IMPLEMENTATION GUIDE:

How to Create a Business That Can Thrive Without You

Like Alex Stapleton, many business owners find themselves trapped in an unsellable business. Customers ask to deal with the owner, the owner becomes personally involved in serving the customer, reinforcing the customer's reliance on the owner, and the cycle continues. A business reliant on its owner is unsellable, so the owner becomes trapped in the business.

The following eight steps provide a road map for creating a company that can thrive without you. I've also included my own personal observations and experiences gleaned from applying the process in my businesses.

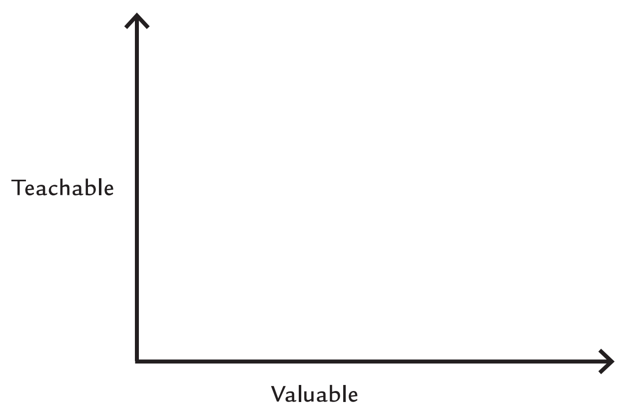
Before you start this process, engage a good accountant experienced in helping business owners with succession planning. Depending on your tax jurisdiction, there will be tax planning strategies your accountant can put into place now that will minimize your tax bill when you sell your business. *Do not wait until you have an offer to see an accountant*. Timing is critical.

STEP 1:

ISOLATE A PRODUCT OR SERVICE WITH THE POTENTIAL TO SCALE.

The first step in building a company that can thrive without you is to find a service or product that has the potential to scale. Scalable things meet three criteria: (1) They are "teachable" to employees (like the Stapleton Agency's Five-Step Logo Design Process) or can be delivered through technology; (2) they are "valuable" to your customers, which allows you to avoid commoditization; (3) they are "repeatable," meaning customers need to return again and again to buy (e.g., think razor blades, not razors).

Brainstorm all of the products and services that you provide today and plot them on a simple diagram with "Teachable" on one axis and "Valuable" on the other:



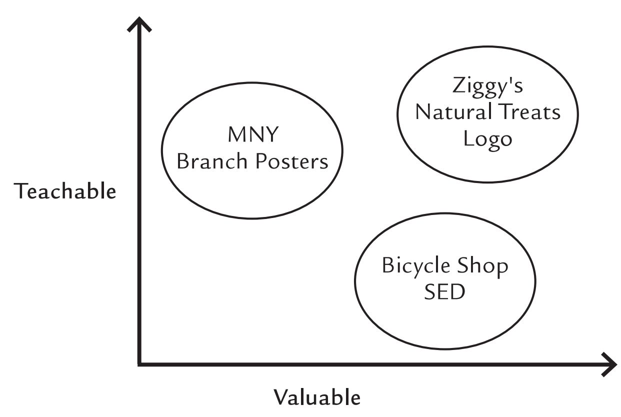
Once you have plotted everything you offer on the chart, eliminate services or products that a customer needs to buy only once.

Often, you'll find that the most teachable services or products are the ones that customers value the least. Alternatively, you'll find that the products and services your customers value most are the least teachable. That's normal. Try combining one or more services or products to create the ideal offering.

By way of a hypothetical example, let's take a look at how Alex Stapleton might have plotted his services before deciding to focus exclusively on creating logos. You'll recall he had Elijah working on the branch posters for MNY Bank. Since creating a branch poster is a simple task that lots of marketing agencies can do, Alex would have plotted the branch posters at the top left of the chart: high on teachable since he could get his juniormost designer to do them, but also low on value to customers because branch posters can be done by lots of other marketing agencies.

You may also recall how Chris Sawchuk was struggling to get the local bicycle shop to be ranked number one on Google's natural search listings. Chris was a generalist designer without any specific knowledge of search engine optimization (SEO). In fact, SEO is a highly sought-after skill in the market that requires a deep subject matter knowledge and years of experience to do well. Successful SEO is very valuable but also very difficult to teach, which is why Alex would have plotted the SEO project for the bike shop on the bottom right corner of the chart.

On another level, creating logos was something Alex could teach his staff to execute, and since they had come up with a unique, proprietary approach to developing them that clients liked, Alex would have plotted Ziggy's Natural Treats logo at the top right of the chart.



LESSONS FROM EXPERIENCE

Of the three criteria for a scalable product or service—teachable, valuable, and repeatable—I found the single most important factor in driving up the value of my companies was ensuring my revenue was repeatable, meaning customers had to repurchase somewhat regularly.

Although all recurring revenue will have a positive impact on your company's value, some forms are more desirable than others. Based on what I've learned from talking to buyers, here are six forms of recurring revenue presented from least to most valuable:

NO. 6: CONSUMABLES—TOOTHPASTE

Consumables are disposable items customers purchase regularly but that they have no solid motivation to be brand-loyal toward.

Each morning I wake up and brush my teeth with Crest Whitening Gel. I'm fairly sure the "whitening gel" is a placebo, but it appeals to me given the amount of black coffee and red wine I consume. Every once in a while, I'll go off the beaten path and try a Colgate product that promises "extra whitening," but I always work my way back to Crest.

If you sell a consumable, start tracking your repurchase rate from existing customers. This will be a number that acquirers will use to calculate your projected sales into the future—and to calculate how much they're willing to pay to buy your company today.

NO. 5:
SUNK MONEY CONSUMABLES—RAZOR BLADES

More valuable than basic consumables such as toothpaste are "sunk money consumables." In the case of these items, the customer has made an investment in a platform.

When I started using Gillette Sensor razor blades, I first had to buy a handle. Now I buy a new five-pack of blades every month, and I can't bring myself to try Schick because then I'd have to purchase its handle mechanism. I've been a Sensor guy since I grew my first patch of peach fuzz. I've made an investment in the platform, and that makes me reluctant to switch providers.

The same is true at the office. When I was in the market for a printer, I bought a Xerox. And even though I probably won't need to buy another printer for a while, I still have to buy Xerox's expensive toner cartridges.Expect to garner a premium for your business if you can demonstrate a loyal group of customers who have made an investment in your platform.

NO. 4:
RENEWABLE SUBSCRIPTIONS—MAGAZINES

Even better than having loyal customers who repurchase is having revenue that is guaranteed into the future. For example, I am a loyal subscriber to *Outside* magazine. Each year I get a re-up letter, and I send a check to cover my next twelve issues. *Outside* recognizes one-twelfth of my subscription fee the month it receives the check and each of the next eleven months.

Magazines are cheap compared with the subscriptions that analyst firms such as Frost & Sullivan or IDC sell their customers, which can run into the hundreds of thousands of dollars, making these companies more valuable than their competitors that offer project-based consulting on a one-off basis.

NO. 3: SUNK MONEY RENEWABLE SUBSCRIPTIONS—THE BLOOMBERG TERMINAL

When customers make an investment to do business with you, they become very sticky. If they buy on a subscription model, you will have one of the most valuable businesses in your industry.

Traders and money managers swear by their Bloomberg Terminal. Bloomberg customers have to first buy or lease the terminal and then subscribe to Bloomberg's financial information. Having sticky customers loyal to a proprietary platform allowed Michael Bloomberg to build a valuable company.

NO. 2: AUTO-RENEWAL SUBSCRIPTIONS—DOCUMENT STORAGE

When you store documents with Iron Mountain, you are charged a fee each month until you ask for your documents to be shredded or you agree to pick them up. Unlike a magazine subscription, for which you have to make the conscious decision to re-up, Iron Mountain just bills you until you tell it to stop.

Iron Mountain tracks its cancellation rate down to the decimal point and it can predict its revenue well into the future, which is why it is such a valuable company.

NO. 1:
CONTRACTS—WIRELESS PHONES

The only thing more valuable than an automatic renewal subscription is a hard contract for a defined term.

As much as we may despise being tied to them, wireless companies have mastered the art of recurring revenue. Many give their customers free phones as long as the customer locks into a two- or three-year full-service contract.

As you ascend the recurring-revenue hierarchy, expect the value of your business to go up in lockstep.

Once you've isolated what is teachable, what your customers value, and what they need most often, document your process for delivering this type of product or service. You'll recall Ted helping Alex to define and document the Five-Step Logo Design Process. As Ted explained, describe each of the steps so that you can repeat the model in the same way each time. This will form the basis of your instruction manual for delivering that product or service. Use examples and fill-in-the-blank templates where possible to help ensure that your instructions are specific enough for someone to follow independently. Test your instructions by asking a team or team member to deliver the service or product without your involvement. Getting the instruction manual right will require time and patience. Expect to develop many drafts.

Next, name your scalable product or service. Naming your offering gives you ownership of it and helps you differentiate it from those of potential competitors. Once you own something unique, you move from providing a commoditized service or product to providing one whose terms of use you decide. If your product or service isn't generic, customers won't be able to compare your price to others'. Instead, name your offering, along with each of the steps you take to deliver it, to differentiate your offer so that you can set its price and payment terms.

After you come up with a great name, write a short description of the features and corresponding benefits of each step in the production of your offering. Revamp all of your customer communications (e.g., Web site, brochure) to describe your process in a uniform way.

LESSONS FROM EXPERIENCE

I used to own a market research business, and one of the services we provided was focus groups. You know the drill—the clients are sipping beer on one side of the one-way mirror while eight hapless "respondents" on the other provide their feedback on whatever the client wants to peddle.

Focus groups used to be a great business. It cost about $2,500 per group to rent a facility and pay the respondents. We would charge $6,000 for each group and clear a tidy $3,500, or roughly 58 percent gross margin. I say "used to be a great business" because as other companies caught on to the profitability of focus groups, the competition increased, driving down prices. Worse, clients started to issue requests for proposals (RFPs) for their focus groups.

The first time I saw an RFP, I was excited. The client was a big phone company, and it had asked our little company for a proposal to conduct six focus groups. A $36,000 potential order was a big deal for us, so I painstakingly responded to all of the RFP's questions. I sent off my proposal and waited. Eventually I got a call from the phone company saying it had chosen another bidder. I couldn't believe it. I'd thought my proposal was perfect.

I followed up with the buyer, and after several failed attempts finally reached him and demanded an explanation. He told me the winning bid was $3,500 per group. I would have had to drop my gross margin to $1,000 per group, or 29 percent! I would have had only twenty-nine measly points to pay for all of my operating expenses such as payroll, rent, and so on.

If you want your business to be profitable, enjoy fat margins, and thrive without you, you need to stop responding to RFPs and start carving out your own one-of-a-kind product or service. RFPs commoditize a category down to the point where the only way for a business to win a contract is to be the lowest-cost provider.

In my business, I decided to develop an alternative to focus groups that I could control the pricing for. We called them "customer advisery boards." A company that wanted consistent and candid feedback from its customers could hire us to set up and run an annual advisery board on its behalf. We documented the process, developed an uneditable PDF deck for our salespeople to use to pitch the service, and, since customer advisery boards were unique in the market, set the price at a point where the gross margin returned to our historical averages.