Planning for the Harvest

PART 3
Developing the New Venture
Business Plan
The Importance of the Harvest

• Harvesting (or Exiting)
  ➢ The process used by entrepreneurs and investors to reap the value of a business when they get out of it.
  ➢ The process involves:
    ❖ Capturing value (cash value)
    ❖ Reducing risk
    ❖ Creating future options
  ➢ When to “call it quits”?
Exhibit 13.1 Methods for Harvesting a Business

We will talk about each – except IPO
Strategic Acquisition

Value of the business is based on:

- Firm’s stand-alone characteristics, and
- Synergies that the buyer thinks can be created by the strategic fit of the firm and a potential buyer.

\[ \$1 + \$1 = \$3 \text{ or more} \]

1. Think of a business – which type of business would want to buy you strategically?
2. Make contact early – develop relationship (alliances)
3. Buying from familiar parties is a preferred method
Financial Acquisitions

Types of Leveraged Buyouts (LBOs)

Bust-Up LBO
Purchase with intention of selling off assets

Build-Up LBO
Purchase similar firms to make up one larger company

Management LBO
Top managers become top shareholders through debt financing
Selling the Firm

Sales to Employees

Employee Stock Ownership Plan (ESOP)

- Firm sold either in part or in total to its employees, usually through stock offerings

- **Pros:**
  - Employees retirement contributions are used to purchase shares in the firm
  - Motivates the employee-owners to perform better

- **Cons:**
  - More owners may mean slow decision making
  - Employees may lose $ if company does poorly
Selling A Business in Difficult Times

Before you sell try to compete - Surviving a recession (3 min)

- Clean up the books
- Keep revenue strong
- Consider your sector and market
Releasing the Firm’s Cash Flows

- Harvesting by Withdrawing Firm’s Cash
  - **Advantages:**
    - Retain control of firm
    - No need to seek a buyer
    - No expenses associated with sale of business
  - **Disadvantages**
    - Loss of development potential and opportunities
    - Tax disadvantages of cash withdrawal
    - Requires patience to siphon off cash slowly
Harvesting: Private Placement

Private Equity (Capital)
- $$ from venture capitalists
- $$ from private investors (angels)

Factors in the Transfer of Family-Owned Firms
- Liquidity for exiting family members
- Continued financing for company growth
- Maintenance of family control of the firm
Developing a Harvest Plan

• Manage for the Harvest
  - Manage for the long-term.
  - Manage the firm first, prepare to harvest second

• Expect Conflict – Emotional
  - Strains of selling own business
  - Personal ties to the business after sale

• Get Good Advice
  - Mentors with recent harvest transaction experience
  - http://www.score.org  LINK

• Value is in the eye of the beholder!
  - Video: Clip on Perceived Value
  - Your business may look ugly to you, but it may look great to a potential buyer!
Developing a Harvest Plan

Understand What Motivates Your Exit

- Motives for exiting:
  - Money
  - Independence
  - Health of the company
  - Your management team
  - An heir apparent taking over
- Personal identity and the business itself
- Avoid “seller’s remorse”
Getting Out of Crisis – How To …

• In many companies you may need to play **all** roles – (from CEO level to worker bee)
• “Putting out fires” concentrates on “worker bee” skills – (Ever get busy yet get nothing done?)
• Owner can often get stuck in “worker bee mode”

• **If in crisis:**
  1. Go to problem solving (worker bee mode)
  2. Then jump to planning (CEO mode) and look at trends and SWOT **(commit to calendar)**
  3. Get back to (worker bee mode), BUT set **planning time** for yourself and those appropriate to help you **(calendar)**
  4. If not favorable after planning, then plan for harvest
1. **Issue identification:**
   What is it that happens (perhaps on a recurrent basis) that needs to be resolved

2. **Identify the variables that cause the issue to occur:**
   Usually only a few things really make the difference. As per the 80/20 rule, we need to identify which (few) variables really make a difference regarding the issue we identified. What are the primary causes of this?

3. **Develop a list of "alternate outcomes" for each variable (Think through this step well):**
   For each variable (identified in step 2), try to brainstorm a list of how it may possibly materialize (occur). What are the ranges of possibilities for each variable? Identify as many alternate outcomes for each variable as you can. **Number them.**

4. **Consider the implications for each alternate outcome:**
   Consider the reality that each of the "alternate outcomes" (from step #3) may emerge
   - **A. Probability:**
     Identify, for each, what we feel is the probability for it to actually occur.
   - **B. Plans and action:**
     Then, for each, consider how we should perhaps change our plans, and which actions we may need to take, assuming that it may occur.
   - **C. Best choice:**
     After we have estimated the probabilities, effects on our plans, and appropriate actions to take for each, then we need to assess which (step "B") may be the most acceptable action plan for us. This may help guide us as we react to any given situation.
5. Identify "early warning" signals and watch for them:
   For each alternate outcome (step #3) identify an early warning and measurement system.

   A. Early warning indicators:
      Identify, for each alternate outcome, occurrences that can be observed. Consider (for each alternate outcome) what we might be able to notice, early on, that may warn us that it may actually occur. What are the subtle indicators that may help us predict that something may happen in the future?

   B. Measurement systems:
      How can we enhance our measurement systems so that we are constantly monitoring the "early warning indicators"? Once a measurement system is in place, we can be confident that we are sensitive to appropriate indicators, and that we are consistently scanning for them. This foresight can help us to notice potential problems in their early stages, and execute contingency plans based on thoughtful consideration of potential outcomes.

Go to: My Home Page, click on Entrepreneurship, Link for “Scenario Planning”
Blue Ocean Strategy

An introduction with example
What is “Red Ocean”?

- Are you facing increased competition from domestic and international rivals?
- Do your sales reps increasingly argue they need to offer deeper and deeper price discounts to make sales?
- Do you try to outperform your competitors on similar activities, only to find it is getting more and more expensive to gain market share?
- Do you blame slow growth on the market?
- Are mergers and acquisitions the principle means your company sees to grow?
- Is it easier to get funding to match a strategic move made by your competitor than it is to get internal funding to support a strategic move that allows you to break away from the competition?

If you answered yes to several of these questions, then you are operating in a red ocean mode.
“Blue Ocean” - Unknown market space

- Rules of the game are waiting to be set
- Demand is created rather than fought over
- Opportunity for rapid and profitable growth
Blue Ocean Strategy

• Create new market space (not outperform existing competition)
• Result of study of more than 30 industries over 100 years
• Reproducible tools to pursue innovation
• Strive for differentiation AND low cost
• Here’s how to do it . . .
Industry Value/Cost Curve
Value/Cost Curve – Lower Costs

The Productivity Frontier moves eg.
- Automation
- “Off shoring”
Value/Cost Curve
Still in the Red Ocean

Most organizations are usually somewhere within the “Red Ocean” the Value/Cost range of their industry.
Beyond the Value/Cost Curve

What about moving beyond the productivity frontier? Into the “Blue Ocean”
Beyond the Value/Cost Curve

- High Value, High Cost: Eliminate and reduce costs.
- Low Value, Low Cost: Raise and create value.
Value Innovation – Blue Ocean Strategy

Based on the strategy concepts and frameworks developed by INSEAD Professors Chan W. Kim and Renée Mauborgne

A different strategic logic: instead of focusing on beating the competition, focus on creating leaps in value which open up new and uncontested market space, thus making the competition irrelevant

Value Innovation results in creation of Blue Oceans which pursue differentiation and low cost simultaneously

What can be eliminated that the industry has taken for granted?

What can be reduced well below what the industry offers?

What factors should be raised well above what we normally expect from the industry?

What factors should be created that the industry has never offered before?
Blue Ocean Strategy

Example
Noncustomer Exercise
Life in the 1900s
Shaving in the 1900s
Shaving in the 1900s
Who are the existing customers of the industry?

- Medium/high-income
- White-collar workers
- Barbers
What are the key competing factors of the industry?

- Life-lasting razors
- Forged blade
- Size of blade
- Price of razor
Who are the noncustomers?

1st Tier Noncustomers: occasional shavers
2nd Tier Noncustomers: low-income
3rd Tier Noncustomers: women

First Tier: “Soon-to-be” noncustomers who are on the edge of your market, waiting to jump ship
Second Tier: “Refusing” noncustomers who consciously choose against your market
Third Tier: “Unexplored” noncustomers who are in markets distant from yours
Shaving was not yet a common habit

Many people found it a hassle to shave
In 1900, less than 26 million people lived in metropolitan cities where there were barbershops...
The remaining 66 million lived in nonmetropolitan territory and could not easily go to the barbershop
2nd Tier: Low Income

- 40% of total population had low incomes
- 2 million people unemployed
- 30 million below the poverty level
3rd Tier: Women

- 37 million (49%)
- 12 million between 20-39
- Can they realistically go to the barbershop?
What are the factors that kept them from shaving?

- Price
- Safety
- Ease of use
- Maintenance-free
- Fashion and image of shaving
Acting on our understanding of noncustomers

Eliminate
- Life-lasting razors
  - Forged blade

Raise
- Safety
  - Ease of use

Reduce
- Size of blade

Create
- Maintenance-free
  - Fashion & image
Gillette’s Safety Razor
Gillette’s Strategic Move

- In 1903 Gillette invented a safety razor with disposable blades
- The razor required a small initial investment
- Gillette changed the business model of the industry
Gillette’s Strategic Move

FROM

Difficult
Complex honing & stropping process
Unfashionable

TO

Easy
Disposable blade
Fashionable
**Gillette Safety Razor**

So Easy, So Comfortable, So Different, and So Satisfactory

is the unanimous opinion of hundreds of thousands who shave the Gillette way. Don’t be persuaded to
by some other name, for no razor made, irrespective of price, will give the same comfort and satisfaction as the Gillette.

$5.00 Complete — An Ideal Holiday Gift

The Razor is high silver plated; has 12 thin, flexible, highly tempered, and keenly double-edged blades. Each blade is sharpened and ground by a secret process and requires no honing or sharpening. New Blades 50c per dozen.

Each Blade will give from Twenty to Forty Smooth and Delightful Shaves

You will never have the razor nicking or cutting your face again when using a Gillette Safety Razor 40-50 shaves without re-sharping, at less than 2c a shave.

OVER 200,000 NOW IN USE

Ask your druggist for the Gillette safety Razor. Accept no substitute. He can procure it for you.

Write for our interesting booklet, which explains our 30-day Free Trial Offer. Most dealers make this offer; if yours does not, we will.

GILLETTE SALES COMPANY

150 TIMES BUILDING: 424 Street and Broadway: NEW YORK

In writing to advertisers it is of advantage to mention The Red Book.

**The Quality Razor of the World**

**Gillette Safety Razor Blades**

Its daily dividends in shaving comfort and a well-groomed look make your investment in Gillette Blades seem infinitely small by comparison. The shaving satisfaction these blades give in daily service is proof positive of their indispensable merits. The finest of blade steel and production processes perfected by the most thorough research and experiment, are, through the practical experience of twenty years of blade-making, responsible for giving the Gillette Blade the finest edge that steel can take.

GILLETTE SAFETY RAZOR CO., Boston, U. S. A.
Shave Yourself

- It’s safe
- It’s private
- It’s economical
- It’s easy
In the 1910s, hair removal for women started to become fashionable.

Lengths of skirts and dressed reduced.

This triggered Gillette to introduce the Milady Décolletée.
A Gillette for Christmas

Check the men on your Christmas list. Probably all shave and have razors. Don't let that stop you. If they are using old-style razors or those which have lost their precision from being dropped and damaged, they are missing a lot. For their presents mark down Gillette Super-speed as a natural. They'll be delighted with the change.

Up-to-date streamlined shaving every day for years to come — here's the Set to give it.

£2.8 for £4.5. Quick-action one-piece Razor. Quick-feed Dispenser with six Blue Gillette Blades and discarded blade container. Compact moulded case with transparent lid.

Super-speed Gift Set: This set contains a "Rakolt" Razor, six extra Dispenser with 10 Blue Gillette Blades, and tube of Gillette Shaving Cream - price £1.7.

Milestone of Shaving — two 10-Blade Dispensers in cheerful Christmas pack — price £4.5.
During WWI, soldiers needed to be clean-shaven in order to fit the gas mask properly.

It became imperative for them to shave.

Gillette partnered with the US army, selling 3.5m razors & 32m blades.

When they returned home, they were heroes. It became the fashion to be clean shaven.
Shaving Trivia: Origins of the barber pole

- Before 1745, barbers also performed surgery
- Bloodletting was a popular medical practice
- The spiralling red and white stripes symbolized blood & bandages
Eliminate, Reduce, Raise, Create

Short FILM (3 min)

Going After Unserved or Underserved Markets