The Importance of the Harvest

• Harvesting (or Exiting)

➢ The process used by entrepreneurs and investors to reap the value of a business when they leave it.

➢ The process involves:
  - Capturing value (cash value)
  - Reducing risk
  - Creating future options

➢ When to “call it quits”?
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
Choosing a LBO Firm for Acquisition

Characteristics of a Potential LBO Firm

- Steady earnings over time
- Attractive growth rate for firm
- Effective management team
- Assets useful as collateral
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
Distributing 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
• Private Equity Recapitalization
  ➢ Private equity investors provide additional financing to a business that allows an entrepreneur to cash out a portion of his or her investment, while possibly continuing to operate the business
  ➢ $$ from venture capitalists
  ➢ $$ from private investors (angels)

• Factors in the Transfer of Family-Owned Firms
  ➢ Liquidity for exiting family members
  ➢ Continued financing for company growth
  ➢ Retaining control of the firm by the younger family member
Developing an Effective Harvest Plan

• Anticipate the Harvest
  - Manage for the long-term
  - Manage the firm first, prepare to harvest second
  - Prepare by separating your “self” from the firm

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

• Get Good Advice
  - Advisors with harvest transaction experience
  - [http://www.score.org](http://www.score.org) LINK

• Value is in the eye of the beholder!
  - Video: [Clip on Perceived Value](http://www.score.org)
  - Your business may look ugly to you, but it may look great to a potential buyer!
Developing a Harvest Plan (cont’d)

• 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”
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
   - **Probability:**
     Identify, for each, what we feel is the probability for it to actually occur.
   - **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.
   - **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 . . .
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

- **Value**
  - High
  - Low

- **Cost**
  - High
  - Low

- **ELIMINATE AND REDUCE (costs)**
- **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

<table>
<thead>
<tr>
<th>Eliminate</th>
<th>Raise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life-lasting razors Forged blade</td>
<td>Safety Ease of use</td>
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<tr>
<th>Reduce</th>
<th>Create</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of blade</td>
<td>Maintenance-free Fashion &amp; image</td>
</tr>
</tbody>
</table>
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

High Priced Razor
Forged Blade
Thick & Wide Blade
Unsafe

TO

Low Priced Razor
Stamped Steel Blade
Narrow & Thin Blade
Safe
Gillette’s Strategic Move

FROM

Difficult
Complex honing & stropping process
Unfashionable

TO

Easy
Disposable blade
Fashionable
THE RED BOOK ADVERTISING SECTION

NO SHADOW OF DOUBT EVER EXISTS IN THE MIND OF THE MAN WHO USES A

Gillette Safety Razor

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

in the estimation of thousands of men who use 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 blades are straight and ground by a secret process and require no honing of sharpening. New
blades sold $1.00 per box.

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

The Gillette Sales Company

Gillette Sales Company

New York, U.S.A.

THE QUALITY RAZOR OF THE WORLD

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 use 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 Razor Co., Boston, U.S.A.

THE GILLETTE

SAFETY

RAZOR

BLADES

Whether you have a beard "like wire" or

so soft it looks like the "clue of a shred of

cotton" , a perfect shave is sure to be yours,

with Gillette Safety Razor Blades.

A mere

$5.00. A mere

$5.00.

The Gillette New Standard

in all sizes, 10.

in silver cases. 15.

GILLETTE SALES COMPANY

115 Times Building; 424 Street and Broadway; New York

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

ESN value for 4/12. Quick-action one-piece Razor, Quick-feed Dispenser with six Blue Gillette Blades and discarded blade container. Compact moulded case with transparent lid.

Superspeed Gift Set
This set contains a new "Rocket" Razor Set, an extra Dispenser with 10 Blue Gillette Blades, and tube of Gillette Shaving Cream — price £1.17.

Increasing the size of its blue ocean

- 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.
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

- **Eliminate**: What factors should be eliminated that the industry has taken for granted?
- **Reduce**: What factors should be reduced well below the industry standard?
- **Raise**: What factors should be raised well beyond the industry standard?
- **Create**: What factors should be created that the industry has never offered?

Short **FILM** (3 min)

Going After Unserved or Underserved Markets
5 Steps to Blue Ocean

1. List Factors of Competition (noncustomers)
2. Top 2 or 3 in each quadrant
   - Eliminate
   - Reduce
   - Raise
   - Create
5 Steps to Blue Ocean

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Clarifications:

Above the Line = mass media advertising

Enological terms = scientific wine making terminology
5 Steps to Blue Ocean

3. Write:
   - Value Factors
     (From Step 1)
   - Raise
   - Eliminate
   - Reduce
   - Create

4. Draw “As Is”

5. Draw “To Be”
5 Steps to Blue Ocean

3. Write:
   Value Factors
   (From Step 1)
   Raise
   Eliminate
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   Create

4. Draw “As Is”

5. Draw “To Be”
   (Shown ->)