



Managing Growth and Building Equity?

In THIS Business Climate?

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Let's ask some questions

- ◆ How many view it as a family business?
- ◆ How long in this biz?
 - ◆ 0-5 6-10 11-20 20+
- ◆ How many employees in this biz?
 - ◆ 0-10 11-20 20-50 Over 50

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Current Climate

- ◆ Current US statistics: NAICS 337
 - ◆ Furniture and Related Product Manufacturing
 - ◆ 20,657 businesses, employing 543,000
 - ◆ 67% have fewer than 10 employees
 - ◆ 92% fewer than 50 employees
 - ◆ SBA office of Advocacy (2009)
 - ◆ Company births and deaths:
 - ◆ 1995 - 594,000 startups, 497,000 failures
 - ◆ Worst Year 2002 - 550,000 startups, 585,000 failures
 - ◆ Worse now than 2002
 - ◆ SBA office of Advocacy (2009)

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Start at the end

- ◆ For all new businesses:
 - ◆ 30% to 40% will survive past 5 years
 - SBA office of Advocacy (2000) and Micronomics, Inc. study (1998)
 - ◆ The more you plan before launch, the longer you survive
 - ◆ 20% five-year survival if planning process less than 6 months long
 - ◆ 70+ % five-year survival if planning process > 6 months
 - HBS Study 1998
 - ◆ Most of the rest end up in Purgatory

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Today's news

- ◆ Stocks Rise Worldwide; MSCI World Posts Longest Streak of Gains Since 2006
- ◆ 'Rambo Fed' Pledges Treasuries, Mortgage-Debt Purchases to Combat Crisis
- ◆ Oil Tops \$50, Copper, Wheat Rise as Fed Plan Spurs Optimism on Growth
- ◆ Three-Month Dollar Libor Drops Most in Two Months
- ◆ Chrysler CFO Calls Company Safer Investment Than General Motors for U.S.

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How is this market?

- ◆ Annualized private home starts
 - ◆ Jan 2006 - 2,065,000
 - ◆ Jan 2007 - 1,148,000
 - ◆ Jan 2008 - 1,064,000
 - ◆ Jan 2009 - 477,000 23% of Jan 06
 - ◆ Feb 2009 - 583,000

U.S. Dept of Commerce - March 17, 2009

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The fact that you are here:

**Means your
business is a
survivor!**

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*What do I want from this
business?*

- ◆ Flexibility
- ◆ Lasting value
- ◆ Something to pass along to the kids
- ◆ \$\$\$
- ◆ Being your own boss
- ◆ To do it better than "the other guy"
- ◆ Don't know what else to do...

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Skillsets Differ

- | | |
|---|--|
| <ul style="list-style-type: none"> ◆ Master Craftsman ◆ Problem solving skills ◆ Hand skills ◆ Technical skills ◆ Detail level skills ◆ Tactical skills | <ul style="list-style-type: none"> ◆ Business Owner ◆ Financing skills ◆ People skills ◆ Marketing skills ◆ Organization skills ◆ Strategic skills ◆ Negotiation skills ◆ Risk Management skills |
|---|--|

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Old habits die hard

- ◆ Everyone gets satisfaction from doing what they are good at
- ◆ If you are not good at something, you tend not to do it as often
- ◆ As a result, you do not get better at it

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Evaluating your experiences

- ◆ Do I wake up every morning excited?
- ◆ Is a large part of my day spent on trivia?
- ◆ Do I enjoy talking with my clients?
- ◆ Do I enjoy talking with my employees?
- ◆ Do I relish the planning and finances?
- ◆ Do I long for the hands-on aspects?

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Outcomes - 10 year time horizon

- ◆ What am I doing in 10 years?
 - ◆ Sold business to a third party
 - ◆ Passed it along to family
 - ◆ Passed it along to partners or employees
 - ◆ Continue working in the business

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Why grow equity?

- ◆ Keep ahead of inflation
- ◆ Build value into the business
- ◆ Increase size to more effectively utilize resources
- ◆ Increase buffer for downturns
- ◆ Isn't this what success is?

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Methods of growing equity vary

- ◆ Dependent on objective
- ◆ Dependent on skillset
- ◆ Dependent on bandwidth (of yourself and others)
- ◆ All require planning and work

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Selling The Business The Funnel

Business Proposal Received (600)
Listen to presentation (120)
Visit (40)
Due Diligence / Negotiation (20)
Investment/Purchase (4)

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What Buyers look for:

- ◆ Steady stream of Solid earnings
- ◆ Management with a track record
- ◆ Firm customer base
- ◆ Specialized expertise
- ◆ Believable plan

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Valuation

Quick and dirty EBITDA:
Discounted cash flow based on
Earnings before interest and tax
+ excess salary
+ other perks
+ depreciation/amortization

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Hypothetical Example Joe's Cabinets

Sales	1,200,000
Earnings -	100,000
Interest -	10,000
Dep/Amort	20,000
Excess Salary	20,000
Perks	40,000
	=====
	190,000

NPV 5 yrs @ 20% \$682,000

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Planning 3-5 years to maximize value

- Plan out cash flows
- Marketing and sales efforts
- Groom other management
- Clean up balance sheet (squeaky clean)
- Initiate sale process

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Equity growth for sale

- ◆ Competitive Acquisition
 - ◆ Make sure you know what you are buying
 - ◆ Develop financial plans for the combination
 - ◆ Realistic expectations.
 - ◆ Plan on first year loss.
 - ◆ Have competent advisors who have done this before.

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Equity growth for sale

- ◆ Capital expenditure plan
 - ◆ No new expenditure not on plan
 - ◆ Work with existing equipment if possible
 - ◆ Get rid of it if not
 - ◆ No equipment ahead of sales
- ◆ Marketing plan to increase sales
 - ◆ No good unless you follow it
 - ◆ Do not cut back on your marketing

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Equity growth for sale

- ◆ Lean manufacturing techniques
 - ◆ Don't get too involved
 - ◆ Educate yourself and key players
 - ◆ Just do the simple stuff
 - ◆ Visual inventory reorder levels
 - ◆ Anything that improves setup time
 - ◆ Anything reasonable that is developed by the people in the shop

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Positioning business for sale

- ◆ Show growth
- ◆ Showcase other's expertise, not yours
- ◆ Cultivate customer relationships
- ◆ Plan out bank relationship
 - ◆ Debt, showing you can use it and pay it back. Small amounts ok.
- ◆ Clean, organized well run operation

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Family Business Transitions

#1 fact to remember

30% of family businesses survive to the 2nd generation.

Only 30% of those survive to the 3rd

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Family Business Transitions

#2 fact to remember

There is only one captain on a ship

And not many people like sailing with Captain Queeg.

The Caine Mutiny - Herman Wouk, 1951

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Family Business Transitions

- ◆ Plan on 2 to 3 years
- ◆ Family members have different strengths.
- ◆ No harm/no foul Opt-out
- ◆ Fairness/favoritism
- ◆ Different financial considerations

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Family Business Financials

- ◆ Transfer of wealth between generations.
 - ◆ Tax issues
- ◆ Transfer control early, limited partnerships.
- ◆ Want LOW valuation. Transfer as gifts?

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Family Business Financials

- ◆ Less about equity, more about power.
- ◆ All financial and customer relationships must transition
 - ◆ Banks, Investors, Your favorite customer
- ◆ Interests are not aligned.

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All of the family investors have one thought in mind:

LIQUIDITY

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Gradually diverging interests of investors

- ◆ Founders: Growth and other objectives
 - ◆ Technology focus
 - ◆ Business Size
 - ◆ Rapidity of growth
- ◆ Family
 - ◆ Preservation of capital
 - ◆ Liquidity (all investors)
 - ◆ Security
 - ◆ "Lifestyle"

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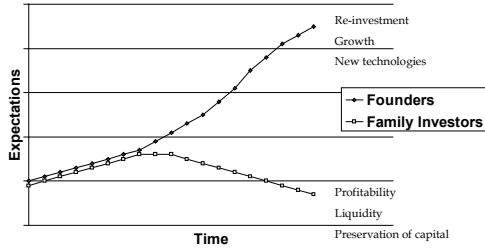
The Risk Aversion Factor

In general, as your business becomes more successful, your family investors become more risk-averse

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Divergent Expectations



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Family Business Transitions

- ◆ Power must shift completely
- ◆ Transfer with least cost
- ◆ Guarantee income stream
- ◆ Solid plan to grow equity
 - ◆ Not too aggressive
 - ◆ Limits on debt and acquisitions

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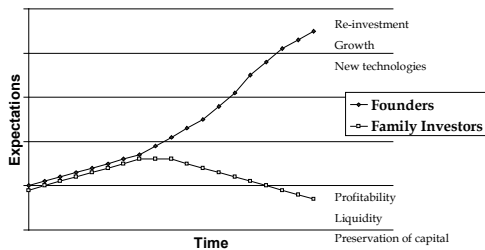
Same as Family Business EXCEPT

- ◆ Employee transitions are regulated
- ◆ Relationships are more at arms length
- ◆ Problems can be worse than family !
- ◆ Control issues can become deal breakers and company sinkers

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Divergent Expectations



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Gradually diverging interests of partners

- ◆ What were viewed as complementary skills are now viewed as lack of skills in other partners arena
- ◆ Junior/senior partner issues
- ◆ The "she doesn't put in as much time as I do" conflict
- ◆ The "he spends too much of my money" conflict
- ◆ The marriage breakup
 - ◆ It's the little things that cause the biggest problems
 - ◆ The lack of clear succession plan is often fatal

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Partnership Issues

- ◆ The real problem - all the little issues take your eye off the ball.
- ◆ Solutions:
 - ◆ Before starting: have a buy/sell agreement
 - ◆ If you didn't: create one NOW
 - ◆ Put expectations in writing and review periodically
 - ◆ Independent arbitration - AAA
 - ◆ Divorce

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Partnership Issues

- ◆ Remember - you both entered into this partnership valuing the other partner. The other partner hasn't changed that much
 - ◆ Neither have you.

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If you keep working in the business:

- ◆ At some point the business will undergo a transition
 - ◆ You can plan that transition
- OR
- ◆ You can let the government control the transition

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One thing to keep in mind:

There will be a transition in your business.

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Continuing in the business

- ◆ Prepare for your transition
 - ◆ Wills, trusts, estate work
 - ◆ Insurance
 - ◆ Develop a potential future partner
 - ◆ Work with other competitors whom you respect
 - ◆ Build the business one brick at a time

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Continuing in the business

- ◆ These times are tough for everyone, not just you.
 - ◆ Talk with other business people
 - ◆ YPO/TEC-Vistage/SBA groups/Rotary/Associations
 - ◆ Brainstorm with your employees and clients
 - ◆ Critical clients often tell you more than satisfied clients
 - ◆ Your employees hold the keys to many problems you don't even know you have.

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Continuing in the business

- ◆ Act positively and present an upbeat appearance
 - ◆ Everyone in your company takes their cue from you
 - ◆ If you frown, they get concerned
 - ◆ If you are positive, they feel more positive
 - ◆ Often this will rub off not only on others, but on yourself

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Continuing in the business

- ◆ Many people react better to a goal
 - ◆ Written goals stay with you longer
 - ◆ They MUST be specific and measurable
 - ◆ Create short term goals that have immediate results
 - ◆ Build a pattern of success
 - ◆ Goal after goal, the objective is met
 - ◆ Don't carry over - either reformulate or just buckle down and complete it
 - ◆ Intersperse goals that are difficult
 - ◆ Cold calling, finance reports - whatever you hate doing

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Continuing in the business

- ◆ Plan, plan, plan, plan and plan some more.
 - ◆ Very few people like to do this, but you need to...
 - ◆ For plans to be good, they have to be realistic and measurable
 - ◆ In times like these, have a plan for LOWER sales than you expect
 - ◆ Involve other people - they have insights you lack
 - ◆ When you are satisfied - LEAVE IT ALONE

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Continuing in the business

- ◆ NOW EXECUTE THE PLAN
- ◆ NO EXCUSES
- ◆ NO COMPLAINING
- ◆ YOU KNOW YOU NEED TO DO IT

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Continuing in the business

- ◆ Resist the temptation to reduce core sales efforts
- ◆ Beef up your outreach to clients
- ◆ Increase the value your client receives
- ◆ Rethink your customer base
- ◆ Build up your relationship with the bank
 - ◆ But don't borrow much- really easy to lose the entire job
 - ◆ Banks only lend to you when you are strong and have a plan
- ◆ Increase your visibility in the community
 - ◆ Donate to select charity auction or functions

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Continuing in the business

- ◆ In this economy (cont.)
 - ◆ Resist the temptation to reduce prices
 - ◆ Always ask for the last look
 - ◆ Flexible quoting - 3 different plans, choice, samples
 - ◆ Get Inc Magazine and read Brodsky's columns
 - ◆ Source of good info in tough times
 - ◆ Spend time searching out new offerings that your competitors omit
 - ◆ Your plan included marketing, right?

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So what do I take home?

- ◆ The economy is looking brighter, and you are a survivor
- ◆ You are not alone
- ◆ There are lots of resources out there to help
- ◆ You are not planning enough
- ◆ You are avoiding some of the tough work
- ◆ The tough work you are avoiding will reward you in the long run

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What do you want to do?

- | | |
|--|--|
| <ul style="list-style-type: none"> ◆ Master Craftsman <ul style="list-style-type: none"> ◆ Develop new techniques ◆ Evaluate new products ◆ Improve existing products ◆ Apply techniques to solve difficult problems | <ul style="list-style-type: none"> ◆ Business Owner <ul style="list-style-type: none"> ◆ Sell product to clients ◆ Find financing ◆ Solve production problems ◆ Solve customer problems ◆ Plan for the future |
|--|--|

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Dream no small dreams, for they have
no power to move the hearts of men.

-Goethe

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The way to get started
is to quit talking
and begin doing.

-Walt Disney

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