Outlook on Business

GOING INTO BUSINESS

The seven-year itch

By DOUG ROBBINS

Like the proverbial seven-year itch, businesses also go through a seven-year cycle and this is one of the signposts to look for when buying a business.

Of all the businesses I've sold during the past 12 years, there has not been one individual who hasn't owned his business a multiple of seven years, plus or minus a year.

If a man comes to me and has been in business 10 years, then I know something else is troubling him. It's an unnatural point in his seven-year cycle.

Many times, it's an operating problem where the business has grown beyond the manager's ability to operate it successfully — perhaps a financial problem or some other challenge he can't deal with.

When this happens, the owner's response is to sell the business.

When I get involved in this kind of situation, many times we tell that person he or she needs consulting expertise in a particular area and will introduce them to someone who can provide that service.

If someone comes to me and has had a business for 18 years, chances are good he or she's really not ready to sell but merely looking at selling as an alternative to another problem.

Generally, these problems are financial. But financial problems are like a thermometer. They only identify another problem.

Usually, it's a shift in market. The product has matured and people no longer want to buy what his or her company makes or there's a new product on the market that does it better or, in the case of a retailer, that the community is moving and the downtown core is dilapidated and the firm's business is slipping as a result.

Nine out of 10 businesses I sell are businesses where the owner is retiring. That's the ideal situation. You want that person to be available to you in a consulting role. You may know more about the industry but older people also know a great deal, especially about the way their business has operated for two or three decades.

A few years ago my wife purchased a flower shop. She contracted the vendors to work for her full time for four months, be available over busy periods as well as from time to time for advice and counsel. For this she paid a monthly *retainer*.

It paid off during the eighth year. Christmas that year fell on a Monday and she was in a quandary of whether she should stay open on the Sunday, the day before Christmas and usually the busiest day of the year.

The answer came from the people she bought the business from. They had the business for 40 years and told her they always opened on Sundays in the past and recommended that she do the same and not miss the busiest and most profitable day of the year.

When buying an existing business, it's wise to retain your own lawyer and accountant to quantify and qualify everything you've been told by the vendor.

What is your financial goal? Are you achieving it?

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IT'S YOUR MONEY
Paul J. Rockel

(NC)—"I want to be a millionaire" he said.

"Wonderful," I replied. "And how far along the way are you towards achieving that goal".

"Oh," he responded, "once I get my car paid for, I'm going to start saving an amount equal to my car payments every month."

I saw him a few years later and he was then driving "another" new car. I didn't embarrass him by asking him if he had started on his way to becoming a millionaire.

Are most of us "flippant" about our financial future? Do we also want "to become a millionaire" but that is all it ever amounts to, "a dreamed of want"?

All of us, no matter where we are in life, should set goals. In fact, we should divide them into "short-term goals", medium-term goals, and long-term goals.

Short-term goals might be a vacation this year, or the purchase of a new or different car.

Medium-term goals might be setting monies aside for the children's education, or the purchase of a new house.

Long-term goals might be the building of a family estate, or providing for a decent retirement income.

Long-term goals are just that: "long-term". It means we must think about them today. But, because they are long-term, we tend to want to postpone thinking and/or planning for them.

What is the most important item in building wealth? As we've stated many times before, it is TIME. Sure, rate of return, plus "amount of savings", are important, but neither of these two equate the value of time.

How do we save? We make a decision to save a part of that pay-cheque every pay-day. If you decide "I'm worth 10% of what I earn" and you earn $400 per week ($10.00 per hour x 40 hours per week), you would save $40 per week.

If you started doing that at age 25, and did so for the forty years to age 65, saving it in mutual funds that average 15% per year, you would be worth over $ 4 1/4 million dollars ($4,255,584). If it only earned 10%, you would be worth $1 million ($1,012,651).

You would have saved a total of $83,200!

Now, somebody else started making "long-range goals" at 45, and decided to save $80 per week (twice as much). In the next 20 years a total of $83,200 would be saved, but at 15%, the value would be $490,090.

That's $3 1/4 million less dollars, despite the fact both "long-term" savers saved the same amount, and earned the same rate of return.

All of us can justify the statement "I'll start saving for my long-term goals 'tomorrow' ", but so often "tomorrow" never comes, or, as shown above, it comes twenty years later, and despite the fact we saved twice as much per week (totalling same amount as the younger person), we ended up with $3 3/4 million less dollars.

Time made all the difference.

The person's first "$40 per week" worked for 40 years, the next $40 for 39 years and 51 weeks, etc. The person who started 20 years later, saving $80 weekly, saw the first $80 working for only 20 years, the next $80 for 19 years and 51 weeks, etc.

No matter what your age when reading this column, make plans to do three things:

(1) Start saving a part of what you earn NOW.
(2) Set financial goals for your retirement (At the age YOU want to retire)
(3) Seek the best rate of return you can for your savings.

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For a free table on what over 20 mutual funds have done over the past 10 years, ask for "10,000 table" and write: Peter C. Masson, M.B.A., Regal Capital Planners Ltd., 10 Fagan Drive, Georgetown, Ont. L7G 4P3