Growing a business to sell

Hi, welcome to another one of my podcasts, or if you're watching, a video podcast.

Today I want to talk about, how you want to build a recruitment business to sell. As I'm sure you're aware, what Davidson Gray do is we back recruitment consultants to build their own businesses, so I speak to many people who want to build their own businesses and one of the most common subjects is I want to build a business to sell.

The reasons for wanting to sell

So, when somebody says that to me, the first question I ask is 'why?'. The answer tends to be 'I want to be rich' or words to that effect, but you may find it surprising as I've built three businesses from the ground up and sold them, I don't advocate that to other businesses. A bit ironic, isn't it?

Well, the businesses I sold out of, I didn't sell out of to become rich. I sold out of because I just wanted a change in life, and I'd got a bit fed up with running a business. So, I decided to sell out. I've covered part of the reasons in my mental health blog, but I won't go over that now, but I don't advocate selling recruitment businesses.

Plan and build it in advance

If you're going to sell a recruitment business, to get decent value, you've got to have had a succession plan set up, so you don't have to be there. So, if you don't have to be there and the business is making a profit, because it's got to otherwise you can't sell it. It's not going to fall apart, otherwise, nobody's going to buy it. In other words, you know the staff isn't going to leave on mass and you've got a strong management team; you haven't got your eggs in one basket. All the things that you need to sell the business, then why would you sell it?

Because a perm business, you're probably going to get four times profit; contract business, maybe eight times profit. But quite often in that unless you've got a good succession plan, you're probably going to have to do an ear now and what that means is for a period of maybe two or three years, you've got to stay in the business for the transition with the new owners.

Which could be a nightmare because you're used to being your own boss and then you're beholden to somebody else. Also, the fee that you agree with the would-be buyers is quite often tied into your projections that you sold the business on. So for example, if it's making a one million pound profit, you do projections that it's going to make one and a half or two million profit in three years' time, if it goes according to plan. So, the offer will be based on you hitting target. If you don't hit target, you don't get as much so it can be a nightmare.

Put a succession plan in place

I was fortunate enough that when I sold out, I'd done my succession plan I literally signed up and walked out the door. But if you do that, you're not necessarily going to get the same value that you will from a would-be buyer because they want that surety that, when they take over the business, that it won't fall apart. And when I say it won't fall apart because a major part of any recruiting business is the staff. If the staff leave en masse then, okay you're going to struggle, aren't you? So, the bigger the business, the easier it is, because if it's a big business, not everybody's going to leave. Small business people will leave.

But the would-be buyer needs to know it's not going to fall apart so people don't leave en masse.

Going back to, if the business is resilient but you're only going to get four times profit or eight times profit, why don't you just tie in the people that are really important to the business and then you can go and live in your vineyard in France or whatever it might be and then you're going to be rich unless you've got an issue with spending loads of money.

If you're going to sell a business, it's got to be making a good profit. Now what I mean by good profit is if you're looking to sell a business that's maybe less than 10 staff, you're going to struggle. Because selling a business isn't as easy as people think. It's not like selling a car or a house. You've got to find somebody who wants to buy the business. So, it's got to be attractive.

I've been through the sales process with two of the businesses; another one was just a speculative buyer that came in, offered the money. It's not quite what you think. It's not as simple as you think. If you've got a very big business and it's, say 100 plus staff, then it's a bit easier to sell but the smaller the business the more you're looking for the right buyer. So, it's not quite as easy as you think. You're really looking at least 20 to 30 staff before you can sell it and with that, you're probably going to make a million-pound profit, at least.

More reasons to sell

If you're making a million pound a year profit, you're not going to be skint, are you?

You've clearly got quite a bit of money, or you should do, unless you've got a spending problem. So, selling the business to become rich, you should be wealthy by that point, which is why when I sold out, I took less than the share was worth because quite frankly, at that point, I felt as though I was wealthy enough. I didn't necessarily want a jet or a private yacht or anything like that. I was quite happy, so the reason for wanting to sell a business, I think, is more romantic.

Or it can be an achievement thing. I understand that you want to build a business to sell and sell it, so you've achieved that so I'm not declining people that sold their businesses because lots of people sell businesses for different reasons and this is just my opinion. But personally, I don't necessarily advocate selling businesses.

Grow your business like you're going to sell it

However, what I do advocate is growing your business as if you're going to sell it. Now the reason for that is a would-be buyer is going to look for things within your business that you want in your business. I mean this is the blueprint we use at Davidson Gray with the businesses that we grow. We grow them with an exit or event or sale in mind but without thinking we're going to sell. And when I say 'we', the business owner, because I'm a minority shareholder, so it's their decision if they sell but obviously, it's in their interest to use my experience on how to build high-worth businesses.

So, we put in the constituents that a would-be buyer wants to see and going back to what I just said, it's those bits of what you want in your business, like a strong brand, which is what you need. You need recurring revenue, so contract is good; if you've got loyal clients, that's good. If you've got strong marketing, that's good. You also need low staff attrition, you need to have a spread of business, not lots of business with one client. You need a very good database; you need a strong management team. It can't be reliant on you.

There's lots and lots of things that would-be buyer or want in your business, so if you're good enough to get those in your business, you then don't want to sell the business. So that's what we do. Now that that is for me the smart move. You build your business with an event in mind, so that gives you a number of benefits. If somebody comes along and offers you some money for a business, you're going to get more for it because it's built better. If you want to sell it as I did, I just had enough, I just wanted to sell, you're going to get more for it, it's going to be a more resilient business because it's built better. It should make more profit as well and it's also going to be easier to run. If you build a business that have the constituents in it that would-by buyer wants like a good database, low staff attrition, great culture, great branding, great marketing, strong management team; all that kind of stuff, it becomes a very easy business to run. I've never worked in the corporate world within recruitment.

Bigger businesses are easier to run

Anybody that's worked in the corporate world will know or will probably have seen some people who are a little bit rubbish, but they've got good jobs because they've played the politics. Because once you get higher up the food chain, it becomes easier, which I know sounds a bit weird, but as a recruitment consultant you're judged on what you do and you must manufacture business every day, you've got to produce that cash. But if you are a part of a very well-run business, it's very easy to do it easily.

So, I got to the point with my business, there were two business: Executive Headhunters and Elliot Marsh, and I was day-to-day managing director of Elliot Marsh and I got to the point where I didn't need to be there and oddly enough, I didn't like that because I was bored. But if you get your business to the point where it's run well with the constituents that a would-be buyer would want, it becomes incredibly easy to run. So, the bigger the business, the more successful it is, the easier it is to run, unless you've got a very aggressive growth structure, or you've added risk into the business.

There are various things that can add risks into the business. One of the things that I have always been wary of, because I've seen it. The downside of other businesses is going multi-branch, because if you've got a great business, a great business culture. If you then want to reproduce that somewhere else, you've got to transplant yourself and you are almost building a business all over again. It can be done obviously, lots of businesses do it, but it's a lot higher risk.

When I was at Cranfield University and I was studying business models, I was looking at risk factors. And the bigger your business, the lower the percentage profit tends to be. And that means, the bigger the business, there's more room for it going wrong but also perversely, the bigger the business, the more resilient it is because it's got critical mass. So, I looked at the various things that affect the risk factor in businesses, and one of the things that I personally didn't like is multi-branch, because it proves a lot harder. Now with Executive Headhunters, which was the sister business, we did set up an office in London because we're an executive search business, so having an office in London we felt was important.

And we tried it a couple of times and it just doesn't work. We could have persisted with it, could have made it work, but with the transport system, with video conferencing, all that kind of thing, it just became a lot more sensible to carry on growing the business where we were than trying to build another branch somewhere else.

Your motivation changes over time

So when you're looking to build your business to sell, I think what you've got to bear in mind is ultimately what you really want and this is why I asked the would-be business builders, who want to speak to me about growing a business to sell, is what do you want to build it to sell for? Now the answer that somebody would give me at that point will be completely different to the answer probably in a few years' time, because as you evolve as a business owner, as you grow as a business owner, as you change as a person, as the business grows and you get people in it, it will be highly likely that your motivation, the targets you set, the challenges you set, the reason you do it, will change.

Initially, when I ran my first business, the reason I did it, is I just wanted to be my own boss, simple as that. I just didn't want to have a boss; I loved the idea, the excitement of growing my own business and I wanted to earn lots of cash. It was as basic as that. But as the business started to grow my motivations changed.

When I was at Cranfield in 2005, there was a module within the course, and it looked on what your motivation was for growing the business. It’s a very sophisticated questionnaire-type system, and the results that popped out as to what your motivators were. And at the time, I've got to be honest, I thought it was flash cars, living the high life, having lots of money, all the kind of basic stuff.

But it turned out my motivation was leaving something I could be proud of, growing people and developing a brand that I really valued, which was great because it showed I wasn't a shallow person.

But it showed where my motivations were at that point. Then fast forward to the point where I was getting to the sale point, my motivation had changed because I felt as though I achieved everything I wanted to achieve, I got a business I didn't need to be in anymore. I've made a significant amount of cash. The next step for me was just making it bigger and more money and it just didn't do it for me anymore.

The motivation I got then was something called self-actualisation, which means I wanted to be the best version of me I could be. I wanted to become as highly skilled as I could in my career but also balancing it appropriately with enjoying life outside work.

So, my motivation had changed completely. But if you'd asked me when I was thirty, because that's when I set up my first business where I'd want to be in five years’ time, 10 years’ time, or 14 years’ time, which is when I sold it, there's absolutely no chance I'd have known that. Because you just don't know.

And, it depends a lot on, quite frankly look, because one of the biggest factors in the growth of a successful business is getting the right hires and taking the right opportunities at the right time, and it's finding the right people to work with you and grow your business. That will most likely shape how you want to grow the business, because it could be easy, it could be more fun; there's lots of different reasons it'll change your outlook on the business.

External factors

Also, the external factors. You may be single when you start your business, you may be married, you may get divorced, kids, whatever it might be. There'll be all these things that change but going back to my original point about building a business to sell, it's still the right thing to do. Build the business as if you're going to sell it, because then you build a better business, and it's as simple as that. And that's the blueprint I use now. I don't use a blueprint to help the businesses to sell that make another Elliot Marsh for example, or another Executive Headhunters. What I do is I work with the business owners in their sector to build it in their sectors with a cultural framework that they want with their personalities and I'm there to coach and mentor and help them grow it the way they want to grow it. So, it wouldn't be the same for me if I just built ten other businesses exactly like the business I'd already built. It's more enjoyable for me building a business the way that my business partners want to grow it, so it's built in their ideals so, you know, they're all built in different ways.

Hopefully, it's a lot easier for them to grow it. It's a lot less stressful. The ambitions change because we're putting such a great foundation in. If you build a great foundation, it makes it so much easier. Now you don't have bungalow foundations if you want to build a skyscraper, so you know, at the beginning, you've got to always be thinking of doing today where you want to be tomorrow. Build the business today what you want it to be tomorrow, because retrofitting certain aspects of growing your business can be very difficult. For example, if your staff don't use your database properly and they're not skill-attributing the candidates properly, retrofitting is really hard work. Brand building takes an awful long time.

Conclusion

I did a blog or a podcast (excuse me, I forget) about the importance of getting culture right in your business from the get-go, because it's very difficult to change culture. So that's why you need to get it in early and decide what you want in the culture of your business and your culture will change as the business grows but you've got to keep an eye on it. So there's all these things you've got to bear in mind when you're going into business, but ultimately it comes back to trying to think ahead and trying to instil and put the framework in your business as if you're going to sell it and then it just makes, not only building the business easy, it makes the growth far easier and then if you do get super ambitious because you've got the framework right, because you've got the foundations right, it then makes it so much easier.