



## MAXIMIZE BUSINESS VALUE PODCAST - EPISODE 19 Transcript with Tom Bronson

ANNOUNCER: 0:00

Welcome to the maximize business value podcast. This podcast is brought to you by mastery partners where our mission is to equip business owners maximize business value so they can transition their business on their terms. Our mission was born from the lessons we've learned from over a hundred business transactions, which fuels, our desire to share our experiences and wisdom. So you can succeed. Now. Here's your host CEO of mastery partners, Tom Bronson.

TOM BRONSON:

Hi, this is Tom Bronson and welcome to Maximize Business Value - a podcast for business leaders who are passionate about building long term, sustainable value in their businesses. In this episode, I want to talk about risks. Risks are inevitable in any business. And in my opinion, business owners, almost by definition, are risk-takers. I love this quote from John Augustus Shedd -

“A ship in harbor is safe, but that is not what ships are built for.”

Just as a ship must leave its harbor an entrepreneur must go out and take risks. That's what they are built for.

It's one thing to know and understand the risk, and quite another to have risks hidden in your blind spot. Once a risk is identified, many times, a business owner will assess the risk, determine whether or not to take action, and move on.

It's sort of like buying insurance. If you don't live in a floodplain, why would you buy flood insurance?

In my own experience as a business owner, when a risk is identified, I weigh the cost of the solution against the cost of the potential catastrophe and sometimes choose to accept the risk. Again, if the cost of mitigation outweighs the risk itself, that's a pretty easy decision.

Over time, the risk factors may change, and therefore I would need to reassess and potentially reverse the prior decision.

The worst possible scenario would be to fail to 1) identify the risk in the first place, or 2) assess the risk again once the risk factors change. Either way, you're hit with a potential catastrophe completely unprepared.

As a business owner, the risks you face fall into two general categories - business and personal. Many of the risks have cross-over properties - meaning that a business risk may have personal implications or vice versa. For example, if your business is owner dependent and your family is financially dependent on your income, both the business and the family would be impacted (probably significantly) in the event of a long term illness, accident or even death.

For the purposes of this podcast, I want to focus on business risks and how to mitigate them. In a future podcast, we'll examine the personal risks as well, so you have a complete picture.

**BUSINESS RISKS - Accidents.** Accidents happen - and when they do in your business, do you have a plan to ensure that the business can continue to operate and that your people are safe? You should have a plan in place for not only disaster recovery, but also the necessary insurance to cover the risk. Make sure your policies and procedures are in place to prevent accidents in your work environment - and make sure your people are properly trained to avoid accidents.

**Compliance Risks -** If you're in a heavily regulated industry, this is a no-brainer. But if you're not, you should still consider whether your systems, policies, and procedures across all departments are compliant with all regulations and agreements. For example, if you take credit card payments, you need to ensure that your business is PCI-compliant. I've seen too many retail and restaurant operations forced into bankruptcy because their system was breached and thousands of credit card holder's data was compromised.

Also, even if you're not in a heavily regulated industry, your hiring and firing policies have to comply with state and federal regulations.

Do you have a bank loan? If so, I almost guarantee that you have covenants that you must keep in accordance with your loan agreement. If you haven't already, you should probably pull out those loan docs, make a list of the covenants and assign someone to monitor them. Finally, all businesses have a certain degree of exposure to OSHA and ADA regulations.

So, compliance is not just for heavily regulated businesses. If you are not sure, maybe it's time to audit your compliance because a compliance misstep could dramatically affect your business - or worse, put you out of business.

Customers Risk - One of the drivers of business value is customer concentration. This means that you have a small number of customers who control a high percentage of your business. If one of those customers goes away, it could dramatically impact the business. I've been there... on my birthday in 1989, I was delivered notice of cancellation from my biggest customer, which accounted for 31% of my business. I had two choices - cut staff to match the new norm, or grow the business to make up for the loss. We chose the latter... by the end of that year, we had not only made up for the loss, but also grew 5%. For the next 5 years, we grew our business an average of 42% per year, and never looked back... and we never had a customer concentration issue again.

Do you have a heavy customer concentration risk in your business? What would happen if you lost your biggest customer? Act now to measure it, and actively work to diversify your customer base.

Data / Information - Ransomware is all the rage today. Not a day goes by that you don't read about some company whose data was compromised and now they're being held ransom to get their data back. What would happen to your business if that happened to you? Are you confident that you have the proper safeguards in place to secure your vital company information? If you are - for the love of everything holy, please test it to make sure it works. There's nothing worse than thinking you have a backup in place, only to find out it didn't work when you need it!

Debt -Now you might think that I'm about to talk about having too much debt that burdens the business... and that's a no brainer... but, I want to go the other way and talk about having enough financing to achieve your business goals. As a wise person once said, bankers only lend to businesses that can prove beyond the shadow of a doubt that they don't need it. When times are good, be sure to secure the largest line of credit you can get. You never know when you're going to need it. And not having access to capital when you need it, is a terrible risk to have.

Disagreement - Disagreements can be very disruptive to any business operation. There are many types of disagreements that may impact your business. Examine your contingency plans in case you have a disagreement with one of your major customers or suppliers? Think through what you might do if you have a disagreement with a shareholder or a partner in your business.

Distress - Like disagreements, distress can appear in many different forms and can have a major impact on your business. So, what are the types of distress that could impact your business? One of the most overlooked distress situations is success - receiving a large order that is beyond your current capacity can actually cripple a business. What happens when you can't deliver the order on time or don't have the right people in place to be able to effectively manage the order. A large order should never be a surprise. If you are monitoring your business, and watching your key performance indicators in sales, you'll have a better chance of being prepared for that risk when that large order comes in. Make sure you have those things in place. We are talking about risks and we'll be back in 30 seconds.

Announcer: 13:32

mastery partners, equips business owners to maximize business value so they can transition on their own terms. Using our four step process. We start with a snapshot of where your business is today. Then we help you understand where you want to be and design a custom strategy to get you there. Next, you execute that strategy with the help of our amazing resource network. And ultimately we help you transition your business on your terms. What are you waiting for more time, more revenue, if you want to maximize your business value, it takes time. Now is the time get started today by checking this out @masterypartnersdotcom or email us at info@masterypartners.com.

TOM BRONSON : 14:21

I'm Tom Bronson and this is the Maximize Business Value Podcast where we are talking about risks in your business. Let's pick up where we left off.

Economy -Most businesses are not immune to changes in economic conditions, both domestic and abroad. We got a full dose of that reality this year with the coronavirus, which shut down our way of life. My encouragement to our clients, most of whom have weathered the COVID crisis because they were prepared or acted quickly, is to learn from what we did, and document it while it's fresh in your mind so it will be easier to deal with if it happens again. So this type of documentation belongs in your disaster recovery plan, and if you don't have one of those, get busy writing it! In the words of author and speaker Keith Cunningham - you'll thank me later.

A key part of your disaster recovery is having the right insurance in place. You should review your coverage at least annually, and think about business interruption insurance. Intellectual Property - If your company owns intellectual property (IP), it is so important to protect it by all necessary means. Make sure you have plans in place to prevent it from being compromised! Think about what happens if an employee leaves and takes your intellectual property with them, or if your competitor gains access to your intellectual

property. IP not only includes the products that you make but also the R&D work and may also include your proprietary processes.

Interruption - It pays to give some attention to interruption. Of course, natural disasters can cause major business interruptions, but what about other types of interruptions like loss of your phone system or loss of your internet capabilities for an extended period of time? Make sure you have plans in place to be able to continue to operate, reach your customers and more importantly, have them reach you during extended periods of interruption.

Key People - What would you do if one of your key people left or worse, went to work for one of your competitors? Make sure you have incentives in place to retain your key people and contingency plans in case you lost one of them to separation, disability or even death? If you're like most businesses, the business is dependent on your key people so take action to protect the business.

Legal - Of course, it goes without saying that legal issues could be a problem for any business. The best way to mitigate this risk is to have the right legal team in place either via a retainer or long term relationship in case you need them. In my businesses, I have kept a solid business attorney on retainer, so I wouldn't feel like I should handle minor things on my own. It's easy and surprisingly affordable to have a good attorney on retainer, and you should think about it...

Machinery & Technology - If your business is completely dependent on machinery that you use in manufacturing or in a process to deliver your products or services, you need to have contingency plans in place in case something happens to that machinery. Same thing goes for your technology - which we've already talked about.

These last two - are wildly important to creating long term value in your business to perk up here, and pay attention!

Owner Dependency - The number one reason why businesses don't sell is owner dependency, followed closely by an unrealistic opinion of enterprise value, but we're not going there now... As a business owner, you probably have tons of "tribal knowledge" in your head that if something happens to you, the business is at huge risk. Put plans in place to cross-train and maybe even transition your activities so that the business can go on if something happened to you.

Every business is eventually going to transition. But it can't if it depends on you! Perhaps, if your business has become a "job" rather than an asset, it's time to work yourself out of a job!

Systems & Processes - A few weeks ago, we had Charlene Aldridge and Todd Hunter with Aldridge Kerr talk about the need to document your processes. Well documented processes not only protect your business, but also build long term, sustainable value in your business. Make sure all of your systems and processes are well documented, and more importantly, are those documented processes being followed by everyone.

Most businesses invent processes as they go along and ultimately don't organize those processes with proper documentation. If your processes are not documented, how can you be sure that they are easily duplicatable, and how do you train new people that come on board? Well-documented processes are one of the most important risks that can be easily eliminated in any business. And in fact, well-documented processes may lead to a higher valuation upon exit! If you need help in this area, go back and look for our recent podcast and blogpost on this topic.

This is the Maximize Business Value Podcast - where we give practical advice to business owners on how to build long term, sustainable value in your business. Be sure to tune in each week, and follow us wherever you found this podcast - and be sure to comment - we love comments.

So until next time - I'm Tom Bronson, reminding you to mitigate those risks while you Maximize Business Value!

Announcer : 23:51

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Tom Bronson: 24:34

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Tom Bronson: 24:39

That was perfect. I wouldn't make any changes on that.