

Small Business Management ^{19e}

LAUNCHING AND GROWING ENTREPRENEURIAL VENTURES

Longenecker · Petty · Palich · Hoy



CHAPTER 13

Planning for
the Harvest

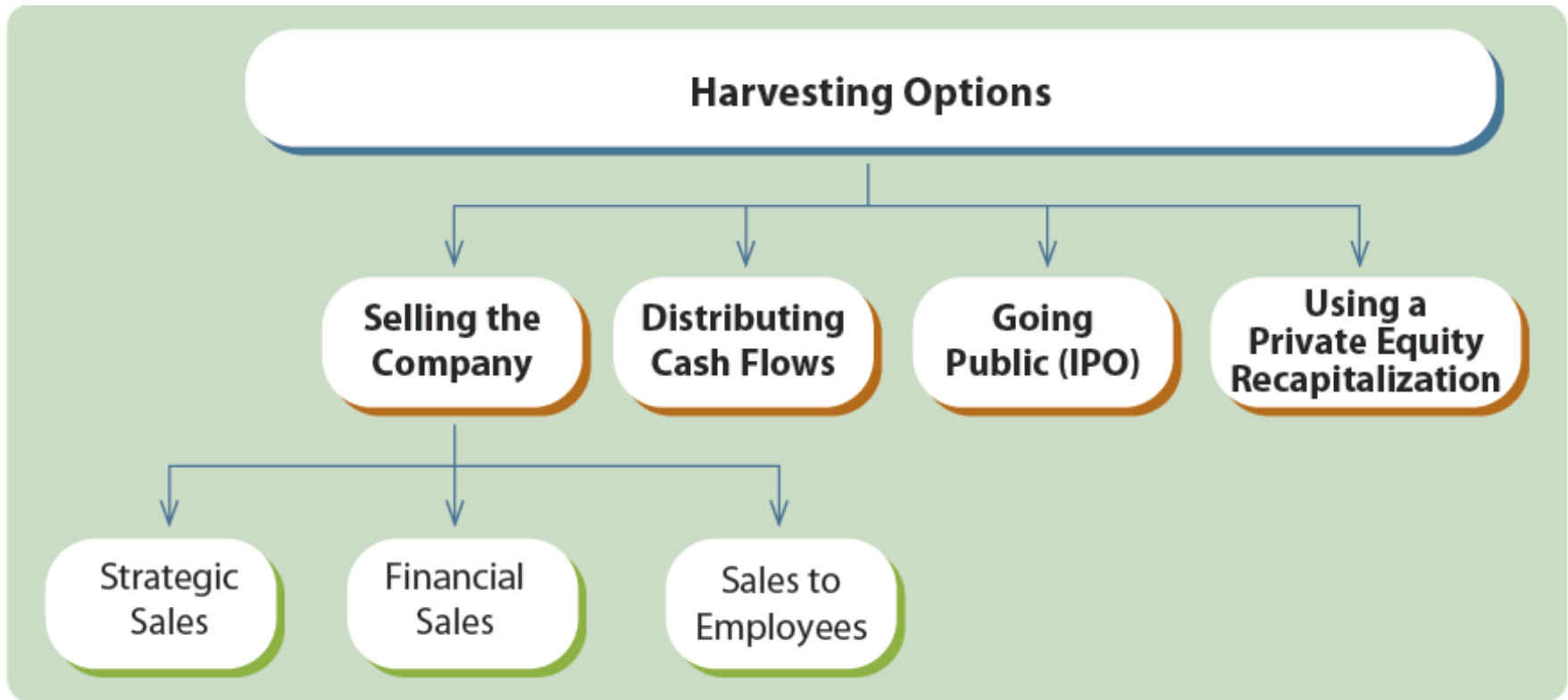
The Importance of the Harvest

- 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”?



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.

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

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

Bust-Up LBO

Purchase with
intention of selling off
assets

Build-Up LBO

Purchase similar
firms to make up
one larger company

Types of Leveraged Buyouts (LBOs)

Management LBO
Top managers become
top shareholders
through debt financing

Choosing a LBO Firm for Acquisition

Characteristics of a Potential LBO Firm

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graph TD; A[Characteristics of a Potential LBO Firm] --- B[Steady earnings over time]; A --- C[Attractive growth rate for firm]; A --- D[Effective management team]; A --- E[Assets useful as collateral];
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**Steady
earnings
over time**

**Attractive
growth rate
for firm**

**Effective
management
team**

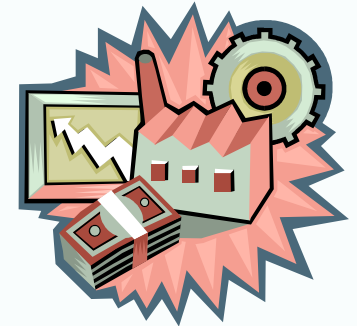
**Assets
useful as
collateral**

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)

Write:

What 4 tips are provided (explain each)



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 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> [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 (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”



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?
Example of getting stuck on “autopilot” - [film](#)
- **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

Scenario Planning - can help preclude a 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.

Scenario Planning - can help preclude a harvest

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:

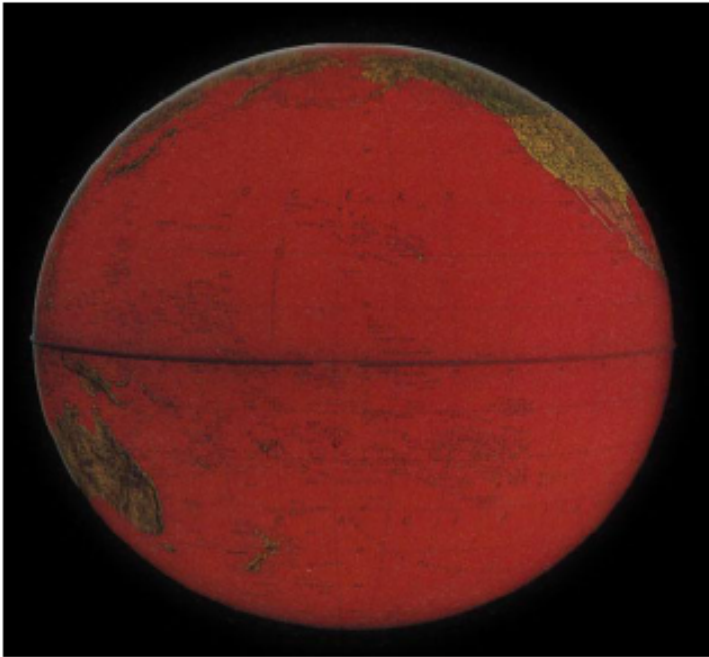
How can we enhance our measurement systems so that we are constantly monitoring the "early warning indicators"? Once a measurement system is in place, we can be confident that we are sensitive to appropriate indicators, and that we are consistently scanning for them. This foresight can help us to notice 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

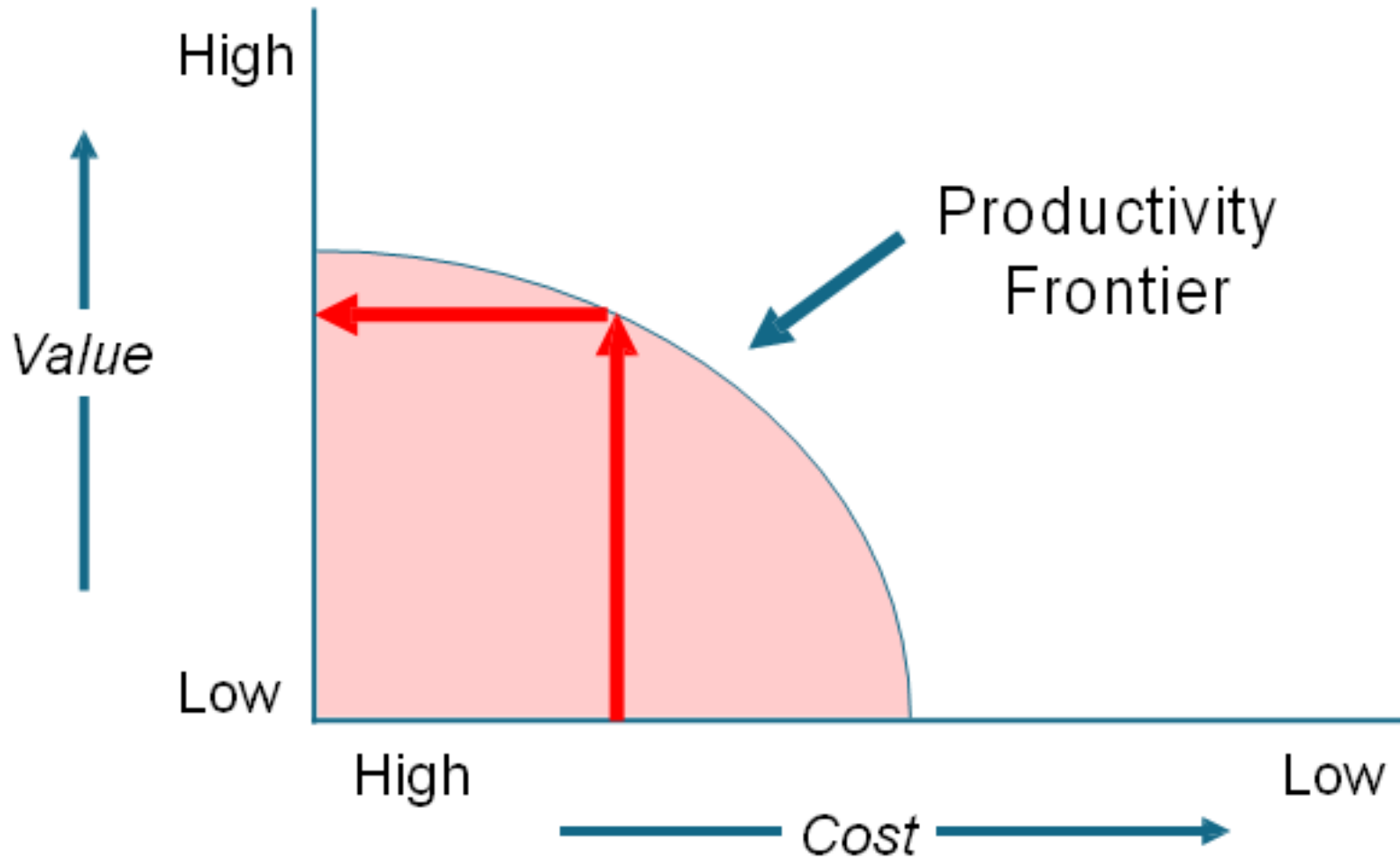


- Rules of the game are waiting to be set
- Demand is created rather than fought over
- Opportunity for rapid and profitable growth

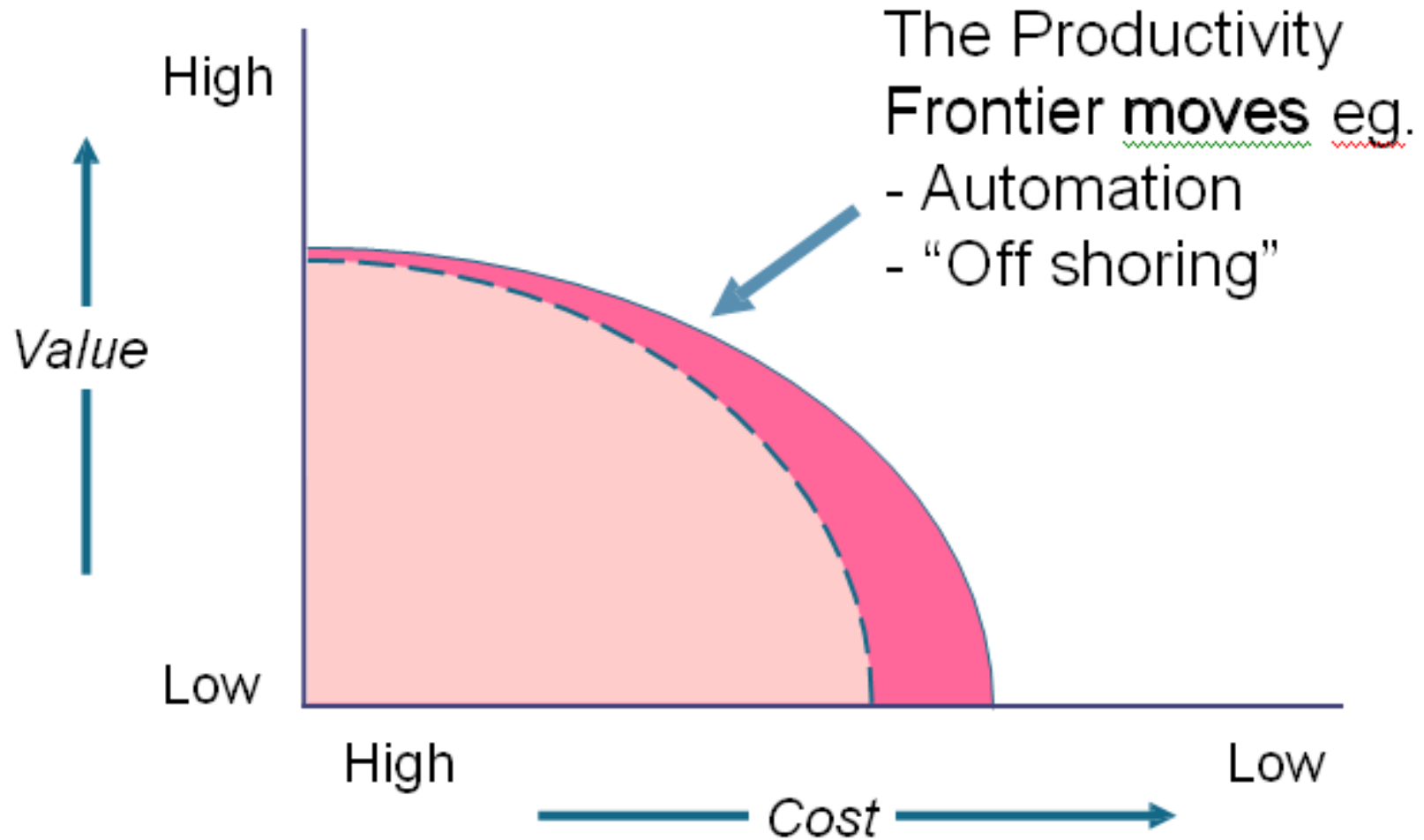
Blue Ocean Strategy

- 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 . . .

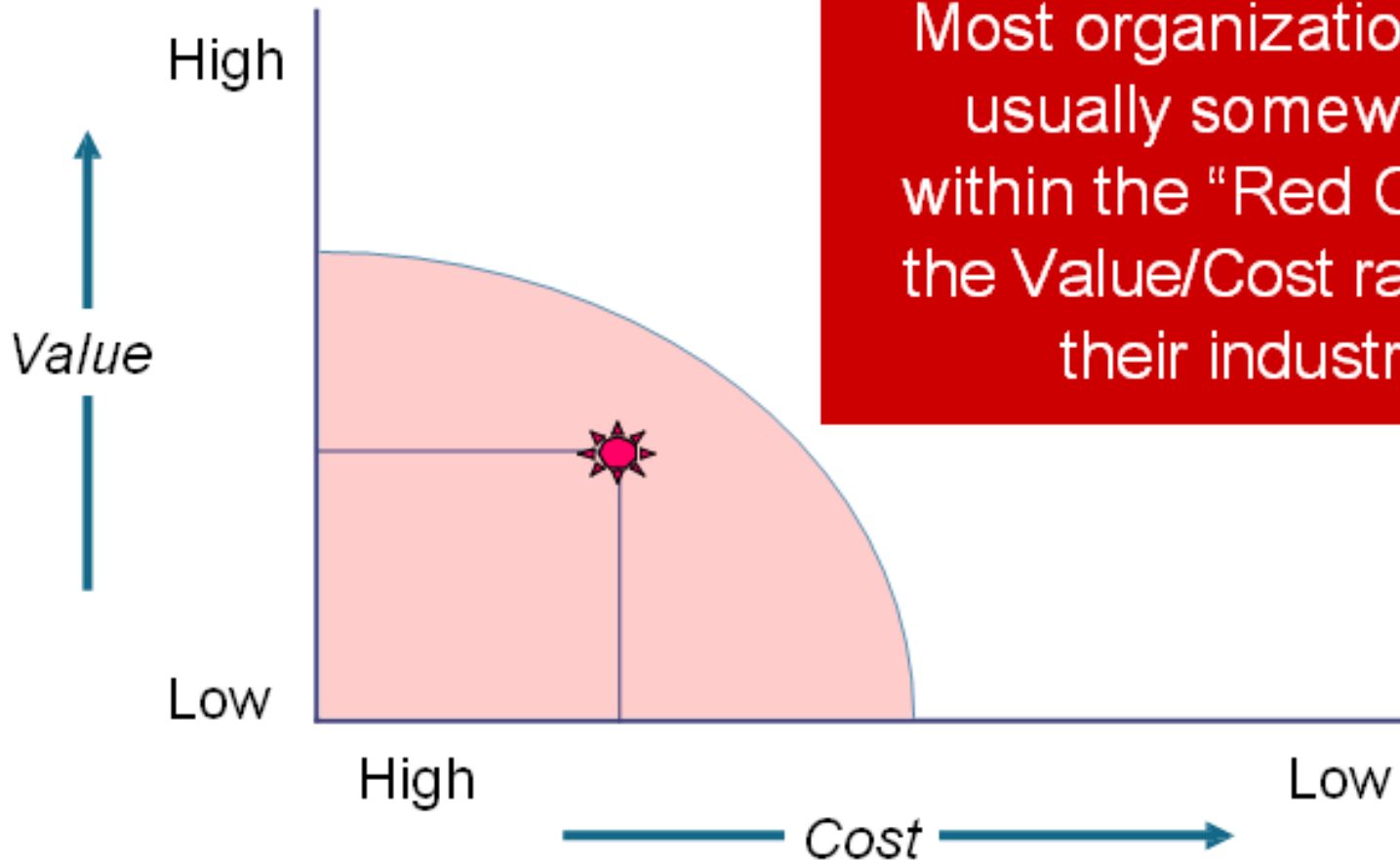
Industry Value/Cost Curve



Value/Cost Curve – Lower Costs

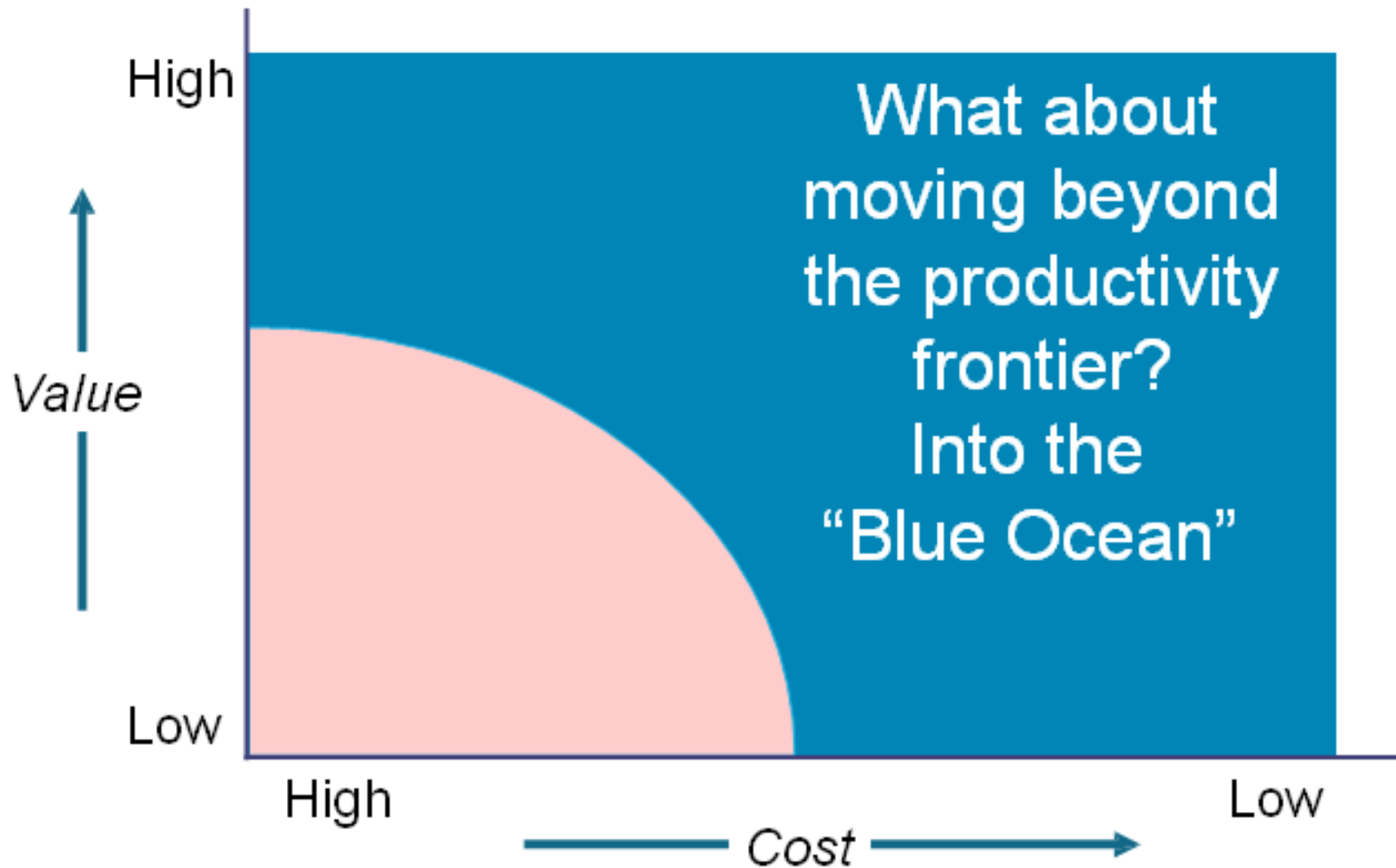


Value/Cost Curve Still in the Red Ocean

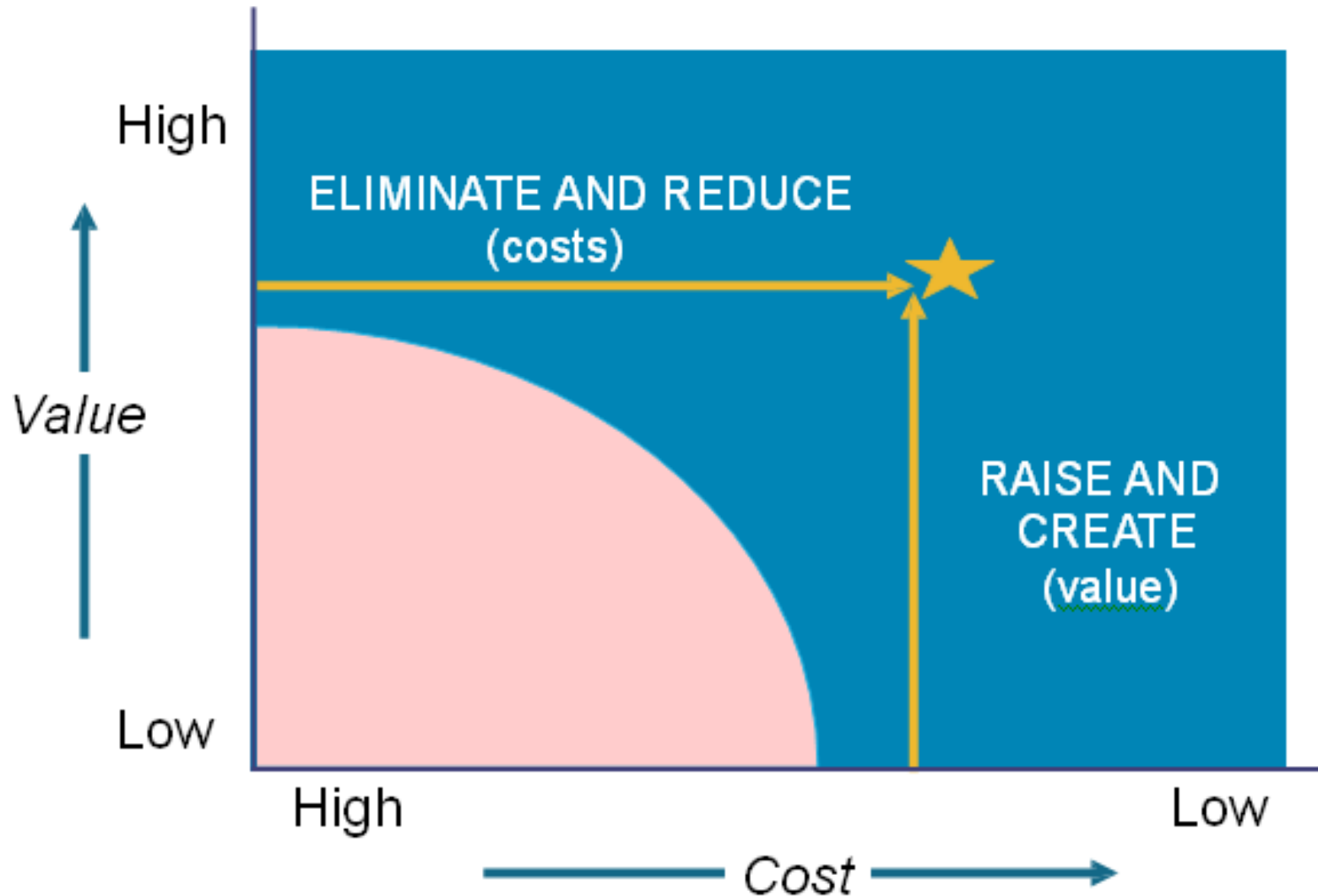


Most organizations are usually somewhere within the "Red Ocean" the Value/Cost range of their industry

Beyond the Value/Cost Curve



Beyond the Value/Cost Curve

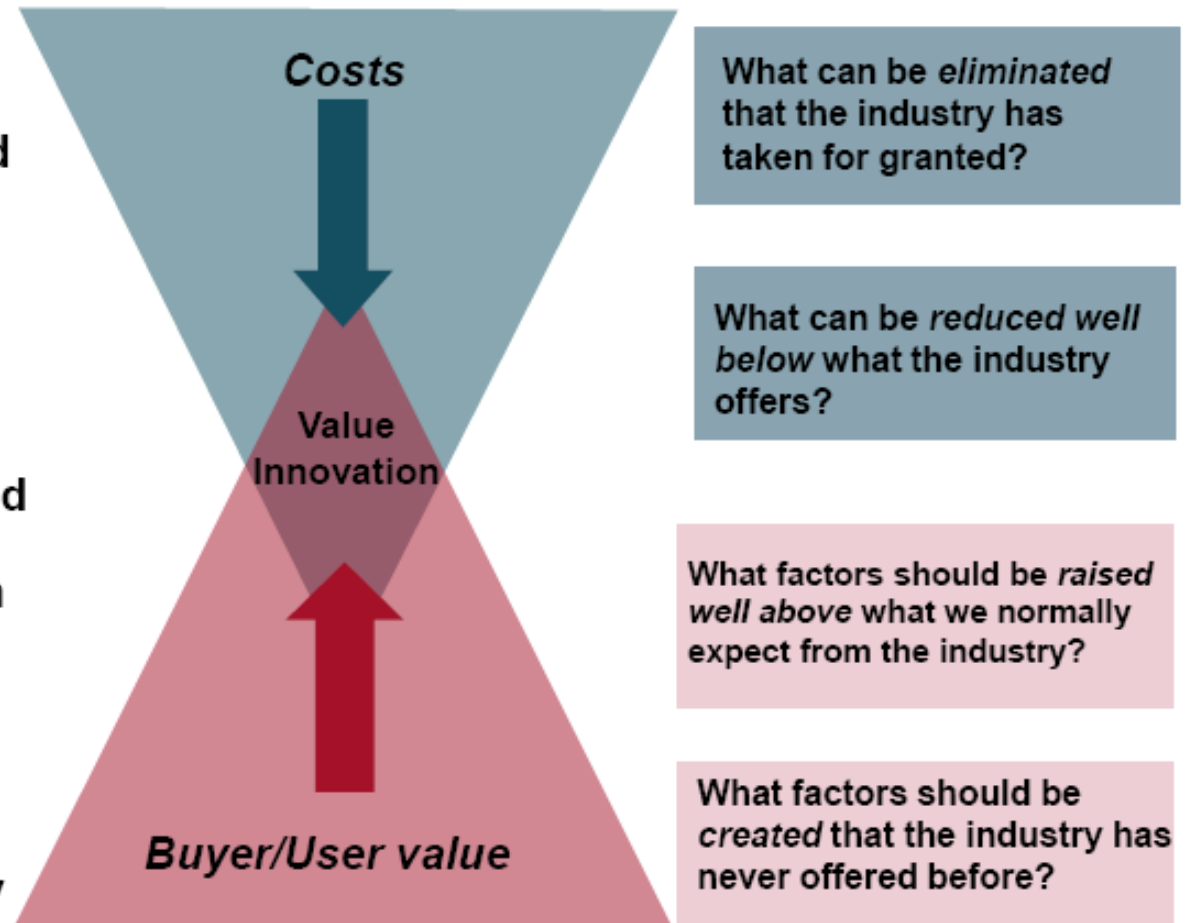


Value Innovation – Blue Ocean Strategy

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



Blue Ocean Strategy

Example

Noncustomer Exercise

Life in the 1900s



Shaving in the 1900s



Shaving in the 1900s



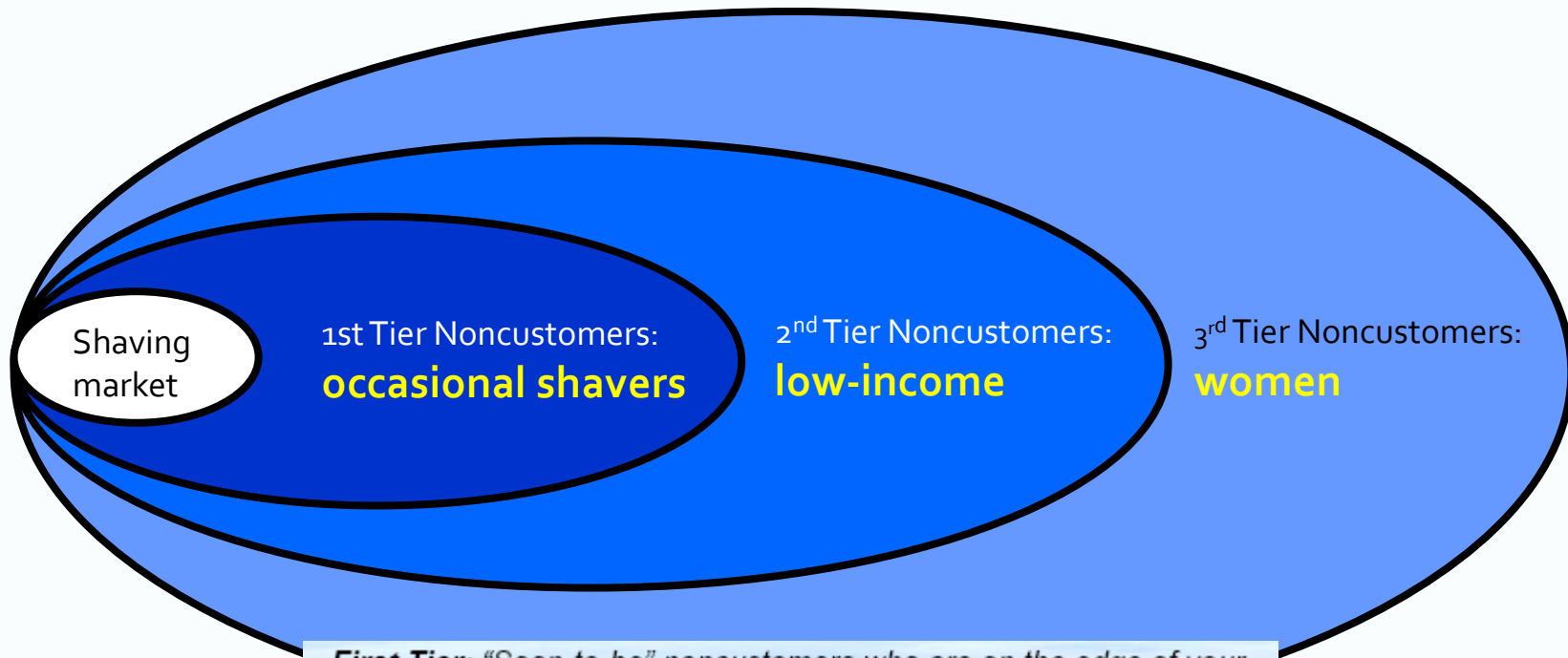
Who are the existing customers of the industry?

- 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?



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...



1st Tier: Occasional Shavers

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

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



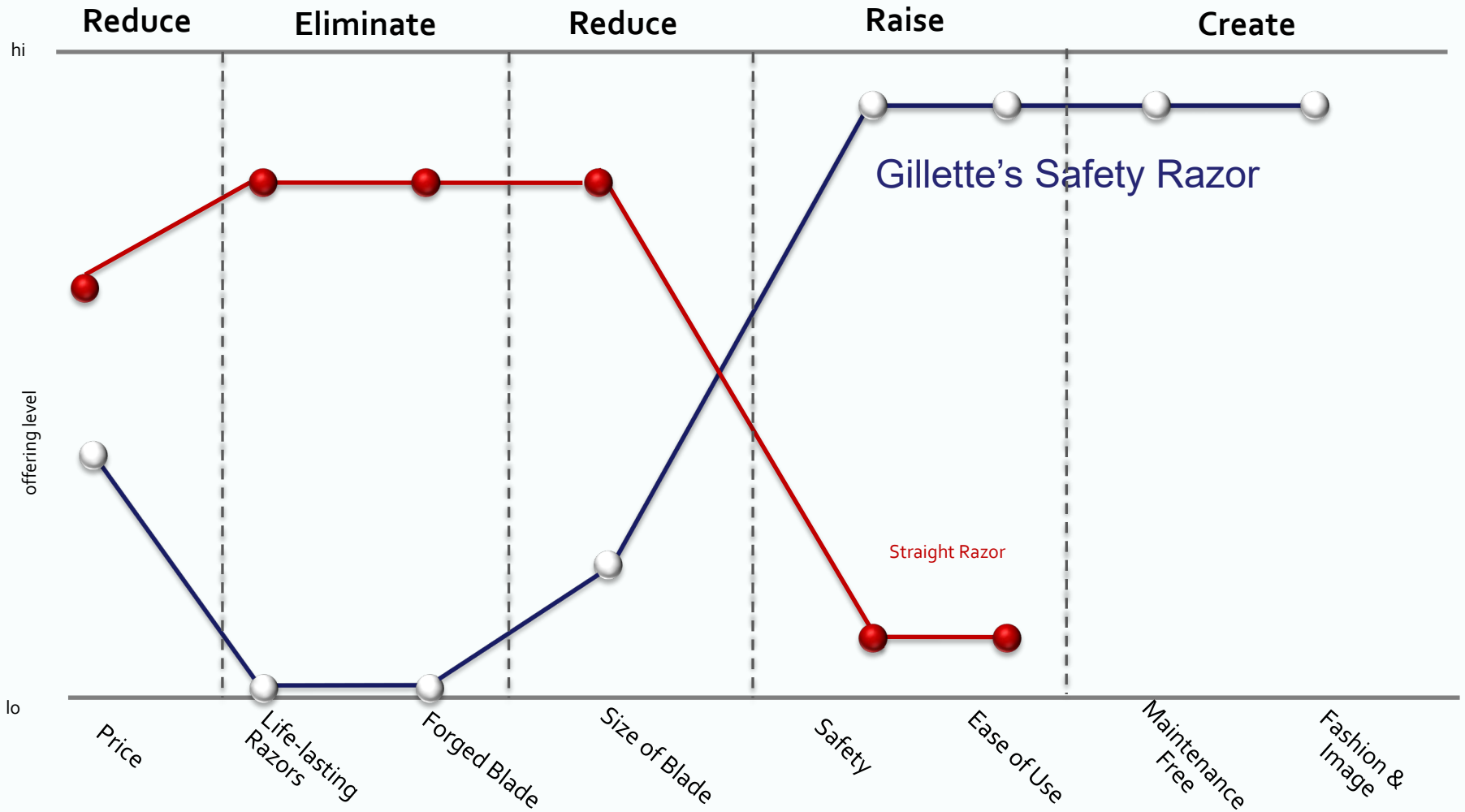
TO

Easy

Disposable blade

Fashionable

Strategy Canvas



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

is the unanimous opinion of hundreds of thousands who shave the Gillette way. Don't be persuaded to try some other razor, 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 silicon-plated; has 12 thin, flexible, highly tempered, and keen double-edged blades. These blades are sharpened and ground by a secret process and require no honing or stropping. New blades \$1.00 per dozen.

Each Blade will give from Twenty to Forty Smooth and Delightful Shaves. You do not have to use a Gillette Safety Razor 400 shaves without stropping, at less than 1 cent a shave.

OVER 200,000 NOW IN USE

Ask your dealer for the Gillette Safety Razor. Accept no substitute. He can procure it for you.

Write today 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
1139 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



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.

The Gillette New Standard
In gold plate, \$6.
In silver plate, \$5.



Gillette

SAFETY — Gillette — RAZOR
BLADES

Whether you have a beard "like wire" or as soft as silk, your GOOD shave will become a PERFECT shave if you read "Three Reasons," a new shaving booklet just published. A copy on request.



THE WM. R. BURKHARD CO.
SPORTING GOODS
ST. PAUL, MINN.

Shave Yourself

- It's safe
- It's private
- It's economical
- It's easy

Increasing the size of its blue ocean

- 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

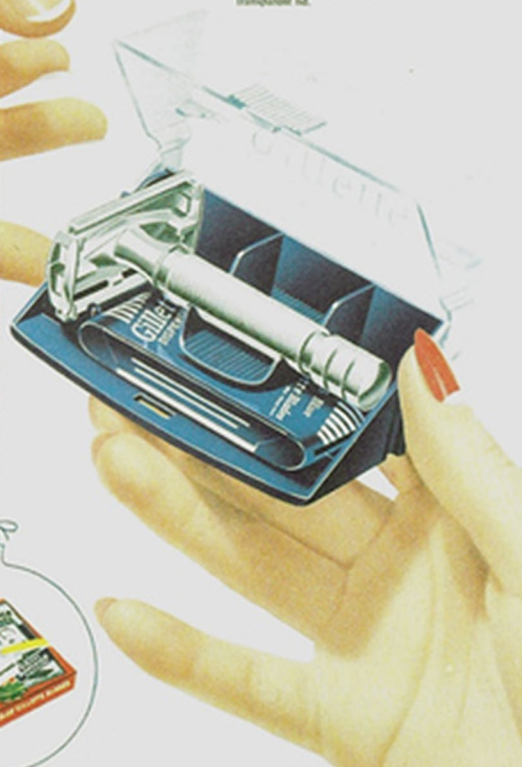
Check the men on your Christmas list. Probably all shave and have razors. Don't let that stop you. If they are using old-style razors or those which have lost their precision from being dropped and damaged, they are missing a lot. For their presents mark down Gillette Superspeed as a natural. They'll be delighted with the change. Up-to-date streamlined shaving every day for years to come — here's the Set to give it.

8 1/2" value for 4 1/2". Quick-action one-piece Razor, Quick-load Dispenser with six Blue Gillette Blades and discarded Blade container, Compact moulded case with transparent lid.



Superspeed Gift Set
This Set consists of "Rocket" Razor Set, an extra Dispenser with 10 Blue Gillette Blades, and tube of Gillette Shaving Cream — price 11/7.

Moments of Grand Shaving
— two 10-Blade Dispensers in cheerful Christmas pack — price 5/8.



Increasing the size of its blue ocean

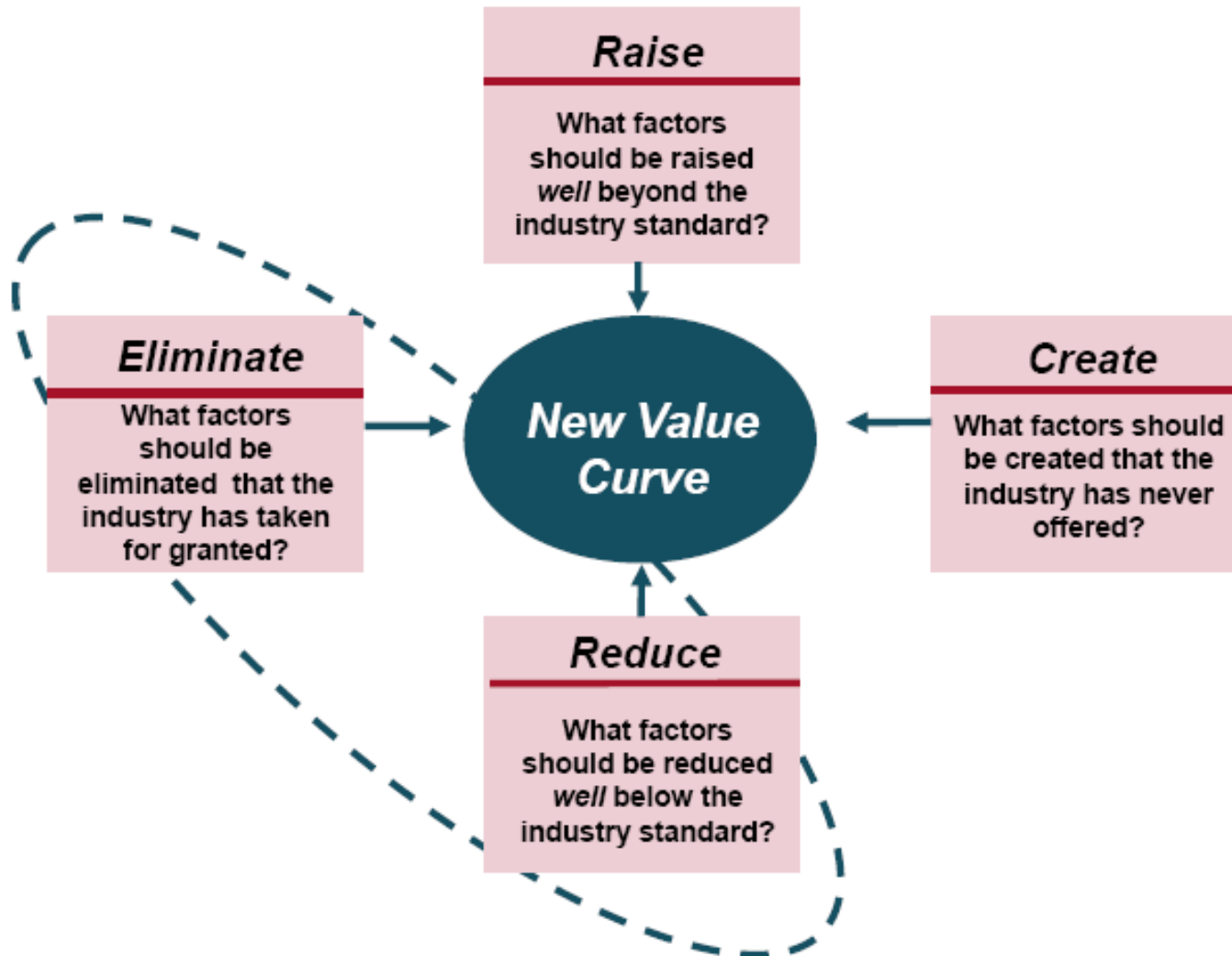
- During WWI, soldiers needed to be clean-shaven in order to fit the gas mask properly
- It became imperative for them to shave
- Gillette partnered with the US army, selling 3.5m razors & 32m blades
- When they returned home, they were heroes. It became the fashion to be clean shaven.

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**

5 Steps to Blue Ocean

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

Blue Ocean Strategy		1. List 8 to 12 important Factors of Competition 2. Enter top 2 or 3 in each ERRC Grid Quadrant 3. Draw the Strategy Canvas: 1 on left, 4 on right
Factors of Competition / Value Factors:		
1. Eliminate:	3. Raise:	
2. Reduce:	4. Create:	

5 Steps to Blue Ocean

1. List Factors of Competition (noncustomers)
2. Top 2 or 3 in each quadrant
 - Eliminate
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Yellow Tail Wine Example

Clarifications:

Above the Line = mass media advertising

Enological terms = scientific wine making terminology

Blue Ocean Strategy	
1. List 8 to 12 important Factors of Competition 2. Enter top 2 or 3 in each ERRC Grid Quadrant 3. Draw the Strategy Canvas: 1 on left, 4 on right	
Factors of Competition / Value Factors: Aging Qualities Above-the-line marketing Enological terms Easy drinkability Ease of selection Fun & adventure Price Wine complexity Wine range Vineyard prestige	
1. Eliminate: <ul style="list-style-type: none">• Enological terms• Aging• Above-the-line	3. Raise: <ul style="list-style-type: none">• <u>PRICE!</u>• Retail Exp.
2. Reduce: <ul style="list-style-type: none">• Complexity• Range• Vineyard Prest.	4. Create: <ul style="list-style-type: none">• Easy drinking• Easy selection• Fun

yellow tail
example

5 Steps to Blue Ocean

3. Write:
Value Factors
(From Step 1)
Raise
Eliminate
Reduce
Create
4. Draw "As Is"
5. Draw "To Be"
(Shown ->)

