CLAYTON CAPITAL PARTNERS

Exit Planning NAVIGATOR

Exit Planning Strategies for the Entrepreneur

Issue 39

Systems: Value Drivers? Yes! Between The Owner's Ears? No!

Case Study

Dawn and Preston Slater, owners of a machine shop with $7 million in annual revenue, sat down and announced, "We have decided to leave the business as soon as possible. We've got our management team in place and want to execute a transfer of the entire business in the next six to 24 months. It has been a great run, but we are burned out. What do we do next?"

To answer their question, their attorney asked a few of his own. "Burned out? When was the last time the two of you left the business for at least two weeks, or better yet, a month?" As he expected, Dawn told him that they had never left the company for more than two weeks and that was over 10 years ago.

The reason for their burn-out was crystal clear, but how valid was their belief that they'd installed a management team? If they truly had one in place, why did they feel compelled to go to work every day?

Again, Dawn explained, "When we left, things didn't go so smoothly. Preston is the only one who knows how to maintain the machinery. When one of the machines went on the blink, he spent hours on the phone walking the plant manager through the repair process."

As Dawn talked, she revealed that Preston was also the only one who knew how to set up and program the company's manufacturing process to efficiently produce the customers' orders. In addition, he was the only one who knew how to design the products their customers demanded. In short, there was a treasure trove of knowledge firmly lodged between Preston's two ears.

Preston and Dawn did indeed have key employees in charge of marketing and sales, personnel and the plant, but they did not have a management team. There were three very important functions: product design, set up and programming of the manufacturing equipment and equipment maintenance, that only Preston could perform. Without converting these functions to **systems**, however, Preston and Dawn did not have a key Value Driver in place--one that would make their company valuable to a buyer and more readily saleable.

Prior issues of **The Exit Planning Navigator®** have discussed the necessity of having a trained and motivated management team in place before, and after, you leave the company. In the eyes of a buyer, a business has little value if its owner's departure means the new owner must reinvent the wheel. So it is with systems. Once you are gone, can the new owners rely on systems to make your success repeatable and sustainable? If not, the new owners simply will not be able to sustain the cash flow necessary to pay you off.

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(continued)

What is a system?

A business system is a repeatable process that employees understand and use to achieve a desired purpose. Owners implement human resource, marketing, organizational, administrative, financial, accounting, lead generation, and sales systems.

Michael E. Gerber has written extensively about systems in his book, *The E-Myth Revisited: Why Most Small Businesses Don't Work and What to Do About It*. He suggests that there are nine elements of a successful system. Theoretically, that may be true, but for our purposes we can limit our discussion to four prime characteristics:

1. The system must have a **clear purpose**. What is the desired result of the system? In Preston's case, he needed three systems: new product design, machine set up and machine maintenance.

2. The system must be **accountable**. Who is responsible for executing each step of the system, at a determined time, in order for the system to accomplish its goal? How will you objectively measure the success of the system? Preston needed to designate the positions in the company that would be responsible for executing the three new systems as well as how he would measure how successfully each system was implemented.

3. The system must be **documented**. If the system isn't written down, it may or may not exist in the mind of employees is an endless variety of interpretations. If a system isn't described in writing, employees can't be expected to follow it and a potential buyer can't know that it truly exists. While Preston was tempted to conduct a quick, one-time training session and consider his job done, he needed to create manuals that described in detail what decisions went into his designs, how he set up the equipment to facilitate those designs and how to maintain the equipment on a regular and on an as-needed basis.

4. The system must be **repeatable**. If your systems only work if you are there to execute them, they do not meet the standard of "repeatable." If you feel you can't delegate your role in a particular system, that system is not repeatable. Your systems may be dependent on a particular position but they must be independent of any particular person to be easily repeatable. Again, Preston had to do more than simply train one employee to do his job. He had to figure out a way to make the tasks that only he had performed in the past, easily repeatable by others in the future. In doing so, he could replace himself with systems that others could use to replicate his expertise.

Creating Systems

How does the busy owner create a system? There are a number of books (including the book referred to above) and experienced business consultants that can help you to design successful systems. As you read these books and retain these consultants, however, remember your goal: systems create value. Value is a key element in the successful exit from your business.

Subsequent issues of **The Exit Planning Navigator®** *discuss all aspects of Exit Planning.*

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