WHITTLE & PARTNERS

ARE YOU SUBCONSCIOUSLY SABOTAGING YOUR BUSINESS?

The 5 Critical Mistakes Business Owners Make to Devalue Their Business

By
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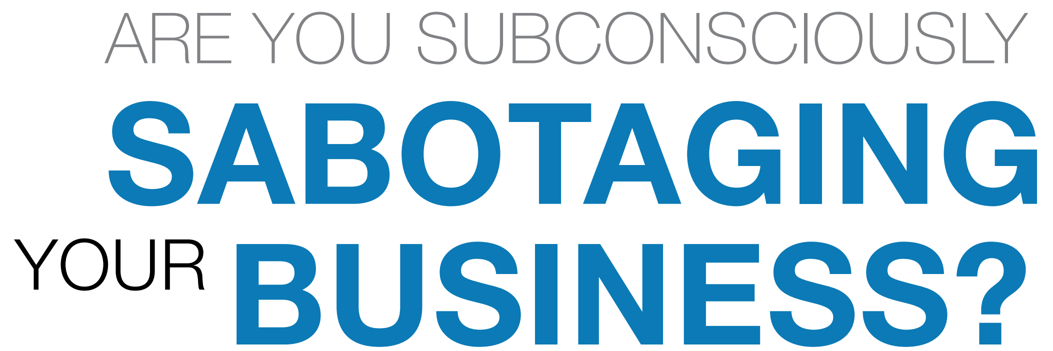

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I.

INTRODUCTION

Creating success isn't just about knowing which path to take. It's not about having a crystal ball or stumbling into the next big thing. (Well, that can't hurt.) It's also knowing where the pitfalls are and how to avoid them along the way. The truth is that you will make mistakes—we all will make significant ones. They are inevitable, because we are all human beings, but wisdom comes from developing the tools to recognize them before they completely sabotage your entire trajectory. The trick is to turn them into value.

In your career, perhaps you've made some mistakes, some hefty ones already, and you know exactly what they are. You may have even had some failures, as well. But, what's important to know is that failing does not equal failure. Rather, failing is a necessary part of the success formula – as long as you keep moving forward. Why? Because you make discoveries, and what you learn becomes your secret sauce. It's what guides you. Though my mistakes were painful, they provide great teaching material—of what to do—and what NOT to do. They lead you to discover the formula for success.

Your Road Less Traveled

The entrepreneurial brain is unique. What we have found in our work at Whittle & Partners is that so often, the very smartest, savviest business people frequently make similar mistakes without even realizing it—that can impede their success over time. It may be a factor of lack of objectivity, that core passion, or simply a mindset of laser focus—the kind of focus that has fueled their entrepreneurial drive to develop successful businesses in the first place—probably a combination.

Now, we may have just met, but I do know something about you. You no doubt have an inner calling that is driving you to higher levels of achievement. That is what guided you to this ebook and tool kit.

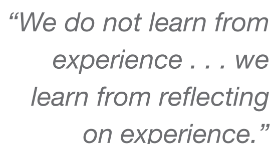
Driving the Value

In this ebook, we will help you find ways to identify and overcome the five biggest mistakes that have the potential to undermine the value of your business. Plus, you'll discover some key secrets of shifting your performance into high gear and building the successful, high-value business of your dreams. It all starts with you.

II.

IT'S ALL ABOUT YOU

My Perspective.



"We do not learn from experience . . . we learn from reflecting on experience."

–John Dewey

I am a "**recovering banker**." I spent twenty years on Wall Street in a variety of commercial and investment banking roles and in private equity firms. Over the course of my career I've worked with more than 200 management teams in a wide range of industries. Frankly, I've seen it all—the good, the bad, and the ultra-heartbreaking—from uber-talented teams who managed to leverage underperforming markets and clients—to brilliant concepts and products that never lifted off the launch pad.

I'd like to share some of the most common mistakes I saw repeated most frequently—to give you plenty of room to make your own, original errors.

Here's where I always start the conversation with every business owner. . . *value*. We must first understand what value means in order to identify and eliminate the mistakes we make to diminish it.

Value Definitions: The Who and What

I define it this way—the regard that something is held to deserve; the importance, worth or usefulness of something. This concept is important on many levels, because it has multiple manifestations in the context of your business:

- **Customer or Client**—what about your product or service does your customer or client perceive as useful, important or worth something?
- **Employee/Partner**—what are the essential benefits or values of being associated with your enterprise from a professional or career perspective?
- **You**—what are you core values? How does your business align with them, help you express or achieve them?

Sources of Value

Another way to think about value is the external sources of investment that help you improve your business:

- **Financial:** Capital providers as a source of value creation. Clearly, a chunk of capital can help you make progress more quickly. Other sources include bankers, factoring companies, lessors, and equity partners.

- **Intellectual:** Business experts, such as consultants, accountants, and lawyers. They all have potentially beneficial contributions to make.

- **Suppliers:** Business vendors offering preferential relationships that may provide economical pricing, expedited shipping, or extended payment terms.

- **Customers:** Source of more business and referrals. If unhappy they can be huge value destroyers. Anyone who has experienced a negative Yelp review can relate to that.

The more effective your relationships are with all four sources of value, the more dollar value you can create. Let's look at common mistakes through the lens of all four value sources.

THE FIVE BIGGEST MISTAKES

"Mistakes are the portals of discovery."

–James Joyce
(1882 – 1941)

Here is the tough truth. You may not even think you are making mistakes. They might be beyond your conscious awareness, and that's why it's so important to read this ebook and complete the Self-Evaluation later. Mistakes are inevitable. It's how you master them that helps you reach new levels of success.

1. Tolerating the "ISH" Factor

The "ISH" factor is insidious—and as difficult to control as an infestation of termites. You may not see the result at first, but by the time you do, the damage is usually done.

It starts with a tolerance for revenues that are "close" to target or deliveries that are within one to two days of what you told your customer. Quality that is 89 or 90%. The problem with tolerating "ISH" is that that it quickly becomes PERVASIVE—and a generalized mindset.

ONCE IT SPREADS, IT IS VERY DIFFICULT TO ERADICATE.

A good example of what tolerating the "ish" factor means is a public stock offering. If you are familiar with the whole research cycle around predicting companies' earnings, you may know what happens to a stock when you miss earnings by even a penny or two. Massive value destruction. Why is that? It's because investors have been told to expect something, and close doesn't cut it for them. "It's not horseshoes," as my father used to say. If this persists and becomes a pattern, stock value will continue to decline because investors and the research community will lose confidence—not believing what the company says.

And the disturbing part is that the "ish" factor often becomes part of a company's corporate culture—even in a small company. It comes from our natural human need to feel secure, safe, and predictable. We get up. Go to work. Go home. Repeat. There is a certain comfort in that—and it is the perfect context for the "ish" factor.

This repetition can cause people to settle in, stay in a comfort zone. They don't take risks or put in that extra effort to put the sales figures over the top. However, they also won't experience failure. They stay pretty much in the gray area . . . in the "ish."

When mediocrity is tolerated in business, it can erode the company's culture of productivity and accountability. As a leader and entrepreneur, it is important to be clear and consistent about performance expectations. Fight mediocrity with every fiber of your being.

2. Ineffective Communication

Most business owners are extremely knowledgeable about their own businesses—obsessively so, and that often means that they can be somewhat cavalier about communicating with outside value sources, such as bankers, customers, suppliers, and other key audiences. This can cripple important initiatives. An excellent example of this developed when I worked with a company that was undergoing a dual path sale / initial public offering (IPO). Dual tracking often allows a seller to confirm valuation from one market by the other—and it helps verify the offered price. The IPO track usually serves as a valuation benchmark for the mergers and acquisitions offer prices. It can be a complicated process to manage, but communicating the correct message to the appropriate audience is key to a successful transaction.

Example: We met with several very interested buyers for an interactive management presentation that reviewed the key elements of the business. The CEO could name every employee at every location and tell you details of marketing campaigns conducted by year and by event. He demonstrated almost encyclopedic knowledge. However, the buyers had specific questions, and they had a hard time getting crisp answers. A 2-hour meeting turned into 4, and they walked away saying, "That guy has a real passion for the business, but why is the CEO wasting his time down in the weeds on marketing program histories and daily sales reports when he should be thinking strategically?" It wound up hurting us on value when bids came.

Solution: The CEO was able to recognize what he was doing and wanted to get better. He sought coaching. We scripted, rehearsed, and rehearsed again to tighten the message. The company is now a highly successful public entity, and every time I listen to an earnings call I am thrilled that he was so self-aware—and has come so far.

3. Poor (Shareholder) Planning

You are inspired. You map out your business plan on the back of a napkin with your college buddy. Fifty/fifty all the way, dude. Fast forward ten years—you wake, and you have very different views of where the business should go. You want to grow, acquire new business lines, expand— and he just wants to milk the cow and take the profit.

Larger companies have these challenges, too. It is amazing how many large businesses operate without clear plans about buyouts, contingencies, or even how to resolve conflict among shareholders.

Back in the 1980s, different classes of stock were in vogue. Class A had voting rights, Class B had one tenth of a voting rights and paid a dividend. These have gone out of fashion, because they are very complicated. How does a buyer value Class A shares versus Class B shares? How do you herd all the cats with different motivations onto the same bus?

Who wants to own a stock these days that doesn't have voting rights? Nobody wears sideburns anymore. They serve no purpose and they make shaving a whole lot more difficult. It all needs to be spelled out to avoid misunderstandings, conflict and possible litigation. Never assume.
You know what that gets you—ass-u- me. Always remember, get a good pre-nuptial agreement.

In fact, I wrote a blog called, "Does This Capital Structure Make Me Look Fat?" It talks about how businesses evolve and their capitalization doesn't keep pace. Here are some valuable takeaways:

- **Consider Dating, Not Marriage**. Some partners, particularly family members, are truly altruistic in their desire to help you get your business established. Don't assume that equity is your only alternative; a loan with a reasonably flexible repayment structure can help you get your business started and provide a clear path toward separation.

- **Get a Pre-nup**. The corporate equivalent of this is a buy-sell agreement. This provides upfront the roadmap as to what happens if a co-owner chooses to leave, is forced to leave, or even leaves this earth. It can establish the processes to be used for valuation, provide you with a "Right of First Refusal" if a partner decides to sell, and greatly reduce the stress and cost of a business break-up.

Thinking through the ownership structure of your business before you start is a must. However, rationalizing your ownership structure in the absence of a potential transaction is also a good plan. No matter how long you've been in business, it's not too late to discuss how you and your partner(s) envision an exit. Those conversations are best held while you still enjoy each other's company and have most of your hair.

4. Megalomania Alert (Ego Management 101)

This is particularly common in businesses built from the ground up by the founder, but it also exists in other companies. The problem is that the very qualities that help entrepreneurs succeed — including willpower, individualism, and the ability to go it alone — can end up limiting their success. "Superman complex" holds entrepreneurs back by making them think they don't need to change with their company, and preventing them from getting other brains on board to accelerate their company to new levels of growth. It's more than getting the right butts in the right seats—it's getting the right brains on the right bus.

Things have changed since the last century. If you had a smart leader at the helm with a crackerjack executive team, you would most likely do well. Today, you have to get your ego out of the way, and realize that if you're going to win big, you need an entourage. Surround yourself with badass, experienced people, and get used to the fact that they might be smarter than you.

The bottom line is that the "Superman/woman" model puts the business at risk. Get over it! There is an upper limit to growth in these companies because even Superman has to sleep sometimes.

5. Cutest Baby Syndrome

I had children relatively late in life, and I am not a baby person. I didn't want to sit next to one on an airplane. A friend of mine and I joked that all babies looked like purple "cone heads" at birth. Then I had one. Mine is perfect! She is gorgeous, funny, smarter than all the other babies— and absolutely underappreciated by those other parents with inferior baby products.

Just to prove the point, I went and had another one who was equally perfect. It is impossible for me to be objective about my children. They define me and my worth in a way that I just can't articulate. For some business owners and in particular, founders, their companies are the professional representation of babies. You cannot tell a mother her baby is ugly. They are beyond perfect, and anyone who doesn't see that is just plain wrong.

The downside to this belief is that it can lead to denial. Cash flow isn't always perfect. Customer relations aren't always amazing. Your employees don't always have great ideas. This myopia and lack of self-awareness can distort relationships with all your sources of value. So, you've got to *get real*!

IV. THE ROAD TO RECOVERY: IT'S NOT ALL ABOUT YOU

"Freedom is not worth having if it does not include the freedom to make mistakes."

–Mahatma Gandhi (1869-1948)

GETTING BETTER—AND GETTING THE RIGHT HELP WHERE YOU NEED IT.

Prepare people for the "new rules," and then be ruthless about sticking to them. Run your company like it's public, and you have to report to shareholders. You either get the first down, or you don't. Either / or, not

“almost” —true for compensation, deadlines, and budgets. Set goals that are aggressively realistic and then stick with them. Get outside help—investors, advisors (bankers, accountants, lawyers). Implement a board—your own or groups like The Alternative Board.

1. Focus on Accountability

This applies to yourself, your team, and your suppliers. Create a reporting regularity and framework that requires you to tell others with established frequency how you're doing relative to what you said that you'd do. Within your framework, insist on meeting and exceeding the highest standards. It becomes your default position. In terms of positive behaviors, here are a few to cultivate:

- **Communicate the big picture** — You create a culture of accountability if everyone in your business embraces a larger responsibility for the success of the entire enterprise. Spend time talking with individual team members about his or her impact on the business. Your team will make wiser decisions within the context of the “big picture” – rather than from the perspective of a menial or boring task.
- **Clarify expectations** — The team is only as strong as its weakest link. It is important from the very beginning of any new project to state the expectations clearly and repeat them over and over again until your team really “gets it”. People listen differently and process information through a variety of media; this dovetails with communication, more on that later.
- **Accountability work groups** — Share responsibility across team members. Accountability within the team can be accomplished by what Morris R. Shechtman calls “accountability groups,” groups which give team members the permission to speak and listen in a way which is frank and open. This kind of accountability group

can support creative strategies to help teams work together in the direction of significant growth.

- **Consequences** — For accountability to work, team members must recognize that failure to meet objectives will result in specific consequences, including written warnings, loss of a bonus or extra hours served on a week-end to complete the project on the table. Without consequences, your employees won't take you seriously. This makes it real.
- **Recognition and reward** —This provides a tangible way to demonstrate that employee efforts are indeed driving company productivity. It's important for all to share in the fruits of the hard work. The offer of increased pay and benefits (vacations, time off and other perks) can help bolster accountability and morale and can motivate employees to high levels of performance.

2. Develop Effective Communication Techniques and Mindfulness

THE 3 PS OF COMMUNICATION

There is almost no situation faced by a leader that wouldn't benefit from a little advance planning. Before you pick up the phone and call an unhappy customer, think about how you want the conversation to go. Visualize your desired outcome.

Example of Preparation:

- Do you understand why your customer is not satisfied?
- Are you going to start with an apology?
- What are you prepared to offer?

Make a mental plan of what the call should look like before dialing.

PREPARE A STRATEGY BASED ON THE THREE PS:

- **Practice:** The CEO I mentioned earlier recognized his own communication weaknesses. He sought training for his delivery / communication style, and we practiced and practiced and *practiced*. Now he is the leader of a multi-million dollar public company and regularly leads calls reporting on the company's results. He is thriving. This also works with banker dialogues, new customer pitches, and supplier negotiations. *Rehearse*.

- **Pause:** As leaders, our natural tendency is to have an answer for everything. Quickly. Sometimes emotionally. Before rushing to answer a question or a challenge, take a deep breath. Do you really want to say that? *Impulse control*. Be mindful and present in the moment. Think before you speak.

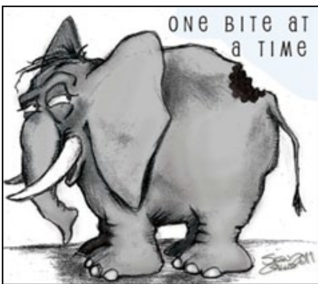
- **Punt:** You don't have to have the answer to everything immediately. It's okay to say, "I want to do some research before I answer that one so that I don't misspeak." People would rather have a thoughtful, correct answer than an immediate one.

MINDFULNESS MATTERS

It's about paying attention. The Harvard Business Review article "Mindfulness in the Age of Complexity" points to the nearly four decades of research on mindfulness that has greatly influenced thinking across a range of fields—from behavioral economics to positive psychology. It reveals that by paying attention to what's going on around us, instead of operating on auto-pilot, we can reduce stress, unlock creativity, and boost performance. Ellen Langer's "counterclockwise" experiments, for example, demonstrated that elderly men could improve their health by simply acting as if it were 20 years earlier.

Mindfulness is the process of actively noticing new things— putting you in the present and the current moment. Our suffering comes from all the ancillary judgments we bring to the "party" or a situation. It's the negative evaluations we make that bring about anxiety and muddy the waters.

Langer discusses work processes. When people say, "This is the way to do it," that's not true. There are always many ways, and the way you choose should depend on the current context. Take a fresh look at your context—and determine the best way.



How do you eat an elephant? One bite at a time.

3. Hone Your Planning Process . . .

Build an action plan and a timeline. *Back to the accountability point*. A failure to plan is *a plan to fail*—as they say—especially in a business context. And a failure to plan and lack of funding are both leading contributors to small business demise in the U.S. If you are planning to go into business with a partner---whether it's that best bud or other professional colleague, it is critical that you set up a partnership agreement (or prenuptial agreement). It's is easy to do, but often overlooked during the business planning process. Without an established strategy on how you will handle certain unforeseen events—even your exit, you leave too much up to chance. .

Let's say you have a disagreement, will you be willing to exit the business and sell your shares? What will be the process? These are important questions to address in the early stages of planning your business. It is easiest to come to a consensus when all the partners have the same interest in mind—building a successful business. Personal interests of the owners can change over time, and it is important that the "rules of engagement" are clearly stated and articulated in the beginning. That is not just for a startup you are considering. If you have a partnership without an agreement right now, you need to get one in place as soon as you finish this ebook!

Example: Let's say you own a small company with one partner and you are both employees with equal ownership of the company. You have been operating without a formal partnership agreement for a year and a half and the money is really starting to roll in. Suddenly, your partner has a life-changing event—a personal bankruptcy, divorce, or even worse, a sudden death. What effect will this have on your business? Who will own your partner's shares? Do you have the right to buy those shares in any of these cases? Without an agreement up front, these answers to these questions are not clear, and you may end up with some unanticipated partners. Imagine your partner getting a divorce and now having to deal with the ex-spouse as an equal partner.

Other issues to consider in the partnership agreement include the valuation. How are the shares going to be valued? Not only does this need to be established during the early planning stages, but it should also be reviewed on an annual basis. The simplest form of valuation to use is a multiple of total revenue. For many small businesses, this is the best option to use when setting up your initial agreement. Not only is it easier to agree upon a fair calculation, but there is less room for subjective or questionable amounts to be produced.

As your business becomes more complex, your valuation terms do, as well. You may prefer to create a formula that uses a multiple of earnings to value the business. The stock market is a prime example of this type of valuation, also referred to as "market value." You will often see a reference to the PE (Price to Earnings) ratio when looking at the price for publicly-traded stocks. This is no different from creating your own PE ratio to value the business. You are simply stating the exact formula to use, since an open market for your shares does not exist within a privately held company.

There is no right or wrong way to value the business in a partnership agreement. Determining the valuation within a partnership agreement is meant to protect the business from an unexpected change in ownership. It just needs to be clear so it cannot be questioned—in case you need to use it in the future. Since this is an internal document, it does not have any impact on the valuation of the business outside of the partnership. The true value of any business is simply the amount someone is willing to pay for it.

4. Gain Perspective and Self-Awareness

Developing self-awareness is an essential component of building a fulfilling and joyful life—in business and personal realms. Cultivating techniques of awareness will help you build mastery over your emotions and impulses—thus reducing your tendency to make some of those most pesky mistakes.

Heightened self-awareness helps you make deliberate changes in your thoughts and interpretations. Changing your interpretations allows you to change your behaviors and the way you process your emotions. Therefore, self-awareness is a key element of emotional intelligence and a proven attribute of successful leaders—helping to create the life you desire.

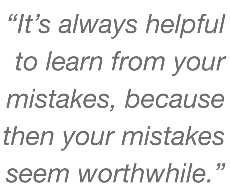
From this position of confidence, you can make assessments about the structure of your organization. Who will handle the business if you're absent? Are the right people doing the right jobs? Are you delegating effectively? It's painful, but do it.

Constantly question the status quo and test the system. Try creative solutions to improve efficiency and productivity. For example, take Wednesday mornings at home. (You are still reachable but not visible.)

The road to self-awareness and perspective is a bumpy one. Here are a few tools that can help make the journey more manageable:

- Delegate
- Ask for guidance and opinions
- Evaluate — your structure and your people
- Test the system
- Realize that you are completely biased
- Decide what you really want out of a relationship or transaction
- Prioritize—you won't get everything.
- Recognize that folks have other options

***ABOVE ALL*, *GET REAL*: FIND THE COURAGE TO CONTINUOUSLY ASSESS YOUR STRENGTHS AND WEAKNESSES.**



Next Steps

"It's always helpful to learn from your mistakes, because then your mistakes seem worthwhile."

–Garry Marshall

Now that you've read about the common mistakes business owners make, you're probably starting to consider whether you're making them yourself. You probably are, but you're not alone and we're here to help. Your next move is mapped out for you. Find your Self-Evaluation Worksheet here. Enter **CriticalMistakes** when you're prompted for a password.

In case you lose your place, here are links to each part of the Self-Evaluation, but please make sure to complete the worksheet in order:

*Self-Evaluation **Part 1*** | *Self-Evaluation **Part 2*** | *Self-Evaluation **Part 3***

Not only will taking the time to evaluate your business in the context of the mistakes we've discussed give you some perspective, but it will also provide Whittle & Partners with critical details to prepare for your complimentary consultation. Now let's get to work!

About

WHITTLE & PARTNERS

At Whittle & Partners we have a simple mission. We help entrepreneurial and growth-oriented leaders build a better business.

We've been where you are. We've run businesses large and small, ranging from generational legacies to start-ups. And we believe that what you want is really very simple.

You don't want theory. You don't want complexity.

You want validated tools and systems that help your business run more profitably, delivered by trusted and experienced partners who want only to help you achieve your vision of success, whatever that vision might look like.

We'd be flattered to have the chance
to help you achieve yours.