerations until last. In each scenario, what are the possible / likely impacts on your people and your cash resources? No business can survive without either. You need to monitor, appraise and develop your people – to ensure you have the right team to deal with whatever challenges suppliers, customers or the marketplace bring. You will need them to be "onside" and motivated to cope with the particular vagaries of your business. So far as cash is concerned, you must understand if and in what circumstances you will need additional funds and, if so, you need to recognise up front that the decision from your funder whether or not to support you may not be an instant one. Again, it's all about planning ahead.

Paul Feiler (b.1918)
Rocks with Beach, 1952
Oil on board
Signed lower left on front
Signed, titled and dated verso
39.5 x 55.4 cm (15 ½ x 21 ¾ in)

So, we now have a clear and robust operating plan, supported by considered "disaster recovery" options. Only then should we be considering "strategic" issues. Could an investment or acquisition add value – perhaps by securing the rights to a key customer or product, or allowing us to offer a broader range of complementary products or services? Or, maybe, just because attractive returns look to be achievable…

Don't dismiss the concept just because you don't have cash resources. There is plenty of funding available for good opportunities – don't believe what you read in the press. It may be that the particular deal that is right for you isn't "bankable" in terms of conventional commercial banking (asset-based lending), but equity (long-term funding) and mezzanine (short-to-medium term) finance might be available for you. They carry different – and potentially high - costs, of course, but more cash resource may help your business recover from a difficult period or take that transformational step forwards. In either case, the upside may more than compensate for the cost and I encourage you to be open-minded as to what you might achieve. It is one of my personal bug-bears that entrepreneurs in the UK tend to guard their equity very tightly – sometimes too tightly – and occasionally at the expense of missed growth opportunities.

I can't end without referring to exit planning. Clearly, we currently have a particularly benign capital taxes environment and there is a significant financial incentive to turn income – whether remuneration or dividends – into capital gain.

Even so, you should think very carefully about what you would do post sale – I have dealt with many business owners over the years who have subsequently regretted their exit as they didn't have a plan and got bored. So, another plan to work on - there's a good idea! On the other hand, perhaps the most successful deals have been those where the vendors have wanted to take the business to the next level and have done so by selling to a larger entity, remaining with the business whilst enjoying the proceeds of the sale and the support of the enlarged group.

In summary, I don't believe that any business can afford to stay as it is in the increasingly sophisticated, competitive and international environment in which we are all operating these days. You have to "twist", therefore, and that may, or may not, involve a "deal" along the way. Whichever is the case, thinking – and planning – ahead is the key to reducing risk and enhancing the chances of success. And yes, the rest of my day is planned ahead after finishing this article….

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