

## Jim's Profit Accelerator 26:

### Retirement Home Thinking—The Dark Side of Succession

A curious thing happens as successful CEOs contemplate succession: They cede control to specialists and shut their eyes to possible bad surprises. This is similar to moving early to a retirement home, so I call it Retirement Home Thinking (RHT). A retirement home is a blessing at the right time: it offers safety and comfort— but at the cost of major limits and lost control. Engaging in RHT too early is like coasting to the finish line in a race: it guarantees a loss.

Most discussion about succession assumes that good legal and financial plans, and maybe a psychologist for the family, mean smooth sailing. But that formula guarantees loss—the only question is how much!

You would never dream of putting your house up for sale without careful preparation, often including upgrading, to get the best possible price. Yet this shortcutting is what leaders often do in planning their succession. They narrow their focus to legal and financial plans and let the business continue to run. How can the same person who built a successful business over decades suddenly put this complexity on autopilot?

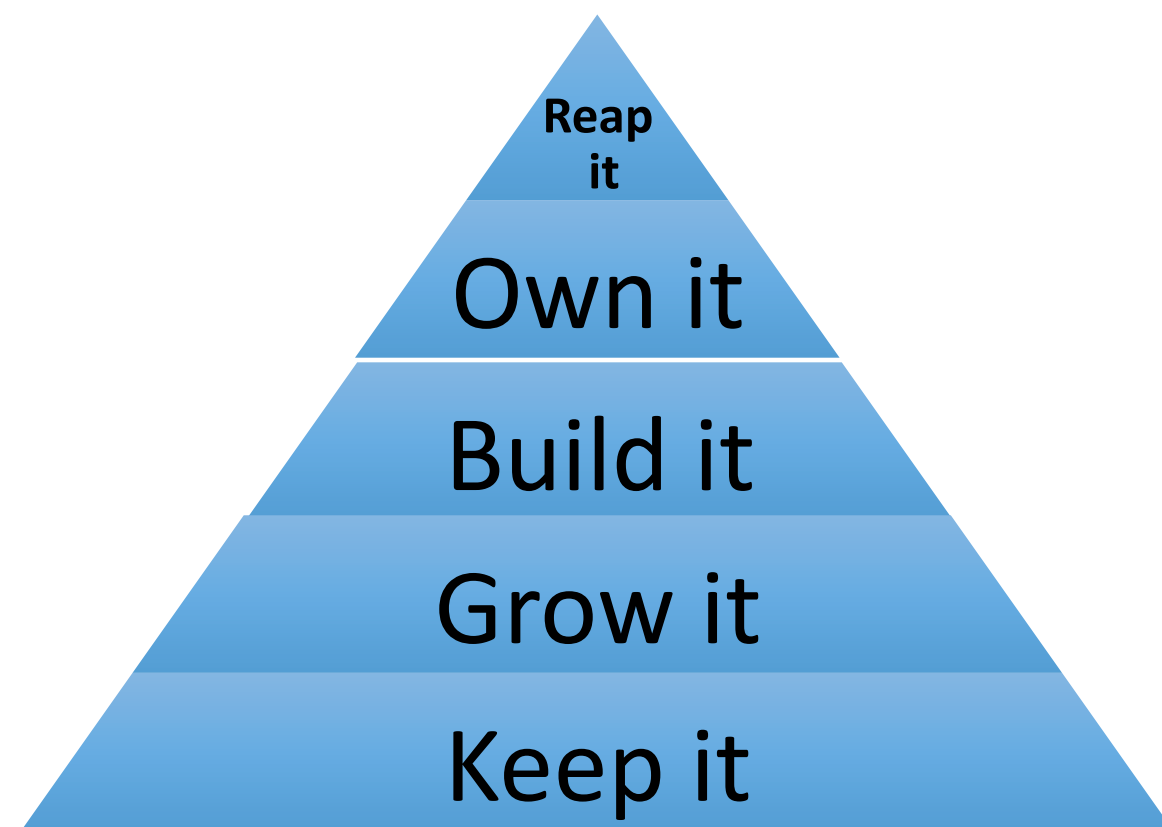
**SPEED BUMP:** Legal and financial plans plug leaks and minimize pain, but nothing builds your quality of life like building your business.

A close business associate with thirty years' experience in the sale and acquisition of businesses told me of a client who called him, saying, "We put the business up for sale, we have a buyer on the line, would you help us?" He helped by turning away the buyer, to the owner's dismay, prepping the business for sale as much as possible, and ultimately selling for one-third more than the initial offer. Had the owners started three years before, their proceeds would have been millions more! My friend confirmed that this value differential is not at all unusual among mid-size businesses.

**SPEED BUMP:** Follow the five-year rule: If you might step back in five years, start conditioning the business immediately. It could be worth \$2 million or more to you.

#### The 5-Step Business Conditioning System

Here are five steps to condition your business (yes, like conditioning your body). Like exercise, you won't get the reward without putting in the time. It takes at least three years; five years to be safe. Here's how.



### **1. Keep It**

Act like you'll keep it forever, regardless of whether you plan to sell. Your enemy is the dreamy escape from daily pressure. It leads to RHT, which is dreadfully expensive.

### **2. Grow It**

Decide to grow both revenue and profit by 25 percent in three years. Paint a picture of the business at 25 percent bigger, detailing at least these items:

- Sales
- Profit
- Number of employees
- Your income
- Investment needed

Insist on the first growth steps within 90 days by asking for the plan for that quarter. That plan will be the foundation for the one-year tactical plan and the three-year strategic plans that will scaffold your growth. Insist on both plan and action regardless of short-term noise in the business. Your life is at stake here.

### **3. Build It**

Boldly build the leadership team to deliver the growth and profit:

- Picture the team (position and skills) when sales are \$25 million and growing. Paint this team together with your top leaders and advisors so that they see how things will look in numbers and leaders.
- Detail the first steps toward the picture, and begin in 14 days or less. Those steps will include training, hiring, and some demotions and turnover before you reach your goal.
- Build a leadership team that can grow the business better than you could, but with your values, drive, and pride.
- List the 10 most critical things you do, and systematically teach your new leader or leadership team to do them under your coaching. Then let go.
- Revisit the picture—the progress and the problems—every month with the team. Do this in spite of immediate business needs.

#### 4. Own It

Picture yourself as an owner, not as an owner-manager. Be the owner-investor you've wanted to be, without the daily dust-ups. Spell out your 12 personal quarterly steps from today to owner, stepping back as the business grows.

#### 5. Reap It

Your radical approach can deliver this triple pay boost:

- Keep your current income longer.
- Grow business value and get more when you sell.
- Raise your investment income when you sell.

Here's an example, which assumes profit growth of 25 percent in three years:

	This Year	Three Years
<b>EBITDA</b>	\$1,200,000	\$1,600,000
<b>Market Multiplier</b>	5X	5X
<b>Sales Price</b>	\$6,000,000	\$8,000,000
<b>Investment Income @3%</b>	\$108,000/year	\$144,000/year

- Once at sale:
  - Sale proceeds (pre-tax) \$2,000,000
  - 3 years your current income \$ 600,000
- Annually (investment income) \$ 36,000

Cash difference: \$2,600,000 + \$36,000/year

**ACCELERANT:** What will you do with an extra \$2 million?

**SECRET BONUS:** You can keep the business and own rising income and value.

Call me.

For more information, visit [www.grewco.com](http://www.grewco.com).

Jim Grew is an expert in CEO-level strategy and executive leadership whose clients refer to him as the Business Defogger and Accelerator. Jim helps leaders swiftly discover the hidden opportunities within their businesses and exploit them for dramatic results. Nearly three decades of success as a COO and CEO coupled with his experience running nine thriving businesses provide the foundation for his consulting work as president of the Grew Company. He presents regularly to industry groups, mentors business leaders, and shares insights on his blog, BizBursts.com: <http://bizbursts.com/>. He holds BA and MBA degrees from Stanford University.

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