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BUILDING PROSPERITY

How Bright Your Horizon Is Depends
On What You Do Today



Prosperity Plus

BUILDING PROSPERITY

How Bright Your Horizon Is Really Depends on What You Do Today

When you walk along an ocean beach, the horizon tends to look a great deal wider than it does when you sit at your desk with a long scroll of pending emails on your screen. Both contain the potential for life-changing shifts in viewpoints. However what impact they have depends entirely on what you do today.

With that thought in mind, we present the latest issue of *Building Prosperity*. We begin with an interesting take on The Freedom Point (page four) and how one's net worth relates to his business value. Definitely something to review for anyone who owns a business and may be considering what the ideal horizon is.

We also hear from our very own Jim Kahrs as he provides keen insight with an article on You-Proofing Your Business (page seven), a guide to avoiding stagnation that often occurs among businesses that revolve around the owner.

And a little further down the shoreline we pick up a terrific summation on *Happiness and Goals* by L. Ron Hubbard (page twelve), the originator of The Hubbard Management System. Here again, is a thoughtful bit of insight on how things like confidence and ability bring about stability and happiness in one's job and life overall.

Enjoy the issue. Get outside when you can and may your horizon be as bright as you make it.

Tim Votapka
VP & Director of Marketing



2021 Was Record Year in Merger/Acquisitions

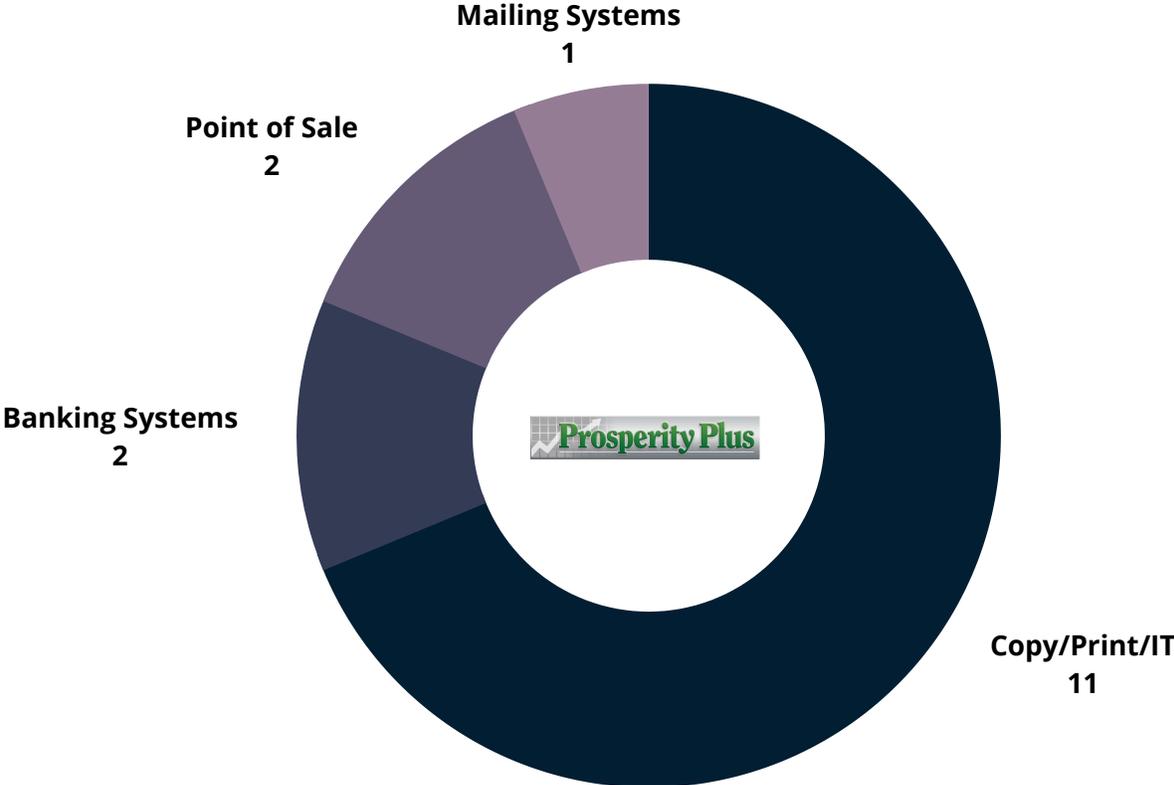
It has been a very busy time in the world of mergers and acquisitions, and 2021 was the most active year for Prosperity Plus as it brokered a record number of mergers and acquisitions in the business systems industry.

While we formally announce many of the deals we are involved with, several go unannounced out of respect for owners who choose to keep their transactions quiet. In fact, for each deal we publicize, there are two that go undisclosed.

The 2021 Numbers:

16 DEALS CLOSED IN 2021

6 WITHIN 47 DAYS



\$30 Million

LARGEST DEAL OF THE YEAR

\$200,000

SMALLEST DEAL OF THE YEAR



3 Things to Consider When You Hit 'The Freedom Point'

When was the last time you calculated the percentage of your net worth tied to your company's value?

When you started your business, its value was probably negligible. Unless you purchased or inherited your company, it wasn't worth much when you opened your doors, but over time, the proportion of your assets tied to your business may have crept up.

Let's imagine a hypothetical business owner named Sam, who starts his company at age 30. He has a little bit of equity in his first home and a small retirement fund. When he starts his business, it's worthless, so it doesn't yet factor into Sam's net worth calculation.

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When You Hit 'The Freedom Point'

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By the age of 50, Sam has built up \$600,000 worth of equity in his home, his retirement nest egg has grown to \$400,000, and his business has blossomed and is now worth \$4 million. Sam's company has crept up to represent 80% of his net worth.

Sam knows the first rule of investing is to diversify, which he is careful to do with his retirement account. Still, he has failed to achieve overall diversity given the success of his business.

What's more, he may have unknowingly passed something called "The Freedom Point," which is when the net proceeds (i.e., after taxes and expenses) of selling his business would garner enough money for him to live comfortably for the rest of his life. Your lifestyle determines your Freedom Point, but when you pass it, it's worth considering the risk you're taking.

If this pandemic has taught us anything, it is that nothing is for sure, and a thriving business one day can turn into a struggling company overnight. When your business makes up most of your net worth and selling it would garner enough money to retire, there's no financial reason to continue owning your business. You may enjoy the challenge, the social interactions, and the creative process of building a business, but keeping it may be unnecessarily risky.

When you've crested the Freedom Point and want to diversify—but still don't want to retire—you have some options:

- **Sell a Minority Stake:** In a minority recapitalization, you sell less than half of your shares. Often sold to a financial investor such as a private equity group, a minority recapitalization allows you to diversify your net worth while continuing to control your business.
- **Sell a Majority Stake:** In a majority recapitalization, you sell more than half of your shares to an investor who will most likely ask you to continue to run your business for many years to come. You get to diversify your wealth, keep some equity in your business for when the investor sells, and continue to run your company.
- **Earn-Out:** When you sell your company, you may have to agree to a transition period. Some will include an earn-out, where you agree to continue to run the company.

Building a successful business is rewarding, but when your personal balance sheet gets out of whack, it may be worth considering the risk you're shouldering and the options you have for sharing some of it.

'Your lifestyle determines your Freedom Point, but when you pass it, it's worth considering the risk you're taking.'



CAN WE TALK ABOUT YOUR MARKETING?

It Can Only Help!

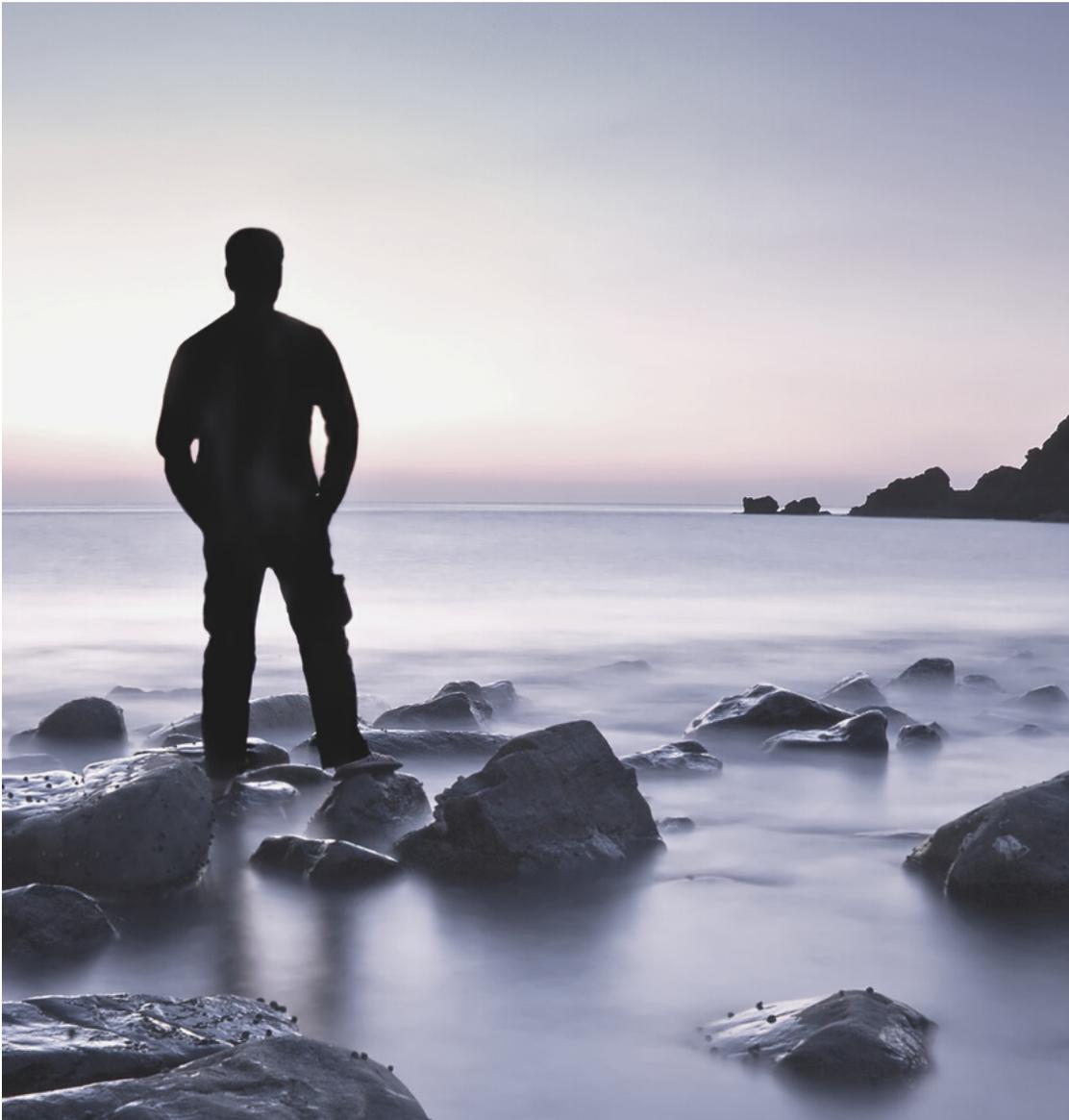
*"Our website looks sharp!
I went through the entire website. It'd been a while, and this time reviewing it refreshed my awareness of a lot of positive things about our company. Including the high degree of solutions and support we provide. I also took notice of how sharp and easily navigable our new website is. We certainly appreciate the creative marketing support that Prosperity Plus provides us."*

G.R. - Little Rock, AR

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You-Proofing Your Business

Don't Build Your Business Around One Person

written by Jim Kahrs

Most first-generation dealership principals came to be business owners after being either a successful sales person or technician. In almost all cases the business started out small and built momentum over time. Very often the start was in a garage, an office in the house or a small office. The business built with the owner(s) as the center of everything. One problem that some dealership

owners face is the fact that they have remained the center point of the business as it grew.

This can impact the business in many ways. First and foremost, a business that is built totally around one person can only grow to a certain point and then it stagnates

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You-Proofing Your Business

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This point will vary based on the skillset of the owner. I've seen many dealerships under this structure top out in the \$2 million to \$3 million revenue area while others have been able to push it as high as \$5 million. Yet a ceiling remains in place as there are only so many hours in a day and just so much one person can do before the clock runs out for the day.

Another major impact from this is an inability to create and implement a succession plan and/or exit strategy. No matter who you are there will be a need for a succession plan at some point in the future. When the business is built around one person this process becomes much more difficult. The business cannot be passed on to family members or key employees unless there is an heir to the "throne" that has the ability to do what you do on a daily basis. This is one of the biggest stumbling blocks dealership owners run into when planning an exit. As a result the options are limited. Too often the only option is to sell the business to someone else who will dismantle much of the infrastructure and tuck the sales and service operations into their business.

The way to have plenty of options and to operate from a position of strength is to "you proof" your business. By this I mean reduce the reliance that the business has on you as the owner and the most important cog in the machine. The benefits of doing so are many; you'll be able to spend time away from the business without it collapsing, you'll have happier, more empowered employees, you'll build significantly more value into the business and you'll open the door to all options when creating your succession plan and exit strategy. Who knows, you might even increase the revenue and net profit substantially.

So how do you you proof your dealership? It starts with identifying the areas that you hold the keys to and moving responsibility to others. Let's look at a few of these areas.

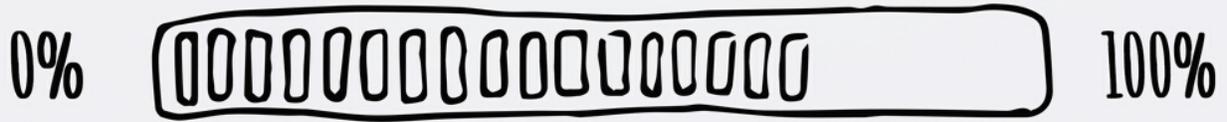
Sales

As mentioned earlier, many first-generation dealership owners have come up through the industry as successful sales people. They started their business as a sales person and have been the focal point of the sales department ever since. Start by asking yourself this question; what would happen if I wasn't in sales? Would the company collapse? Would it take a big step backward? If the answer is yes, you need to look at bringing others up to your level. If you're holding on to most of the big accounts you need to bring other reps into these accounts. The initial objection to this tends to be twofold. First there is the fear that no one else can handle the accounts and get the same level of sales you do from them. This is answered by training and monitoring. Don't drop the accounts entirely; stay involved as you transition other reps to handle them.

The second objection is that you now have to pay someone commission on business you weren't previously paying commission on. These "house" accounts didn't have sales commission tied to them. This is a dangerous one; in effect you're working the account for free. Any job you do in the business without being paid for it is a trap. You will be trapped doing this forever as the business "can't afford" to pay someone else to do it. If you handle accounts on your own I suggest you pay yourself commission as a sales rep. This will force the business to cover the true sales expense while still driving toward an appropriate bottom line profit. If you don't pay any commission on some of your sales then the company net income target needs to be higher to make up for this.

Continued on page ten.

GOAL ACHIEVED



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Take the first step and contact us to hear more.

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You-Proofing Your Business

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Decision Making

Are your people constantly coming to you with problems and issues and looking for you to provide solutions? This is probably the biggest time eater you face. A major step in you proofing your business is getting the people around you to start making their own decisions. This doesn't mean that you have to completely let go of the reins but you do need to start pushing back and challenging your managers to come up with their own solutions. If you really look at this you might be surprised how often others look to you to make decisions they are perfectly capable of making on their own. You'll also realize how many hours of your time are chewed up handling these "problems."

Yes, you are likely the best problem solver in the business, that's why you're a business owner, but that doesn't mean you can't train others. You'll be amazed how much time you can get back as those around you begin taking full responsibility for their area. You'll also be surprised how well many of them will handle things when trained properly and trusted to make decisions themselves.

Financial Review and Management

Too many dealership owners bear the burden of managing the financial results of the business on their own. The first thing to understand is that the financials are the score card of your business. You have a team of people playing this game of business with you. Imagine the results a professional sports team would have if the team had no idea what the score was? By knowing the score the team has the ability to adjust the game plan and their sense of urgency to win the game. If you don't share the financial results - your score card - your team is in the dark. You don't get the benefit of them adjusting their behaviors based on the situation. There are many ways you can share the financial score card of the business.

Some dealership owners have a full open book policy where all employees see all financials. Others will share certain information like overall revenue and departmental profitability. There is no right or wrong answer to what level of detail you share. I suggest sharing what you think will help the team see the picture and adjust their behavior to achieve the goal. The key is to share the information often and get everyone sharing in the responsibility of achieving the team's financial goals.

Recruiting

This is another area dealership owners tend to hold onto too tightly. The success of every organization is closely tied to the people that make up the ranks. It is important for the front line managers to learn how to successfully recruit good talent. As the owner of the business you need to provide the training, direction and incentives required for your managers. One way to do this is to require that each manager conduct a minimum number of interviews each week or month. In sales where turnover is greater I would suggest one per week. In service and admin you could go with one per month. By requiring this you create an environment where the managers have to constantly look for talented people and will build a pool from which to pull. They will also get better at locating and identifying the truly talented people. You proofing your dealership will definitely hinge on the ability of you and your managers to recruit strong team members.

Future Planning

The final area I'll cover here is future planning. As the business owner you have been the one providing the direction for the business. What products should we sell? On what geographic markets should we focus?

Continued on page thirteen.

SO YOU'VE BUILT A SUCCESSFUL BUSINESS. NOW WHAT?



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Happiness and Goals

written by L. Ron Hubbard

An organism, tending toward survival, obtains pleasure by survival actions and the seeking of survival goals.

True pleasure leads toward happiness.

Happiness could be said to be the overcoming of not unknowable obstacles toward a known and desirable goal.

A good job, skilled abilities, bountiful harvests, possessions: these are goals. There are very finite goals for the happy man in every day of the week, as well as the big goals toward which he directs his efforts. His happiness does not come from the attainment of the goals, but from overcoming obstacles on the way to those goals. No man is happy without a goal and no man can be happy without faith in his ability to reach that goal. The highest form of security is confidence in one's self, in the future, in the group and in Mankind. Without such confidence an individual has no security. That person who measures his security in terms of a good job purposely shortsights himself as to the actual insecurity of his position.

'The highest form of security is confidence in one's self, in the future, in the group and in Mankind.'

L. RON HUBBARD

A man who works for an organization which may endure long or be transient, according to popular indoctrination, is secure. And yet he may work to the period of his life when he is no longer adaptable and finds himself, of a sudden, without any job because of the simple sudden shift of a board of directors or because of the antagonism of a foreman. Security would consist of this man's being able to adapt himself to his environ, being prepared for any possible shift in the factors which influence his job and being confident of his ability to meet and deal with any possible shifts. Security is not a static thing. Security would only lie in a man's confidence in reaching his goals and, indeed, in his having goals to reach

Without goals, hopes, ambitions or dreams, the attainment of pleasure is nearly impossible. Many individuals do not realize this. And even though capable of assigning to themselves goals and pursuing those goals, they permit destructive people around them not only to undermine their confidence in their own ability to attain security and survival, but also to deny them the right to formulate and strive toward goals of a desirable magnitude.



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You-Proofing Your Business

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Should we consider acquisitions? These are all great questions that are rarely contemplated by the team. One way to bring them into the conversation is to do an annual SWOT analysis. This is a process where you bring in your managers and key employees to brainstorm how to plan for the future. You look at and discuss the strengths, weaknesses, opportunities and threats of your dealership. In doing so you come up with plans to correct the weaknesses and minimize the threats while building on the strengths and capitalizing on the opportunities. The team now increases their overall responsibility for determining the future of the company. When done correctly they now share ownership for the future direction.

The above items represent just a handful of areas you can look at when trying to you proof your dealership. They'll provide a great starting point. If you embrace the process you'll find that this starting point will lead to a dramatic shift in the responsibility level of all of your team members. They will slowly understand that they are not simply there to wait for you to give out orders and provide direction. They can and should be active participants sharing the responsibility. When they fully embrace this anything is possible. You now have a pool of talented people to draw from when looking for a successor and you'll have a more stable and profitable business. This will open all of your options for moving forward. Holding on to everything yourself typically leads to only one exit option; sell the business for less than it is truly worth to someone who will dismantle it to pull out as much profit as possible. With time on your side the choice is yours.

Jim can be reached at (631) 382-7762 or jkahrs@prosperityplus.com.

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