BUSINESSDIMENSIONS

FINANCIAL STRATEGIES FOR THE ENTREPRENEUR

All in

Thorough preparation can make investing in a new business a thrilling ride

Whether you want to start another business, or to expand your own entrepreneurial enterprise, there's a lot of ground to cover – and some practical and emotional considerations once you make the commitment. It's like adding a new member to the family – exciting and nerve-racking all at the same time. But you've done it before, and you can do it again – with a little guidance should you need it.

ALL THE WHYS

First, identify your motivation for investing in a new business. Are you looking for a straightforward investment to provide returns with a hands-off approach? Maybe you want to get in on the ground floor of a business that aligns with your existing one – or identifies an area you think is positioned for extreme growth like technology or biotech? Are you looking to expand, grow or diversify your existing offerings? Do you have the bandwidth to help multiple enterprises, even if they're related, or will you deputize someone to step into your shoes while you get the new business where you want it? Identifying where you're at and what level of involvement you want to have are two good foundation points to begin.

THINKING IT THROUGH

Start doing the groundwork for your investment – but don't go it alone. Talk to your financial advisor, accountant and an attorney and go for a team approach. Codify everything in a written business plan.

If you're considering an investment to grow your existing business, an additional layer of analysis is required. Where your business is growing – and not growing – might direct the kind of investment you will make. For example, it might make sense to shore up areas of your business that are underperforming by acquiring additional staff, resources or equipment to make those areas cash-flow positive.

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All in (cont.)

Evaluating the potential of a new business is just as important. How big is the potential market? What's the current market penetration? What trends or forecasts for this particular industry will influence growth? And if the business is large enough, your financial advisor may be able to bring in an investment banking professional to help analyze the deal and make an accurate valuation.

Alternatively, investing in a business that is directly adjacent to yours to strengthen your market position and bottom-line profits can also yield great benefits. An example might be if you produce cardboard packaging – it might make sense to acquire the packaging design firm or even the company that creates the ink you use to print on the packaging.

Or perhaps you invest in inventory software that allows your customers to auto-order frequently needed items. Think about what your audience or clients might benefit from and work backward to uncover new insights into adjacent ventures.

Another option? Buying a similar business whose owner is retiring. You'd want to better understand that business's cash flow and culture first, of course, but it's likely you've networked with people related to your market and will hear when someone is looking to sell.

> Tip: Structuring your deal with a selling owner to be a "sell and stay" can often be a win-win. The knowledge capital is protected in the business while allowing the owner to plan retirement on their terms.

Finally – how much risk do you want to take on? Are you willing to put your money into a venture that's doing cutting-edge and experimental work or do you want to know there's a steady pipeline and year-over-year revenues? If you are looking at adjacent businesses – how much can you put in without putting other parts of your business at risk? Risk is often both a personal and financial question, so take some time with this part of the equation. Your advisor can help you run hypothetical situations to ease your mind as you pursue potential opportunities.

DETECTIVE WORK

Once you've narrowed down how and where you'd like to invest, finding the right match means putting on your detective hat. Reaching out to colleagues and peers in the same boat can be a good start. Casually talking about what type of business you're looking for may yield a gem or two.

MEET AND GREET

Once you've narrowed your list of acquisition targets, meeting with leadership is a must to understand their philosophy and vision. They can also answer any crucial questions you may have on financials. This can reveal information that's not readily available in the business plan. Background and credit checks, as well as Google searches, can be other useful tools. If it's a larger company and you don't have access to this kind of up-close-and-personal info, look through previous earnings calls, annual reports and the company's Twitter feed to understand more about their point of view and any proverbial skeletons in their closets.

DOING THE DILIGENCE

Go through all the financials with your team and look at the fine print as well as any outstanding debt, conduct competitive analysis of the market and comb social media for clues on past performance. Like any investment, you want to know what you're buying and why.

READY FOR THE RIDE

Once you've made your investment, get ready for the ride. Big change always has the potential to create feelings of excitement, anticipation, anxiety, worry and maybe a little fear. The process may even be frustrating and require resilience and perseverance to get a good deal done.

But think back to when you first started or took over your business – the highs and lows that came with building it to where it is today. Was it worth it? Does your family agree? When you're ready, you'll be well-equipped to jump into something new. ■

NEXT STEPS

Talk to your family, advisors and business partners, if any, about your desire to expand your business, then:

- Get the A-team together – your financial advisor, accountant and attorney – and create a written business plan.
- Start putting the word out by talking to colleagues, peers and business organizations in your desired industry.
- Clear time to put in your due diligence and prepare for the highs and lows of this exciting experience.

Sources: yahoo.com; worth.com; thebalance.com; fastcapital360.com; seedinvest.com; angelinvestmentnetwork.us; gettingpeopleright.com; nerdwallet.com

Investing in the family entrepreneur

Navigating the tricky waters of the familial and the financial

Funding from family is still a primary way to get a new venture off the ground. But how do you go about it in an intentional way – without causing any relational rifts?

It turns out family is actually a primary source for funding new businesses, well ahead of loans and venture capital, often relying on their intimate knowledge of the intangibles that could spell early success. Family wealth also can cushion the blow should the business ever waver.

But it doesn't even have to be big money. Media mogul Russell Simmons credits his mother's early $2,000 investment with "keeping me afloat until Kurtis Blow (a hip-hop artist signed by Simmons' new management company) broke, and I entered the record business," he writes in his biography "Life and Def."

So when a loved one comes to you asking to launch a new enterprise, how do you figure out if you're able – and this is key – willing to support them emotionally and financially?

BIG OR SMALL

First, make sure you're considering it a business deal with safeguards and expectations in place. You likely love this would-be entrepreneur, but you may not want emotions to carry you away from practical aspects. Talk to your financial advisors, accountants and attorneys to get an objective view of your ability to take on the risk of supporting a loved one's dream. An outside consultant familiar with the proposed market or industry can help vet the investment as you might with any new business deal.

There should be some strings attached, but not tied so tightly they leave no room to roam – you're looking for a happy blend of accountability and transparency. Money tends to be emotionally charged no matter how carefully you tread. It's important to acknowledge this when you make the investment, and note that it's why you've put some safeguards in place ahead of time.

NAVIGATING THE PARTNERSHIP

Once money exchanges hands (either by gifting, loaning or purchasing corporate stock or partnership membership), you'll be in a partnership. You may want to reserve the right to speak up and get involved, just as you would with a partner you aren't related to.

If you're loaning money, it's a responsible strategy to secure legally binding and properly executed documents such as a written business plan, shareholder's or partnership agreement, and a promissory note with stated interest rate and terms. Your advisor can walk you through options like convertible debt that may allow you to convert your loan to equity (at a preferential rate, perhaps, for being an early supporter) if outside funding materializes.

Just as real estate relies on location, location, location, business deals – especially intrafamily ones – rely on communication, communication, communication. That means documenting a clearly defined business plan and a legal contract that defines roles, responsibilities, incentives and protections that might mitigate some of the potential risks. Your relationship is too important to risk. ■

NEXT STEPS

If a family member is asking you to consider investing:

- Think about how this investment would align with the rest of your investment goals.
- Talk to your financial advisor about different ways to structure the loan.
- Decide what type of partner you will want to be – silent or active?

Sources: griequity.com; familybusinessmagazine.com; forbes.com; theguardian.com; gobankingrates.com; lovemoney.com; elitesavvy.com; Bank of America Private Bank; Merrill Lynch; usnews.com; economist.com; hbr.org

No regrets

How to learn from attrition and emerge stronger

During the “Great Resignation,” companies large and small are grappling with employee turnover. While a percentage of employees leave for personal or other factors not related to the job, some leave for reasons that could have been fixed beforehand. With a $1 trillion price tag to companies today for hiring, replacing and retraining new staff according to Gallup, there are more reasons than ever to get the most out of your exit interviews.

Whether you have been in business for 30 years or three months, exit interviews can yield valuable information to power your staffing strategy going forward. Uncovering not just discontent, but larger patterns, operational issues and inefficiencies can allow you to make investments now to stave off future – potentially regrettable – attrition.

MAKE IT A SAFE SPACE

As much as you can, make the exit interview a safe space. This includes being upfront about what information you are looking for and letting the employee know that regardless of their answers you consider their leaving on good terms.

At the beginning of the interview, set clear parameters with statements like, “We’re looking to improve some of our processes and the way we do things. We’d love your unvarnished insight as to how we could improve specific modes of operation.” Let them know you’d like their objective view on how things are done – versus digging for all the reasons they are leaving. Emphasize a positive message – “you can help to improve work for your fellow colleagues who continue to work here,” is a good frame to level-set before the conversation starts.

LOOK FOR PATTERNS

It’s important not to just read the answers to an exit interview and file them away. Here’s where you can gain insights that can potentially drive new ideas for your business. Create a simple database where all exit interviews are saved. Once you have a few – start to read for patterns, themes or even consistent operational or personnel issues. Look for culture fit concerns, systems issues, and pay and compensation matters as well. Chances are you will see topics repeat, possibly in asymmetrical ways, across interviews. That’s where the gold is. Use this intelligence just as you would if you hired someone to come in and do an audit of your business and its processes to inform your strategy and tactics going forward. ■

NEXT STEPS

As you look to strengthen your business and bounce back from an employee loss:

- Consider reworking your exit interview format to include a focus on systems and processes.
- If you’ve had attrition in the past – compare how it stacks up to recent attrition.
- Think about asking remaining employees about topics brought up in the exit interview to get a pulse on what may be happening.

Sources: gallup.com; hbr.com; thehumancapitalhub.com; cnbc.com