



Sound Financial Bites 030 - Why Paul Menig Doesn't Want to Buy Your Business! *Episode Transcription*

“Wealth is more than just money. It is also the time and the relationships you have; it's the health that you have.”

Hello, and welcome to Sound Financial Bites. I'm Paul Adams, President and CEO of Sound Financial Group and your host of today's podcast. We've got a fun topic today. The topic is "Why I don't want to buy your business." But the person that doesn't want to buy your business is not me, Paul Adams, but our guest today, Paul Menig.

In a moment, I'm going to tell you more about Paul Menig but today's podcast is going to be in one of our four areas that's career and business philosophy. As many of you know, we'll do the personal financial philosophy podcast, the analytical financial cast for our more analytically-minded clients and personal philosophy about designing and building a good life which might be things like eating or a biohacker or somebody who helps people foster a more better and more effective marriages. So watch for more on all those other topics.

Now, today what I want all of you to think about is what you can do to increase the value of your business as you listen today or what you can do to have your business increase what it puts on your personal balance sheet. I'm going to talk more about that throughout today's conversation with Paul Menig. But if you're a business owner, those are all crucial topics. If you are an executive for a business right now, each one of these topics are going to be equally relevant in the points that Paul Menig takes today because there is an owner that you're working to satisfy somewhere in your role. So I know that what all of you are going to be able to do is take something valuable away from the conversation today.

You all know you can reach out to us on our Facebook page, you can reach us at info@sfgwa.com. We're always happy. Let us know. I'd love to take thirty minutes with you to have a conversation if you're investing in yourself. Just get a hold of us and we'll get something scheduled where you and I can speak.

Let me tell you about Paul Menig, our guest today. Paul built his career and some of the biggest marks he made on industry was as an executive helping accelerate technology inside Daimler North America and Freightliner, two large trucking companies that you might normally think about as being stuck in the past and helping them adapt new technology. As he's done that throughout the years, and then created his company that's called TECH-I-M Business Accelerance. As you look him up, what you're going to notice is you're going to see his branding changed to just Business Accelerance in the coming months. Now, what he does is help business owners increase the value of their companies so that those companies are able to sell for a better multiple and ultimately sell and along the way doing a better job of them being able to drive money to their own personal balance sheet. Now, we're going to take this conversation with Paul today a little bit different direction because Paul is actually in the process right now of buying a company. As he's done so, we're going to talk about the journey of doing that and why he doesn't want to buy his businesses and what you can learn from that journey. So Paul, thank you and welcome to the show.

Paul, it's great to be here with you. I'm looking forward to helping people understand how they can get more money out of their business and more time for their life because as we talked about, wealth is more than just money, it's also the time and the relationships that you have, it's health that you have that allows you to enjoy life. And so, you tie up so much of your life in your business and you have to know where you are going to go afterwards with that. That is in terms of your time, your money, and your relationships as we just talked about.



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Yeah. That seems equally valid that our wealth being more than money is so crucial for both people who are business owners and some people who are just building their career as an executive that's just killing it throughout their career. What are they doing to build relationships outside? What are they doing to take care of their health outside of their routine of business so that when they are done with their work, they are not done with their life and they are not done building wealth.

There is a lot that is very similar to what happens the way a business coach approaches asking you about your business and a wealth management person ask you about your life. The first thing you do is ask what do you want to do after business life? What is it that you want? Do you want to travel? Do you want to help charities? What is it that you want to do? You begin the process of dreaming in creating a vision for that new life. If I walk into a business, the first thing I ask is "What's your vision? What's your mission? Where do you see this business being in three to five years?" And then we'll make a plan to get us there. It's all about what that business owner or the leadership in that company wants it to be. You can't separate business and personal life entirely.

I think that is so key. If we don't have that vision for beyond whatever we're going to do with the business or career, it's a little bit in question about for the sake of why are we doing anything? A big part of Paul's business and Business Accelerance and TECH-I-M is this idea of being able to engage business owners to help them be more effective as a business owner, being able to recapture time and being able to capture the actual value of the business that they're building. But now you've been on this journey, you actually sat with and/or reviewed or met with business owners of how many total companies so far?

So far, I did a tally over the last weekend, it's about forty three but we've added a couple since then so it's on the order of forty five or forty six different companies. Many of which we've already seen the financials on from a business broker or we've just had the chance to meet with the owners. This week alone, my son and I have spoken directly with business owners of seven different companies that are on our list of potential acquisitions. Some of them we've seen the financials. Sometimes the owner even though they signed an NDA with us, they don't want to give us the financials until they meet us and see if we are good people.

Yeah. Isn't it interesting both how people go about that? They want to see the person before. But I think what our audience is going to find really interesting is of that many -- You said two, three are real possibilities given that you've seen the financials now.

Yeah. Less than ten percent of the forty-seven companies that we've looked at would pass muster to meeting the kind of criteria that we're looking for. Some of the criteria is personal. My son and I put together a list of about nine different items. He's looking for flexibility in his work schedule because his wife also works. We're both looking for growth. We're looking for profits. We're looking for an industry that maybe makes a difference. And so, there's those criteria. But then, there is just the plain criteria of, is this the business that we can get the kind of salary and growth potential out of it that we want? Can we find a business that would support the necessary loan payments that we might have to have with that business? It's amazing how few businesses muster up to where it's something that we can takeover and it can be run without us having to maybe find a specialist. A typical example, whenever we look at a business, we look to see whether or not the owner of the business is the business because that help evaluate immediately because I've looked at some businesses in the last two weeks alone where it's a PhD who is running the business. He's very good in his area of expertise. If I were to come in, I'd have to go hire a PhD in that particular discipline to do it. That means I have to pay him a salary and so I

“Executives in any business have to document their processes.”



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don't get any money out of the business as a result.

Simply put, to bring some members that might be something effective. The business owners says "Well, this business makes two hundred thousand dollars a year." but in reality, the market for that PhD you need to hire is a hundred and fifty thousand. So, you'd be buying a business that only made you fifty thousand a year.

That's right. Everybody on the buy side at least begins to look at the seller discretionary cash flow, or the seller discretionary earnings in trying to understand what they are taking out of the business. That may include that they've got some family members in the business. The people that we're working with, the financial broker type people, they will all add that up and stuff. They will say "Well, my daughter is getting some money out of the business." That's twenty thousand dollars a year so they add that to the seller's discretionary cash flow but wait a minute, that daughter was doing something in the business. I have to replace that. So, I personally as the buyer don't see that as belonging in the seller's discretionary cash flow. Another thing is I'm always looking at the business to see how much it can run on it's own in terms of processes. Or is there some key employee in that business that if they leave, nobody knows how to do anything in that business.

Yes.

You were talking earlier, executives in any business document your processes, every process that you have. I don't close my books for my own consulting company but once a month. I don't remember everything so I have a step-by-step process that by following it I can check off that I did everything correctly. If a checklist is good enough for a surgeon to make sure he doesn't leave a sponge in somebody's body in a surgical room, it's good enough for me. It's good enough for an airline pilot before he takes off with three hundred people on a plane, it's good enough for me in what I'm doing. Checklists are the simplest way of documenting your process.

You've probably seen the book and I think many of our listeners have read it.

The Checklist Manifesto.

Yes. The Checklist Manifesto.

Excellent book.

Great book and so wonderful in a way that it can release cognitive load for us as individuals to simply have a checklist that we can refer to and all the more so the document system for a potential buyer. Now, you brought up when we were chatting before about this idea of how most sellers are trying to set the price for their business and they are using the criteria of what they need. Could you talk a little bit about that?

Even outside of what I do -- we're trying to buy a business right now but when I'm talking with other people who are thinking of selling their business, one of the first questions is "Well, how much do you need?" In one of your recent podcast, you went through the classic. Well, you need X amount of money and then draw only about four percent of that per year for the rest of your life because even at my age I'm still looking at 20 to 25 years of life that I have to worry about. If somebody is 55 and trying to sell their business, they've got even more years that they need to draw at that four percent only kind of rate.

"Everybody needs coaches in a lot of different places and business is one of those. You can't know everything."



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Indeed.

Typical scenario comes up that these business owners have put all their wealth into that one basket which a wealth planner would say “Don’t do. You need to diversify where your wealth is put.” They may not have a 401k, everything is in that business so they are counting on that business to having a lot of value but then they buyer is not looking at what you need, the buyer is looking at what the business can support. I’m amazed. We often hear this 2X to 4X, multiple and seller’s discretionary cash.

Yes.

Coming from the corporate world, I find that extremely easy to understand. If I was trying to convince somebody at Daimler that we needed to put in a new piece of machinery in my engineering department that was going to cost ten million dollars, I then had to prove to the controller that I would save about three to three and a half million dollars per year so that that would pay back in two years, roughly two to three years. I actually had to sit in the controller’s office on a ten million dollar investment and he literally wanted to take a razor and slit my wrist and say “Paul, will you commit that we’re going to save this kind of money?” Well, that’s where the 2X to 4X comes from. I’m putting in cash and I want some money back in a reasonable amount of time.

I think that’s what people forget is that when we ultimately sell a business, we are going to put money on our balance sheet. You got to have about twenty five times to mimic the same amount of cash. That’s the difference of human capital earning income versus capital at work earning an income. If it is capital at work, if we want to replace two hundred thousand, it’s going to be about five million which you got to sell a business for a little bit north of six million to then pay the taxes to then have the five million to produce the same two hundred thousand. For the business owner that wants that, they are not going to sell for a twenty five to thirty two X multiple except every now and then, we’ll see somebody do it in the entrepreneurial community. Of course that story gets told and people beat on their chest and it’s great. Unfortunately, too often people aren’t looking at all the normal sales that happen everyday and that you’re more likely going to be in that two and a half to six times seller’s discretionary earnings for smaller companies or even for larger companies but there is no pot of gold at the end of the rainbow unless you put it there.

I have been an angel investor. I still have some investments out there. I’ve studied the statistics behind it. There is a great professor at Willamette University who regularly reports on the Portland Angel Market. You’re going to be looking at needing an average of twenty different angel investments on a continuous basis to handle the fact that about six of them are going to completely fail and you are going to lose your money, two or three of them may return 1X to 2X on the money that you invest, and one might actually produce 7-10X on the money that you’ve returned after seven years of investment.

Maybe?

Yeah.

Maybe! If you got the right twenty, one of them might be sort of the unicorn.

Yes.



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It's probably not going to be LinkedIn, it's probably not going to be PayPal, it's probably not going to be Facebook.

Yeah. Those are what I'm considering growth businesses as opposed to what I call a lifestyle business. If somebody wants to buy a grocery or a deli, or somebody is buying a gas station, or they're getting into the franchise business with the Menchie's Yogurt Store or something like that. These are not growth businesses that you can ever expect to sell for 10 and 30X earnings, let alone 10 to 20X sales which happens in the software applications area. Your expectations of a business owner sometimes are skewed by what they are reading in the internet versus what's really what a person like myself was coming into buy a business and is flanking down money and saying "Well, I'm looking for a return better than five percent in the bank but I'm not going to pay a huge premium for the privilege."

Yes. That's great. That's great, yeah. I can't pay a big premium to have the privilege of owning your business. It still has to make financial sense. We've often talked to people saying -- And in speaking to the entrepreneur's organizations up here in Seattle area, the idea that would you buy your business for as much as you are thinking you could sell it for if you have a competitor selling for that amount. Most people go "Oh no. I would only pay like five times their actual profit." "Ah-huh. Why do you think anybody is going to pay more in that for yours?"

Talk a little bit about what you've seen with business owners that have a real estate affiliated with their businesses. Why do you not want to buy their businesses either?

Okay. I've seen two different situations in the last couple of weeks as I've looked at things. The idea that there might be real estate involved in a transaction when I buy a business is something good for my perspective because when I try to leverage other people's money through getting a bank loan that's backed by the small business administration. If there are assets like land and a building involved in it, I can depreciate that loan over twenty five years versus the part of the loan that I'm using to buy the business, I can only depreciate over seven years, so I have a much bigger payment. I can buy your business when you have land or assets. I can have a lower overall payment because part of it is a seven year depreciation parts of twenty five year depreciation. But, if the building is on your own property -- No, I don't have access to your property and you're not selling me the business. You've put up a business where I have to now have the cost and expense of moving the business, I now have to put in to my purchase criteria that I'm going to have to pay rent as well as all that moving expense and you can do business, the rent for free.

Yeah, the owner has allowed it to ride on somehow his personal balance sheet. It's masking the lack of profitability in the company.

Yes.

Yeah. Yeah. That's great.

The second thing that's happened is there had been a couple of occasions where I looked at the business and it is a true lifestyle business where the owner is working his butt off inside the business, and his family members. That's it. They are the business but they made a good decision a long time ago and they bought the building. Right now, the building might be worth one to two million dollars and the business is worth about two hundred thousand dollars.



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Yeah.

They'd be better off, for their own personal wealth of just closing the business and selling the property or finding a way to lease the property. But honestly, the one property I'm thinking of in my head, the building is inappropriate. They need to demolish the building and put up something else that would be tremendously more valuable in that particular area of town. I don't know what they're doing looking at their business and their personal financial wealth, that they are not seeing where the value is and how to get it out of a building or out of the business and as you say their personal wealth and statement.

Yeah. They don't get it in their personal balance sheet. They are never going to retire in the business one. You mentioned something about this idea that somebody is to engage. They need to engage a coach. They need to engage someone like yourself well before they get to the point they want to sell because people are -- At some point saying "I think I want to sell now or in the next six months." Then, they engage a business broker or somebody else. That's their first time they probably had anybody through many small business owners. First, they've ever had anybody else come and look at that business to offer them any thinking.

Yes.

Tell me about some of those where you're experiencing somebody's making a decision like right now and they got to sell it soon and they are up against it.

First, I use a disparaging term that comes I think from the South East of the United States or something, it's called lipstick on the pig.

Yeah.

How do you make a business suddenly look good? So I've looked at a number of different businesses which give me two to three years or their financials as they're expected to, almost required to. It's obvious where a business broker has come in and said "Well, you better decrease your travel and entertainment expenses dramatically. You better get rid of these subscriptions for magazines that maybe you think are for the customers out in your waiting room but you know in your heart that they are really for you because your customers don't read Hot Rod magazine, you read Hot Rod magazine. Those are all good things that you can do in a business in our country which is great. The coach will come in and he'll make some quick changes to help you make quick money to the bottom line very quickly because that's what people are going to look at. One thing you could do if you would think of it is have a separate set of financials that is the seller's discretionary cash flow or earnings separately. I don't know why Quickbooks doesn't give that to you automatically. It would be great if they did. Maybe we should talk to them about offering a new feature. A coach is needed in every business. In the wealth management area, I know a little bit about stats. My father-in-law tried to give me a book about how stock prices were -- I think was a thousand dollars in 1933 and the Dow. Then, it was three thousand in the '60s. Yesterday it was 18,600. We're doing really great with everything but I need a coach to understand all the different ways of investing my money and doing things. When I was in school I played competitive tennis and squash, so I had this overweight guy that maybe he was real good when he was younger but he couldn't play with beans but he was good coach. He would -- I'd say it a bit polite. He was a bit complaining to me that I wasn't putting up my best when I was out in the tennis court. I would argue back with him that I'm doing my absolute best. You know what? He was right. It took me a long time to realize that. Everybody needs coaches in a lot of different



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places. Business is one of those. You can't know everything. Certainly, you become blind to your own stuff. Having somebody else take a critical look at what you're doing and how it's being observed by somebody else is a great way of getting things done.

Indeed. Some of it can change the value of somebody's business. It might be their own lease. Talk about that a little bit. What changes when somebody wants to change the ownership of a company and get somebody new coming in?

I'm helping one client right now who is buying an existing franchise. They are literally going to sell their home in another state and move to another state to buy this franchise. Of course this franchise has a lease. The first question that's come up are: How long is that lease for? Does that lease continue after the new person buys it? Can it be sublet or is it the same terms? Some businesses have had a lease maybe for ten years, and in that ten years the building actually got sold to somebody else but the new buyer of the building had to honor the lease. Now, guess what's going to happen when I come in to that with a new business and change the hands of the company that's running that lease. I expect they are going to change lease into something that is a more reasonable value.

As a part of due diligence package, you need to read the lease of the company that you are acquiring because it may give them the ability to simply say the ownership in your company changes, we get to renegotiate our lease.

Correct. In the situation we talked about, maybe I have to move a business as well or the owner is not charging the business the full value of the lease. I frequently tell people, number one, go talk to a commercial real estate agent and find out what the going rate is for square footage in this particular area. Then, we'll figure out because that's what I'm going to look at when I buy the business, what is the going rate that I might have to pay for a new lease on property? For the personal wealth issue of trying to get it under your personal wealth, you're undercutting yourself if you are charging only two thousand dollars a month in rent and it's worth six thousand.

Yeah, absolutely. Not telling the truth about the weight that that business really needs to carry and make you more rigorous in a way that you manage the business finances. I think that's --

You're fooling yourself to think that that's what is the seller's discretionary cash flow and the profits in the business and that you're going to take some multiple of that because when I do the thorough due diligence examination of it, it's not going to hold up to examination.

That's great. That's great. Now, you and I talked a little bit about this hierarchy. This will be a good place to land this today and leave people which is the hierarchy of how you kind of work through thinking about a career or earnings and the idea that you can go work for somebody else and I'll let you expand on this. You will work for somebody else or you can buy a business and own a job or you can be a manager, an executive in that company. Lastly, you could actually fully own the company and not have to go and come to the four different tiers and help each of those appear differently to a buyer.

I spent most of my career, honestly as an employee in the corporate America. I thought that was the best way to create wealth, have fun, create friendships and all of that. I wouldn't recommend it honestly, now to somebody else coming out of college. I'd recommend they go into the ownership of a business. You can be an employee of a business and you will make friends and relationships with the people that you worked with, you will have the opportunity probably to go



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home in a reasonable hour at the end of the day, in terms of time. Unless something special is happening with that activity, you get some benefits, and so you are an employee of the business. You might be another level called “an independent contractor” but the laws and the regulations and the lawsuits that are going on are decreasing the number of opportunities of being an independent contractor. You might fool yourself as an independent contractor to thinking that you own a business because you’re sole proprietorship. In actuality you are just an employee in most cases. That’s why we have all these lawsuits for co-employment. So, you take the next step. It’s the American dream. It’s actually, I think, in our DNA as individuals to move out and do something on our own and start our own business. But, you may actually just be buying a job. It might start, say as a hobby, and then some friends and family buy what you’ve done. Then, maybe you go to a farmer’s market and maybe you do some things online and you get real excited because you sold three hundred dollars at the farmer’s market without realizing that it cost you six hundred dollars to go there that day. That was before you paid yourself anything. You end up -- many times, when you own a small business and get started out of just having bought a job. It’s really not a business. You are the business. If you get sick, there is no money coming in. Nothing is happening in that.

The other way that one I see happening, there is the hobby route that people end up owning a job. Then, there is this -- Michael Gerber calls it The Entrepreneur Fit Rethrow. We got mad at our employee one day and “Forget this. I am going to do my own thing.” Then, we throw a fit and we open a business and now we own a job.

Yes. The next step would be to reach the point where you are kind of the president of your business, where you’re the manager of the business. Now, you have somebody who actually does the production work. You were not the sole person that is doing the sales and marketing for that company but maybe you are still dealing with the big accounts and things. You got a little bit more freedom and time to deal with it but you’re probably still getting to office before everybody in the business and probably leaving the office after everybody in the business and doing work on your iPhone or your Google, your Samsung Galaxy phone or whatever it is when the other employees are not doing that. When we put up on our thought process here that can you take a vacation from your business because your employees can. You’re still too much as -- Michael Gerber said working in the business rather than working on the business. But being a manager is a good step. The ultimate is to be a leader of the business to where you’ve got friends, not only in your own business but in similar businesses around the country maybe through a trade association where you’re a pillar of the community and they are looking to you for leadership as well as your wealth and your money to help with the charitable things that are going on. You now got the time to take a week off, two weeks off, maybe even a month. Take a trip to Europe or around the world kind of thing. That’s what you want to go to. You want to go from being an employee or an independent contractor to owning a job, to managing a business to actually leading a business. Then, you’ve got real wealth.

The other thing I think about is none of you have more wealth but each one of those becomes exponentially more valuable to a buyer. You mentioned earlier you are managing and leading your business kind of that second to the last tier. As a buyer, you can learn how to do that stuff they are doing but through the technician, through the PHD, then it maybe a business that can only be sold to somebody else who wants to own a job. So it totally limits their buyer’s market of who you are going to sell the business to. You can only sell it to somebody else that wants to own a job like you’ve owned a job.

Right. If you’re a leader of a business, now I can look at that as in a sense putting--Well, I take



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that back. If I'm investing in a mutual fund or a mutual fund of mutual funds or whatever it is, I am basically investing in a company that is managed and run without my being a part of it.

Yes.

When I buy a business, wouldn't that be great in terms of the value that it creates? That's why stocks and stuff are worth nine times earnings or twelve times earnings and some of the things that they are doing right now. Think of that as a multiple. That's a whole lot better multiple than the 2 to 4X if you're the technician in the business.

That's great. That's great. The biggest takeaway that I'm hearing today is our listeners, if you're a business owner or you are key executive in a business and you are noticing that there is nobody coming in from the outside to have these conversations, find somebody you can definitely get a hold of Paul Menig. Paul, can you give them web address, email. We'll also have in the show notes. If you're driving right now, you can get it later.

Sure. The website is www.tech-i-m.com but fortunately with the rebranding, you can also go to bussinesaccelerance.com. It will redirect you to that website.

Very good. There are some great stuff to read on the website too about these seven different business accelerance, can't encourage you guys enough to get in there and get a chance to take a look at it. Paul, I thank you for your time today. It's been a great episode. I think we're going to end up with a lot of comments. Don't hesitate to shoot us a note. Let us know what you want to hear on the show in the future or if you have any specific questions for Paul for our future podcast, we'll have him back. Have a great day. It's great having you on the show today.

Thanks Paul.

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