
FIVE (5) TRUISMS ABOUT SMALL BUSINESSES THAT HINDER GROWTH AND EXIT GOALS (and how to overcome them)

Many successful business owners try to answer the question 'how do I get my company to the next level?'. Many owners exhaust themselves and their resources each year, pushing their businesses to perform at higher and higher levels. However, there are a number of 'truisms' about small business that, once understood and accepted can make the growth (and transition) process more effective. The five (5) truisms listed below are symptoms that face each small business that is trying to grow and transition, at some future point in time, to a new owner. This newsletter is written for those owners who are trying to grow so

that they can reap certain benefits that may come when it is time for an exit.

Truism #1: Nothing happens in a privately-held business until the owner(s) decide it will happen

Privately-held businesses that are run by the founder / owner are driven by that owner's goals and ambitions. And, what you slice away all of the strategy and other decision-making in a business, the reality is that nothing truly happens until the owner decides that it will. A privately-held business will not grow until an owner decides that it will happen. The same business will not begin a transition or exit

plan until the owner feels that it is needed.

As we'll see in the next few truisms, many owners are not motivated to grow a business, increase the value, or prepare for a transition because other motives are driving their decisions. Therefore, understanding our first truism about an owner needed to 'authorize' any action set an important foundation.

Truism #2: Most businesses are run for the lifestyle of the owner

Of the many challenges that face growing the value of a business, the largest one is the owner's motivation to act. And, in this regard, it is helpful to point out that most businesses are run for that owner's lifestyle. Therefore, if an owner is happy with their lifestyle today, they may be hard-pressed to take risks to grow the business which may impede on their lifestyle.

While there are many risks in owning a privately-held business, the reality is that the risks are worth it to most owners because the business provides the owner's lifestyle. To that owner, the alternative of going back to work for someone else is so offensive that it is hardly an option at all. Therefore, to this owner, taking risks that possibly compromise their lifestyle is often not worth moving forward with – even if all of the logic in the world points to reasons why a business should grow and increase its value. In short, growth means extra work and risk and those are often two (2) words that do not resonate with what an owner values most.

Truism #3: Most businesses have limited resources to apply to their corporate and personal objectives

Building upon points #1

and #2, in order to have growth, you often need to fund growth. And the reality is that whether we are talking about financial or human capital, it is simply a fact the small businesses have limited resources to apply to growth or other objectives. Moreover, as stated, owners may be hesitant to put their limited resources behind growth-oriented projects with a risk that the project may not work out and it may compromise that owner's lifestyle. And, since nothing happens in a small business until the owner decides that it should, limited resources become even more precious to the decision-making process.

It is also worth mentioning and an aging population of baby boomer owners make the risk-return of

limited assets even more difficult to bear.

The overall impact to a company and owner who are restricting growth for these reasons is that the company will be more difficult to transfer in the future. In other words, it is a hard sell to a buyer of businesses that there is all this assumed potential that is available once they own the business and the reason it was not pursued was for 'personal' reasons of the owner. That argument does not usually have much weight to a future owner who is primarily interested in growth and future value.

Which leads us to our 4th truism - that most businesses grow to a level where they remain under their current ownership.

Truism #4: 95% of all small businesses will never outgrow their current revenue range because value is not being created at the company

As a result of the first three (3) points above, the vast majority of small businesses will stop their growth once a certain level has been reached. A typical initial threshold for a business is \$1 million in revenue. After that, the next stopping point is often \$5 million . . . and then onto the \$10 million and \$20 million marks. Most businesses stagnate at a certain level because of points 1, 2, & 3. In other words, once the risks associated with growth become too uncomfortable for the current owner to bear, the growth stops and the company stagnates.

Across the marketplace of businesses, the vast majority will reach a certain level and stay there. This is not always because the company cannot grow. It is more often the case that the owner is simply not motivated to continue the growth. As a result most businesses never outgrow their self-imposed ceiling and become more and more difficult to transition in the future.

Truism #5: Most businesses are run to the level of incompetence of the owner

Rolling all of the previous 4 truism into our final point, we see that the majority of small businesses are run to the level of incompetence of the owner. The underlying reason for stagnation in a company's growth is because the owner's relative experience has been tapped out.

For example an owner may not know how to build a management team. Or an owner may not believe that outside capital can be achieved for his company. Or that owner may be guided by the advice of others who have not actually built companies successfully. Or, the rewards of growth may simply not be worth the effort and risk (as stated above).

In the end, it is what a current owner does not know or understand that most often leads to stagnation of the business.

How to Overcome these Truisms to Achieve Growth

It was once famously said that you cannot manage something that you cannot measure. Business owners should measure themselves against these five (5) truism to see where the true bottle-neck is in their business – eventually seeing that all bottle-necks are, in fact, at the top of the bottle.

For owners that want to grow their businesses, it is important to understand these truisms and to work in a steadfast manner to avoid the traps or complacency. Hiring a coach, advisor or mentor who understands these issues is also a very good step to overcoming them.

Concluding Thoughts: Small businesses that do grow will increase their 'transferrable value'

So, having stated the truisms about most small businesses, it is worth highlighting that those small businesses that do grow beyond their current segment have a substantial opportunity to increase their transferable value and work towards a successful, future transition or exit where the value that is created has a chance to be monetized. Each owner needs to come to their own conclusions about whether or not growth is worth the risk. This newsletter was written to assist with that thought process and we are hopeful that it has achieved that objective.



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