GROWTH – YOU CAN BET YOUR RETIREMENT ON IT

Preamble

Facts:

- There are approximately 13 million micro and small businesses in the U.S. They support the majority of the U.S population.[1]
- The vast majority of these small companies will remain too small to: a) provide much more than a basic income to its owners; b) create any substantial equity that can be monetized (sold for money) at retirement.[2]
- To be able to sell a company for more than a token equity, annual sales in dollars have to be in excess of $3 to $5 Million (depending on the trade).
- According to the author Thomas J. Stanley, Phd. in his renowned bestseller book 'The Millionaire Mind', people are soon going to spend more years as retirees than in their work years.

The question of paramount importance that we will answer in this article is: How can a business owner maximize (read 'exponentially increase') his/her cash flow so that they can enjoy a far superior quality of life both during their working years ***as well as*** after retirement?

GROWTH is the Answer

Business owners are in a privileged position because they are the elements of our economy that have the most control on their economic future. In spite of this and as stated above, the vast majority of business owners decide to 'do nothing', and short change themselves and their loved ones of a much better quality of life.

We propose here that a focused and committed effort – almost like a task-force – to growing the company is by far the easiest and safest way to achieve that higher quality of life.

How a Company Benefits From Growth

There are two distinct time frames in which Growth will be beneficial to its owners:

1. Benefit from the Cash Flow "along the way": The best way to appreciate this benefit is with an example (make sure to tweak it to suit your particular situation).

   Let's assume a widget manufacturer with a roughly 35% Gross Margin (before overheads) that figures out that over the next few years he can grow his company from $2 to $3 million

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[1] Even though more conspicuous, Fortune 500 employees represent only less than 13% of the working population.

[2] At retirement of the owner, these companies will perhaps be able to sell their customer and vendor list and inventory. The dollar value that can be obtained for these 'assets' is, more likely than not, nothing that can support the owner for more than a year of retirement.

in annual sales. His overheads will increase, but not significantly (another bookkeeper and clerical person).

Here is what this would look like in numbers…

	Current Situation	After Growth
Sales	$2,000,000	$3,000,000
COGS (Cost of Goods Sold)[3]	($1,300,000)	($1,950,000)
GM (Gross Margin) 35%	$700,000	$1,050,000
Overheads[4]	($500,000)	($600,000)
Net Profit	$200,000	$450,000

From the example above, please pay close attention to the following:

- Net Profit increased at a much faster pace than the growth in sales. In this example, whilst sales increased 50%, Net Profit doubled!
- The business owner will decide each year, what to do with the additional Net Profit. Options include to distribute the money (to shareholders and staff), to pay down debt, to leave the money in the company as additional equity, to fuel more growth by investing in marketing, new products, etc., or a combination of all the above. It is a touch decision, but is one that most business owners would only love to have.

2. Benefit of Additional Equity ~ The Jackpot at the end of the road: For the business owner and from the cash flow point of view, equity in a business is only really important at the time this business owner decides to retire and sell the company.

   As anticipated, the market will pay very little – if anything – for equity in a small company. If a buyer of a small company pays anything for equity, it is mostly for 'nuisance value'; i.e. the convenience of not having to gather all those clients and vendors lists and other stuff themselves and be able to be 'open for business' overnight. In the age of internet, when finding sources and people is so easy, this nuisance value is close to zero.

   This is not the case and the situation changes drastically as the company grows. With established customers, proven marketing campaigns and efficient (accounting, quality control, etc.) systems in place, a seller can certainly expect to get increasing value for those investments.

   Let's have a look at an example:

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[3] Payroll, materials and other 'direct' costs.

[4] 'Fixed' expenses like rent, utilities, insurance, accounting, officers' salaries, etc.

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	Company Before Growth	Company After Growth
Sales	$2,000,000	$3,000,000
Annual Net Profit	$200,000	$450,000
Sale Value	$150,000 to $200,000[5] ⟷	$1,800,000[6]

From the example above you can see that the 'jackpot' at the end of the tunnel (retirement) is incrementally higher when companies can 'sell' their equity, which is usually after the $4 million dollar threshold.

Summary

So let's wrap-up and see what is the bottom-line benefit of growing a company, and what conclusions we can derive:

The business owner in our example is contemplating and trying to decide whether 'growth' is worth-while the effort. He plans to sell and retire in about 10 years. Here are the numbers that he/she might scribble in a napkin:

Two (Very) Different Scenarios After 10 Years:

	No Growth (stable $2M)	Yes Growth (to $3M)
'Profit' From Annual Operations	$2,000,000[7]	$4,500,000[8]
Revenue from Sale of Business	$200,000	$1,800,000
Total Revenue over 10 Years[9]	**$2,200,000** ⟷	**$6,300,000**

Consider the following – most important – conclusions:

- An increase of sales of 50% – from $2M to $3M – brought about an almost 3 fold increase in benefit.
- If you are the owner, think about what kind of lifestyle each one of these options will afford you, both during your working years as well as at retirement;

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[5] Nuisance Value: One year of profits, at the most.

[6] Based on a market 'multiple' of 4 times earnings.

[7] 10 years x $200,000

[8] 10 years x $450,000

[9] Of course, there are tax implications. However, we decided to leave them out for i) simplicity sake and ii) because they apply equally to both situations and therefore do not change the basic premise.

- It is much more difficult to remain small! Small companies have to contend with diminishing market share, high staff turnover, 'not able to afford' situations, etc.
- For the same reasons, a 'small' business is many times more risky. As an example, the migration of a single customer (losing a customer) in a small company could represent ruin…while not even a only a minor headache in a much bigger company;
- Efficiency of your time: If your day has 24 hours and your year has 12 months and the efforts that you have to put behind the company are the same, wouldn't it stand to reason that it is far better to enjoy a higher quality of life and a worry-free retirement?

So now that the benefits of growing your company are clear, you should be very excited about the upside potential of your company.

Appendix

Because our purpose is to highlight growth, we would like to close by making you aware of the pitfalls that you will encounter.

These are the main 3 reasons why business owners don't grow their businesses…

- They lose sight of the end game; day-to-day operations and stress makes them forget about the 'end purpose';
- They don't know how; this is usually a marketing issue;
- They don't have the working capital to bankroll growth (for further discussion on this matter, click here).

About the Author

Carlos Weil is CEO of Capital Solutions a company dedicated to help clients grow their businesses through different working capital tools. You can contact them at the Capital Solutions website.