CASH COWS

Whether you're starting a business, buying or inheriting one or well into the roller coaster of commerce, **there will come a point where you want the revenue you earn to eclipse the effort you put into generating it**. *Cash Cows* reveals how other business owners have achieved that goal. It covers future proofing, money management, people, marketing, succession and how to build your commercial cash cow regardless of the small business sector you're in. It offers genuine wisdom from small business owners across Canada – and the collective wisdom of their financial partners from Canada's credit unions, the sponsors of this book, and among the leaders in Canadian financial services when it comes to partnering with small business owners in the communities they call home.

Credit Union Business Owner Strategy
CANADA'S CREDIT UNIONS

CASH COWS

A Canadian business owner's guide.

Credit Union Business Owner Strategy
CANADA'S CREDIT UNIONS

Cash Cow: The point at which business revenue exceeds owner effort.

CASH COWS

Based on the collective wisdom of real Canadian business owners, credit union business / finance experts and 30 years of listening.

“Running a small company is just a job if all you have at the end of the day is a pay-cheque. It becomes a business when you have assets and use those assets to expand.”

- BC BUSINESS OWNER

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"To succeed in business, you have to be able to speak the language of sales. To have a successful relationship with a financial institution, you have to be able to speak in numbers. Aligning those two skills is critical to success."

- SASKATCHEWAN BUSINESS OWNER

TWO HOURS

Cash Cows is comprised of candid, often blunt insights from a cross-section of very bright Canadian small business owners wrapped around financial and operational meat and potatoes (underestimate the value of meat and potatoes at your peril). You can skim it in about two hours. And then go back and dive in.

The content of *Cash Cows* proves that:

(1) You don't have to be an entrepreneurial media star, urbanite high roller or a financial PhD to operate a smartly-managed, efficient and unique small business. Quite the opposite in fact.

(2) Sleeping well depends on how well you spend both time and money. These two fundamental expenditures are equally important and that hasn't changed regardless of the noise in the marketplace. All the good stuff in a business happens when you get the time and money right.

(3) More than any other business shape or size, a small business really is about you, the owner operator. When you get you right, everyone else – employees, family, customers – get their share of the results. (Note: Our interviewees wouldn't say it exactly that way – they are a wonderfully humble group of unique people; but the conclusion is sound based on everything they did say between the lines.)

At some point, *Cash Cows* will reinforce why you wanted to be a business owner in the first place. The stories of people like you will inspire you. There will be at least one section that earns or saves you money. There will be at least one sentence that causes you to wonder why you hadn't thought of that before. Yet perhaps more than anything, it will take your mind off the day-to-day and give you two hours to think. At what point is your business successful? At what point can you worry less and be more secure in the future? At what point does your business cross that magic line between too much effort and not enough revenue AND incrementally more revenue for every hour you spend?

Now wouldn't that be nice.

THE LANDSCAPE

For the sake of getting on the same page to start, lets call any business with between one and 100 employees a small business. There are all kinds of definition variables in and around those numbers, so consider the one to 100 range a guideline with exceptions over and above. And while being called 'small' is none-too-flattering in many circles, those companies between one and 100 employees in every province and in every community across this country punch above their weight, representing 97% of the businesses in Canada – or about 1,116,423 small businesses at last count. Eighty-seven percent of those companies employ less than 20 people. They employ almost 50% of working Canadians, and that percentage increases dramatically when you exit our very largest cities for suburban and rural markets.

By another definition, **2,700,000 Canadians are self-employed** – and lets agree for now that self-employment is no less a small business than any other – you simply have different goals, structures and relationships with your income. It is highly likely that **most business owners with companies in the one to 100 range started out as the self-employed** (but with a growth strategy and the moxie to execute it).

Okay – that paints a simple, superficial picture of who we're talking to and about in this book. There are a lot of you and you are well-represented across every definition of gender, ethnicity and age; you are primarily responsible for Canada's economic recovery since the great recession (2010 onward) and, just in case you were wondering, you work on average more hours per week than the vast majority of people who are not self-employed.

To say you're all a little sleep deprived might be an understatement.

There have been years since the turn of the century when tens of thousands of businesses were started. There have also been years, especially during the latter part of its first decade (2008/09), when almost as many people who started businesses closed their businesses – a blend of shaky start-ups, overdue wind-downs, retirees without succession plans and a host of recession-battered young adults who had to forgo traditional employment for self-employment while the economy righted itself.

Business ownership is not for the faint of heart.

What we can conclude, however, is that small business owners are survivours. Small businesses as defined earlier have a better survival record in their first two years than their larger mid-size counterparts. Eighty-seven percent of you will make it one way or the other. And that number suggests that the risk of running a small business and, just as important, financing a small business, may not be what you have been led to believe. In a small business, it really does come down to the character of the individual who starts it, operates it, grows with it and knows when to get out. It is your character – a variable blend of curiosity, empathy, integrity, doggedness, skill in selling your vision and some form of immunity to risk – that sees you through the inevitable peaks and valleys of running your own show.

Of course, having a good idea to begin with also helps.

> "I DON'T HAVE A CHART THAT SAYS FOLLOW THIS AND WE'LL BE OKAY. WE'RE MORE LIKE PLUMBERS WHO KEEP PLUNGING UNTIL THE DRAIN IS CLEARED. IN THE SAME SENSE WE KEEP PUSHING UNTIL THINGS WORK. I HAD NO IDEA IT WAS GOING TO PERFORM THIS WELL AND NOW WE'VE DONE IT."
>
> - **ANDREW WONG**, Wild Rice Restaurant, BC

You are a rare breed that numbers in the millions – a survivour's club without formal walls and meetings. That fact alone generates hope for the future. You defy formulas and swim against trends. You are resilient at a time when resiliency in this country is needed more than ever. And this book is by, for and about you.

FORWARD:
A BLENDED OPINION FROM 50 AUTHORS

WE ARE THE AUTHORS OF THIS GLIMPSE UNDER THE HOOD OF CANADA'S ECONOMIC ENGINE. ANYTHING BUT 'SMALL', OUR IMPACT REPRESENTS OVER 50% OF THE ECONOMIC VITALITY OF CANADA. WE DON'T ANSWER TO FOREIGN AGENDAS OR DISCONNECTED SHAREHOLDERS. WE ANSWER TO OUR CUSTOMERS, OUR EMPLOYEES, OUR COMMUNITIES AND OUR FAMILIES, THOUGH NOT ALWAYS IN THAT ORDER. IT'S A GIVEN THAT WE ANSWER TO OURSELVES JUST BEFORE BED EVERY NIGHT, TYPICALLY AFTER A 12-15 HOUR DAY.

Ours is a unique perspective to be sure in that while we are categorized by others as a segment, we operate companies, generate revenue and live our lives as unique and passionately independent women and men. We're not simply about making money, though without a firm grasp of the money, we won't last long. Based on the accounts in this book, ours can be a force for doing good. And our economic impact is as diverse as Canada is broad and varying.

The 'authors' of *Cash Cows* include software services companies that generate hundreds of millions of dollars in revenue. We are also micro businesses that generate fashion slowly from recycled fabrics. We are chefs who struggle against the high-failure stereotypes in our sector and cattle ranchers whose best day, watching the sun rise over our workplace, is as profound as our worst day, watching grasshoppers wipe out a month's feed. We are pure for-profit companies and we are social enterprises. We are home builders, commercial developers and husband/wife teams that create everything from eight million dog biscuits per year to a new commercial fishing model that is turning old-school fisheries on their collective heads.

We are legacy Canadians with deep multi-generational roots in this country's economic and social mosaic. Just as many of us are new Canadians for whom risk-taking is a hard-wired component of our DNA. In that context, legacy and new Canadian business owners alike all speak the same language.

We are the young entrepreneurs who believe the current state of work and employment is not sustainable – so we're remaking it in the same way our peers elsewhere are remaking the entire planet. We are also 60-something entrepreneurs who both worry about whether the next generation will be successful and wonder in positive awe at that generation's achievements and capacity to adapt. We are uniformly proud of what we believe the next 40 years of entrepreneurs can do despite mounting evidence that calamity is always just around the corner.

What connects us is, to some extent, a long list of contradictions.

We are motivated by both profit and social good – a blend of community engagement, sustainable employment, the well-being of our families and to varying degrees, the strong legacy of Canada's business brand.

We are both self-employed and the employers of others. These are two distinct business paths. The path we choose defines how we invest and what success looks like.

By most accounts, we're okay with paying taxes – we understand our accountability. Yet we also seem to spend far too much time, worry and money avoiding over-taxation, competing for employees with the deep pockets of the public sector in smaller communities and increasingly complex regulatory environments, all funded by those same tax dollars. The tax and compliance merry-go-round takes up too much of our time and resources.

We operate companies but share little in common with our leadership counterparts at Canada's largest corporations. Where their compensation runs at staggering multiples of employee wages, our compensation is a bargaining chip – used to ease cash flow, attract capital, keep people and burnish financial performance for succession planning. Where they enjoy countless layers of management and employees to bring their vision to life, we inevitably have very few staff, and sometimes just one. **The impact of individual people on bottom lines and the relationships we count on is massive in any comparison between small business leaders and the leaders of larger businesses.**

For the most part, we are not the limelighters and darlings of Canadian business media nor any media for that matter. We are our own social media, our own publicity agents, our own ambassadors. The majority of us work in obscurity – some of us prefer it that way. But every now and then, it would be nice...

We use cooperative financial services, more traditional forms of business banking and all the merging options in between. Our choices for the most part have little to do with technical sophistication and almost everything to do with outcomes such as speed of decision-making, localness, continuity, flexibility that matches our own and the capacity for ingenuity. The word 'no' (without reason or a path to get to yes) is not the right answer regardless of where we bank.

Surprisingly, many of us eventually read the same books (such as Michael Gerber's *E-Myth*) and visit the same websites for support (HR sites, business associations, DIY marketing websites etc.). What we don't do uniformly, however, is execute the guidance of these resources. We fall into the trap of working in versus working on the businesses we've created (Gerber). We spend too little time on what's next, and as we age, we have less and less energy to go back to the well of ideas that inspired 'owning a business' in the first place.

100% of us understand the need to let go at some point or another. Far less than 50% of us actually get there. Saying it's important to let go and assuming the risk of doing so are two very different things.

Change – both slow and radical – is equally our friend and foe. It can represent both our opportunity to grow and our demise. How we manage through change is what matters most and we exercise those muscles directly and indirectly every day.

We are both local and global, in what we produce, where we do business, where our competition comes from and where customer expectations are created. It's a small planet and as it continues to shrink, the pressure to see ever-wider increases.

While many contributors to this book are not family businesses, what we do almost always has a greater impact on our families than traditional employment has. This impact is comprised of both opportunities and high-stress challenges to our personal and family relationships. So to some extent, every small business is a family business. At least that's the way most small businesses begin.

However many and varied, these contradictions inform just part of the mindset that drives the Canadian business owner/operator. We also share a vision of the future that, while optimistic, can serve as a roadmap of pending challenges. The speed of business, the acceleration of both disruptive and productive technology in equal measure and the challenges of being an employer when good people are increasingly hard to find let alone keep are equal part opportunities and obstacles. Both the veterans of business ownership and those just starting out agreed that navigating the next ten years of business ownership in Canada will be more difficult than at any time in the past.

With the right partners, support, access to markets and no small amount of grit, we also believe Canada's economic engine is up to the challenge. Our ideas in this book are a blend of common sense, financial smarts, mentorship and no small number of things to consider or try as you start and operate your business through to maturity. The content includes inputs from as many Canadian information sources as possible. Yet that data is difficult to find and comes with a warning from one of our business owner interviewees in BC: **"With the speed of business and change today, by the time you find and analyze scarce Canada-specific data that is relevant to your business or markets, it is often well beyond its best before date"**. So knowing how to read the real time data and trends in your own business numbers and analytics adds relevance and timeliness to broader trends and statistics.

In addition, and likely as important as unbiased data, experts in Canadian financial services who have seen (literally) thousands of owner-operated businesses survive, thrive and even fail over the years also contributed to this book. Financial stability is the foundation of every business – how you get there often depends on the financial services partners you choose, how well everyone listens and the 'fit'. And full disclosure – this book was commissioned by Canada's credit unions on behalf of their business members (thousands upon thousands of business owners). Does that bias the content? Certainly not with respect to the smarts and sophistication of the people interviewed. And while the business owner interviewees all have relationships with credit unions, they also have relationships in some cases with a Canadian bank. They were also very clear and consistent about how to choose a financial partner, and if Canadian businesses are to meet the challenges ahead, the financial partners we choose will have to keep improving too.

So all that said, fully explained and reinforced over the next 284 pages, you may be asking why the title? What is a CASH COW?

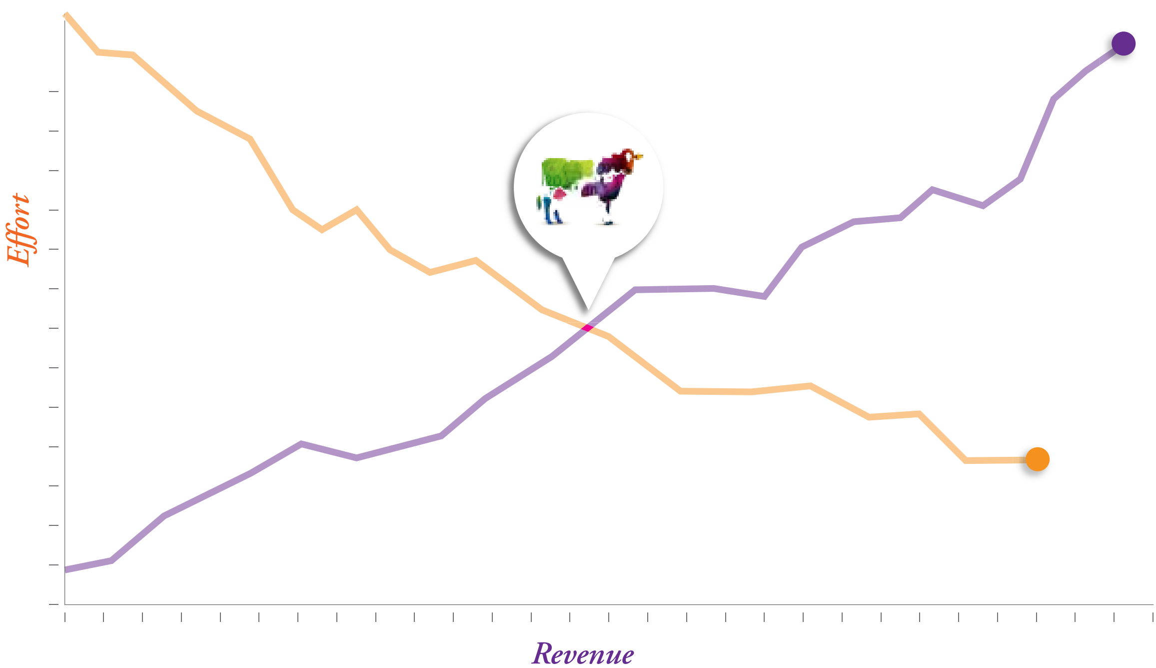
According to no less a source than the Merriam Webster dictionary itself, a Cash Cow is...

cash cow /kaSH kou/ *noun informal*

1 : a consistently profitable business, property, or product whose profits are used to finance a company's investments in other areas.

Now the jaded among Canada's business community may also respond that a Cash Cow is how multiple layers of government view Canada's business owners. Thankfully, the business owners that informed the content of this book are far less cynical and, as usual, look to themselves for the definition. What we came up with is as follows...

A Cash Cow is that point in business performance when revenue keeps increasing while the business owner's effort required to sustain growing revenue decreases.



There are other definitions to be sure including the point at which the prosperity of the company impacts a greater good or the point at which customer loyalty and recurring business is no longer dependent on the efforts of the leader alone.

And spoiler alert – one of the good ideas we explore later on is the consistent Cash Cow achievements of businesses that occupy property or facilities owned outright by the business owner. Essentially, these owners turn the cash required to pay rent into gross income as a landlord. They pay themselves. While this may sound simple and logical (yet in some cases out of reach for those business owners in major urban centres where property values and taxes are onerous), the fact remains that each of these business owners is putting Merriam Webster's definition of 'cash cow' into practice. They are putting the profit and cash flow of their core business to work financing other related investments – in this case, commercial real estate. The strategy impacts expense management, cash flow management, planning for peaks and valleys and even succession planning or retirement funding.

We'll explore those details at the end of the book – the 224 pages before you get there are more about what we've learned through the journey – a Canadian Cash Cow Owners Guide if you will.

Until then, we will leave you with this final thought: What connects us most profoundly is that each of us is alone where the rubber of business ownership meets the road of financial reality. This came across loud and clear through the interviews and other research. It is especially true in Canada, where we don't celebrate or focus on entrepreneurship to the same extent as our peers elsewhere. Some of us overcome this state of aloneness by joining associations and mentoring groups. Some share most but not all with their life partners. But regardless of spousal-business chats or not, there's only one head hitting the pillow that's full of worries about generating revenue, customer retention and employee well-being the next day. This book was commissioned by credit unions on behalf of their business members to say simply that while business owners may make decisions on their own, there are hundreds of thousands of similar heads hitting pillows across Canada (a half hour earlier in Newfoundland) and each of us is in very good company after all.

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***Cash Cows* is sponsored by Canadian credit unions who participate in and finance a national small business strategy and who deeply believe in the power of small business ownership to drive the economies of the communities served by credit unions.**

CU
Tip

WHEN *CASH COWS* WAS IN THE RESEARCH STAGES, A TEAM OF CREDIT UNION SMALL BUSINESS EXPERTS FROM ACROSS CANADA WAS CONVENED IN VANCOUVER TO REVIEW THE SUBJECT MATTER AND PROVIDE INPUT TO THE VARIOUS CHAPTERS. THEIR INSIGHTS ARE BASED ON SERVING THOUSANDS OF SMALL BUSINESS OWNERS, PROVIDING LENDING OPTIONS AND OPERATIONS ADVICE AND SEEING FIRST HAND HOW BUSINESSES START, GROW, THRIVE AND DIVEST ON A DAILY BASIS. THE CU TIPS THROUGHOUT THE CONTENT OF *CASH COWS* ARE BASED ON THE SUMMARIZED AND COLLECTIVE EXPERIENCE OF COMMERCIAL AND FARM BANKING EXPERTS AT CREDIT UNIONS ACROSS CANADA.

The Editor

The interviews, background information and narrative of *Cash Cows* was written by Gary Lintern on behalf of Canada's credit unions and the participating business owner interviewees. Gary has owned a successful marketing company in Canada for 30 years, and his business was recently named Toronto Small Agency of the Year (IABC 2017). Throughout his career, Gary has taken a keen interest in the exploits of Canadian business owners and has interviewed in depth hundreds of such entrepreneurs over the last ten years alone. In a small way, *Cash Cows* is the culmination of that qualitative and deeply personal research.

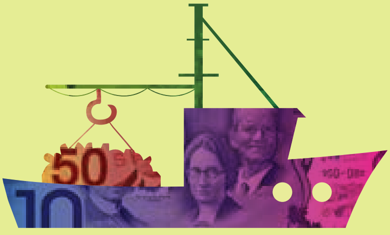
"Everyone has the same three challenges: cash flow, revenue, and staff. How do I generate more revenue, how do I get the cash in the door faster and how do I support the staff?"

- **SUNNY GHATAURAH**, AES Engineering, Alberta and BC

Chapter 1

BUSINESS PROOFING FOR THE 21ST CENTURY

The old rule used to be: take care of the fundamentals and everything will work out. Slow and steady wins the race. The new rule is the old rule still works; it's the speed at which you do everything before, during and after you apply the fundamentals that will continue to change at an increasingly rapid, often alarming pace. In the 21st century, slow and steady will inevitably float downstream. Your business will not become a cash cow without a continuous flow of fully considered, well-managed, well-financed change.



SKIPPER OTTO
A FISH STORY

The west coast seafood industry is old school. It is controlled by intermediaries, the fisheries regulations themselves, and the people who actually catch the fish have a tough time earning a living as those intermediaries tightly manage the supply chain to consumers.

Skipper Otto, a community-supported fishery with customers across Canada, started in 2008 – in part to help the founders' fisherman father earn a more consistent living after years of seeing his income drop.

"Otto's son, my husband, and I thought to ourselves that this didn't make any sense," remembers Skipper Otto business owner Sonia Strobel. "Nobody wants the world to work like that. So we started thinking outside of how things were being done. Because everyone should be paid a living wage for what they do."

Last year (2017), Skipper Otto had a fleet of 30 independent fishing vessels and 2,400 customers (members). Essentially, Sonia and her husband changed the dynamics of how they get their products to market and how that market responds with more consistent payment. It's a values-based business; a mix of social justice, economic justice and environmentalism. Their business also grew 40% last year.

"We decided we needed to have control over as many pieces of the supply chain as possible. And step by step, we found ways to collaborate with consumers in a shared risk model. I think consumers are changing – they are asking more questions and they want more transparency, especially in the food industry and its supply chain. I think that's the way of the future – compared to the train wreck in a lot of boardrooms and in what people see on shows like the 'Apprentice'."

Skipper Otto is a disrupter – in Sonia's words: "The industry isn't set up for us, so we have to constantly reinvent and think creatively. I used to think, because we were disruptive, that we had to do everything ourselves. I've learned that's not the case, that help is available, and as soon as we figured that out, the business took off."

SKIPPER OTTO IS A SMALL BUSINESS THAT IS CREATING BIG CHANGE IN THE MARKET FOR SEAFOOD. NOT BY IGNORING THE FUNDAMENTALS, BUT BY DISRUPTING EVERYTHING IN BETWEEN THOSE FUNDAMENTALS. CHALLENGING THE STATUS QUO IN SUPPLY

CHAINS, CUSTOMER RELATIONSHIPS AND THROUGH A MORE COLLABORATIVE APPROACH TO WORKING WITH PEOPLE ARE ALL HALLMARKS OF SMALL BUSINESS SUCCESS IN THE 21ST CENTURY.

What's Changing – What To Do About It.

Based on the opinions of our business owners (regardless of the diversity in what they do and what they know is happening around them), **five core themes** emerged that all small business owners should pay special attention to in the context of business proofing for the next ten years or so.

Five Core Themes:

(1) EMPLOYMENT

The 'experts' say employee loyalty is dead and that the new economy workforce is no longer interested in long term employment. This undermines business continuity, customer retention and even how you delegate responsibilities in the future.

Yet another way to look at it is that employers killed employee loyalty with contract employment, leadership/staff compensation gaps (more like chasms) and little loyalty to or care for their people. Adding to the issue is the demographic fact that there will be fewer qualified people to fill the most important roles in your company and that technology is only addressing part of that gap. Our interviewees agreed that spending more time on talent recruitment, retention, and culture is no longer an option. To thrive over the next ten years, you have to be an amazing employer.

(2) TECHNOLOGY

David Konrad, one of our participating business leaders put it well: **"Numerically, 5% of the companies in the world are technology companies and the other 95%, whether they want to or not, are going to become technology companies."** He's not talking about giving your people laptops, using accounting software, having reliable internet access and knowing how to put a PowerPoint™ together. Technology is changing the basic patterns of how we communicate, how we recruit, our reputation among prospective employees, how customers find us and how they buy, how supply chains and distribution works, where we do business, what we produce or grow and where our competitors come from. How you store information and how you protect what you store continues to evolve exponentially. If you've been in business for 20 years, the expense of staying technology current and the learning time required to get ahead is almost completely new and a growing strain on scarce resources. This will only increase and the cost will not necessarily be offset by the gains made in productivity. There are only so many hours in any small business owner's day.

According to Rick Harper of Truck Zone in Alberta,

> "THERE HAVE ALWAYS BEEN LEAPS IN TECHNOLOGY. BUT THEY WERE FEWER AND FURTHER BETWEEN IN THE PAST. DIFFERENCE NOW AND IN THE FUTURE IS, THOSE LEAPS COME FASTER AND ARE ALMOST CONTINUOUS. YOU HAVE ALWAYS HAD TO INVEST – NOW YOU HAVE TO KEEP UP WITH ALL THE OPTIONS AND INVEST CONTINUOUSLY. THAT MEANS YOU'LL HAVE EXPENSES YOU NEVER HAD IN THE PAST. AND THEY WILL KEEP COMING".

The solution for a small business owner is twofold: (1) Retain, hire or rent a technology expert who is platform agnostic (meaning that expert does not have a specific technology to sell), who understands your core business, the trends in your business sector and who is capable of guiding the operational evolution of your company in real time and; (2) Identify the long term trends (one to three years out) that will impact the business you're in. In retail, that means online shopping trends and the impact of Amazon-sized competitors. In agriculture, that means automation, new technology-based inputs, changing demographics and tastes and climate change. In development and construction, it means new building techniques and materials, new marketing realities and access to capital to cover the growing cost of land and development. In business services and products (B2B), it means understanding what it is that you do that can be automated by others, the shift to technology-based, in-house competition and using technology to replace the inevitable loss of revenue that will ensue. It's easy to research the impact of technology for every sector there is – including yours. Making time to do so is the challenge.

Regardless of what you do, however, rapid technological innovation will impact how you make money and how much you make. So embrace what tech can do for your business as opposed to fearing it or avoiding the topic because you've been at 'this' for years and the blinders are glued in place.

(3) DISRUPTION / COMPETITION

While this area of change is connected to what technology enables, there's more to it than software code. Disruption happens when someone (not necessarily an existing competitor and not necessarily in your backyard or even on your radar) identifies a better, faster, less expensive, more customer-friendly way to do what you do. Or worse – eliminates the need for what you do. Someone figured out how to make the experience of taxi service more efficient and Uber was born. Blockbuster resisted the notion that you could stream movies into homes online and we all know what happened to them. Hoteliers small and large are now in a dog-fight with the wave of Airbnbs. Who knows how that will end. And those examples are all old news. One of our authors, a residential contractor in Alberta, talked about the inevitability of consumers self-contracting on an online platform to build their own homes. How will that impact his business?

Changing values, better educated, more capable and more aware consumers, access to new markets, barrier-free communications, changes to supply chain and distribution, changes in financing and the rise of intelligent machines (no, it's not a movie) – all the things that happen **in between and around** your core business and your customers can or will change in the coming years. Technology enables the speed in which it will happen. Existing competitors will face the same challenges you do. New competitors, regardless of how successful they are, will undermine your ability to keep doing what you're doing the same way for the same price.

Disruption is the hardest change to address because you may not see it coming and it may not be gradual. Especially if the majority of your day is spent 'in the business'. The only way to address it according to Sunny Ghataurah, President of AES Engineering in Alberta and BC, is to *innovate every day*.

"YOU CAN RIDE AN IDEA FOR ABOUT 18 MONTHS AND THEN IT HAS TO EVOLVE. WE REBRAND HOW WE DO THINGS EVERY TWO YEARS – I KNOW THAT IF MY PEOPLE ARE COMFORTABLE WITH WHAT WE'RE DOING, IT'S OLD AND STALE. SO WE CHANGE – IT COULD BE

OUR PROCESS, OUR STYLE – SOMETHING HAS TO CHANGE – IF YOU'RE NOT INNOVATING AND THINKING ABOUT INNOVATION CONSISTENTLY, YOU COULD BE OUT OF BUSINESS OVERNIGHT."

Good advice from a very successful CEO.

(4) DIFFERENTIATION

In a world crammed to the rafters with similar products, services and multiple look-alike competitors, Harvard MBA Professor and author Youngme Moon encourages the readers of her book *Different* to become the exception, not the rule. That to thrive in business today, you actually have to deviate "from the herd" as a strategy. In our opinion, this is even more true when you're a small business. To be both small and undifferentiated in this homogenized, commoditized, well-connected world is to get lost in a sea of sameness, competitors, communications and clutter. Being different has to be based on reality – you have to live and deliver it. It has to be of real value to your customers. And it has to keep evolving to remain valuable – most new ideas or changes you make have a shelf life of less than a year before someone makes a copy. Even the tried and true differentiator of being local or nearby has lost some of its effectiveness. Buying and building relationships online has a way of eroding the power of local.

The value of identifying and refreshing your company's difference or product's uniqueness will only grow. Being truly different will become harder. Yet more critical. Marketing – what our business owners told us was their greatest weakness – will become the greatest need. Not advertising, not catchy, empty slogans and social media posts – but real, meaningful marketing (see Chapter 5) that results in preference for your business brand.

What can you do meantime? Take the pulse of your difference – ask your customers and learn from their answers. Take the pulse of your business category (retail, manufacturing, technology, energy, etc.). Identify what you believe your customers value most and get creative within that context (which is different than simply regurgitating what they ask for; as Steve Jobs once reported, people don't know what they want until you show them something new or different). What you learn will be based on one of three propositions (price, service or product). Be the best at one of those things and be a close second in another (you can't be all three). A good read to help you along is *Value Disciplines* by Michael Treacy and Fred Wiersema.

P.S. If you choose 'price leadership' as being your best bet, good luck maintaining it.

(5) SPEED

There is an urgency to running a business today that did not exist even as little as a few years ago. Part of this is based on customer expectations; the inevitable email response times keep getting shorter. Part of it is due to increasing competitive pressures; if you can't do it today, someone else can. Some urgency can be attributed to the increasing capacity of your people thanks to technology and process advancements. We make things faster, ship things faster, sell with more immediacy and; the ultimate goal of convenience almost always translates into increased ease of access meaning more speed. We even have to replace equipment more frequently because technology is changing faster – that impacts depreciation and often adds costs sooner than expected.

The other side of working, responding and delivering faster is that time is disappearing – and you're probably not getting back the time you save by speeding up in any meaningful way. Where business owners used to be able to forecast five years out, now they have trouble with accuracy six months out. (Which also means you have to plan more frequently). Where you used to be able to see competitors or big change coming a year or two in advance, now disruption is often immediate or at least it feels like it. The time you have between creating a plan and executing that plan is shrinking. The time you have with employees and customers is shrinking. The time you have for continuous learning has almost evaporated. So what's a small business owner to do?

Well apart from working 100 hours per week as Don Wik of RM Office Solutions in BC has done since 1973, you have to deliberately make a point of taking time back. In part, this means delegating what you can delegate safely to others. It means finding those two hours per day when the clutter of the business is not the first thing you need to do (which probably explains why almost every business owner who contributed to *Cash Cows* is a very, very early riser). It also means identifying the customer interactions where speed is necessary and not reacting as quickly when speed isn't the deciding factor. Managing the speed of your business could include creating a service level agreement with your customers to manage expectations and response times – if they contribute to the solution, they'll be happier with the outcomes. Identifying and reducing wasted time puts hours back on the clock (google "Lean Processes" if this really interests you). Communicating extremely well (with everyone) also reduces the pressures of speed.

Yet even with managing and focusing and setting aside time, being quick to adapt and evolve well will make a big difference between success and failure in your future business. It's about 'nimbleness'. That's the antidote to an over-accelerating world. And it should be the advantage all small businesses enjoy. Figure out what nimble means in your business and embrace it.

Think change, execute quickly and repeat and repeat and repeat...

People, technology, competitive disruption, differentiation and speed. Each of these themes is intertwined with the others. Tech-savvy people, with the right tools can disrupt consumer buying patterns and create a unique space for themselves in the market faster than ever before (that's all five themes in one). Each theme has a huge impact on the operations, systems, and how you manage the finances of your business. Each theme will impact the people you do business with, where they are, who your partners become and how you build your cash cow over time.

According to our business owners, if you spend too much time worrying about the future and too little effort embracing it, opportunity will pass you by. For example, retailers who spend their evenings reading about Amazon's inevitable destruction of storefront retail are doomed to experience it. Store owners who spend their time offering genuinely specialized, differentiated products and expanding their reach into new markets will not.

The same thinking applies to every business category. Get the fundamentals right and keep evolving everything else. And the one fundamental that's absolutely key to small business specifically is to get, grow and sustain sales.

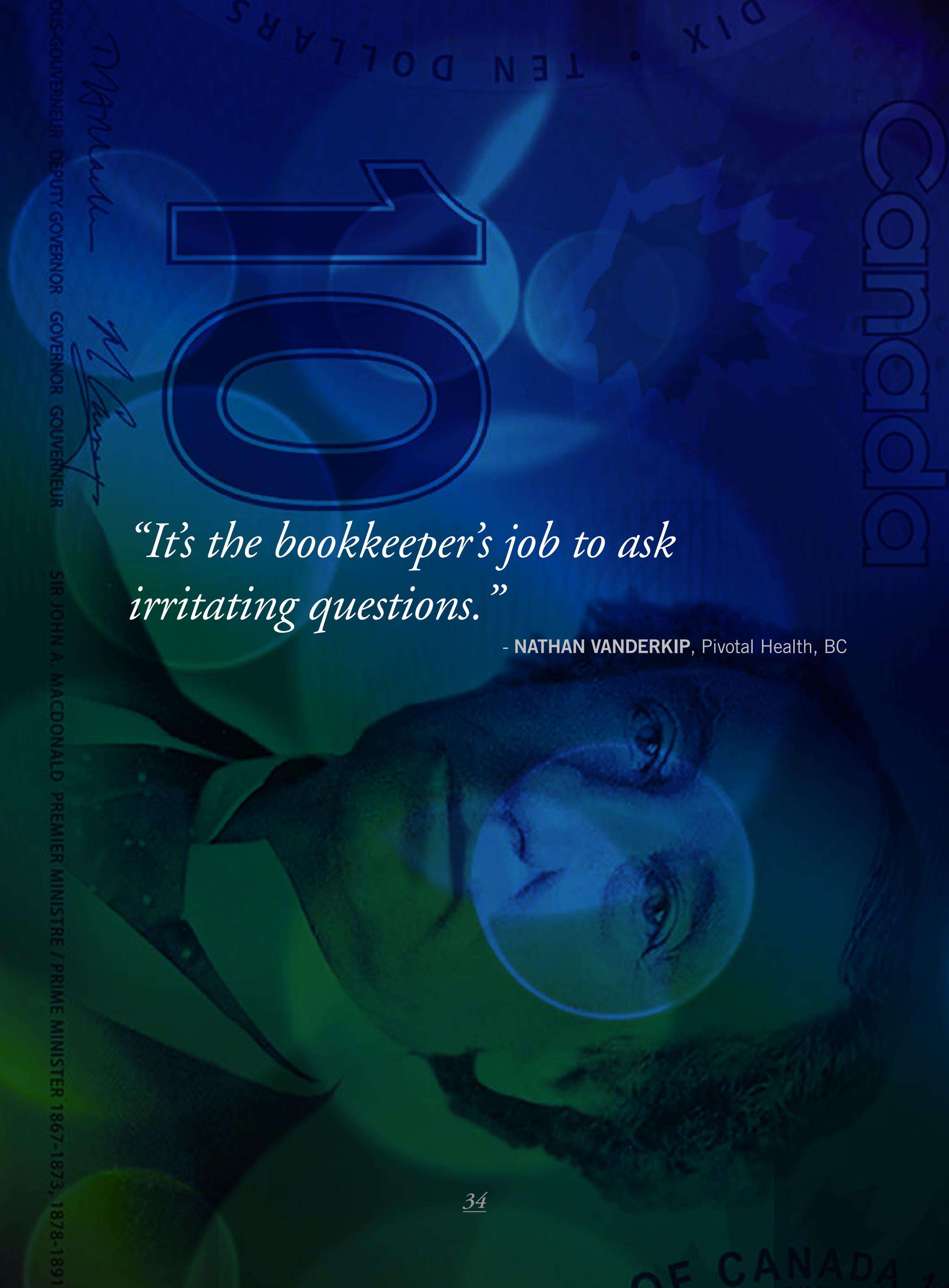
> "SALES SOLVES ALL. ONE OF THE FIRST LESSONS I WAS TAUGHT WHEN I WAS LEARNING IS YOU'VE GOT TO HAVE THE SALES. IF THE SALES ARE THERE, ALMOST ANYTHING ELSE CAN BE FIXED. IF THE SALES AREN'T THERE, IF YOU HAVEN'T GOT GROSS INCOME COMING IN, THERE'S NO FIXING THAT."
>
> - **JON SMITH**, Wheatland Enterprises, Saskatchewan

What Jon means is simple: Sales or gross income to a business is like oxygen to a human.

Sales buys you time to adjust the other fundamentals and pays for the inevitability of constant change or evolution. You can make adjustments to gross sales to create more profitable net income. Gross income buys you time to adjust expenses. You're in a better position to address cash flow problems.

But the bottom line always starts with the top line. Without sales, you don't need an accountant or a financial partner to tell you something is wrong.

How will your business cope with change? Will you be a victim of it or, like Skipper Otto, will you be the one that disrupts others? Make sales, keep an eye on the operating and financial fundamentals of your business and then keep evolving everything in between you, your employees, your suppliers, your partners and most important, your customers. What you do is the foundation – **how you do it is where future success is sustainable**.



"It's the bookkeeper's job to ask irritating questions."

- **NATHAN VANDERKIP**, Pivotal Health, BC

Chapter 2

MIND THE MONEY

"Love what you do" – that's probably good advice in that you'll spend more time in and on your business than you do with your family or loved ones. Yet at the end of the day, regardless of how passionate you are or committed to your employees and community or how noble your vision, minding the money (making, managing and retaining more of it) is what keeps all that love, passion and virtue flowing in the right direction. Mind The Money is about achieving that without becoming obsessed about it.

Most business owners believe they have an average or above average understanding of business financial literacy. Yet **39%** of entrepreneurs (tested) failed a ten-question financial literacy quiz; **57%** achieved a score of **50%** or less and only **26%** understood the role of a balance sheet. Or, looking for the glass half full, a whopping **7%** of us got at least nine answers out of ten correct. Okay - not so full. So maybe some work is required on the financial side of the business. (Source: Intuit)

EZE RENT-IT CENTRE LTD.
A DOLLARS & SENSE STORY

You might think there's nothing earth shattering about the equipment rental business – and in some circles, maybe that's true. As with most small businesses, running an EZE Rent-It Centre isn't what business school grads dream of. Too bad – what they could learn about inventory management, business cycles and using data from these folks would save more than a few sleepless nights for other business leaders.

Russ Walsh, his wife and partners run an independent equipment rental business in three Fraser Valley locations in British Columbia. It's a multi-million dollar enterprise. And in keeping with the Rocky Mountain surroundings, Russ has seen every performance peak and valley a business can throw at you since he started in 1986. Partners have come and gone, he's opened stores, closed stores, shrunk down to one store and even glimpsed into the great abyss on occasion.

But through all those ups, downs (and now ups for the foreseeable future), Russ has learned a thing or two about business – especially the financial side of the operation.

"We survived disastrous economies, we took big growth risks as the great recession hit; we down-sized our home and sold property to finance risk; we burned through cash – this business consumes it and is very capital intensive. But it's also like making a series of chess moves. As we grew in 2012, we were burning through the money – but then we got into some spectacular years because we made good moves early on. That's the reward and there's no reward without risk. It doesn't exist."

So how does Russ manage risk?

"I'm a numbers freak. And I have data back to 1986. Numbers don't lie. They can be misinterpreted but they don't lie. We trend everything; how and when we have cash surpluses, what the impact of weather is on revenue, how good years track and how bad years track – everything. So I can predict the potential cost of taking risks."

While at a conference in the US Russ also learned one thing that he believes changed his world. "The speaker asked how many of us were from Canada. A few people put up their hands. He looked right at us and said: *"In the US, profit is an expense, as opposed to what you hope to have left at the end of the year – that's a difference between Americans and Canadians".* This clicked in for me. You can't wait until month 11 to see what's there because that's too late. Now we factor profit in as part of our overhead – an expense every month. It changes how you look at your entire budget."

Russ believes small business owners have to be better with their numbers, better at understanding their financials – even visiting with other people who do what you do to learn what they do. "We really focus on it; we have the best accounting systems, the best point of sale system we can find – because the detailed information I get allows me to make good decisions: To take good risks."

(Of note: Russ also does his numbers early in the morning – before the distractions of the business get in the way and while his head is clear and focused. This is consistent with many of the successful business owners who contributed to Cash Cows.)

"As a business owner, you have to find your financial tipping point (the magic number between gross income and net profit). I know I'm having a good month if I hit mine around the 20th of the month. Everything after that is all ours. If I'm not hitting my tipping point until the 29th of the month, that's another story. You have to know the number and to know the number, you need to know your financial data."

Thank you Russ.

Oxygen For A Human/Cash For A Business

If things like cash flow and financial management are the oxygen a company depends on, why do small business owners have such a tough time breathing?

Ask yourself – do you enjoy the financial deep end of your business? When the business owner participants in *Cash Cows* were asked that question, at least half answered no. Even more telling, the majority wished they'd paid attention sooner. As John Sauve of Never Rest Farms Ltd. in Ontario says: **"What I wished I'd learned sooner was the books – the numbers, the budgeting, the analyzing. It's a real learning curve unless you come from a financial background. It was what I knew least about and what took the longest to learn".**

The primary reason small business owners pay less attention to the cash flowing into and out of their business is easy to identify. Managing money isn't why you started your business. Ledgers and balance sheets aren't nearly as much fun as inventing technology or delivering oil rig services, managing construction crews or hand-decorating gourmet dog biscuits for obsessive pet parents. You got into business because you had a vision and you were passionate about something. The financial part can be drudgery by comparison.

But it is critical to success.

So, apart from a few pages of basic financial literacy in the Meat & Potatoes of this chapter (actually about 30 pages of it), what are the time-proof concepts of minding your money that are worth noting here?

There are three:

(1) Become fluent in the language and concepts of your financial business.

(2) Dive deep into the details, frequently.

(3) Partner well.

Let's take a closer look at each of these concepts.

LEARNING THE MONEY

The sooner you come to grips with the money side of your business, the more time you'll be able to spend growing it and enjoying the parts of it that you actually got into business for. Everyone we interviewed for *Cash Cows* arrived at this conclusion sooner or later. Don't buck the trend.

> "UNDERSTANDING THE BUSINESS, UNDERSTANDING WHERE THE REVENUE IS COMING FROM, UNDERSTANDING OUR CUSTOMER BASE AND HAVING A FINGER ON THE PULSE OF THE EXPENSES, KNOWING WHAT MONEY IS GOING WHERE AND WHY – AND IN THE SAME BREATH IS THERE A BETTER WAY, A MORE EFFICIENT WAY? WE ARE ALWAYS CHALLENGING OUR TEAM TO FIND A BETTER WAY – IT'S EITHER MORE EFFICIENT USE OF TIME OR MORE EFFICIENT USE OF MONEY."
>
> - **RICK HARPER**, Truck Zone, Alberta

Our successful business owners all share a passion for financial data – it's something they either do from the beginning or shortly after their first major challenge, the latter being a result of not using financial data to be able to avoid the challenge in the first place.

Dedicate 20% of your time to learning and managing the financial side of business (a little more in the beginning and consistently all the way along). It's not obsessing about money to spend one day a week and focus on what keeps your company breathing.

“YOU CAN’T PREDICT WHAT’S GOING TO HAPPEN WITHOUT GOOD DATA. SO THAT’S THE STARTING POINT. YOU’RE NOT GOING TO BE BANG ON, BUT AT LEAST YOU’LL COME TO UNDERSTAND IT. KNOWING WHAT’S SELLING AND TO WHOM, WHY AND WHEN THEY’RE BUYING TELLS YOU A LOT. WE LOOK AT TASTING ROOM VERSUS LICENSEES, THE PACKAGING FORMATS – I HAVE ACCESS TO ALL THAT DATA THROUGH QUICKBOOKS. I PILE IT INTO A SPREADSHEET AND WE GO FROM THERE. MY HUSBAND IS THE CREATIVE SIDE OF THE BUSINESS, I DO THE NUMBERS. I DON’T LOVE IT – WELL MAYBE A LITTLE NOW. BUT WE HAVE BOTH SIDES COVERED AND THAT’S ALSO IMPORTANT. IT CAN’T BE ALL GUT FEEL OR ALL NUMBERS. HAVING BOTH ALLOWS YOU TO CALCULATE RISK AND WITHOUT TAKING CALCULATED RISKS, YOU JUST WON’T GROW. THAT’S WHY YOU START WITH FORECASTING.”

- **JOANNE RICHTER**, The Second Wedge Brewery Brewing Co., Ontario

According to Jon Smith of P.A. Rental & Leasing Services Ltd. in Saskatchewan: **“If we agree that learning to read your financial statements is important, and it is, you start by sitting down with an expert or mentor – your accountant if he or she speaks English (rather than accounting). Understand the relationships between your income and your expenses and how your assets are built up”.**

So how do you learn the money side? Google financial literacy for businesses in Canada and you’ll get over 18,000,000 choices within six seconds. That’s a start.

A better approach is to take Jon Smith’s advice. Get a mentor and/or talk to your financial partners (accountants, credit unions or banking representatives). Credit unions like Vancity, Conexus or similarly inclined in your community offer learning opportunities like webinars and seminars on step-by-step business planning (that you should refresh every year) and basic learning on credit reports, why and how to borrow, securing financing and how to match business accounts to your company.

The in-person mentoring approach works best because you can answer questions that are specific to your business and, if you're learning through a financial partner, that partner naturally becomes more invested in your business success. Speaking the same language and working toward the same goals from the outset pays dividends (literally) down the road.

> "WE STARTED WITH CROWDFUNDING AND SPREADING THE RISK AROUND AND THAT WAS REALLY HELPFUL. BY THE TIME WE HAD TO GO TO THE CREDIT UNION, I ALREADY KNEW WHAT THEY WERE LOOKING FOR AS FAR AS RISK GOES. STARTING AS WE DID, WITH HELP FROM OTHERS, WE WERE IN A BETTER POSITION TO ANSWER QUESTIONS ABOUT WHY WE NEEDED THE MONEY AND HOW IT WAS GOING TO BE USED. WE HAD A FEW YEARS UNDER OUR BELTS AND THAT MADE IT EASIER."
>
> - **SONIA STROBEL**, Skipper Otto's CSF, BC

Sonia is a former school teacher. Today she talks about spreading risk, forecasting and being in a position to answer the questions that financing partners will ask. If you don't learn the money first like Sonia had to do from scratch, you won't have the answers.

Success may be measured in what you achieve and how much you sell. The foundation of success is financial. It doesn't matter what business you're in or how passionate about your enterprise you are.

> "IN FRONT OF THE COMPUTER – THAT'S WHERE THE BREAD AND BUTTER IS IN RANCHING THESE DAYS. IT'S KNOWING YOUR COSTS, PROJECTING YOUR COSTS, MANAGING THE BUSINESS. YES, THE WORK OUTSIDE STILL HAS TO GET DONE, BUT IF YOU'RE GOING IN THE WRONG DIRECTION, IT JUST DOESN'T MATTER. WE SPEND A LOT OF TIME IN FRONT OF THE COMPUTER LOOKING FOR WAYS TO BE MORE EFFICIENT. LOOKING AT THE NUMBERS ALLOWS US TO PLAN THOSE SCENARIOS. EVERYTHING IS A PLANNING EXERCISE. I KNOW HOW MUCH DIESEL I BURN WHEN I START THE TRACTOR. SO I TRY TO START IT LESS. I TRY TO GET MY HERD TO DO MORE OF THE WORK INSTEAD OF ME MOVING THE FEED. IT MAY SOUND LIKE A SMALL AMOUNT – IT'S NOT. EVERY TIME I REDUCE THE COST OF PRODUCTION (OPERATIONS), THAT'S MORE MONEY IN MY POCKET."
>
> \- **JOHN CHUIKO**, Rancher, Saskatchewan

Cash cows (explained in detail in Chapter 7) happen when you can diversify the business to generate income that is not dependent on you specifically. Creating a cash cow starts with knowing the numbers well enough to understand where your business is, where it will be, what excess capital you have for investments outside the core and being fluent enough to be able to explain it.

A REALLY GOOD SCENARIO IS SAY A BUSINESS OWNER COMES TO US AND SAYS SHE OR HE WANTS TO START A NEW LINE OF BUSINESS. IT'S RELATED BUT IT'S NEW. THEY WANT TO DIVERSIFY. HOW SHOULD THEY BORROW FOR THAT? AND WE'D START BY ASKING QUESTIONS – WHAT'S THE WORST CASE SCENARIO, WHAT ASSETS DO YOU HAVE TO BACK IT UP, WHAT IS THE IMPACT OF THIS NEW RISK ON YOUR EXISTING BUSINESS. IF IT FAILS, DOES YOUR CORE BUSINESS FAIL? AND ONCE YOU'VE TALKED THAT THROUGH, LIKELY THE BEST ANSWER IS A MIX OF INVESTMENT – SOME FROM YOUR EQUITY AND SOME IN THE FORM OF A LOAN FACILITY FOR THE REST. A LITTLE OF THEIRS, A LITTLE OF OURS. THAT'S CALLED LEVERAGE AND WHEN YOU'RE IN A GOOD PLACE, AND YOU CAN SPEAK TO THE FINANCIAL SIDE OF YOUR BUSINESS, YOU HAVE THAT OPTION.

THE DEVIL IS IN THE DETAILS

So much of minding the money is common sense that it becomes difficult to say anything new or pithy. So we compiled a few stories from our business owner interviewees to prove a point – scan through and see if you can summarize the common thread.

TIM YOUNG, Young's Equipment, Saskatchewan	"We have a $12.5 million line of credit and $20 million in equity. And we only use between 40% and 60% of our line at any one time. That means we leave a significant margin of error. Consultants will tell you that you're not optimizing your equity and operating efficiency. But your consultant doesn't sleep with you. There's always so much unknown in farming, in any business this size, and the unknowns can come at you from anywhere. I sleep well at night because we always have a significant margin of error."

SONIA STROBEL, Skipper Otto's CSF, BC	"When we started, we'd get all our cash up front from our members, pay our fishermen, pay all our expenses, run through all our cash, pay ourselves if there was anything leftover, and be back to zero. Then members would start joining again for the next year and the cash would start to flow back in. We were getting down to moments when there wasn't much in the bank and it was getting scary. We wanted to grow and that's when I decided it was time to learn about cash flow. I know how much cash is coming in on Monday morning and I know what's going out by Friday every week. Every week. Learning this saved our butts."
NICK VEEN, The Black Forest Restaurant, BC	"People aren't aware that if you belong to an association like a Chamber of Commerce or industry association, there are opportunities to reduce expenses. Without an association, I'm 3.75% on every VISA transaction at my restaurant. Because I'm in an association, I only pay 1.6%. And you think, well that's not a big deal. It is for me. On over $1,000,000 in sales, I put $10,000 back in my pocket in profit because I joined a group. I'm not on my own suddenly – I have leverage. What's the cost of joining an association? Hundreds of dollars? That's quite an annual return on that investment."
CREDIT UNION EXPERT PANEL	"There are red flags and most of them have to do with cash: collection calls start coming in, payables are stretched over six months, or the business owner is behind on government remittances and they have their phones on 'ignore'. They might be over-drawn and if that is uncharacteristic of them, that's a red flag."
NICK VEEN, The Black Forest Restaurant, BC	"Everyone says watch your cash flow and that's true. But if you have lots of cash flow and no profit, that means you're not watching your expenses. Every industry has expense ratio standards. In restaurants, it's 30% for food and drink, 30% for staff and 40% for repairs, facilities, mortgage, taxes, etc. If you're paying 40% for staff, you know you'll be in trouble. Every industry has these operating ratios. Learn yours to know where you stand."
JOHN SAUVE, Never Rest Farms Ltd., Ontario	"The first rule in my business is to always pay off short-term debt and leave the longer-term debt alone. I learned that the hard way – I was always cash poor because I was taking five year loans and paying them off in three. It made me feel good. But it wasn't helping my business. I'd pay too much on the long term and then the short-term would come in and I'd be in a bind. If you keep the short debt clean and let the long debt run it's course, what you're really doing is smoothing out the peaks and valleys of your business."

DAN YUNGWIRTH, Miller Contracting Ltd., Saskatchewan	"You have a company, you're doing well you think, you're keeping costs low. But you're always short of cash. Why is that? It's almost always because you're not collecting what's owed to you in a timely manner. You need to be sending reminders after 30 days to have people pay their bills. It sounds so simple, but we just don't do it enough. And then we're short, and we're paying more interest on our operating line and so it goes."
PARMINDER PUREWELL, PHL Captial Corp, BC	"One of the biggest mistakes business owners make is they base future budgets on past expenses. That doesn't hold any more. You can start there, but you have to keep checking, especially if the project you are doing or the service you are selling has a long time horizon."
BILL DRIESEN, Double D Developments, BC	"Create an itemized list for every project. Add the numbers in on the cost side. That gives you a starting point on every project. But it's not the finishing point. Because everything moves so fast now, those numbers may be changing. So you have to re-budget all the time. That way, at least you know where you'll end up and you can adjust on the pricing side accordingly – or at least manage the costs if there is no flexibility on the price side."
SUNNY GHATAURAH, AES Engineering, Alberta and BC	"You've got to know what your burn rate is; how much money do you need coming in to stay alive and how much of that is cost? What's your weekly, monthly, quarterly burn rate? Too many business owners don't know that number. You can't forecast without it. Sometimes you can see work coming in six months out and sometimes you can't see it. But do you understand your revenue model, know what your multipliers are? Do you have your finger on the pulse of your cash coming in and what the possible unknowns might be? Call it break-even, call it burn rate, you have to know. It's the most important thing to know, especially as you grow."
CREDIT UNION EXPERT PANEL	"Someone walks into our office and asks for business credit – so what are we looking for? The process of that application brings out the reasons why the borrower should or should not get credit. All the way through, we're looking for ways to make it work. The biggest reason we can't is that there's a character flaw showing up in their financial statements. What they're doing with their money is fundamentally wrong based on the choices they're making. And that's throwing off their ratios. At that point a bank will just reject you – what we do is look for ways to clean those ratios up."

The common thread to all this business owner and financial partner advice is simple: You can't know your burn rate, or understand the impact of choices you make on your bottom line or when to pay out suppliers or how to create a buffer so you can sleep well at night if you don't spend significant time on the financial details of your business.

But like the owners in the charts above, the opposite is also true. They are all successful. The majority of them have a cash cow (by a variety of definitions). And they are all still immersed in the financial details of their companies.

Based on everything we've learned, financial fluency is not optional. It is the positive secret to business success.

Learn how to mind the money. Get help to achieve that. Immerse yourself in the details so you are always aware of where you stand and always have the capacity to explain it. And partner well – the last of three time-proof concepts in minding the money of your business.

PARTNER WELL

Very few businesses grow, thrive or even survive without good financial partners. These are investors, professionals like accountants and financial institutions – the order in which you prioritize these relationships depends on what kind of business you operate and what stage you're at. And while Sonia refers to financial institution partners, the qualities she lists are common to each category of partner.

> "HOW DO I KNOW A FINANCIAL PARTNER IS RIGHT FOR US? YOU CAN SEE THEM LISTENING. THEY DO THEIR RESEARCH BEFORE YOU WALK IN THE DOOR. THEY ARE NOT JUDGMENTAL. THEY ARE ACTUALLY PRESENT IN THE

MOMENT. THEIR ACTIONS DEMONSTRATE THEIR VALUES. THEY VISIT YOUR BUSINESS. THEY DEMONSTRATE INTEREST. AND THEY ARE GENUINELY EXCITED ABOUT WHAT YOU'RE DOING. FIND THAT PERSON WORKING FOR A FINANCIAL INSTITUTION THAT ALLOWS THAT PHILOSOPHY AND YOU HAVE THE RIGHT PARTNER. A GOOD FINANCIAL PARTNER IS SOMEONE WHO SEES YOUR POTENTIAL AND INVESTS."

- **SONIA STROBEL**, Skipper Otto's CSF, BC

Setting up your financial partnerships is about investing and sharing risks and about sustaining you through the valleys which will inevitably occur.

THE INVESTORS: According to our business owners, finding investment money for businesses that are 'going concerns' isn't a huge problem if you have your plans in order and you know what you're after.

Joanne Richter of The Second Wedge Brewery Brewing Co. in Ontario recalls: **"We needed more capital. We had our own funds, we had help from our credit union. But we needed additional funds. So we literally did a press release with the local paper looking for investors. Within a week, we had 10 meetings. We reviewed our plans in detail with six people and we got three offers. The two people who came on as investors were business owners in town with all kinds of experience in things we knew nothing about and that really helped".**

Start up money is a little harder to secure and you often have to depend on your own resources to get your idea off the ground (explained in the Meat and Potatoes of this chapter). To be candid, very few if any reputable financial institutions lend to start-ups without a track record and financial statements.

CU Tip

THE REASON START-UPS HAVE TROUBLE IS THAT THEY'RE LOOKING FOR INVESTMENT WITHOUT A TRACK RECORD. THAT'S TRUE REGARDLESS OF THE FINANCIAL INSTITUTION YOU GO TO. WHAT THE START-UP OWNER HAS TO DO IS PROVE SHE OR HE HAS INVESTED THEIR OWN MONEY AS FAR AS THEY CAN TO GET CASH FLOW GOING AND SHOW REVENUE OVER TIME (AS MUCH AS TWO YEARS). THAT'S WHEN WE CAN START TO HELP. IF YOU'RE INVESTING, AND THE BUSINESS IS FUNCTIONING, WE CAN LOOK FOR WAYS TO SAY YES. IF YOU HAVEN'T INVESTED A DIME OF YOUR OWN MONEY AND EFFORT, NO ONE ELSE WILL EITHER. SO START-UPS HAVE TO SEEK ALTERNATIVE INVESTING (FAMILY, ANGEL-INVESTORS, GOVERNMENT, ETC.), TO GET ROLLING AND WHEN WE SEE THAT, WE'RE ALL EARS AND CAN USUALLY CHIP IN WITH A SMALL OPERATING LINE TO SMOOTH YOUR CASH FLOW AND ALLOW YOU TO INVEST.

Even then, the financial institution partners you choose still may not be interested in your business. Joe Anne Holloway and her husband took over a business called Bayside Vacation Resort in Ontario and her story is one that many business owners will find familiar: **"We were very dedicated to our bank at first. We'd been with them a long time. When we bought Bayside, it was already an established resort. But because the previous owner had included Bayside's numbers as part of a larger business, our bank said we still needed three years of statements to do a commercial mortgage. Long story short, we went back after three years with our statements and we thought we were doing fine. Our application was rejected. Our ratios didn't add up. Those ratios could have added up if we'd known what they were looking for, but they didn't tell us. I simply don't get that. They never explained what we had to do or what we could do to get there. All they'd say is keep on track for three years and you'll be fine, which we did and they rejected us. At the end of the day, it almost cost us our business and that had nothing to due with profitability. It was about how we were reporting our expenses and that put**

the ratios that we didn't know about off. It would have been easy to adjust. Moral to the story? They didn't want our business."

All of which brings us to the crux of finding a financial institution you can work with.

PARTNERING WITH A FINANCIAL INSTITUTION: As mentioned in the Forward of this book, Canada's credit unions sponsored *Cash Cows*, and many of the owners we interviewed do at least some of their business banking at a credit union. So the bias is transparent. And it's obvious that thousands of small business owners across Canada choose traditional banks and that's just fine. What this is about is what our business owners found and valued when they chose otherwise.

> "CREDIT UNIONS ARE FOR SMALL BUSINESS BECAUSE THEY ARE BY COMPARISON SMALL BUSINESSES IN THEIR SECTOR. THE BANKS ARE FOR BIG CORPORATIONS. THAT'S THEIR SECTOR. THERE'S NO DIFFERENCE IN WHAT THEY CAN DO FOR YOU. SO IT COMES DOWN TO WHETHER YOU WANT A PERSONAL TOUCH AND IF YOU DO, THAT CHOICE IS EASY."
>
> \- **ROD STANG**, Steel View Energy & Industrial Services Ltd., Alberta

The difference between the two shows up in many ways as recounted during our interviews:

QUANTITATIVE VERSUS QUALITATIVE: According to Dan Kershaw of Furniture Bank in Ontario: **"There's quantitative and qualitative understanding required to finance a business or even a social enterprise like mine. Banks are strictly quantitative. Alterna – a credit union – was both. They took the time to understand the business model and understand the drivers and they validated the qualitative changes that had happened between one fiscal period and the**

next. Typically a bank dismisses those out of hand. Furthermore, our credit union experts are educating us so when we are ready to grow, we'll know what we need to know."

PERSONALIZATION: Sunny Ghataurah of AES Engineering in BC and AB recalls: **"I came with my parents from Dubai in 1991. Whenever they went to a bank for a mortgage or a line of credit, they were treated like a number. When we went to the credit union in Vancouver, they got treated like a person. It was like private banking – we could pick up the phone and get the help we needed. You have people working for you as if they care. My parents received that treatment and so did I. It was a real switch from our origins in a war-torn country. And that level of personalized service has stuck with us ever since."**

ADAPTABILITY: Jaymie Crook of Bosco & Roxy's in Ontario defines his credit union relationship versus the banks: **"When the financial partner says this is something we've never done before, I say great – it's a chance to do something you've never done before. A credit union responds to that positively. A bank, not so much. My experience is that they all have products that fit in a box. If you don't fit in that box, it becomes a conversation. The credit union says give us some time to get our heads around it. The bank says we can't help."**

STICKINESS: An odd word, yet it basically describes what Joe Anne Holloway says here: **"Find someone you can talk with, who gets to know you and who sticks with you. I don't want to waste three days getting to know a new person each time I go to the bank – I'm extremely busy and do not have the energy to make new banking relationships while we are juggling day to day business. So pick the person who will stick with you. That's incredibly important."**

LOCALNESS: According to Tim Young, have decisions made next door by people who understand the nuances of your market makes a huge difference: **"We were working with one of the big banks and every decision they made had to be approved out of Edmonton. Well, they don't like agriculture very much at that bank in Edmonton and they don't know it either. Working with my credit union here in Saskatchewan, they make decisions here and they know local**

CU Tip

LETS BE HONEST, CREDIT UNIONS USE THE SAME TOOLS FOR APPROVING APPLICATIONS THAT THE BANKS DO. WHAT MAKES US UNIQUE AND MAKES OUR DECISIONS BETTER FOR SMALL BUSINESSES IS THAT WE'RE LOCAL; WE UNDERSTAND THE MARKET, THE BUSINESS ENVIRONMENT AND THE OPPORTUNITY FOR THAT BUSINESS – SO THE RISKS WE CAN TAKE ARE BETTER INFORMED BASED ON OUR LOCAL KNOWLEDGE AND OUR DEEPER KNOWLEDGE OF THE PEOPLE INVOLVED.

conditions here. You've got sophisticated experts in what you do on your team. They are local. That makes a difference in the partner you choose."

SPEED: Joe Anne Holloway again – this time on the nature of the relationship and how that impacts the speed in which decisions are made: **"The difference between a bank and a credit union is simple. Banks think they're so sophisticated that they have their noses up in the air and they can't hear the people talking to them as a result. Credit unions have a very different perspective. They're sophisticated too. But from a very different a very different approach. They listen very well and understand the basics of customer service which has been completely lost in traditional banks. They're interested in your business. They are quick to respond because they know you need them to be quick."**

RELATIONSHIP: A lot of people talk relationship. It's hard to have when you never see or talk to the other party. Our credit union panel weighed in on this one: **"Few of any financial institutions conduct annual reviews with business customers who are borrowing less than $250,000 annually. It's automated – so unless you're in breach of your covenants, it simply doesn't come up. We'd look at it differently from the business owner's point of view. Insist on an annual review, keep your financial partner aware of your business, forecast growth and treat them as an interested partner. That's how you foster a relationship – and one day, sooner or later, you will need that relationship and advice. Better to do it from a position of understanding and ongoing engagement."**

At one point in researching *Cash Cows*, we wondered about the word partnership – a true partnership would have skin in the game, would be invested in your success as opposed to simply being worried about your risks and the numbers. Jaymie Crook summed it up for us: **"Everything starts with your story. Maybe at the very beginning it's about numbers, but after that if all your partner wants are the numbers, the relationship will not last. They have to demonstrate interest in your story."**

And a last thought on financial institutions; what about the large segment of younger business owners and their changing financial practices? According to L2 Research on financial services in 2016, over 51% of the millennial generation are willing to experiment with non-traditional providers of financial service. This is likely as true with millennial business owners – a growing and important cohort by any measure. And that research is a little dusty now (change happens fast).

Here's the advice in that context: Experiment freely. But regardless of how you finance, there will be challenges. When those occur, having an expert human being who knows business banking, who knows you and your track record and has the support of their organization to support you will come in very handy. It's only a matter of time.

ACCOUNTANTS: The accounting profession has changed a lot in recent years; often now less advisors than they are auditors and tax experts, at least according to several of our business owners. This is primarily due to managing their own risks including the risk of litigation. We live and do business in interesting times.

All that said, every business owner we talked to found a solid accounting relationship (sometimes after a few tries).

The overriding advice was to judge a prospective business accountant the same way you evaluate any other potential business service relationship. Do they listen? Are they willing to educate you and offer genuine advice?

Do they speak your language? This is all pretty simple stuff and important, too. So why do we often get it wrong?

According to Bill Driesen, it's the language and interest barrier. They speak a different language and their interests are different: "**Your accountants want to talk debits and credits. And I reply, the only thing that matters to me is cash flow because it's a statement that tells you what you start with and tells you what you finish with. I started with $1,000,000 and ended up with $1,500,000 on a project. Money doesn't lie in the end.**"

What Bill is saying is find a professional who believes in the outcomes that you believe in. Do that and you have a good relationship. And don't let them work independent of each other – your business is integrated financially and legally (all the parts work toward the same outcomes).

"DON'T LET YOUR PROFESSIONALS WORK IN SILOS. WE SAID TO OUR LAWYER, SHOULD WE BUY THE BUSINESS, SHOULD WE INCORPORATE, SHOULD WE BUY THE PROPERTY PERSONALLY AND RENT IT TO OURSELVES? WE SAID THE SAME THING TO OUR ACCOUNTANT AND THE SAME THING TO OUR BANKERS. NO ONE WANTED TO COMMIT TO AN ANSWER. WE INCORPORATED TO PROTECT OURSELVES BUT IT CRIPPLED US FOR BORROWING. YOU NEED TO KNOW DEBT SERVICING RATIOS, IMPLICATIONS, INDUSTRY RATIOS AND TRENDS AND IMPLICATIONS, STRUCTURES – YOU NEED TO KNOW IT ON YOUR OWN BECAUSE YOU CAN'T PREDICT WHAT YOUR PROFESSIONALS WON'T COMMIT TO TELLING YOU."

- **JOE ANNE HOLLOWAY**, Bayside Vacation Resort, Ontario

According to our credit union expert panel, what Joe Anne encountered at her bank shouldn't be the norm: **"If your financial partner is doing their job right, you as the business owner will know the impact of current ratio changes before you feel the impact of the changes. In the same way we know banks don't like surprises, we know our business owners don't like surprises either."**

Bottom line, you need accounting help both inside your company and professional accounting help on the outside unless you remain very, very small. Even then, it's a good investment. And the financial institutions notice. One of our business owners, Parm Purewell of PHL Capital Corp in BC, used to be a banker: **"I remember when I worked for one of the banks, we cared about who did the financial statements. We were lending based on the quality of those statements. So it doesn't have to be one of the big four or five accounting firms, but your financial institution will look; the better the firm doing the statements, the more favourable your financial partner will be."**

Embrace financial fluency and learn your numbers; don't be afraid to take deep dives into your financials routinely and frequently. And find financial partners – investors, financial institutions and accounting professionals – who demonstrate more interest in your success than simply reading your statements and checking your math.

The rest of Minding the Money is Meat & Potatoes.

MEAT & POTATOES

If you're new to running a business, the following 47 pages will provide an overview of the financial literacy you need to do so. Read it all. If you're well into your business, you may or may not know most of this stuff, but it's a good refresher. Take a few minutes to ensure you've got it all covered and chances are good you'll find a few tips that will help you improve. And if you're an old hand at running your company, you probably know it all, right? Not so fast – Intuit surveys reveal too many Canadian business owners lack enough financial literacy to be truly effective. Take the time to dive in here and come out with a few ways to improve how you mind your money.

Cash Flow

More than any other financial topic, cash flow is where small businesses live or die. You have to earn more than you spend. It may not happen right away when you start – but it has to happen soon after. And it has to happen far more often than it does not.

Like one of our business owners said, all the money comes out of the same pair of pants – just different pockets. You're fooling yourself if you think using the company credit card for personal activities is somehow disconnected from your cash flow. Every expense attached to your business impacts your ability to manage in the black.

Take care of your cash flow and your business will take care of you.

DEFINITIONS & EXPLANATIONS

CASH FLOW: Is the amount of money that flows into and out of your business. Ideally, your business is in a position of positive cash flow, which means it has enough to cover expenses, service any debts, reinvest in the business, pay its shareholders dividends, and accumulate a buffer for tougher times.

Cash flow connects the dots – between income and expenses over time; cash flow statements and understanding help assess the quality of your business income, as an indicator of how liquid the business is. Positive cash flow means the business can remain solvent.

Many new business owners fail to consider the psychological impact of cash flow, but it can be profoundly impacted by your personality, and vice versa – it can have a profound effect on you as well. Cash flow is where you have to think objectively and use logic to solve problems, as well as to listen to your gut when it comes to making decisions. Getting to a position of positive cash flow takes the ability to be realistic, to communicate well with clients and customers, and to be persuasive with lenders and potential investors. Those who struggle to manage their emotions during stressful times would do well to use the tools available to them, including a business coach, when cash flow is tight.

CU Tip

FOR MANY PEOPLE, MONEY IS AN INHERENTLY EMOTIONAL ISSUE. CONSIDER HOW YOU HAVE COPED WITH DEBT IN THE PAST AS YOU EMBARK ON YOUR OWN BUSINESS, AS MANY SMALL BUSINESSES INCUR DEBTS AS THEY GET OFF THE GROUND. IF YOU'RE PRONE TO BURYING YOUR HEAD IN THE SAND, IT MAY BE WORTH CONSIDERING A PARTNERSHIP WITH SOMEONE WHOSE STRENGTHS ARE COMPLEMENTARY.

The best salve for cash flow-induced anxiety is knowledge. Maintaining accurate records, adhering to sensible practices, getting help when required and making periodic, realistic income projections will all help keep the cash flowing.

As with all financial matters, preparing statements helps you get a handle on things and react quickly when circumstances change. A cash flow statement comprises information about where the cash flowing in and out of your company went. It includes operations, investing and financing.

It's among the easiest reports to prepare, and is simply a collection of line items detailing from where incoming cash was derived, and where outgoing cash went. Most cash flow statements used what's called an "indirect" method. It doesn't have to detail specifics of every dollar – that will be covered in your payroll, disbursement and debt notes on other statements. Instead, it gives an overview.

Line items in the operations portion of the statement may include cash paid to suppliers, interest and taxes paid, and cash paid to employees. Cash coming in from investment activities usually goes towards the purchase of fixed assets. It could also include adjustments for increasing inventory, depreciation, payables and losses on accounts receivables. Cash from financial activities – investments and the issuance of shares – may include dividends paid to shareholders.

The derivation portion of the statement will usually point to journal entries, other statements or credit/financial account records for further detail.

PROFIT & PERFORMANCE: Gut feelings are great, but when it comes to minding the money, there's no substitute for concrete information.

The best way to measure your cash flow is to use key performance indicators, such as gross profit margin, which helps you discern whether your goods and services are priced well. Gross profit is the cost of producing your goods or services subtracted from the revenue you charge. To calculate gross profit margin, subtract the cost of the job from the revenue produced, and then divide that by the total revenue.

Shopify, a Canadian provider of web tools for business owners, features a profit margin calculator on its website.

Your gross profit margin will differ depending on the kind of business you're in; a typical gross profit margin for, say, retail clothing can be as high as 50 per cent. Gross profits do not include overall costs not associated with a particular project; in the construction industry, they will include materials, labour and other direct costs but will not include indirect costs such as transportation, WSIB, operation of tools you already own, etc.

Another key indicator is net profit, which is your total revenue less total expenses. Net profit margin is calculated by dividing net profit by total revenue, and then multiplying the number by 100 to get a percentage. To find net profit, you'll need to consider every cost that goes into your business, not just those associated with a specific job. One way is to know your monthly expenses, including rental space, office help, taxes, bank fees, gas, insurance, parking – yes, every expense – and then divide the total by the number of days you'll spend working in a month. If a job takes you five days, multiply that number by five and add it to the cost of the job.

Your financial services partner typically pays a lot of attention to your current ratio. Do you know it? Do you track it as the business grows or changes?

Knowing your current ratio is another indicator of success; it is a comparison between your current assets and your current liabilities, calculated by dividing former by the latter. Your current ratio is an indicator of your company's ability to keep up with its bills. Ideally, the result falls between 1.5 and 3. Less than 1.5 is an indication that you are about to encounter cash flow problems.

CU Tip

WHEN IT COMES DOWN TO IT, YOU AND YOUR FINANCIAL PARTNER NEED TO AGREE TO THE SAME DEFINITION OF SUCCESS AND WORK TOWARD THAT TOGETHER. IF SUCCESS INCLUDES CURRENT RATIOS AND INDUSTRY RATIOS, AND BOTH OF YOU UNDERSTAND THAT AND THE IMPLICATIONS OF IT, THAT'S GOOD. YOU'RE ON THE SAME PAGE, RATIOS ARE PART OF IT BUT IT'S NOT THE ONLY PARAGRAPH ON THE PAGE.

Business Development Bank of Canada has a **Current Ratio calculator** on its website.

MANAGING THE FLOW: Managing cash flow requires focus. It's often the part of owning a business that owners like the least. It takes time away from doing what you're most passionate about and makes you deal with the administrative tasks of issuing invoices, paying bills, calculating costs, etc.

Yet without good cash flow management, you won't be in business for long. Here's how to go about it:

(1) Cash flow should be tracked on a regular basis. That may be weekly or monthly, and definitely not less than quarterly, depending on the kind of business you're in. Businesses that rely on long-term projects such as construction may make weekly tracking unnecessary. Accounting software can be very helpful with monitoring your cash flow. It's a tax-deductible business expense, and many allow you to purchase an online version cheaply on a monthly basis. The Business Development Bank of Canada website features information on **free and low-cost accounting software**, including a comprehensive comparison chart of different programs.

Positive cash flow occurs when the money coming in is more than what you're paying out; negative cash flow is when your expenses outstrip your earnings. ***Ideally, you should have enough cash this month to cover next month's expenses***.

Don't confuse cash flow with profit. Although a profit and loss statement is valuable, it doesn't tell the whole picture. You also need to consider accounts receivable and accounts payable, inventory on hand, capital expenses and the costs of servicing your debts, like interest on loans and credit cards.

Subtract your expenses from your revenue and what's left is profit, but to have revenue, you have to have actual money coming in.

(2) Are you managing your receivables? Problems with cash flow can be caused by taking on clients who don't pay soon enough. The best ways to keep this from happening are simple: invoice immediately; making payment terms clear; give clients multiple ways to pay, make it easy for them; and follow up. If you have particular problem clients who don't pay in a timely manner, consider giving them up.

The once-ubiquitous 'net 30' term for payment was a result of payments being made by check, and it gave clients the time required to obtain the necessary authorization, issue checks and get them in the mail. These days, with electronic payment methods so readily available, don't be afraid to make your terms 'on receipt.' Make clear on your invoice the consequences for not paying invoices when due, such as penalties or interest.

CU Tip

A LOT OF SMALL BUSINESSES MAKE THE MISTAKE OF PAYING THEIR PAYABLES RIGHT AWAY. THEY THINK IT WILL MAKE THEM REPUTABLE. THEN THEY DON'T PHONE ABOUT RECEIVABLES THAT ARE OVERDUE. THEY GET CAUGHT ON BOTH SIDES. AND THEN THEY USE THEIR LINE OF CREDIT TO COVER THE DAY TO DAY EXPENSES. IT'S A CLASSIC MISTAKE AND THEY GET CAUGHT IN THE CRUNCH. IT ONLY HAPPENS ONCE – MAYBE TWICE – THEN THEY FIGURE OUT THEY CAN DELAY THE PAYABLES UNTIL THE RECEIVABLES COME IN AND THEY'RE NOT ROBBING PETER TO PAY PAUL.

Send invoices by email or use your bookkeeping software to automatically generate and send invoices. You can easily convert an estimate to an invoice through software such as QuickBooks. Making the option of credit card payment available to your clients not only helps get you paid faster, but also gives many buyers an incentive (i.e. if you're in a consumer business, using a credit card gives them an incentive to purchase). Electronic transfers by email are easily accepted, even if your business is a sole proprietorship. PayPal is another good option, and it lets clients pay by the credit card of their choice without your having to pay higher fees associated with accepting credit cards as payment yourself.

(3) The best thing you can do to get clients to pay quickly is cultivate good relationships with them. Who wouldn't be reluctant to pay for a service with which they were unhappy?

If clients aren't paying quickly enough, get on the phone. Be courteous, but firm, and remind them that payment is due. Phone again a couple of weeks later if necessary, and again before you take the final step of considering turning the invoice over to a collections agency.

Getting clients to pay on time is vital to positive cash flow, so if it makes you uncomfortable, get help. Find a bookkeeper who is comfortable with the task and professional on the phone; hiring them is money well spent if you're reluctant to make the calls yourself.

(4) Now that you have receivables under control, what about making payments? The trick to positive cash flow is to get paid as quickly as possible while managing the timing of making payments as well. Of course you have to pay on time – but it must also be relative to your receivables and other cash flow needs. Your payments history is critical to maintaining good vendor relationships, your business credit rating, your ability to negotiate terms, etc. Avoid making payments early – always make payments on time.

If you're ever having trouble keeping up with debt repayment, talk to your lenders. You may be able to negotiate different terms. Thanks to your good relationships with your vendors, you may able to negotiate better terms with them as well, or even preferred pricing once you hit sufficient volume.

Simplify the process as much as possible, and again, if it's something that makes you uncomfortable or you're simply not good at, get a professional to do it. If you're one of those people who leaves bills unopened at home because you don't want to deal with them, don't kid yourself that you'll be different once you're in business.

SAMPLE CASH FLOW STATEMENT

DESCRIPTION	AMOUNT
CASH SUMMARY	
Cash on Hand (beginning of month)	$ 5,000.00
Cash Position (end of month)	$ 1,000.00
CASH RECEIPTS	
Cash Sales	$ 5,000.00
Payments received on prior months' sales	$ 10,000.00
Loan / other cash	$ 0.00
Total Cash Receipts	**$ 15,000.00**
CASH PAID OUT	
Gross wages	$ 5,000.00
Supplies	$ 1,000.00
Repairs & maintenance	$ 0.00
Advertising	$ 5,000.00
Rent	$ 3,500.00
Utilities	$ 250.00
Other	$ 250.00
Loan repayment	$ 4,000.00
Capital purchase (office improvements)	$ 0.00
Owners' Withdrawal	$ 0.00
Total Cash Paid Out	**$ 19,000.00**

(5) To maximize cash flow, get away from manual record-keeping, which is prone to error. Good accounting software is once again an enormous help. It allows you to quickly and easily run reports that will tell you how much you're spending, right down to interest and fees. Small expenses can really add up. Keep every receipt from business purchases and expenses, no matter how small. Even if you're a sole proprietor for whom there is no legal distinction between business and personal finances, consider separate accounts to help you keep accurate records. Reviewing your payables regularly can reveal duplicate or unnecessary spending as well.

CU Tip

BEING ABLE TO PROJECT CASH FLOW OUT INTO THE FUTURE IS A GREAT SKILL. SAY YOU COMPLETE A PROJECT AND INVOICE $100,000. THAT'S GREAT – BUT WHEN DOES THE CASH ACTUALLY COME IN THE DOOR AND IMPACT YOUR BUSINESS IN A MEANINGFUL WAY? YOU CAN DETERMINE THAT BASED ON HISTORICAL PERFORMANCE. BASED ON THE PAST, YOU KNOW THAT MONEY WON'T COME IN FOR TWO MONTHS. A CASH FLOW PROJECTION WILL TELL YOU THAT. IF A BUSINESS OWNER COMES TO ME AND ASKS FOR A SHORT-TERM BUMP TO THEIR OPERATING LINE, OUR FIRST QUESTION IS WHY AND OUR SECOND QUESTION IS SHOW US YOUR CASH FLOW AND HOW LONG DO YOU NEED IT FOR. WHEN THAT BUSINESS OWNER CAN SHOW CASH FLOW PROJECTIONS, THEY KNOW THE ANSWERS TO THOSE QUESTIONS AND IT'S FAR EASIER TO SAY YES. THAT'S CONTROL FOR THE OWNER – THEY KNOW WHEN THEY NEED IT AND FOR HOW LONG. JUST USE A 12-MONTH ROLLING EXCEL SPREADSHEET. IT'S A GREAT TOOL.

CONTRIBUTION MARGIN – THE MAGIC NUMBER: The most important step you can take towards positive cash flow is to know what you're aiming for. That means not only keeping up-to-date books, but also knowing which clients are worth keeping and which jobs are worth doing.

Contribution margin will help you do that. The contribution margin is essentially the price you charge for a job minus your variable expenses. Variable expenses are those that fluctuate in direct response to changes in sales volume, such as materials, wages, shipping and inventory. Fixed costs are those like rent, insurance, vehicle leases and loan payments, which don't change regardless of how much business you produce.

CU Tip

WE KNOW IF SOMEONE KNOWS WHAT THEY'RE DOING WITH CASH FLOW IF THEY KNOW WHAT THEIR CONTRIBUTION MARGIN IS AND THEY KNOW HOW MUCH CASH THEIR REVENUE IS GENERATING. KNOWING THOSE TWO THINGS SAYS YOU KNOW WHAT YOU'RE DOING.

Some businesses, like contracting, can incur considerable costs in materials while others, like consulting, next to none. Labour includes paying any employees, including yourself.

Knowing your contribution margin tells you what your break-even point is, so you can better target your sales efforts. **Selling more to customers who pay well and on time is usually more productive than constantly going after new business. More sales shouldn't just increase your receivables; more sales must increase your cash flow.**

To calculate your contribution margin, take variable costs, including the cost of materials, and subtract it from the price of your product or service. This gives you the total earned on each product or service sold, which can be used to pay for fixed expenses as well as profits.

It’s called ‘contribution’ margin because it represents what portion of each sale is contributing to covering fixed costs and profit; in other words, it’s the amount of your net sales that exceeds your variable expenses.

Your fixed costs divided by the contribution margin will give you the number of units or services you need to sell to break even.

If you charge $10 per unit, and have variable costs of $2, your contribution margin is $8; the contribution margin ratio is $8 divided by 10, so 80 percent of each unit sold goes towards fixed expenses and net revenue. The contribution margin ratio is the difference between sales and variable expenses expressed as a percentage. Knowing this will also help you decide whether you can offer discounts or specials to help boost initial sales, or to reward good customers. If the contribution margin is negative or too low, stop selling that product or service and focus on something more profitable.

Many of the successful business owners who contributed to *Cash Cows* attributed their success to knowing their contribution margin (or magic number or profit tipping point). Conversely, we’ve heard examples of business owners who don’t know their number. They don’t do as well. Having the number tells you how much of each dollar in revenue that you get to keep to cover the operating costs of your company. In turn, that allows you to manage your expenses to a reasonable end goal of profitability.

BORROWING: When it comes to succeeding in business, the old saying is true: it takes money to make money. That’s where credit comes in: it provides you with the capital to think and act bigger in your business and take it in new directions. It helps you cover your daily operating expenses and make large-scale purchases to sustain and build your enterprise, such as real estate, equipment or a renovation.

It’s a fact that almost every business owner out there will have to borrow. Getting it wrong is not an option.

"GOOD DEBT MAKES ME MONEY. IT PAYS FOR THINGS THAT APPRECIATE OR IS ATTACHED TO THE GROWTH OF THE BUSINESS. BAD DEBT COSTS ME MONEY. USING BUSINESS DEBT FOR TOYS AND TREATING IT AS A WINDFALL CASH INJECTION IS BAD DEBT. IT DOESN'T MAKE ME A DIME."

- **JOHN CHUIKO**, Rancher, Saskatchewan

So how do you access the necessary dollars to drive your company's growth and increase your profits? Various borrowing options are available – the trick is finding the best one for your specific business and financing needs. Here's what you should know about the main types of credit, how to use it wisely, and where to access it.

THREE KEY BORROWING OPTIONS:

Line of Credit	This is a flexible way to borrow with a simple approach: withdraw funds, and your available credit drops; pay money back into it, and your credit goes up. The amount you pay back is not fixed but revolving, meaning you can pay back a set minimum amount or as much as you want. You pay interest on the amount you borrow, usually on a daily basis. Also called an operating loan, this option has a maximum amount of money you can access. Securing a line of credit requires proving you have collateral, or the resources to repay, i.e. through the value of your facility, inventory or receivables.
Credit Cards	A credit card is a convenient way to access a short-term loan for immediate business expenses. Like a line of credit, a credit card is a revolving form of credit – the amount of your monthly payment depends on how much you borrow. If you pay back the full amount each month, there's no fee. If you make only the minimum payment, you'll pay interest on the total amount you owe. Some credit cards are secured, meaning your deposit account acts as collateral, while others are unsecured. Many lenders offer specialized business credit cards that feature bookkeeping tools and special rewards.
Term loan	If you're looking to secure a relatively bigger sum of cash – say, $25,000 or more – for a large business expense, a term loan is ideal. It's often used to increase your working capital and pay for major expenses. As with a mortgage, you pay it back over a period of time, usually over several years. You follow a repayment schedule and pay interest at a fixed rate. To secure a term loan, you'll likely need to put up a major business asset as collateral.

CREDIT USE

Borrowing money from a lender obviously comes at a price, in the form of interest and fees. There are also rules regarding paying back what you owe, with payment schedules and deadlines to follow. Here are the essentials of using credit wisely.

KNOW YOUR GOAL: It's important to have a clearly defined objective for how you'll use the money you borrow. This will help you decide how much you can afford to borrow, the type of credit that would work best, and the timing for accessing and repaying the loan. Being precise may also help you score points with lenders as they consider how much you can borrow.

GET ORGANIZED: When turning to a lender for a loan, you need to have a solid grip on your business's financials. That means being prepared to share documents showing information about your company's revenue, profit, losses, financial projections and taxes, and your business plan. You also need to understand what all these numbers mean, so that you can knowledgeably respond to a lender's questions. Going through this process will also help you better understand the financial health of your business, which will allow you to make better borrowing decisions.

KNOW YOUR MAXIMUM: When using your credit card, experts recommend spending only up to 30% of your credit limit – this shows lenders you spend responsibly, and it can also boost your credit score. If you need to borrow a lot, you can ask for a credit limit increase. Or, use other forms of credit so you don't max out your credit cards.

PAY TO PLAY: It's easy to fall into the routine of putting off paying your debts and carrying a balance. However, not paying on time costs you extra money in the form of interest fees or penalties for missed payments or a loan default. This isn't only stressful, it can also hurt your credit score. So treat your debt as seriously as you treat your business by making regular payments to keep your balance in check. Before you even apply, look at your business budget and do the math to figure out what you'll pay in interest, and how long it will take to pay off your debt. You may be able to discuss your loan repayment plan with your lender, or look for a debt repayment calculator on their website.

USE THE PERKS: Many business credit cards come with a range of rewards. You can earn points that can be redeemed for business products and services such as airfare, hotels, car rentals and electronics. These points programs also feature gift cards from retailers you might use for your business. Some cards offer cash back on your gas, phone, grocery and other purchases. Using a card like this saves your business money without you even trying. The magazine *MoneySense* publishes an annual comparison of credit cards, including business credit cards, that's worth checking out.

> "I THINK WE HAVE TO EDUCATE BUSINESS OWNERS ON THE CONCEPT THAT THERE'S NOTHING WRONG WITH A CREDIT LINE; AN OPERATING LINE. IT SERVES A VERY VALUABLE PURPOSE. DON'T RELY ON IT – BUT USE IT. AND A GOOD THING TO REMEMBER; IF YOU'RE ALWAYS AT THE TOP END OF THE LINE, AS IN YOU'RE NEVER GETTING OUT OF IT, THAT'S A RED FLAG FOR YOU AND TO YOUR FINANCIAL PARTNER. THAT'S A CASH FLOW ISSUE AND SOMETHING'S NOT ADDING UP. MAYBE YOU'RE NOT CHARGING ENOUGH, MAYBE YOU'RE NOT COLLECTING FAST ENOUGH, MAYBE YOUR EXPENSES ARE TOO HIGH. USE IT AS A SIGNAL THAT YOU HAVE TO CHANGE SOMETHING TO REDUCE YOUR DEPENDENCE ON THE LINE."
>
> - **DAN YUNGWIRTH** , Miller Contracting Ltd., Saskatchewan

There are several red flags when it comes to borrowing. Here are just a few:

USING CREDIT AS A CRUTCH	Credit can help you make important investments in your business, but it shouldn't be used as a lifeline. Ideally, you should be financing most of your company's operations with your revenue. If you're struggling with generating enough revenue to break even with your costs, it might make more sense to change your model, product or service instead of borrowing money. Also, overusing your line of credit or credit card may raise red flags for lenders, which may make it harder to access a loan.
USING YOUR PERSONAL CREDIT	A common mistake for small business owners is to use their personal credit cards or line of credit to pay for company expenses. This can have negative consequences for your business in a number of ways. First, this doesn't let you build a solid business credit profile, which will help you access additional credit options in the future. Also, if your business expenses are high, this may affect your personal credit score, which lenders consider when evaluating your request for a business loan. Also, mixing business and personal credit makes it harder to keep track of your business expenses. Finally, you miss out on the better perks typically offered by business credit cards.
BORROWING FROM A NON-REPORTING LENDER	There are plenty of sources today for accessing business credit, but not all of them allow you to build your business credit. The reason is that some lenders don't report your borrowing activity to credit bureaus. This means your history of good credit habits – borrowing and paying back debt on time – goes unrecorded, which can make it difficult for you to access additional business credit in the future.
NOT MONITORING YOUR CREDIT STATUS	It's more common than you might realize for mistakes to show up on your business credit profile. These can range from simple misclassifications of your financial accounts, to debts listed that have already been paid in full, to purchases made by an identity thief. Not checking in at least annually with Canada's two national credit reporting agencies, TransUnion and Equifax, to carefully review your credit score can create risk that an incorrect credit score may hinder your access to financing. You can learn more about how to handle errors in your credit report on the Innovation, Science and Economic Development Canada website.
NOT USING CREDIT ALTOGETHER	Using credit isn't everyone's cup of tea, and some small business owners try to avoid using it for business expenses. However, just as with the last point, when you don't use credit, no data exists about your borrowing habits. This means your chances of securing a business loan down the road diminish, because lenders have no way to know if you're a safe bet for credit.

Shopping for credit is similar to shopping for the right financial partner which we've covered up front in this chapter. So sure you can shop; according to RBC, there are 83 banks to choose from in Canada, though the big five control 89% of banking (compare that to the US where there are 4,938 banks and the top five control only 35% of their market). It's important to state again that credit unions in Canada, of which there is one in almost every Canadian community, comprise the second largest lender and business partner to Canadian small businesses.

Choose the right financial partner for your small business; you'll know you made the right choice because they'll help you avoid credit calamities by taking a deeper interest in your operating success.

You can also choose to access credit through leasing and financing companies. Be cautious – read the fine print, compare interest rates, ensure you're not paying more to cover higher risk loans. Leasing office and business equipment is sometimes an option and it can turn a depreciating asset into an expense, but like everything else, there is a cost and knowing the real and complete cost with the help of your accountant is an important first step.

CAPITAL & HOW TO RAISE IT: Capital, defined as the money or other assets owned by you or your company, can be necessary when starting a business. Some businesses, like construction or landscaping, require tools, transportation, sometimes licenses or other professional fees to get going. Some businesses, such as consulting, take very little – just hang out your shingle and you're in business.

Many entrepreneurs start out bootstrapping it in the beginning, leveraging personal assets to take out second mortgages and racking up credit cards – sometimes relying on 'friends, family and fools'.

If you choose to go the route of borrowing from family or friends, be mindful that bringing money into the mix can be risky to personal relationships. Often, even if the agreement is that the investor will be a strictly silent partner, family and friends will have strong opinions on how you should run things once their money is in your business. If you're going to borrow from people with whom you have personal relationships, borrow the minimum you need, get good legal advice, and make sure terms are clear on both sides as to when and how the loan will be repaid. If they've agreed to act as investors rather than lenders, make it clear that starting a business never guarantees success, and that while you intend to work hard and make every effort, their investment is potentially at risk.

If you choose to take on an investor outside of your family and friends, clearly define the relationship. Are they to remain silent about the day-to-day running of the business? Do they own shares in perpetuity, or are you borrowing money with the same terms as any other loan? You must be dedicated to transparency, and if they are investing, make it clear that their investment is not a guarantee of success. Investors have the legal right to expect ethical management and to be kept informed of significant business events, so you must give due diligence to maintaining excellent records. Try to reward those who invest early by paying them back quickly, with interest.

Those who don't have sufficient credit at their disposal or wealthy uncles to whom they can appeal are faced with the decision of whether to sell equity or incur debt. Each has advantages: taking on debt means not having to sell a piece of the business, but it also leaves you with sole liability. An investment takes some of the liability away, but means you are also obliged to both act in the best interest of your investors and to share profits.

In order to secure a small-business loan, you may have to use your personal assets, such as home equity, but it is possible to borrow from a traditional lender for the business provided you're prepared. A good business plan and profitable projections, as well as some money of your own to invest, can convince a lender to extend credit to your business. Writing guides and fill-in-the-blanks templates for business plans are readily available online, including through the **Sample business plans and templates web page** of the federal government's Canada Business Network website.

Generally speaking, if your business has the cash flow to repay a loan, it's better in the long run to go this route than another, because if you're successful, you won't have to share profits with investors. But start-ups are often better off with investors because if the business fails, you aren't obliged to pay back investors.

The government offers small business loans, and even grants, for those starting a business. You can check out some options on the **Government grants and financing web page** of Canada Business Network site. They include government-backed loan guarantees, as well as wage subsidies that help you afford employees.

KNOWING YOUR COLLATERAL: If you decide to pursue financing on your own, a lender may require that you back up the loan with collateral. Collateral can be anything of value that the lender can liquidate should you be unable to repay; often, it's equity in your home, but it may be a vehicle, jewelry, stocks or other assets. The downside, of course, is that if you use personal assets to secure financing, you risk losing them if the business fails. Lenders consider the current value of an item, not the original purchase price. Often, this means having items you offer as collateral appraised to learn their value in today's marketplace. Some items that are worth a great deal to you – for example, antique furniture left to you by a beloved relative – are worth little to a lender. Don't take it personally. Business is, after all, business.

With a good credit history and a long-term relationship with a lender, you may be able to obtain an unsecured loan, which requires no collateral.

In addition to friends and family or traditional lenders, you may be able to find yourself an 'angel investor'. Angel investors are already successful in the industry you're entering, and are willing to 'pay it forward' by putting money into young businesses they think have a good chance of success. Securing such investment often depends on the strength of your business relationships and your reputation in the field. Investment by such an angel has the additional advantage of adding to your credibility with other lenders. Sometimes it's feasible to secure advance payment from customers to keep yourself from incurring debt. This is especially true in construction industries, where a great deal of the costs incurred on a project go towards materials. By requiring at least a deposit up front, you won't be out of pocket.

Your suppliers are another possible source of funding, and again this will depend largely on the strength of your relationships. If you've been moonlighting for years and have built up a rapport with, for example, a cabinet manufacturer and now intend to pursue kitchen renovation on a larger scale, they may be willing to invest in your business in the hopes that the volume of your purchases from them will increase.

Thanks to TV shows like ***Dragon's Den***, the idea of pursuing funds from a venture capitalist has gained appeal, but venture capitalists are generally looking to invest in businesses with the prospect of high growth. If you've ever watched the show, you know they generally aren't looking for one – or two-person operations that depend on the skills, talent and relationships of the people involved.

CROWDFUNDING: There is also a proliferation of online funding sources available these days, such as Kickstarter and Indiegogo. Use of such sources is known as 'crowdfunding'. If you're considering pursuing funding through an online source, you want to pay particular attention to service fees and repayment options, and you'll likely want to choose one with some name recognition. Each such site has different features and rules, so be sure to research the possibilities thoroughly. You may find that one site suits your industry more than another.

Kickstarter is positioned as primarily a community for creative endeavours, while Indiegogo is more of a general-purpose source with a more entrepreneurial spirit. Kickstarter is rigorously curated, and your endeavour will have to suit its market positioning if you're going to try it. Different sites vary in the level of flexibility allowed as well – if your business idea morphs as you get deeper into it, you will want to use a site that allows you to make substantial changes. That said, the core features of most such sites are usually the same. Crowdfunding sites make their money by keeping a portion of funds raised, usually in the neighbourhood of five percent. Fees are waived if you fail to make your funding goal.

Read Any Good Financial Statements Lately?

To fully understand your company's financial health, it's important to regularly run a variety of reports. A cash flow statement (run weekly or monthly) is a good start. But keeping your finger on the pulse and trends of your business requires that you understand and use the two main statements of your business: the balance sheet and the income statement.

BALANCE SHEETS: It is a picture in time of your total assets matched to your total liabilities plus your equity. Your equity is what's left when your assets are more than your liabilities.

A balance sheet records your company's assets, liabilities and capital – the 'balance' of your income and expenses – over the last reporting period. It lets you know what you own, what you owe, and what's left over. Like all financial statements, it gives structure to information you should be aware of.

SAMPLE BALANCE SHEET

ASSETS	
ASSETS – CURRENT	
Checking Account	$ 5,000.00
Savings Account	$ 1,000.00
Petty Cash	$ 500.00
Accounts Receivable	$22,000.00
Inventory	$15,000.00
Prepaid Insurance	$ 6,000.00
Total Current Assets	**$ 49,500.00**
ASSETS – NONCURRENT	
Accumulated Depreciation	$ (4,500.00)
Computer	$ 7,000.00
Building	$65,000.00
Land	$60,000.00
Total Noncurrent Assets	**$127,500.00**
Total Assets	**$177,000.00**

LIABILITIES & EQUITY	
LIABILITIES – CURRENT	
Accounts Payable	$ 12,000.00
Line of Credit	$ 20,000.00
Payroll Liabilities	$ 7,000.00
Total Current Liabilities	**$ 39,000.00**
LIABILITIES – NONCURRENT	
Long-term Debt (loan)	$ 48,000.00
Total Liabilities	**$ 87,000.00**
EQUITY	
Owner's Capital	$ 35,000.00
Retained Earnings	$ 55,000.00
Total Equity	**$ 90,000.00**
Total Liabilities & Equity	**$177,000.00**

Balance sheets are organized into current and non-current entries: current assets are anything that can be liquidated for cash in the next 12 months; current liabilities are anything that must be repaid in the same period. Long-term assets and long term-liabilities (such as loans that span years) are separated but accounted for.

But rather than get into the details of how balance sheets are structured, here are a few things to remember:

(1) Balance sheets lag your business. So the financial picture you are seeing is not necessarily current. It's a moment where all income and expenses have been accounted for and can be set in stone, usually weeks or even months after the reporting period closes (say quarterly). The balance sheet is not a day-to-day financial tool. It's a closing tool that helps you value your business in a concrete manner.

(2) Don't be fooled by Goodwill dollars and cents on a balance sheet. Your financial partners will not be and goodwill is typically something that is only applicable when the business is trading hands.

(3) Get your accountant to structure your balance sheet and explain how to use it in a way that is meaningful to you. That's the best advice of all.

"BUSINESS OWNERS SHOULD HAVE A BETTER UNDERSTANDING OF THEIR STATEMENTS. THEY ARE LAGGING INDICATORS, AND THAT CAUSES SOME CONFUSION, BUT PAST BEHAVIOUR IS A GOOD INDICATOR OF FUTURE BEHAVIOUR. UNDERSTAND THE LINK BETWEEN INCOME STATEMENTS AND BALANCE SHEETS, UNDERSTAND THE KEY RATIOS LIKE CURRENT RATIOS AND DEBT/EQUITY RATIOS. IF YOU'RE WORKING WITH A CREDIT UNION, TAKE AN HOUR OF THEIR TIME TO HAVE IT EXPLAINED

IF YOU DON'T KNOW. THAT'S WHY THEY'RE THERE. PRESENT YOUR STATEMENTS, ASK THEM WHAT STICKS OUT TO THEM, WHAT RAISES ALARMS FOR YOU, WHAT DO YOU LIKE ABOUT THEM. YOUR FINANCIAL PARTNERS ARE BETTER AT THAT THAN ACCOUNTANTS – I FIND ACCOUNTANTS MORE AND MORE DON'T WANT TO BE IN THAT TRUE ADVISORY ROLE. THEY'RE TOO EXPOSED – THEY'D PREFER TO JUST PREPARE YOUR STATEMENTS."

- **DAN YUNGWIRTH** , Miller Contracting Ltd., Saskatchewan

INCOME STATEMENTS: The biggest benefit of income statements is that they allow you to make comparisons. You can see how the company is performing month over month, year over year, or quarter over quarter. Over time, an income statement can provide you with years of historical data.

Your income statement (otherwise known as a profit and loss statement or income and expense statement) describes your company's profitability over a certain period, and should be labelled as such.

Start by listing your income and revenue, which you will summarize into a subtotal, and operating expenses over the same period. (Depending on the type of business you own, you may further break down expenses into 'operating', which are a direct result of regular business, and 'non-operating', which are expenses not tied to the core of your business operations, for example, the buying and selling of real estate through the company.) The standard accounting practice is to have three accounting periods on an income statement; this usually means three months.

Income statements are broken down into sections for gross revenue (any money brought into the business through sales), gross profit, operating profit, profit before taxes and net profit.

To prepare an income statement, you first need to calculate your net sales and the cost of the goods or services you have sold. Your net sales are a total of all your sales minus any discounts; the cost of goods or services is the amount you spent to produce the goods or services you sell.

The income or revenue section is your net sales minus the cost of goods sold, which equals your gross profit. Operating expenses include everything you spent, such as bank fees, insurance, interest paid on debts, advertising costs, administration and legal fees, office expenses, payroll taxes, office rent, salaries, materials, phone and internet, utilities and even stamps.

Operating profit, also referred to as EBIT or Earnings Before Income and Taxes, is your operating expenses minus your gross profit and depreciation expenses. Different items depreciate at different rates, as outlined by the Canada Revenue Agency's web page on **classes of depreciable property**. Your profit before taxes are a result of adding together your operating profit and any investment income if applicable, minus any interest paid during the period. Investment income and interest expenses are kept separate on an income statement because they are a result of money management, and not part of your regular business operations; the interest you pay on debt is a result of the choices you made on how to finance your business in the first place.

Net profit, aka the bottom line, is what's left after you subtract your final expenses from your total business income, and then subtract your taxes. For a sole proprietor or partnership, profits are funnelled directly to the owners who pay taxes on their personal income. If your business is profitable and paying corporate taxes, you need to subtract them.

SAMPLE INCOME STATEMENT

DESCRIPTION	CURRENT PERIOD	YTD
OPERATING INCOME		
Product Sales	**$ 29,540.32**	$ 57,243.00
Labour Sales	**$ 4,232.04**	$ 8,108.57
Net Sales	**$ 33,772.36**	$ 65,351.57
Cost of Goods Sold	**$ 14,500.00**	$ 28,232.38
Gross Income	**$ 19,272.36**	$ 37,119.19
OPERATING EXPENSES		
Salaries	**$ 6,743.96**	$ 13,218.82
Advertising	**$ 432.32**	$ 1,404.21
Travel	**$ 100.08**	$ 243.00
Office	**$ 394.39**	$ 772.14
Other	**$ 92.99**	$ 99.94
Total Operating Expenses	**$ 7,763.74**	$ 15,738.11
Operating Income	**$ 11,508.62**	$ 21,381.08
OTHER INCOME & EXPENSES		
Other Income	**$ 118.13**	$ 224.23
Other Expenses	**$ 784.21**	$ 1,242.49
Total Other Income & Expenses	**$ 902.34**	$ 1,466.72
Net Income Before Taxes	**$ 10,606.28**	$ 19,914.36
Taxes	**$ 3,129.23**	$ 5,813.58
Net Income	**$ 7,477.05**	$ 14,100.78

STATEMENTS ARE BUSINESS TOOLS: Think of your financial statements as score cards. Reviewing and analyzing them gives you a picture of the financial health of your business. Once you've been in business long enough, they will help you compare performance across multiple time periods and statement types and identify trends.

You perform a vertical analysis when each line item on your financial statement is listed as a percentage of another. A ratio analysis compares line items from one financial statement with line items from another. This lets you figure out useful things such as how many times you can make a payment on current debt with your current earnings, which helps equip you to make effective decisions.

You perform a horizontal analysis when you compare two or more years of financial data, whether in dollars or percentages.

WHAT LENDERS LOOK FOR: Cash flow tells lenders how much you can devote to servicing your debt; generally, they are looking for a debt-servicing capacity 1.1 to 1.25 times higher than the expected annual repayment of principal and interest. They want to know you're a sound risk and capable of paying as agreed.

Lenders also like to see your current ratio (your current assets divided by liabilities) and your debt-to-equity ratio, which is the relative portion of equity and debt used to finance your assets. This gives them an understanding of how you use debt and your ability to repay more. This is calculated by dividing your total business liabilities by your shareholder equity.

If your existing cash flow isn't sufficient to consider further lending, lenders will look at growth trends, debt elimination, discretionary spending and expiring obligations to help estimate your future cash flow. They will also consider one-time or occasional expenses that may be affecting current cash but won't in the future.

CLEANING UP: The best way to clean up your financial statements is to not let them get messy in the first place by putting aside a few minutes each day (10 or so should do it) to review and organize your bank statements, spending, receipts and invoices for that day. It's also a good idea to separate your business and personal finances, even if your business structure doesn't strictly require you to do so. Budget judiciously and stick to it.

Finally, get some help. You aren't expected to be a financial expert. Money spent on an accountant or bookkeeper will offer concrete returns as well as save you stress. Also, meet regularly with your banker and ask for advice.

REPORTING: What and how often you need to report earnings and interest to the CRA depends on how your business is set up, i.e. whether it is a sole proprietorship, partnership or corporation. The reporting requirements for sole proprietorships and partnerships is simplest, and all of it can now be done online through the CRA website – see its **web page** on a variety of topics for small businesses, including recordkeeping, reporting and payroll.

You will be assigned a business number, or BN, by request from CRA. This lets you report and remit HST, corporate taxes and payroll taxes. Depending on the nature of your business, you may also be required to report and remit Workplace Safety & Insurance Board payments, especially if you're in the construction business.

The easiest way to make sure you are complying with all reporting requirements is to get a professional to do your books, or to use an accounting software package, which can automatically calculate taxes for you. If you choose to do it manually, the onus is on you to ensure that you are reporting and remitting on time to the right department.

Your reporting period for HST may be monthly, quarterly or annually after your first year; you may also after your first year be required to submit installment payments. Filing of HST is due by June 15 for companies with a December 31 fiscal year end; otherwise, it must be reported and paid no later than three months after the end of your fiscal year, and you are required to file a return even if you have no transactions to report and no net tax to remit.

As an employer, you are responsible for deducting Canada Pension Plan (CPP) contributions, Employment Insurance (EI) premiums and income tax from your employees, and for reporting and remitting them to the CRA. Payroll taxes are due by the 15th of the following month. Accounting software makes figuring out payroll deductions easy, or you can use the **CRA's payroll deductions online calculator**. You are required to pay CPP even if you're self-employed, and because you are responsible for both the employer's and employee's contribution, the amount will be higher than if you were an employee. Although once excluded, in recent years, self-employed individuals have been allowed to opt in to EI, which offers temporary benefits for those not working due to illness, parental leave or other reasons.

Filing or remitting your business taxes late can result in hefty penalties and ongoing interest, so be careful to follow the rules.

As a sole proprietorship or partnership, you will file your business income along with your personal tax return. You have until June 15 to file your income tax return for the prior year, but money owing must be remitted by April 30. If your net income in the first year of business exceed CRA thresholds (which are quite low), you will be required to pay in quarterly installments the following year, which will be due on March 15, June 15, September 15 and December 15.

Corporate taxes require filing a T2 form; corporations are required to file even if there is no tax to pay. Filing is required no later than six months after the end of the company's fiscal year, and returns must be filed no later than three years after the end of a tax year to receive a refund. You will want to take advantage of all possible deductions, and that reason alone makes it good practice to have corporate tax returns filed by a professional.

Plan to Budget – Then Work It.

Successful business owners overwhelmingly subscribe to the idea that a business plan, forecasts and budgeting – and staying on top of it all on an ongoing basis – are keys to entrepreneurial success. Unfortunately, planning and working those plans are some of the first things that go out the window when small business owners are faced a multitude of burning fires.

> "RANCHERS NEED TO BE DISCIPLINED AND KNOW THEIR BUDGETS INSIDE AND OUT. WE ONLY GET PAID ONCE OR TWICE A YEAR BUT THE MONTHLY STUFF, THE EXPENSES ARE ALWAYS THERE. IF YOU DON'T SPEND WISELY AND STICK TO PLAN, YOU HAVE MORE MONTHS THAN MONEY."
>
> - **JOHN CHUIKO**, Rancher, Saskatchewan

So think of planning and budgeting as a road map. It's very hard to get where you want to go if you're not sure where that is. From revenues to marketing, human resources to operating costs, putting in the time and effort to plan regularly will save you a lot of grief down the road. (Plus, both have the significant benefit of boosting your chances when it comes time to finding investors or getting a loan.)

FINANCIAL FORECASTING: This can be a particularly daunting task for new business owners. It seems impossible to predict how successful your sales efforts will be, let alone how much gas is going to cost you eight months from now. While forecasting does get more predictable with a few historical records under your belt, forecasting right from the beginning can be done, and done well, with diligence and some educated estimates.

"WE GO THROUGH OPERATIONAL BUDGETS AND COMPARE THOSE NUMBERS WITH HISTORICAL CUSTOMER SPENDING. WE ORGANIZE IT IN A MATRIX FOR COMPARISON AND THEN WE WILL HAVE A GOOD IDEA OF WHAT OUR OPERATING EXPENSES AND CASH FLOW WILL LOOK LIKE. SOME COSTS ARE FIXED, SOME ARE VARIABLE AND WITHIN OUR CONTROL, WHICH WE COMBINE WITH TRENDS AND TALKING TO OUR CUSTOMERS ABOUT FUTURE PLANS, WE CAN PUT TOGETHER A REVENUE FORECAST. THAT WE BLEND WITH OUR OPERATING BUDGET TO HELP GIVE US DIRECTION."

- **RICK HARPER**, Truck Zone, Alberta

The benefits of a structured forecast are numerous, but perhaps the most rewarding is that, sticking to the road map metaphor, forecasting shines a spotlight on your destination, which allows you to decide where your most valuable resources – time, energy and money – are best spent.

True, your initial financial forecast might be more art than science, but don't let that be an excuse not to do it. Be thoughtful about it, and take the time (even though your initial thought may be that your time would better be spent selling) and you will find that forecasting is an important step in developing the tools to help make your business successful.

Financial forecasts have two parts: expenses and income. When you're first starting out, expenses are usually the easier first step.

Start with your fixed costs and overhead. Rent, utilities, communications (phone and internet), professional services such as bookkeeping and legal advice, industry licenses, computers and technical support are good places to start, and by forecasting their expenses for your first year, you may find out some things you didn't know. Maybe the price of a certain license has gone up since you first checked it out a few years ago, or the premises you thought you wanted to lease are priced higher than market value.

Next, look at the costs of salaried employees (including the employer's share of CPP and EI deductions) and WSIB if required. In some construction industries, like roofing, it alone can add nearly 15 percent to your labour costs. Plan for the costs associated with advertising and marketing, which should be in the neighbourhood of 10 per cent of both your costs and your time. (Casual labour and hourly employee costs are harder to predict as they're usually directly associated with a specific project or season; they generally come under variable costs.)

Next, get into variable costs. If you're producing a product, they include delivery and distribution. Naturally, 'variable' costs are hard to predict, but an educated guess is better than being surprised later. Many experts advise doubling or even tripling your estimates for insurance and legal advice, as they are hard to predict and can escalate quickly.

Anything that you're doing yourself at the beginning – from maintaining a social media presence to taking care of customer service – should be budgeted for in the future, and taken off your plate as soon as you can afford it.

As you turn your attention to revenue forecasting, consider creating two forecasts: one quite conservative and the other as aggressive as your dreams. The reality will likely fall somewhere in the middle. Having the conservative forecast will save you some disappointment; having the aggressive estimate is a license to keep dreaming, and it's hard to make it big if you aren't thinking big.

For the conservative forecast, dispense with sales staff all together – yes, you're going to have to do that, too – and keep marketing costs to a minimum. An aggressive forecast, meanwhile, can include a budget for dedicated sales people and a variety of marketing options. For the former, stick to the products and services with which you're launching; for the latter, include plans for new ideas by the end of the year.

Don't assume you will reach your revenue goals and just adjust your expenses as you go. Include your magic number both for the conservative and the aggressive forecasts. Working to your magic number – the contribution margin – will help you stay on the road to profitability.

If you're currently the only person selling, look at how many clients you'll need to service in the first year to break even. If it seems unmanageable to be taking care of every account in the next five years, have another look at your assumptions about revenue and/or payroll expenses and look for ways you can economize to bring in more staff (and make sure you plan for any initial discounts you plan to offer to entice new customers to sign on).

Use all three financial statements – balance sheet, income statement and cash flow statement – to formulate your forecasts.

As the years unfold, forecasting will get easier and more accurate, as you can use historical data to look at your year-over-year and month-over-month results and see seasonal trends. Market changes can be tough to predict, but you may find some discernible patterns.

Forecast the worst but hope for the best. Know your business and know your customers, and make forecasting for the coming year part of your annual plan.

BUDGET BUILDING: This side of the business is decidedly left-brain, which can make creative-types run away in fear, but budgeting is the most effective way to control that unpredictable but all-important cash flow. Unlike your forecast, your budget is not a prediction, but rather a plan for an outcome. It, too, is like a road map, but this one tells your money where to go.

The objective of a budget is to ensure you have enough money to fund your current commitments and to plan for future projects, while helping you to make confident decisions. The basic formula for any budget is Sales – Costs = Profits.

A sound budget allocates resources and helps monitor performance and meet objectives, while identifying potential problems such as raising more capital. Create your budget, then monitor it, and then manage your business based on what you learn. The bottom line is that it helps your bottom line.

First, ask yourself about projected sales, and be conservative. What are your direct costs, i.e. sales, materials, components and subcontractors. Next, what are your fixed costs and overhead? Break these down into categories such as rent, staff (including wages, benefits and premiums), utilities, printing, vehicles, equipment, advertising and marketing, travel if required, legal and professional costs, and insurance. Don't forget to pay yourself, and to account for taxes.

Unlike a forecast, which tries to predict what you'll be spending up to a year from now, a budget is what you're going to spend today, this week, this month. As such, it requires regular review and revision as your circumstances change. Also unlike a forecast, if you're overspending in one area, you can't balance things by upping your predicted revenues – you'll have to spend less immediately somewhere else, so that your expenses don't outstrip the money you have on hand or will soon have coming in from invoices sent and jobs underway.

Project your cash flow, fixed and variable costs (including overtime and raw materials) and one-off capital expenses (such as computers or a move to another premises) monthly.

The key drivers of your budget are sales, costs and working capital. In tandem with your business plan (we're getting to that), a working budget is a financial action plan. Revisit your budget each month to reflect actual income, and use what you've learned to analyze reasons for any shortfalls in revenue or overspending. Reviewing your actual expenditures compared to your forecast will help make subsequent budgets even more accurate.

Even in the most precise budgets, factor in some slack. Markets change, employees come and go, materials costs go up and down. Be prepared and you'll never be surprised.

To help you stick to your budget, break it down into several smaller budgets (such as for operations, sales and marketing, and labour), which will let you make adjustments to certain areas without affecting the overall picture. Track results and use the information to correct inefficiencies. Fix discrepancies quickly, and get help when you need it.

There are numerous free, downloadable templates online to help you get started with the task of budgeting.

The All-Important Business Plan

All to often, we business owners create a business plan in the beginning, to get a loan perhaps, and then we forget it. Successful business owners keep updating it. Business planning is an on-going discipline, not a one-time event.

Like your forecast and budget, a business plan is a way to help you crystallize your vision and keep yourself on track. And it isn't strictly financial. A business plan is a written document that can incorporate the intangible strengths of yourself and your employees, your mission statement, your marketing strategy, and even your plans for social responsibility. In simplified terms, it lets you (and other interested parties) see in writing where you are and where you're going.

While the exact elements of a business plan can vary, there are a few sections you will want to include.

EXECUTIVE SUMMARY	This will be the first section of your plan; it offers highlights of the sections to come, as well as a bird's-eye view of the overall concept for your business, your competitive advantage, legal structure (sole proprietorship, partnership or corporation) and market segment. Although it comes first, you may find it helpful to write it last. It should be no longer than a page or two.
OVERVIEW	Subsequent business plans will include a company history, but your first one will comprise your mission statement, business objectives (annual and long term) and ownership structure.
PRODUCTS AND SERVICES	What do you make or offer? Include the features, benefits and unique selling propositions of your business. How does it stand out from others in the marketplace?
INDUSTRY OVERVIEW	Where does your company fit? What are your competitive advantages?
STRATEGY	What is your business about? What is your plan for future growth? Include timelines for when you plan to hit your objectives. What will make it unique? What is your value proposition?
MARKETING	How do you plan to sell your product or service? Include budget information for marketing and sales, perhaps a profile of your ideal clientele, and what you learned from researching the market that convinced you there was a place for your business to make money in it. Back up your statements with your research.
OPERATIONS	How will the business operate on a day-to-day basis? How will you control quality and track sales and inventory? A full operations manual may be added as an appendix to your business plan.
SWOT	This acronym stands for Strengths, Weaknesses, Opportunities and Threats. How are you equipped to deal with any difficulties you encounter? (And rest assured, you will encounter difficulties.)
FORECASTS	Your initial business plan can only include forecasts, but future plans should include cash flow statements and profit and loss statements.

Other sections to include in your business plan will depend on the kind of business you're in, and what your priorities are. They may include a Human Resources section outlining the organizational layout of the business, brief job descriptions and information on employee training. A section on Social Responsibility, if that's a priority for your business, could include environmental policies and community contributions. An E-Business section may include your planned use of e-commerce, your website, plans for online marketing, and any industry-specific or proprietary hardware or software you plan to use.

To help you get started, look online or to your financial services partner for business plans from within your industry and see how they're structured. There are also some templates and writing guides available online, including on the CRA's sample business plans and templates web page.

Update your business plan annually – it gets easier every time. Outline any changes you want to make to the business and any anticipated changes to your market, customers and competition.

As your business endures, you'll find that you have more information you'll want to include, including financial historical data on actual performance. Include the key performance indicators we went over in Chapter 5, as well as your main objectives for the coming year. Outline any changes to core staff or your location. Detail investments in the business.

Keeping your business plan up to date lets you act quickly when you see what's coming – it lets you be proactive instead of just reactive to whatever is going on around you.

As your business grows, you'll want to get partners or department heads involved (this goes for budgeting and forecasting, too). Rely on their expertise to flesh out the areas of the report in their domain.

Start your annual review by looking at your current performance and comparing it to last year's, and to your targets. Have a good look at the SWOT section and anticipate coming threats and opportunities, and how you can mitigate the former and take advantage of the latter.

Analyze the successes and failures you experienced over the year, and adjust your long-term planning based on what you've learned. Consider reviewing your business plan monthly or quarterly – reviewing your progress will help you achieve your objectives.

And when you're finished reviewing and revising, start again!

Investing

To retain or not to retain – that will become the question. And it's a great question to find answers for because asking it means you have retained earnings, your business is well-financed, you've invested in the business and there may actually be some left over to start thinking about.

Once you're in a solid earnings position, you'll have to start to decide what to do with your profits. As a sole proprietor or partnership, you pay tax on your income, and what you do with the rest is nobody's business but your own.

As a corporation, it gets a little more complicated. One choice you can make is to keep profits inside the company, to be used to fund future growth, leverage for further borrowing, or just keep things operational during the inevitable slow periods.

If you decide to keep your net profits (what's left after expenses) in the business, they're appropriately known as retained earnings. Retained earnings look great on your balance sheet because they demonstrate your ability to operate profitably, as well as your financial discipline to not over-spend. Retained earnings are also a huge factor in determining value when it comes time to sell.

Retained earnings are recorded as owner's equity; company owners are entitled to withdraw equity. The decision of whether to retain earnings or pay them out as dividends to shareholders boils down to two things: capital requirements and returns.

American self-made billionaire and business magnate Warren Buffet has famously compared retained earnings growth to market value growth when he's looking for investments: "Unrestricted earnings should be retained only where there is a reasonable prospect – backed preferably by historical evidence or, when appropriate, by a thoughtful analysis of the future – that for every dollar retained by the corporation, at least one dollar of market value will be created for owners. This will happen only if the capital retained produces incremental earnings equal to, or above, those generally available to investors."

In other words, if a company manager can't achieve better returns than he can if he were to invest the money himself, as a shareholder he wants the money paid to him in the form of dividends. Without historical data, it can be difficult to gauge, but if, as an owner, you don't have every reasonable expectation that retained earnings will contribute towards bigger profits, you should give yourself a raise in salary and skip the retained earnings, or pay them out to shareholders as dividends.

Certainly, learning to think like Buffet can go a long way in business, but while your business is small and you are either the sole shareholder or among a small group, you're probably more concerned with keeping the business going. Retained earnings can be an important source of operating capital. As much as your start-up required capital to get it off the ground, it can take even more capital to stay in business.

Growing your business (and securing its stability) is the purpose of retained earnings, but be careful not to grow yourself out of business – growth devours capital, whether you're trying to expand into another market, hire more staff, invest in major equipment, move to larger premises or research and develop new products.

If you're working on a growth strategy, it can make more sense to leverage your retained earnings to borrow money when interest rates are low, instead of using them to fund growth. It may sound counterintuitive – shouldn't you borrow money only when you don't have enough? – but borrowing money is actually one of the smartest things you can do with retained earnings. Although banks lend primarily on capital assets, retained earnings demonstrate that you have invested in the company. Incurring debt and using retained earnings both have the advantage of not diluting your ownership through investment, but whether you're talking to investors or lenders, retained earnings on the balance sheet help your business look good.

When deciding whether to borrow or use retained earnings to fund expansion, ask yourself how quickly you need to expand. Saving up enough retained earnings to make significant investments in growth takes time. If you are losing opportunities because you don't have the money now, then borrowing may be the better option. If you're in a capital-intensive business (if, for example, you need expensive machinery or ongoing inventory), you may want to invest in new production facilities or distribution options. In a less capital-intensive business, you could use funds to branch out into other markets, or to fund R&D that will increase your market share right where you are.

You may want to borrow if the interest you will pay on a loan will be less expensive than using the earnings to fund other investments. If, for example, the interest rate on a loan would be 6%, but you can reasonably expect a return of 10% in profits, use loans to finance your operations and continue to retain your earnings. Be aware of not over-leveraging yourself, though. More debt than equity looks bad on your balance sheet, and is seen as a red flag to lenders.

If you have other shareholders to consider, they may prefer that the company take on debt rather than use retained earnings or seek new investment, because a lender's risk is less than that of shareholders' or investors'. Lenders earn a guaranteed return and repayment of capital, while shareholders and investors are guaranteed neither dividends nor repayment of capital.

Basically, it makes sense to use retained earnings for further investment in the company if they generate better returns than the cost of debt.

If you retain earnings and your company isn't growing and becoming even more profitable, you may be better off declaring a dividend, in which profits are disbursed to shareholders. Shareholders, even if you're the only one, can then use the money in their personal investment portfolios to increase their own net worth.

As with most business decisions, there are tax ramifications to consider. Interests on loans are generally tax deductible, while dividends are paid from the corporation's after-tax profits. So before you decide whether to withdraw profits as dividends, you should also ask yourself whether you might be better off borrowing funds to make personal investments. There are personal taxes to pay on dividends received, although at a reduced rate, as the corporation has paid its share already.

There is a strategy that lets you increase your personal wealth by borrowing for the future while withdrawing some of your retained earnings without incurring a huge tax bill. Essentially, you take out an investment loan, and then, as an owner, make withdrawals from the company (through additional salary or bonuses equal to the amount of interest you pay on the loan) to cover the interest on the loan. Interest on investment loans is tax deductible, provided that the investment creates income (or you at least have the reasonable expectation that it will create income). If you take profits as a salary, the corporation pays tax first, and then you pay taxes on your personal income; however, if you are paying interest on an investment loan, you can deduct the cost of servicing the debt come tax time. You can even get investment loans that require interest-only payments. It's a complex strategy that requires the advice of an accountant, but it can be a good way to increase your personal wealth once you have built up significant earnings in the company. In fact, any time you've built up a lot of money, you should seek professional advice.

Generally speaking, newer, smaller companies grow faster than older, established ones because their owners reinvest a higher percentage of their net income into the business; in more established businesses, using retained earnings as capital is less necessary and paying dividends makes more sense. Whether your business is structured as a corporation, sole proprietorship or partnership, ‘investment’ doesn’t have to solely mean putting your money into something tangible. If you look down the road and carefully consider your company values, you may decide to invest in some intangibles, like training for employees, sponsoring local initiatives that build goodwill and community spirit, attending conferences, or adopting new technologies that will take your business to the next level.

The Tax Person Cometh

Throughout this book, we’ve made it a point to enforce the importance of consulting professionals as you navigate the complex but enormously rewarding world of running your own small business. Nowhere is this advice more important than when it comes to taxes. Smart management of tax liabilities, shelters and deductions can make a big difference in your bottom line, both professionally and personally.

The Canada Revenue Agency tax code is huge and complex, and your time is better spent honing excellence in your field than learning its ins and outs. Your financial advisor and accounting team have spent their professional lives learning all about it so you don’t have to. But here’s an overview of some things you should know.

The complexity of your business taxes depends on the size and structure of your business. The finances of sole proprietors and unincorporated partnerships are entwined with personal taxes. While you should get advice on the specifics of allowable deductions in your field, recording and reporting your profits and losses is far less complicated than for an incorporated entity. That’s why many advisors will tell you not to incorporate until your business is profitable; however, if yours is an industry with elevated potential for liability or a high rate of failure, such as construction or hospitality, it may be wise to incorporate earlier.

TYPES OF TAX

INCOME TAX	The Government of Canada generates most of its revenues through collecting income tax. Although you pay provincial as well as federal income tax, both are collected through the federal government (except in Quebec and Alberta). Federal taxes are levied under the provisions of the Income Tax Act; provincial and territorial taxes through their relative statutes. Income taxes in Canada are self-assessed, which means you keep good books, get good advice, report earnings to the government, and then remit payment or collect your refund. The government assesses your return and compares it to returns filed by employers and financial companies. Either at random or because of a red flag found on your return, you may be audited, which requires co-operation with the CRA to clear up any disputed claims or deductions. Except in those cases, you may spend your entire professional life self-reporting and remitting with minimal contact with the CRA. The potential of an audit, though, is reason enough to keep meticulous books and records for your business. Your taxable income includes income from employment, rental properties, money received through government programs, dividends from the business, profits from investments and capital gains. Each may have a different associated tax rate due to a variety of factors; for example, income from dividends will have a lower tax rate than employment income, because dividends come from profits in the business after it has paid corporate taxes. (Amounts withdrawn from the business as repayment for shareholder loans are not taxable, as the money was loaned from after-tax income in the first place.) There are two primary mitigating factors that profoundly affect your income tax due: deductions and credits. Deductions reduce your gross income before you arrive at your net income for tax purposes and may include childcare expenses, professional dues, RRSP contributions and business expenses for sole proprietors and unincorporated partners. The higher your tax bracket, the bigger the difference deductions can make. When you're running a small business, keep receipts for absolutely everything, but consult your accountant before claiming any expense as a deduction on your income tax. You may deduct only legitimate business expenses. Allowable deductions may include the cost of advertising and marketing; use of your personal vehicle for business purposes; insurance; loan interest; legal, accounting and professional services; office expenses (or the portion of your home, including utilities, that you're using for your business, with some restrictions); a portion of meal and entertainment expenses; property taxes or rent; telephone and internet costs; subcontractors and employees; and travel expenses. This list isn't comprehensive, but gives you an idea of the extent to which the proper calculation of tax deductions can make a difference to your finances – these deductions can significantly lower the amount of your reportable, taxable income. Tax credits are specific amounts deducted from the amount you owe, as opposed to the amount you earn. They can be federal or provincial, and include a basic personal credit amount as well as credits for dependents, the cost of caregivers, medical expenses, tuition, charitable donations, home renovations and children's fitness programs, to name just a few. Employment Insurance (EI) and Canada Pension Plan (CPP) contributions are also tax credits.

PAYROLL TAX	As an employer, you are required to withhold three taxes from the wages you pay employees: income tax, CPP contributions and EI premiums. You are also required to contribute an employers' share of CPP and EI. You are required to report payroll taxes on a regular schedule, and failure to do so will incur penalties and interest. Check the Due Dates page of the CRA website for the reporting and remitting requirements that apply to your particular business.
HST/GST	As a business owner, you are required to collect and remit HST or GST (according to your province of operation) once your annual income reaches a certain threshold, regardless of your business structure. You are effectively a tax collector in this regard, so the government is not terribly forgiving of your failure to report and remit on time. To find out how much HST/GST you are required to remit, you first deduct the amount you have paid to vendors and suppliers in the course of doing business from the amount you have collected from clients. The difference is what you owe to the government.
PROPERTY TAX	Property taxes on real estate you own is levied at the provincial level based on municipal appraisal of the property's value relative to the municipal average. There are numerous factors that can affect the rate at which your property is taxed besides the value of your home and the land under it. Municipalities that are well governed and debt-free tend to have lower property taxes; those in need of expensive infrastructure may have higher taxes. Income tax is assessed at an established tax rate and the funds then allocated, but property tax works in reverse: the municipality first makes a budget based on its needs, and then assesses property taxes accordingly. Property taxes are reassessed regularly, so be careful when purchasing property that you don't find yourself cash-strapped in years to come; while your mortgage payments won't change (unless you choose a variable rate mortgage), if your area experiences a spike in housing prices, your property taxes can go up substantially. You may choose to pay your property taxes periodically directly to the property assessment corporation in your province, or have your property taxes withdrawn at the same time as your mortgage payments and held on account by your mortgage lender, who then remits them on your behalf. Property taxes on residential and non-residential properties differ, but ownership of any property will entail paying them. If you're considering purchasing a property for your business, look carefully at the potential for rising property taxes in the municipality of your choice. Property taxes can be impacted not just based on changes in property values, but also on the total number of properties being taxed, which means smaller, growing cities that are approving a lot of new construction may see drastic changes to their tax rates.

BUSINESS TAX	It's good for the economy when your business grows, so the government encourages growth by levying corporate taxes at a lower rate than personal income tax, in turn encouraging you to keep your money in the business. Of course, you won't pay corporate taxes until your business is making money. Then, your corporation will pay tax on all profits earned, less losses carried forward from the year prior. If, for example, in your third year in business you start to make a profit, you will carry forward the prior year's loss but pay tax on this year's profits. Private corporations claiming the small business deduction pay a lower net tax rate than those not eligible. Each province and territory also levies corporate taxes. Any reasonable business expense – those costs you incur in the course of earning money for your business – is a potential tax deduction. Allowable deductions for corporations are the same as for sole proprietorships and unincorporated partnerships, such as office expenses and vehicle expenses.

A FEW TAX TIPS

It's easy to become overwhelmed by all the implications of taxation when starting your small business. Your best defense against making mistakes is to get good advice. If you're a sole proprietor doing your own taxes, the next-best defense is education.

- Research all the tax authorities that affect you. As you're no doubt beginning to see, there are many taxes to be considered at several levels. The authorities don't make allowance for your not knowing about them.

- Keep payroll withholdings and HST/GST collected in a separate account. It can be tempting when cash is tight to use these funds for cash flow, but resist. You don't want to get to the end of your fiscal year and realize the $30,000 you owe in HST is now due.

- Outsource your payroll. Once you reach a certain level, what you pay to have someone else administer your payroll (which is a tax-deductible expense) is worth it just for the stress you avoid. A payroll service will make sure all liabilities are calculated properly and stay on top of reporting and remitting deadlines. A good accounting software package with payroll is the next best thing.

- Keep your books up to date. Not only does this help you monitor the progress, balances and cash flow of your business, but it also means you won't be surprised by unexpected taxes.

- Even if you can't pay, report. There are separate penalties for late reporting and late remittance. If you can't avoid the latter, you can always avoid the former.

- Make use of every single deduction and credit for which you're eligible, no matter how insignificant it may seem.

- If your tax advisor suggests hiding income or taking deductions for which you aren't eligible, get a new advisor.

UNDERSTANDING SHELTERS

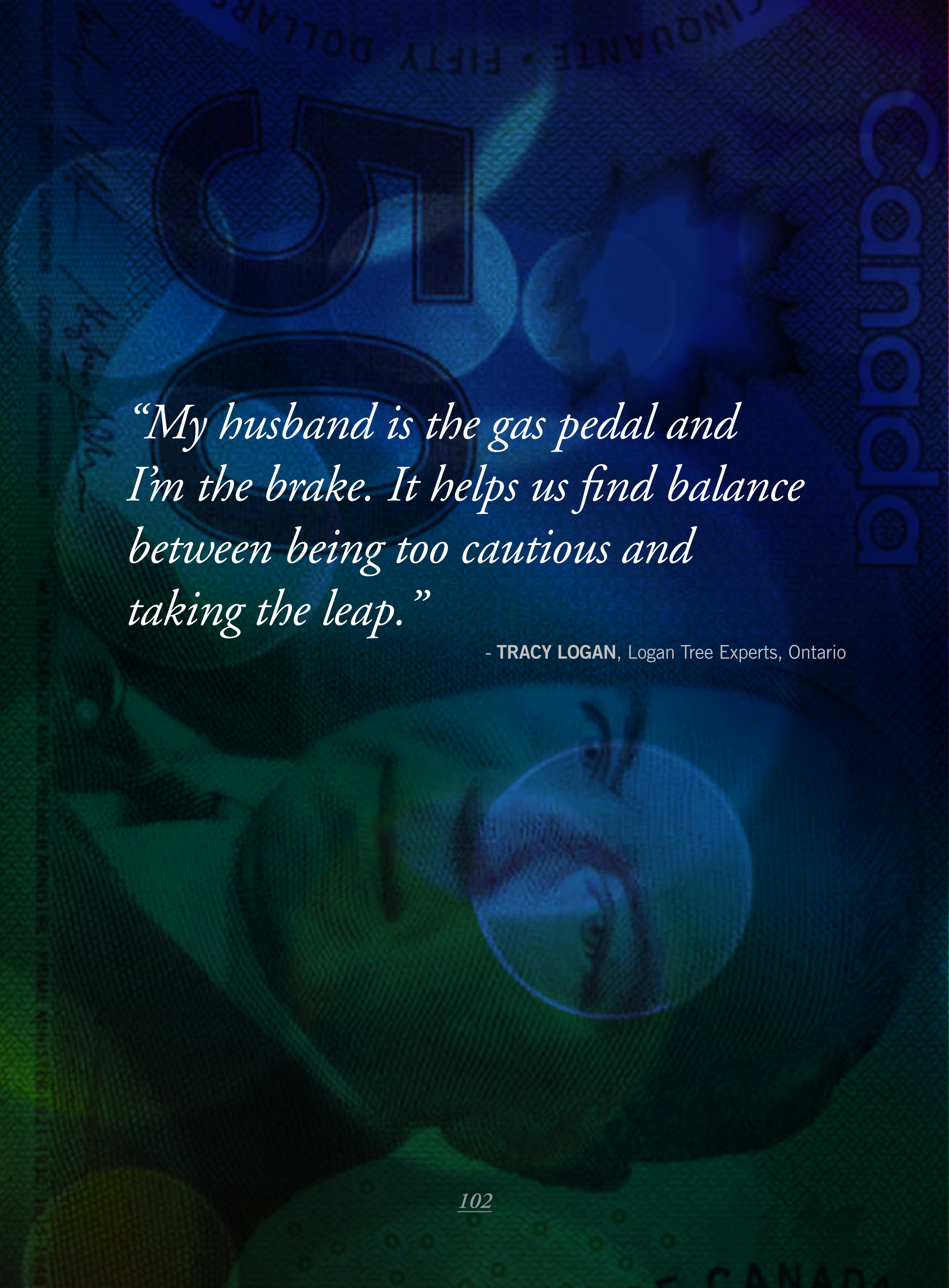
There is a big difference between tax avoidance, which puts to use every legal method at your disposal to pay as little tax as possible, and tax evasion, which is a criminal offense wherein you deliberately try to deceive the CRA.

Tax-assisted investments are one way to minimize taxes. The government purposely offers tax breaks in order to attract investors. These include registered plans such as RRSPs, TFSAs and RESPs that help pay for your children's education.

Income splitting to lower your personal income tax is another legal way to keep some money in your pocket. Since the introduction of the Family Tax Cut in 2014, a family that includes a child under 18 can lower their combined tax bill by attributing taxable income of up to $50,000 from the higher-earning spouse to the lower-earning spouse.

Donating money to dodgy tax shelters, by contrast, is a great way to get your business audited. In one such scheme, you would make a cash payment to a tax shelter and acquire property in return. You would then gift the property to a charity and receive a receipt for a far greater amount than the cash you initially 'donated'. The government has severely cracked down on such schemes in recent years.

In case we haven't already driven home the point hard enough, here's one more reminder: when it comes to taxation, professional advice is worth every penny.



"My husband is the gas pedal and I'm the brake. It helps us find balance between being too cautious and taking the leap."

- **TRACY LOGAN**, Logan Tree Experts, Ontario

Chapter 3

EMPLOYEES, FAMILIES & OTHER HUMANS

There's no shortage of doom and gloom about pending labour shortages and the massive demographic shift that we're in the midst of right now. What's more, the shortage and the shift are amplified in smaller and rural communities where a high percentage of the economy is more dependent on small businesses. Yet according to our business owner experts, it's only doom and gloom if you don't do something about it. People issues are impacting small businesses more than ever; there will be fewer of them, they will likely have more choices for employment or outright business ownership, and the impact of individuals on small businesses is simply greater than it is on larger corporate entities. We'll outline the people factors in a small business in four groups: employees, families, management and the owners themselves. And you'll find some advice on how to address each set of challenges in the Meat & Potatoes section.

The National Post (Oct. 2017) reported that **25%** of over 1,400 business leaders surveyed are already feeling the impact of changing demographics on their ability to recruit staff. Over **28%** are making changes already – including flexible work arrangements and hiring older workers. **(28%)** of those businesses that have been proactive expect annual sales growth of over **10%** for the next three years. By contrast, only **14%** of those who have done nothing expect sales growth over the same period.

BE YOUR BEST SELF
A FRANCHISEE STORY

Harj Sekhon has a bachelor's degree in Criminology. When his career aspirations didn't pan out, he went and got his CPA designation. Today, he leads a franchisee organization of Subway™ stores with his parents and they have expanded into Freshii™ stores as well. But it's not the sleuthing nor the accounting skills that sets Harj apart. It's what he's also learned about the human side of business that is worth a closer look.

"It was around 2007 when I joined. The economy was hot, my parents were over worked and short staffed and they asked me to help. I've been in the family business ever since. We were six stores then, we're nine now. We've expanded into property development and we have the opportunity to open a craft brewery. We're doing just fine."

"What I didn't know then that I know now is that you get more bees with honey. If you own a business and think you're going to get your own way just because, that's a sad way to run the business. No one owes you anything. It's all about building relationships – that everyone in town knows you and you're always on – so you better be the best version of yourself all the time."

Harj believes that as a business owner, you have an obligation to share your success with the community you live and work in. He also believes in connecting with employees on a personal level, in doing things out of the norm for them.

"People want to give business to people they like. People want to work for people they respect and like. There's a change with younger generations that I think older generations are underestimating and that's what this is about."

"Our growth strategy is based on bringing good people on board and giving them a bigger piece of the pie – especially people who have never had that opportunity. If they work hard and they are diligent, we'll reward them. We had a young woman who worked for us for a while – then she went to Calgary, started a family. Today she's a single mom. We asked her to come back and work for us, made her Operations Manager with a good wage and benefits for her and her daughter. As her responsibilities increase and she takes ownership of more duties she will have the ability to obtain some sort of profit sharing arrangement with us. She's amazing and she'll be with us for a long time."

"The best incentive is to give your people the means to improve their lives. You can't be greedy in small business any more – you simply won't grow if you are."

People: Possibilities Instead of Problems

It seems that business owners who bank with credit unions in one capacity or another are also exceptionally bright when it comes to addressing challenges around the human aspects of their businesses.

The majority of owners we interviewed are very aware of the demographic shifts in Canada and the impact that will have on them. Almost without exception, they are treating their employees with respect and care – a much different approach in many cases than one would find in generations past – where apparently, we were all just lucky to have a job.

Our family business owners seemed equally progressive; they understood the need to clearly divide responsibilities and to avoid micro-managing. They also understood the importance of communication. As Crystal Moore of Crust Bakery in BC says: **"My husband bakes – I run front-of-house. We're successful together because we know how to talk to each other. Baking is an art, cooking is an art – I have to be sensitive to that when I'm speaking with my husband about our business and the same goes vice versa. You have to learn it to survive; never take the back and forth of business personally."**

Our business owners see management or the first step of building management layers as a necessary progression to create business growth and diversification. If you're still doing everything yourself, you're not growing. Finding and aligning management leads to growth.

In addition to customers (who are discussed in Chapter 4), the other group of humans that impact a business most are the owners themselves. To be a business owner is to lead a challenging life in the majority of cases (yet not all cases). The hours are long, the stress is super high at times, and while the rewards can be many, the toll on personal health and relationships can be debilitating. For example...

The incidence of small business owners we spoke with who had gone through a divorce was high. According to Advocate Daily, it's five to ten percent higher among entrepreneurs than the norms and in second and third marriages reach as high as 67% and 74% respectively. Add to that the emotional strain which can derail the best of us and our companies in the process.

Randip Bhandal of ConEcon in BC advises caution: **"In my case, the business had just started, so the impact of my separation was minimal. But as best you can when going through a separation, the business should be left alone, even though its value is included as an asset. You try to leave the business alone because if you don't, it's your personal life impacting many, many others – especially employees. An 'In case of separation' clause should be included in business structure discussions early on – to prevent, if possible, any negative outcomes down the road."**

And maybe that's the real crux of it all. Small businesses are more susceptible to personal challenges and relationship issues than larger, more institutional businesses. Employees, managers, families – everyone is connected to the personal life of the owner. So while you may need to work sunrise or earlier to sunset and often later, you also need to recognize the need to de-stress and focus on relationships.

Family Matters

According to a PWC survey, family-owned businesses employ six million Canadians and generate about 60% of Canada's gross domestic product. About 80% of all businesses in Canada are family-owned (Stats Canada) and here's an interesting side note – according to PWC, family businesses account for 55% of all charitable donations.

We're a generous bunch. We're also an emotional bunch and that seems to be where the problems start. Family business owners are challenged by the blend of business and personal decision-making. Too many are without succession plans as the Boomer founders prepare to exit their businesses. Second and third generation members of the family may lack the interest or skills to take over the reins. And according to the PWC survey report, too few (21%) see putting in place processes to govern how the family interacts with the business as important. That may, in fact, challenge their ability to grow.

"MY FAMILY HISTORY IS SMALL BUSINESS. MY DAD OWNED A COMPANY IN THE LUMBER BUSINESS. BACK WHEN I WAS ABOUT 20, HE ASKED ME IF I'D LIKE TO BUY A BUSINESS – THERE WAS A COMMERCIAL PRINTING COMPANY FOR SALE. I SAID SURE – SO WE BOUGHT IT FOR ABOUT $7,000. WE'VE GONE THROUGH SO MUCH CHANGE OVER THE LAST 40 YEARS; BUT WE'VE ALWAYS BEEN A FAMILY BUSINESS. NOW MY SON WORKS HERE AND IS SLOWLY TAKING IT OVER. I'VE NEVER TACKLED ANYTHING THIS HARD. THE YOUNG GUYS HAVE DIFFERENT WAYS OF DOING THINGS AND YOU HAVE TO LET THEM SUCCEED AND YOU HAVE TO LET THEM TRIP. IT'S TOUGH BECAUSE YOU ALSO HAVE

TO PRESERVE YOUR RELATIONSHIP WITH THEM. THAT'S THE CHALLENGE. WE'RE ABOUT 3/4 OF THE WAY THERE AND I'M STARTING TO FINALLY CUT BACK MY HOURS. THE BUSINESS IS TAKING A DIFFERENT DIRECTION AND NOW I HAVE TO LET IT BE HIS."

- **DON WIK**, RM Office Solutions, BC

There is a light at the end of the family business tunnel and it doesn't have to be a train. Succession and having guidelines in place to professionalize your family business seem to be the most common challenges facing family businesses. The emotional bond is what gets families through the hard parts.

CU Tip

SECOND AND THIRD GENERATION ARE OFTEN IN THE SUCCESSION PLAN BECAUSE OF THE RELATIONSHIP AND NOT BECAUSE OF THE SKILLS THEY HAVE. THE FIRST GENERATION SAYS: IT'S MY KID – I LOVE THEM. THAT CAUSES THEM TO HESITATE. THE NEXT GENERATION IS SAYING: I'M YOUNG, I'M HIP AND YOU KNOW NOTHING. THAT CAUSES DAD OR MOM TO HESITATE. THEY GIVE THAT NEXT GENERATION THE BENEFIT OF THE DOUBT, WHEN IN FACT, THEY DON'T KNOW MORE AND THEY CERTAINLY DON'T KNOW AS MUCH AS THEY THINK THEY DO. THE WAY AROUND THAT DYNAMIC IS TO INCLUDE OTHER TRUSTED ADVISORS IN THE CONVERSATIONS – THE KEY WORD THERE BEING 'TRUSTED'.

Employees Matter Too

Can't find them, can't keep them, can't motivate them. Finding people who want to stay and grow with the company is the leading challenge for most small business owners. It becomes more acute, the more technical your business is or the more skilled your people have to be.

But what we found most interesting in the research was that the changing relationship between employers and employees is also causing challenges. If you're older, you've probably accepted the fact that younger people are lazy and entitled. Nothing could be further from the truth. They simply have different values than you do. They want to share in the rewards of their hard work and they see work as a social environment as well as a business environment. Business owners who get that – who focus on culture and performance alike seem to be doing better than those who hang to the old ways by their fingernails.

"I THINK AN IMPORTANT PART OF BUSINESS TODAY IS BUILDING A CULTURE THAT PEOPLE ARE ATTRACTED TO – SOMETHING THAT'S NOT AVAILABLE AT YOUR COMPETITORS. BY CULTURE I MEAN THE ENVIRONMENT, MENTORSHIP AND SUPPORT. WE HAVE STRONG RELATIONSHIPS IN OUR COMMUNITY – THAT HELPS OUR EMPLOYEES. NATHAN (BUSINESS PARTNER) AND I HAVE GOOD EXPERIENCE, SO WE CAN MENTOR NEW PHYSIOS AND HELP THEM GET UP TO SPEED FASTER. THAT'S WHAT WE OFFER AND THAT'S PART OF HOW WE DIFFERENTIATE OURSELVES TO ATTRACT OUR PEOPLE."

- **ANDREW SABARRE**, Pivotal Health, BC

The more skills you need, the more you have to focus on culture and respect to attract and keep people. According to David Konrad in Ontario: **"What's different with people today compared to 20 years ago? This is a tech company; you walk into the development area and I can't imagine what the IQ is in that room. It's just vibrating. These are exceptional people – you can't get away with treating them the way companies did traditionally and all too frequently in the past."**

In rural and smaller communities, demographics, the brain drain to large urban centres and the lure of higher-paid employment elsewhere all cause business owners sleepless nights. Solutions include giving employees a share of the business and pay by performance or a better bonus structure.

Another finding that seems common with almost everyone we talked to is that small business owners have a lot of trouble letting people go. We're too slow to fire; we're too generous in giving people second, third and even fourth chances. And what we're really doing is undermining the efforts of those who perform at a high level by not dealing with those who don't. There's a yin for every yang in the small business world.

Finally, as business owners in the 21st century, we are subject to old labels and a history of poor relations between employers and employees.

> "ONE OF OUR MECHANICS – WHO'S BEEN HERE FOR YEARS – TOLD US ABOUT ONE OF THE FORMER OWNERS; HE'D WALK IN AND SAY HOW DO YOU LIKE MY NEW SUIT? I PAID $2,000 FOR IT. THEN HE'D BOUNCE THE PAYROLL CHEQUES. THAT'S THE HEIGHT OF OWNER ARROGANCE; HERE'S A BUNCH OF YOUNG GUYS WORKING IN A TOUGH JOB AS MECHANICS AND THE OWNER IS BRAGGING ABOUT HIS SUIT, HOW MUCH HE SPENT AND THEN HE CAN'T PAY YOU. THAT'S BEYOND WORDS FOR ME."
>
> - **TIM YOUNG**, Young's Equipment, Saskatchewan

We live in modern times. Our employees are well-connected, dialed-in, better educated and more savvy. They also have more potential than any generation that came before. From the unskilled to the rocket scientists we employ, they are more about possibilities than they are problems:

According to The Great Place To Work Institute, great employees value stability around the business Mission and the opportunity for career development (75%) more than traditional benefits (15%) or even on-site benefits like cafeterias or child care and community volunteering (5%).

The Management Exercise

A growing business inevitably exceeds the grasp of the person who started it. Learning this early, planning to bring on managers who do what they do better than you can is how small businesses sustain their growth.

> "THE THING I LEARNED TOO LATE IS WHEN TO LET GO OF A FAILING RELATIONSHIP WITH STAFF. THERE HAVE BEEN PEOPLE OVER THE YEARS THAT I KEPT TOO LONG – WHO HAVE BEEN DETRIMENTAL TO THE BUSINESS AND THAT'S IMPACTED OTHER STAFF. WHEN YOU'RE YOUR OWN HUMAN RESOURCES MANAGER, YOU NEED TO BE TOUGHER. I GAVE SOME PEOPLE TOO MANY CHANCES – THAT'S HUMAN NATURE. BUT IT CAN BE VERY COSTLY. NOW I HAVE A HUMAN RESOURCES MANAGER AND SHE KEEPS US ON TRACK. NOW WE HAVE A PROCESS. NOW WE HAVE FOLLOW-UP AND ACTION PLANS WITH END DATES. AS AN ENTREPRENEUR, YOU WANT TO TOUCH EVERYTHING, TO KNOW EVERYONE. I COULD DO THAT WHEN WE HAD FIVE STORES. BUT I LET GO OF IT TOO LATE AS WE GREW TO SIX AND SEVEN AND EIGHT STORES AND ADDED 60 MORE PEOPLE. GROWTH CHANGES HOW YOU CAN MANAGE PEOPLE.
>
> \- **TIM YOUNG**, Young's Equipment, Saskatchewan

Building a management layer, whether part time in HR or in other full time roles has its challenges too. They have to believe in what you believe – they have to buy into the Vision of the business. They have to execute in a manner similar to yours or improve on it. And for that to happen, you have to systemize the business (refer to the book *E-Myth* by Gerber).

What it really comes down to, though, is do you trust the people you're delegating the management work to? All the systems and policy and Vision in the world matters not if there is no trust between an owner and the people he brings in to execute on his behalf. That's the part you have to get your head around.

It's All About You (too).

The majority of business owners who informed *Cash Cows* are a humble and self-deprecating lot. They know themselves well. They understand their weaknesses for the most part. They feel responsible for the well-being of their people. And in more cases than not, they give back to the communities they live in. All that, and managing the peaks and valleys of the business (typically on their own).

All of this takes time and energy. It takes a physical and psychological toll. According to Gallup, uncertainty around the business, always being 'on' and burnout are their biggest challenges. Only half of small business owners take vacation time and 67% check in at work (in person or online) every day they're 'off'.

Despite all this, few if any business owners in our survey would trade what they do for any other career.

So the challenge is simple – where do you find the time to make it all about you and the family you go home to?

"ESPECIALLY AS I'M GETTING OLDER, I LOOK BACK AND THINK WE DIDN'T SPEND ENOUGH TIME WITH OUR KIDS WHEN THEY WERE YOUNGER. THAT'S THE DANGER OF LOVING WHAT YOU DO AT WORK. ALSO WE WERE DEEP IN DEBT, TRYING TO MAKE THE FARM WORK – YOU'RE TRYING TO DO WHAT YOU HAVE TO DO. WHEREAS NOW, I GET TO GO TO MY DAUGHTER'S HOCKEY GAME TONIGHT. THAT'S THE DIFFERENCE BETWEEN THE EARLY DAYS AND NOW. YOU HAVE TO MAKE TIME FOR BUSINESS AND TIME FOR FAMILY. MY ADVICE IS SIMPLE: YOU'RE GOING TO GET THERE IN BUSINESS – YOU WON'T GET THE TIME BACK WITH YOUR KIDS. PAY ATTENTION TO IT."

- **JOHN SAUVE**, Never Rest Farms Ltd., Ontario

The people factors of small businesses – whether it be finding and even firing employees, dealing with family members and adding management or simply remembering that you're human comes wrapped in emotions that become diluted the larger you get; say a few hundred employees and up. But that emotive element is also what makes small businesses special and so important. So we'll end this section with a heart-warmer from Don Wik in BC as a reminder that every small business is actually a very human story.

"We were in a tailspin in 2000 – payables extended, receivables not coming in – I was killing the equity in my company. So I shifted my thinking and started treating suppliers like employees with regard to payments. That helped. But the real difference was family. I have a son that runs an IT company in Tokyo and is doing very well. I can remember talking to him at the time and he said: 'Dad – can I lend you $50,000?' He was 25 years old at the time. And that $50,000 got us over the hump. It was very humbling. That was the turning point – we had to work very, very hard to get out from under, but we did and now the business has a valuation of about $2,000,000 and no debts. I have my son to thank for that."

MEAT & POTATOES

Solutions for anything to do with people are so dependent on the business sector you're in, where you do business, the skills you need and the size of your business that it's difficult to get too detailed in an overview like *Cash Cows*.

But we can tell you what others are doing and you can take it from there with ample grains of salt. Here are the probable challenges and possible solutions, some of which are implied in the answers given by our business owner interviewees:

Family Businesses

(1) THE BUSINESS GETS TOO PERSONAL

Bring in outside help. Think of it as marriage counselling or family counselling. DIY doesn't cut it. Get help from the outside to take the emotions off the table.

(2) NEVER TURNING IT OFF

"The business never goes away when you're an owner in a family business. You talk about it at night with your spouse. You talk about it with your siblings or uncles at every family gathering. And even if you grow and grow, that never stops. So you may as well embrace it." Parm Purewell, PHL Capital Corp, BC

(3) 2ND AND 3RD GENERATIONS?

According to one of our business owners, he's fortunate when it comes to grooming his family members for business leadership: **"My son started working with us in the summers when he was 12. After school, he went and worked on the finance side and gained experience elsewhere. Now he's 30. And he's basically running the company now. The guys here respect him because he went and got that additional experience. He contributes – he's not just the owner's son. There's a message in that for other family businesses."**

(4) LACK OF SUCCESSION PLANNING

Chapter 6 in *Cash Cows* deals specifically and fully with succession planning. And the majority of credit unions across Canada have access to excellent resources on succession planning to help in person. There is no reason to avoid this hot topic in a family business. Yet only one in five family businesses in Canada are fully prepared (Source: PWC). Succession planning for all businesses should begin within the first five years of the business being in operation according to our experts. That's especially true for family businesses.

(5) THE NEED TO FORMALIZE THE BUSINESS

In family businesses, this means getting outside advisory or Board governance in addition to systemizing the business and even bringing in professional managers from outside the family. Processes, conflict resolution guidelines and even communications guidelines are all part of the requirement and that requirement increases the more your business grows, the more family members become involved and the more generations get in line.

Employees

(1) CAN'T FIND OR ATTRACT THEM

Create or refine and promote your culture and promote it in social media – see #5.

(2) CAN'T KEEP THEM

Fix your culture – see #5.

(3) CAN'T MOTIVATE THEM

This is about culture too. And you probably need help with hiring based on standards. Earlier on, we wrote about what motivates the majority of new hires these days – it's about having a Mission they can all believe in and adding a clear career development path for each person. According to Glenn Buurma, from Penta Equipment in Ontario, an equally interesting approach for longer-term employees is this: **"Use personal assessment tools; figure out what people are good at and what they need to improve on. The tool we used is called Profiles. I'm sure there are others. The whole management team did it – and there are no wrong answers; what you learn is where you're strong and where you need to improve. Then they get to be honest with themselves and they are motivated to improve."**

(4) CAN'T LET THEM GO

An old friend of the *Cash Cows* Editor once said that if you ever find letting people go easy, you're not a very good person. Perhaps that's true. Here's what Peggy Vogler of Aphrodite's Organic Cafe in BC thinks: **"You have to trust your gut with staff and not be afraid to make changes. If it's not right for you, it's probably not right for them, either. So you can go into those discussions with compassion and understanding and humour – but also be brave and firm. You can help people out the door in a way that they're almost thanking you for the opportunity to leave."**

(5) DON'T 'GET' THEM

As scary as it sounds, sometimes just sitting down with your employees and listening is the first, best step to understanding them. This is difficult to do when you're wearing too many hats, but it's worth the time. After you listen, find and review resources to do with culture building and team building. Sound too soft? It's not – investing in employees shows up on your balance sheet according to a book called *The Culture Cycle*. Effective culture can account for 20–30% of the differential in performance when compared to culturally unremarkable competitors. Culture attracts talent. Culture helps you retain talent. To some extent, it even weeds out those who don't belong. It certainly helps in the hiring process. Creating a great, performance-driven culture, even if your business only has five or six people, is the baseline of employee relations today.

And one more note – in a small business, the culture is a reflection of the person who owns the business. And that may just mean you have to take a good hard look at yourself to fix what's not working for your people.

Management

(1) TIMING

When do you bite the bullet and add that management layer? When it exceeds your capacity to run it and work on it as opposed to in the middle of it. Typically that has to do with the size of business and the volume of activity. Here's what Glenn Buurma has to say: **"As you get larger, say over 20 people, consider finding an HR advisor / consultant and have them in starting one day per week. I delegate that part of the business because I know now that having the adult conversations with people that you've worked with for years – the tough ones – is not my strength. I'm too forgiving, maybe too nice or sometimes too quick the other way. The other thing having that person on board does is improve the hiring process. I don't have time any more. It's not my forte when we're this big. That really takes a load off and allows you to focus on what you do well."**

(2) BEING ABLE TO LET GO

Do it in small steps. Find people you trust or develop trust in the people you find. As with Timing, letting go incrementally, building success and then letting more go is the right approach. This isn't the big bang of management change. And as you do let go, take these four simple steps: (1) Write clear job descriptions for new managers. (2) Create a simple employees manual that sets the baseline for everyone. (3) Establish standard operating procedures (systemize the business). (4) Create a process to guide employee behaviour and discipline. Sure – that seems authoritarian in these times, but Google the Anixter Blue Book. It was written well over 40 years ago and it still stands today as an example of how to guide the behaviour of your people (and works far better than a Discipline Policy and Process).

(3) ALIGNMENT

Finding the right people for your management roles, especially the senior ones, is critical to success. Here's how the Konrad Group in Ontario does it according to the CFO (and dad) David Konrad. **"What the senior team here has done well is that they still consider the hiring process to be an absolutely**

critical success factor. When they are hiring senior managers, all three of the leaders are directly involved and even if the person is extremely skilled, they still ask: do we like them? They won't hire people they don't feel will fit with the employees at Konrad Group. It's more than a business – it's their life and they don't want to spend it with people who don't fit."

About You

(1) BURNOUT

This is physical and mental and there are no easy fixes. Finding 30 minutes five times a week to de-stress is among the most common. De-stressing means some form of physical activity that is non-work related. Not too sure that works for the agri-community – maybe it's the opposite. Maybe it's forced relaxation or social time. The challenge here is consistently sticking to a plan of some sort. Of course, the other solution in the context of burn-out is about learning to delegate or let go.

(2) FAMILY TIME

It sounds overly simplistic, but many of the owners revealed that they start early, before everyone else gets up, and they make dinnertime family time mandatory – for everyone. That's the 6 a.m.–6 p.m. rule. If 12 hours per day isn't enough time at work, take a look at the management and employee parts of this section.

As with all things in a small business, the answers to every question about how people impact your business start and end with you. Even after you delegate, you're still the business until you finally let it go. Understand that, understand yourself, adjust accordingly and everything will work out as John Sauve said earlier: "You're going to get there in business – you won't get the time back with your kids. Pay attention to it."

"If you grow so fast that you can't keep up, it becomes a roller coaster. Then, sometimes you have to slow it down to speed it up again."

\- **JOE ANNE HOLLOWAY**, Bayside Vacation Resort, Ontario

Chapter 4

GROWTH IS GOOD

There is a fine line between good growth and bad growth. There is no such ambiguity in the concept of no growth. You can fix the former – you won't survive the latter. Good growth equals or exceeds the profitability of your current business. It often leverages existing resources (people, capital and equipment). Good growth does not cannibalize the gross revenue of the current business. Good growth is sustainable – and it doesn't have to be all about the top line; good growth can even be found in flat sales as long as the margins are going up. Conversely, bad growth is less profitable, shows a declining return on your investment and stretches resources. No growth, however, is where the real danger lies. Source after source in our research cites businesses that aren't growing are businesses that will inevitably fail.

You can grow by building customer wallet share, by diversifying your business, adding locations, adding channels, adding products, franchising ideas, or as reported by many of your small business peers, by acquiring the competition or new business lines altogether.

A recent BDC survey of **4,000** business owners with companies between 1 and **499** employees reports "the number of owners who intend to grow through acquisition has increased **74%** between 2017 and 2018."

What that suggests is that it is a business buyer's market – there are companies and opportunities to be had and perhaps at a discount due to the looming succession challenge of an aging demographic. Additional commentary to the report cites acquisition as a good way to generate growth in a maturing economy with an aging population and slower growth. That was then – as with all economic cycles, growth comes and goes, and in 2018, with interest rates comparatively low, a competitive dollar and the global economy humming along, who knows when the inevitable slow-down will occur. Of course, if you visit the oil patch in Alberta, many are still waiting for the recession to finally let go. That is the uneven reality of our diverse economy.

Regardless – putting growth on your agenda, planning for it in much the same way you did when starting your business and executing that plan should be on every small business owner's agenda on a continuous basis.

BOSCO & ROXY'S
8 Million Gourmet Dog Treats and Counting

Just outside of London, Ontario, there is a special place called Country Paws – and owned by a special couple, Michelle and Jaymie Crook.

Country Paws is a doggy resort and as creative a business space as you'll find anywhere. Part of the joy for pet owners is the availability of special gourmet dog treats branded as Bosco & Roxy's.

What Jaymie and Michelle realized at Country Paws was that pet parents went out of their way to buy the treats and take them home. And that's where the story really picks up about eight years ago.

Bosco & Roxy's today is a separate business; a gourmet treat bakery staffed by 120 people with retail distribution throughout North America. In 2017, B&R sold about eight million uniquely-crafted, hand-decorated dog cookies and the goal is to boost that total to 25 million units per year within five years.

That's growth. To date, at a rate of 80% – 100% per year. But it doesn't come without learning.

"As we evolved from small independent stores that order hundreds of products a month to large multinational retailers that order thousands of treats per month, we've had to learn. I'd like to say we mapped it all out, but we didn't – we went where the fire alarms were going off. Entrepreneurship is a rolling series of problems and your ability to solve them is a key to success in any business."

"There comes a point, though, when you get to a certain size where the numbers really matter. When you're small, you can screw up a $300 order and make it right pretty easily. But to screw up a $100,000 order – that can sink the ship."

So when is the moment in the growth curve when knowing the numbers becomes even more critical?

"We're at that time now when everything we do and touch is exponential in the result; so to ignore the numbers creates increasingly bigger problems. The difference between buying 100 boxes (packaging) and 50,000 boxes is huge right? But the cost per box is really low as you go up in quantity. So we buy 50,000 labels to match the cost break, but then the market for that product changes and 20% of the labels are obsolete. Into recycling they go. **So it's about managing change in the context of increasing scale. That's the challenge of growth."**

Jaymie admits the numbers weren't a comfortable place for him – much like it's not a comfortable place for many small business owners. So what did he do about it?

"I went back to school. I'm taking my MBA at Western University because we're at that point where we need more horsepower. It's helping me – it's helping me step back, to look closer, and with every decision, I'm seeing the numbers in a different light. This is a new religion for me."

BOSCO AND ROXY'S IS AN EXAMPLE OF BUSINESS GROWTH THAT WHILE EXTREME, ILLUSTRATES THE NECESSITY TO SOMETIMES STEP BACK, REALIZE WHERE YOUR WEAKNESSES ARE AND TO ADDRESS THOSE WEAKNESSES. AS YOUR BUSINESS GETS BIGGER THE CHALLENGES AND CONSEQUENCES OF YOUR DECISIONS GET BIGGER. AND THE LINE BETWEEN GOOD GROWTH AND BAD GROWTH BECOMES MORE ACUTE. BY ALL MEANS PURSUE GROWTH. TO NOT DO SO IS THE PATH TO DECLINE. BUT GROW YOUR KNOWLEDGE IN LOCK-STEP WITH YOUR BUSINESS. EXPAND YOUR NETWORK OF EXPERTISE. GROW PERSONALLY AND PROFESSIONALLY, AND LEARN WHEN TO LET GO TO ALLOW GROWTH TO REACH ITS FULL POTENTIAL.

Letting Go To Grow

The first, the most important, and the most repeated lesson learned from our group of hands-on experts about all things to do with business including growth is that learning to let go – diversifying decision-making, risk and sources of input – is the magic step in the evolution of any small business. Yes! – it's very difficult to do. Yes! you need people you trust. And yes! you're still the one with the most skin in the game (it's easy for others to say 'let go and delegate' when their futures and family security are not on the line). All those acknowledgments aside, letting go and then using the time you find to plan remains the key common ingredient in successful business growth.

According to Penta Equipment owner Glenn Buurma in Ontario:

> "THE VAST MAJORITY OF BUSINESSES START SMALL. THE OWNER DOES EVERYTHING AND KNOWS HOW TO DO EVERYTHING. BUT ANYONE WHO HAS GROWN THEIR BUSINESS TO FIVE, TEN OR 20 PEOPLE AND THEN IT STALLS, THAT'S INEVITABLY BECAUSE THE BUSINESS OWNER CAN'T LET GO. GROWTH IS ABOUT LEARNING TO LET GO. ABOUT REALIZING THAT YOU CAN'T BE GOOD AT EVERYTHING AND THEN SURROUNDING YOURSELF WITH PEOPLE WHO ARE SMARTER THAN YOU. IT'S ABOUT FINDING OUT WHO YOU ARE – **BECAUSE THE SOONER IN LIFE THAT WE ARE CRAZY HONEST ABOUT WHAT WE'RE GOOD AT AND WHAT WE'RE NOT GOOD AT, AND THEN FIND PEOPLE TO FILL THE GAPS, THAT'S WHEN IT REALLY WORKS**."

Buurma has the cuts and bruises of business ownership to prove he knows what he's talking about, now with over 20 years in the agricultural equipment business after he took over from his Dad. He adds: "The reason small business owners struggle to find good people is that they either don't know how or they micro-manage the good people they do find until they leave. It still comes down to letting go."

Let go to grow. Write it on your white board and keep it there. It's not easy but it is the path to incremental growth regardless of how indispensable you think you are. And at the end of the day, when it comes to selling your business, you'll find the less that business is dependent on you, the easier it is to sell and the more lucrative that sale will be.

CU Tip

"IF YOU OPTIMIZE YOUR BUSINESS AND YOUR TIME ON THE EXISTING BUSINESS, THAT ALLOWS YOU TO LOOK FOR GROWTH ELSEWHERE. IT ALLOWS YOU TO GROW REVENUE WITH THE SAME RESOURCES AND THAT'S OPTIMAL GROWTH. OPTIMIZING YOUR BUSINESS INCLUDES LETTING GO – SO YOU HAVE THAT TIME TO SPEND ON WHAT'S NEXT."

So far we've defined what separates good growth from bad growth and why not growing is not an option. We've also covered why 'letting go' is the first and most important step at the beginning of growth mode. Let's define growth next, then address how you finance it, what the challenges or risks are, the impact of people and then end with the meat and potatoes of Planning for Growth.

How to Grow Your Business

There are very clear strategies to consider when planning your first or next incremental growth curve. Each strategy is deliberate – over and above the everyday organic growth of your company. That, you already know how to do (or see the chapter on that great mystery called Marketing). So we're assuming that you're optimizing your business and finding the time to plot your next advance. If that's not the case consider this credit union expert wisdom and think twice: "Entrepreneurs get very excited about new ventures and they forget what got them there; their existing cash cow." In other words, take care of the existing business and let go of the day-to-day before plunging into that next great scheme.

Here are the most time-tested core strategies for growth:

(1) NEW LOCATIONS

Duplicating what you do well in new locations leverages your existing expertise and success. To be successful, you need to understand the competition that the new location brings into play and know for certain that the same or even deeper customer opportunities exist. Growth by location is dependent on being able to replicate what works in new places – and that means the conditions have to be the same (same demographics, similar costs, similar access to talent).

Opening new locations is rarely the first choice – primarily because it is so difficult to leverage existing operating costs in a new space. That makes it a volume growth opportunity as opposed to a margin growth opportunity.

Consider this strategy if you're in retail, business services, real estate development, hospitality and other sectors where what you're successful at is as unique in the new location as it is close to home.

> "WE WENT THROUGH A BIG CHANGE AFTER I TOOK ON THE PIE SHOP FROM MY DAD (HE PASSED AWAY). IT HAD BECOME A PIE SHOP WITH A RESTAURANT IN IT. BUT THE SPACE WAS RESTRICTING GROWTH AND THE BUSINESS PERFORMED SLOWLY. WE WERE IN A TOUGH SPOT EVEN THOUGH WE HAD GOOD CLIENTELE AND PEOPLE CAME FROM ALL OVER VANCOUVER TO SEE US. SO WE THOUGHT – WHERE CAN WE MOVE BECAUSE THAT CAN BE THE DEATH OF A RESTAURANT WHEN YOU MOVE TO A PLACE WHERE YOUR PEOPLE CAN'T FIND

YOU. THANKFULLY, WE FOUND A SPOT KITTY CORNER TO US. AND NOW INSTEAD OF TWO BUSINESSES IN ONE LOCATION, WE'RE TWO DISTINCT BUSINESSES IN TWO LOCATIONS THAT SUPPORT EACH OTHER. NOW THE LIMITATIONS ARE GONE AND I CAN LOOK AT INCREMENTAL CHANGES INSTEAD OF HUGE CHANGES."

PEGGY VOGLER, Aphrodite's Organic Cafe, BC

(2) FRANCHISING

Franchising your vision is not for the faint of heart and requires far more depth of learning than we have space for here. Step One – do the legal and operating research before diving too deep into concepts like recruitment and systemization. This is fairly easy to do – visit cfa.ca – the Canadian Franchise Association for education and access to resources.

There are roughly **1,300** franchising companies in Canada and over **76,000** franchised outlets to match – with about **4,300** new outlets opening each year (and a new one opens about every two hours!!). The hospitality sector is largest in franchising with retail and food services a close second. About **20%** of all goods and services sold in Canada are connected to franchising and of the franchises opened in Canada over the last five years, **97%** are still in business and **86%** are under the same ownership. **(35%)** of all restaurant sales are connected to franchises – **45%** of all retail sales are connected to franchises. And the sector in total accounts for about **$100 billion** in sales annually. All this to say, franchising is a proven growth strategy if you do your homework and operate in the right sector. (Source: Franchise 101 Inc.)

(3) LICENSE YOUR PRODUCT OR SERVICE

Let's say you're in the cleaning business and in your spare time, you've invented the next great mop. It cleans floors and itself without water or soap and you know you have a hit. You could manufacture it yourself, yet that would mean taking your eye off the core business. Licensing is the other option. You can protect your idea legally and then form an alliance with a manufacturer, selling through their distribution network.

Licensing is also rare and typically only applicable to those who create unique products or services that are dependent on some form of intellectual property. Approach with extreme caution and getting legal advice that is based on actual experience in franchising is the best wisdom connected to this growth strategy.

(4) FORM A BUSINESS ALLIANCE

Regardless of the sector you're in, partnering for growth is a realistic strategy that is tried and true. Can you blend back-office operations or investments in mutually beneficial technology with another company? Can you leverage other manufacturing facilities to expand production? Can you form an alliance to create manageable scale? The key to alliances is mutual benefit and legal diligence, though not necessarily in that order. The downsides come from not having the contractual understanding fully vetted and relationships that are not built on validated trust. Forming business alliances for growth is not a recommended strategy for the paranoid among us.

"I THINK AS A BUSINESS OWNER AND ENTREPRENEUR WHO IS TRYING TO GENERATE REVENUE, IF YOU DON'T GROW, YOU'RE JUST STANDING STILL. I'M NOT HAPPY WITH JUST STANDING STILL. EVERY YEAR I DRIVE TO INCREASE MY BUSINESS BY 10 OR 15% – I LIKE TO SEE THOSE NUMBERS GO UP. GOD FORBID THEY WOULD EVER GO DOWN. WHEN THE NUMBERS GO UP, IT FEELS LIKE WHAT YOU'RE DOING IS WORTHWHILE. WE COULD ADD PARTNERS, BUT WE'RE OUR OWN BEST PARTNERS. SO WE'LL GROW BY INTRODUCING MULTIPLE SHOPS – WE WON'T SIT STILL. WE GROW BY PUSHING OURSELVES MORE, PROVIDING MORE PRODUCTS, BY CONSTANTLY CHANGING OUR PRODUCTS AND BRINGING MORE PEOPLE IN AND BACK IN."

CRYSTAL MOORE, Crust Bakery, BC

(5) DIVERSIFY

In this context, diversification means selling additional goods and services to the same customer base you have or one similar. If you're in the fitness equipment sector, you might consider adding healthy food supplements or a line of work-out clothing for example. Diversifying revenue that is incremental to your core business is a smart way to leverage existing operations and brand marketing. It also gives you the opportunity to test ideas with your existing customers before you have to invest.

According to dentist Pat Redmond in Newfoundland, diversity is the key to all his business growth. **"General dentistry as a whole in Newfoundland is not growing. We're increasing revenue by diversifying. We're adding services and we've added a lab that serves other dentists. We keep trying different ideas and while they don't always work, you keep learning each**

time and the more often you try, the more success you have. That kind of experimentation doesn't have to be expensive." Diversification as a growth strategy works for almost every business sector out there and seems to be the most common strategy employed by small business owners.

(6) TARGET OTHER MARKETS FOR YOUR CORE PRODUCT OR SERVICE

Targeting new markets for what you do well today is different than opening new locations. If you make dog cookies in Ontario like Jaymie and Michelle Crook do, new markets means expanding to the US, includes understanding different food regulations, cross-border shipping challenges and different retail partner preferences. For farm equipment manufacturer Glenn Buurma in Ontario, who used to operate primarily in Canada, it means hiring US sales people who understand the new market and who have the relationships required to make inroads.

Both examples come with new costs, yet both also fully leverage existing operations to take advantage of the capacity you already have or can easily finance.

New market penetration is a proven strategy – but the risks are also there: failure to understand the cultural, legal and regulatory implications; failure to factor in the costs of distance; failure to anticipate the difference in market conditions and competitive pressures; getting caught in currency differences that are difficult to reconcile and take advantage of.

(7) ATTRACT GOVERNMENT CONTRACTS

While the topic of government spending in Canada causes stomach acid in most small business quarters, it remains a fact that Canada's governments (federal, provincial, municipal and all the layers in between) are the biggest consumers of services and products in the country. There's even an old saw in business services that says you won't thrive without a few government contracts. **This is especially true in smaller and rural communities where government spending is often a disproportionate source of consistent revenue. Just ask Don Wik of RM Office Solutions – without government spending for the little guys, the customers are few and far between**.

Building government relationships is typically dependent on participating in and winning RFPs – an arduous and time-consuming process that is managed by procurement specialists and often comes down to best price. Creating your own streamlined process for participating in RFPs is a key success factor if turning governments into paying customers is part of your growth strategy.

(8) ACQUISITIONS & MERGERS

Based on the BDC survey and what we read in the news alike, acquisition as a growth strategy is on the minds of many business owners. It allows you to implement other strategies like location expansion, diversification, market expansion and alliances within the context of one overall approach. And according to Rod Stang of Steel View Energy & Industrial Services Ltd. in Alberta, if you do your homework, it's the easier path:

"Organic growth is a painful, slow process. Acquisition, if you're careful, is much quicker. You buy something one day, the phone is ringing the next day. It's tangible. If you're buying a business in the same field, the systems are usually close, so the training isn't as much of an issue. I also found, with another acquisition, that their customers appreciated the updated look and feel of how we worked; the old business had become stale – we freshened it up.

Acquisition helps you expand your footprint faster too – instead of setting up in a new market, you buy your way in. Having the resources to be able to do this when your business sector is slow for others is strategic. As the sector picks up again, the return on our investment will be even greater."

The four keys to an acquisition strategy are as follows:

- **Retaining the acquired company's customers**
- **Retaining key staff**
- **Identifying or quickly creating mutual systems and technologies**
- **Transition – don't let the acquired brand undermine the new brand**

(9) GEOGRAPHIC GROWTH

This is very similar to market expansion and expanding by the number of locations. Perhaps the biggest difference is for the manufacturing sector where you're actually expanding operations beyond sales to new geographies (countries and even continents). The same challenges exist in geographic growth as they do in market growth; regulatory understanding, currency differences, access to talent, cultural alignment and more. Expanding into new lands is not for the faint of heart and typically the point at which a small business becomes a mid-sized or large business. Never go it alone is the best advice we've heard.

(10) TECH & INTERNET LEVERAGE

According to the Growth Blueprint referenced in *The 9 Steps Blueprint to Grow Your Business* (as detailed in the Meat & Potatoes of this chapter), as many as 80% of small businesses do not have digital, social media and mobile strategies entrenched in their companies. That implies there is a massive opportunity to grow through the application of new technology and the Internet for most of us. Why spend the time? The same Blueprint says companies that do strategize and implement across multiple digital channels enjoy a 5% revenue growth advantage over those who don't.

Leveraging technology and digital channels for distribution, sales and relationship building is step one in any growth strategy. It represents comparatively low-hanging fruit compared to replicating locations or acquiring the competition and it's something you should be doing for your existing business already. Expanding the use of technology also supports any new strategies from testing the idea to outright implementation.

Technology and Internet leverage applies to all business sectors in all markets. It is the de facto platform for conducting business today and being comfortable with it is as important as being comfortable with your financial statements.

Finding the Money to Grow

The foundation for planning to grow is about understanding your numbers and knowing the difference between what good growth looks like financially, and how that compares to what bad growth is (unprofitable, unsustainable, unleveraged).

On your balance sheet, good growth shows up as retained earnings and that number flows out of your income statement; sales are up, profit should be up. Your operations are generating that additional cash flow, which is supported by your investments in growth and financing. It's a complete circle according to our experts.

CU *Tip*

GOOD GROWTH IS SMART. THIS IS A WELL-KNOWN BUSINESS CLICHÉ BUT IT'S WORTH NOTING HERE FOR ALL SMALL BUSINESS OWNERS:

S DEFINE YOUR GROWTH IN SPECIFIC TERMS (BLACK AND WHITE, DOLLARS AND CENTS).

M HOW WILL YOU MEASURE YOUR GROWTH? WHAT DATA DO YOU NEED TO DO THAT AND GET IT IN PLACE.

A ARE YOUR OBJECTIVES ATTAINABLE? ARE YOUR PROJECTIONS SOUND?

R ARE YOU BEING REALISTIC? SERIOUSLY REALISTIC IS DIFFERENT THAN BEING AFRAID TO GROW.

T IS YOUR GROWTH STRATEGY TIME-BOUND? WITHOUT DATES AND TIMELINES, THERE IS NO STRATEGY.

According to our credit union commercial banking experts: **"Real growth costs money – it's an investment. The first, best way to finance that is to use your existing assets and equity as leverage. The questions we ask revolve around determining how well you've thought this out. That's for your protection, not ours. What is the worst case scenario? What is the break even? How does that impact the operations of your current business. What if your new venture, that you've separated from the existing venture, cannot make a loan payment? Can your existing business absorb that?"**

Smart business leaders map it out prior to rolling it out. **"We look at our growth path and say, can we continue this?"**, says David Konrad, CFO of the Konrad Group in Ontario. **"We look at what the sales numbers will be and how many employees will that take – revenue per hour, cost of new employees; we can predict those things reasonably. Then you look at your working capital requirements. You know you're going to have anywhere from 45 to 60 days accounts receivable, so you have to accommodate that. And we work through the expense lines. We know the numbers and we use the numbers to model growth."**

If you have to borrow to finance your ideas, there are three basic tools you can research to determine the best fit: Cash flow loans, equity loans and mezzanine loans (formulas). Do your research with considerable diligence – and work with a trusted financial partner to explain the different lending techniques in the context of your business using real numbers. Our small business owners agreed that there's no shortage of money and lending sources available to do what they need to do once they get going. So it comes down to having the right financial partner – someone who knows you, who knows your business and who asks great, often tough questions.

It should also be noted here that many entrepreneurs believe using other peoples' money to finance 'tangible growth' is a good idea. And it is – as long as that magic word – tangible – is clear and understood. Using a loan to finance a growth plan that is not grounded in tangible assets is a dangerous path (that's farm-wisdom from John Sauve in southwestern Ontario).

The final twist on the financial side according to our credit union experts is that everyone considers a downturn to be a bad thing. **"But there are some businesses that are going to do very well because they went into it strong and they can leverage that strength to find businesses that are struggling. That is positive in the spirit of taking over the business that won't make it otherwise. This is very important for business owners. It's okay to have that rainy day fund because in a lull you'll not only survive, you may actually be in a position to grow when no one else can – because you managed your money well and saved."**

Growth comes with Risks and Challenges

Like everything in life, there are risks and challenges when it comes to adopting a business growth strategy. Chief among them is knowing where that line is.

Russ Walsh – EZE Rent-It Centre Ltd., BC: "If you're going to live on the edge, you have to know where the edge is. Most business owners, young people starting out especially, don't learn where the edge is. You need the best data, the best financials and the best financial planning you can get if you want to maximize growth. You can grow and grow and the symptoms of massive growth are identical to nearly being bankrupt. You're overworked, you're doing everything you can, you have no money, you're leveraged at your financial institution because you're going for maximum growth. If you're going broke, it's the same thing. Same symptoms but totally opposite outcomes. Businesses do not sit still. You grow or you shrink. That's the way it is."

If you're relatively new to business ownership, the challenges can sneak up on you – everything looks great on the outside, but there's trouble brewing within.

Theresa Furlonge and Jennifer Lardner of My Essential Business Ltd. in Ontario describe the feeling: **"Within a year, we'd grown to ten people – we never saw that coming. Now we have to learn to keep up with growth. Do we hire more warehouse people, more customer service people – do we need to move again (now on their third move). After the last move we thought there was so much room to grow – fast forward two years and we have every inch of both office and warehouse filled. Then came the difficult question of what to do. Do we open a second location in Western Canada? This was the first (and only) difference of opinion that we had. We'll resolve it by running numbers and actually visualizing how it's going to play out. Do we have to fly between offices every week? How many new people do we need? And if we don't open the second location, how do we cope with all that growth here? It's a lot of potential duplication and that's where the costs go up. But here's the surprise with all that growth: We tripled our sales last year and I almost had a heart attack when I saw the tax bill. Our accountant at the time did not predict this growth, nor did he prepare us with sound advice for upcoming years. There was no assistance with advice like; 'here's what you should be doing or here's the impact of that decision.' We have since found a new accountant."**

Other contributors to *Cash Cows* observed more challenges beyond not knowing and using the numbers well enough and not having the experience or the right advice when that experience is lacking. Losing touch with the relationships that got your business to where it is was offered several times as a risk. Learning about valuations and how they work prior to setting in motion an acquisition strategy is a significant risk. Even with the help of a professional like a Chartered Business Valuator, the risks remain if you don't understand the numbers, the process and the market.

Not thinking big enough in the beginning is a risk:

"We're in growth mode – to the point where we may not be able to keep

financing it ourselves," says Sunny Ghataurah of AES Engineering in BC and Alberta. **"So we're formalizing and adding procedures. We're adding a middle layer of management so the senior people can let go of the day to day. We're making sure we're structuring for what we want to be as opposed to what we are because then you can simply grow into it. It's like having a family; if you're planning a family, you don't go buy a motorcycle. You may not need a bus or a minivan, but you get a five-seater car even if you don't fully populate it right away. Plan for where you're going, not where you are."**

CU Tip

20 YEARS AGO, YOU COULD BE MORE ANECDOTAL ABOUT GROWING. LIKE, HEY, THIS FEELS LIKE A GOOD THING, LETS DO IT. AND THERE WASN'T A LOT OF COMPETITION OR DISRUPTION. THERE WAS A WIDE BERTH WHERE YOU COULD BE 50% ACCURATE AND GET AWAY WITH IT AND MAKE MONEY. TODAY, THE BERTH ISN'T NEARLY AS WIDE – IT'S MORE LIKE A CONCRETE LACED RACETRACK AND YOU HAVE TO BE CAREFUL, MORE INFORMED OR YOU'LL START BOUNCING OFF WALLS.

The Second Greatest Challenge to Growers

Of course, knowing the numbers and being able to model financially is the most critical element of deploying a growth strategy. But a close number two is all about people.

Can you replicate customers, find sales people who reflect well on your brand, find the talent to staff new offices and service new technologies? Can you transition the team at that company you acquired to operate at the level you expect? What are the costs involved if you can't? And how long before you wear out your existing leadership team with all the demands of growth? Way early on in *Cash Cows* we described people and talent as one of the five key challenges in business today (and increasingly so tomorrow). That challenge is amplified when you're in growth mode.

David Konrad: **"We've had to move seven times in seven years. But the biggest challenge for us when it comes to growth is finding people – the technology people and the project managers who know technology. That's the biggest challenge by far. There's lots of demand; we have to ensure the quality of work is world class and that takes great people."**

The importance of people also shows up on the other side of your business, not as a challenge, but as an opportunity.

Dan Schubert in BC bought a small plumbing company from his dad several years ago now. "We were taking all the money out of the business and it wasn't growing. Now we're leaving money in every year and the growth has happened – we've gone from two people to 40 people in ten years. We do now in two weeks what we used to do in a year. Here's what I've learned the hard way: you've got to bring in people who are more knowledgeable than you are and make them feel valued. Don't just hire to get yourself out of a pinch – hire someone who may cost you more in the short term but who will get you growth in the long term. Hire the personality that will get you growth.

As documented at the beginning of *Cash Cows* with all the contradictions of business ownership listed and explained, almost everything to do with growing a business has an equally profound yin and yang to it. People are the challenge – people are also the opportunity. Self-financing is the best approach – with lending rates still so low, someone's else's money is the best approach.

What is wrong and what is right? That depends on individual business owners as so much does. So perhaps leaving you with a thought from one of the business owners interviewed for this book is the best way to conclude the overview of growth. It's about the passion that drives business – the passion for ownership and commerce that are the real catalysts of business growth.

> "I'M LOOKING FOR GROWTH AND OPPORTUNITY ALL THE TIME. IF SOMEONE HAS A BUSINESS IDEA, I HEAR THEM OUT – I HAVE NOTHING TO LOSE. IF I'M DRIVING AROUND AND I SEE A COMPLEMENTARY TYPE OF BUSINESS, I MAKE SOME NOTES. I'LL DO SOME RESEARCH AND TRY TO UNDERSTAND THEIR PRODUCT OR SERVICE TO SEE IF IT WOULD BE A GOOD ADDITION TO OURS AS A POTENTIAL PARTNERSHIP OR SOMETHING LIKE THAT. IS IT AN OPPORTUNITY? I LOOK AT IT; IF I DON'T HAVE THAT BUSINESS'S MARKET SHARE OR CUSTOMERS, WHO DOES, WHAT ARE THEY DOING DIFFERENT AND HOW CAN THAT HELP ME? IF YOU WAIT FOR SOMETHING TO LAND ON YOUR LAP, YOU'LL BE WAITING A LONG TIME. SO HOW DO I KNOW WHEN I'M ONTO SOMETHING? I GET EXCITED, I'M ENGAGED, MY INTEREST PIQUES. EVEN MY TONE AND POSTURE CHANGES. MY ENTREPRENEURIAL PASSION

COMES OUT – THAT'S HOW I KNOW. WE ARE ALWAYS LOOKING TO REINVEST THE GOOD MONTHS AND LEARN FROM THE MONTHS WHERE THE BUSINESS WASN'T AS GOOD."

RICK HARPER, Truck Zone, Alberta

MEAT & POTATOES

Planning for Growth – A Simple Guide

The hard work of growing a business is often in the planning stage. You're eager to get moving, to make changes, to 'plunge' as Andrew Wong at Wild Rice in BC would say. And while that's okay, the deeper the dive by planning up front, the better you'll know what to expect when you hit the water and the better the results.

Growth Planning is similar to business planning.

- **You set goals.**
- **You conduct a SWOT analysis (Strengths, Weaknesses, Opportunities, Threats).**
- **You get intimate with your customers and targets; you understand what motivates purchase at a deeper level.**
- **You choose the growth strategy best suited to your business state.**
- **You set SMART business objectives.**
- **You identify your value proposition (what benefit is there to the purchaser that is meaningful, unique and relevant).**
- **You analyze the competition (yes, you all have competitors).**
- **You ensure digital execution is central to your strategy.**
- **You create a tactics plan for deployment.**

We could go into detail about each of the steps, but there's a better and more convenient way to achieve that. It's a book called *The 9 Steps BLUEPRINT to Grow Your Business* by Shehan Wijetilaka. It's a very simple process to follow and it includes the tools and examples you can follow to produce your Growth Plan. Order yours through a local bookstore or online for your Kindle or through an online book retailer.

Planning for growth is like planning for any aspect of your business. It's detailed, it's based on numbers and it can reduce the stress of making choices in the dark.

ACCORDING TO *FAST COMPANY* MAGAZINE CONTRIBUTOR AND BUSINESS ACCELERATOR FAISAL HOQUE, THERE ARE SEVERAL KEY ELEMENTS TO GROWING WHILE RETAINING YOUR SANITY.

- **TIMING IS EVERYTHING**: Take steps (test and ask) to understand whether the market is ready for your growth strategy or idea. You're a small business – you can make choices quickly without exhaustive processes – so looking before you leap won't slow you down too much.

- **BEST BRAND FORWARD**: Keep your brand burnished for success; regardless of what anyone tells you, brands are what people buy and the equity you have in your current brand is valuable in the context of growth (brands equal trust).

- **BE SCALABLE IN SALES**: Ensure your sales and delivery (for products or services) are repeatable and sustainable.

- **EMBRACE TECHNOLOGY**: Does this sound familiar? How you manage, attract customers, find talent and operate is now technology-based. Find a way to be at peace with that.

- **DE-STRESS**: Apparently, we business owners don't take good care of ourselves as much as we should. So – accept that owning a business is stressful (apparently twice as stressful as maintaining a healthy relationship with a spouse or partner and more than four times as stressful as managing personal finances). Growing a business adds more heat.

Take the time to de-stress every day. It's good for the bottom line.

"Cost of production is the only thing I can control. I can't control the markets."

- **JOHN CHUIKO**, Rancher, Saskatchewan

Chapter 5

MARKETING – THE GREAT CONUNDRUM

Based on the vast majority of interviews conducted for *Cash Cows*, marketing is misunderstood, mistrusted and all too often mistaken for advertising in one form or another. Yet the great conundrum of this is that while it remains well down the list of important business skills, those few business owners and leaders who understand and practice genuine marketing enjoy more success as defined by better margins, growth, deeper customer relationships and higher returns on their business investments. Frankly, you don't need finance, operations, computers and human resources if you don't have customers. Marketing is about attracting, convincing and keeping customers. Or in the words of a former Marketing VP at Coke: *It's how you get more customers to pay increasingly more money for more of your products (or services) more often*. Let's start there. We'll save the tactical stuff like advertising and social media for the Meat & Potatoes section of this chapter.

Most small business owners have one question in common when it comes to marketing: How much should I spend? Here's why that question is the wrong question. (1) The statistics below refer to spending on communications and sales, not marketing per se. (2) Spending is the wrong way to look at it – investing is the right way, and with sound marketing, that investment will grow your business. (3) The costs and activities related to communications vary from one industry sector to the next. (4) Most small business owners simply guess – is that how you want to budget? So for those who just want an answer to the question, the numbers follow. And for those who'd prefer a more pragmatic approach, keep reading.

Small businesses spend between **2%** and **12%** of revenue on 'marketing' according to a variety of sources. **Sixty-two percent** of small businesses in the US spend **4%** or more (Source: Blue Corona). Companies with between 20 and 49 employees invest about **$64,000** per year on average (marketing and sales) while companies with more than 50 employees spend about **$103,000** on average. **Thirty percent** of small businesses spend less than **$5,000** on marketing and sales activities. (Source: BDC)

KYLIE M INTERIORS
The Natural Marketer

Kylie Mawdsley will tell you up front and in her blog that she has an anxiety disorder that made working for others difficult if not impossible.

In many ways, it was also the catalyst for her start-up business and entrepreneurial journey.

Knowingly or intuitively, Kylie has ticked all the boxes of a sound marketing approach to running her online decorating advice business. She started as a paint mixer, moved to offering interior design advice in person and as the Internet gained momentum, discovered that people were asking her for advice online.

“They’d send me an email that said something like: Hey I can’t find the right grey paint for my bathroom. I started replying – I can do that for you – $45 per answer. You send me some photos, fill in this questionnaire and I’ll let you know which three greys are the best.”

From there, Kylie created 15 packages of advice at a variety of price levels ($45 up to $385). She responds to every query within 12 hours and has a full consultation to her customers within ten days. It’s personal, one-to-one, and you don’t need a designer at $150 per hour and up to fully decorate your home.

Simple, right? Not much of a business – until you realize that Kylie is attracting more than 1,000 customers per year. Her income is well into six figures and she’s generating an additional five figure revenue stream from Google ad placements on her blog – which gets a whopping 25,000+ page views per day.

“As a consumer, you don’t look at advertising any more – you search for help online and that’s where I live. Everything has evolved so naturally. I feel like I’m really connecting with my customers through this medium – it’s a real, deeply personal service. Without having to be there in person. My business also grew as my kids became more independent which also worked out well.”

Most of Kylie’s customers are in the US (she lives and works in Nanaimo BC), across Canada, and now in Europe and even Russia.

Kylie blogs about herself – her life at home with her girls, her husband, the goofy things she does. She connects personally – and because she knows her customers so well, that connection is real.

“It’s organically growing,” says Kylie. “I make decorating easy, I make it affordable, I make it relevant to their questions – one by one. That's the authenticity of it."

And why is this story so relevant from a marketing point of view? Because Kylie has created her product (a service) in the right place (online) at the right price (far different than her decorator competitors). She's communicating in a unique way (which is exactly the right promotion for her style of business) and she has the people parts perfect: providing a unique service to everyday people in a super non-pretentious way which is a great fit for that audience.

Kylie is inspiring more people to pay increasingly more for more of her services more often. And she's transitioning that success into diversified income – the essence of a cash cow.

The Marketing Mix – A Surprise Starting Point

The Marketing Mix is a basic concept of mixing controllable business ingredients that was first coined in the 1940s by two Harvard business professors. It came into full practice in the 1960s and has evolved several times (adding depth beyond a product focus to account for the emerging service industry and adding more focus on the consumer in the 1990s). But the notion of the Marketing Mix has withstood every tactical revolution since it was first conceived, from the rise of television to the emergence (and demise) of Big Box retail, and now with digital marketing including giant killers like Amazon.

So whether you ascribe to the original 4 Ps (product, place, promotion and price) or the 7 Ps (add people, process and physical experience) or the 4 Cs (consumer, cost, communication, convenience), what you're really doing is establishing the groundwork for smart planning. For true marketing strategy, to truly build a cash cow, ensure the focus of your product or service is always on the customer – that person who will buy more, at a higher price, more often.

Stay Simple: Product, Place, Price, Promotion

In your planning, refer to this overview of the 4 Ps and relevant decision points to establish the groundwork for your marketing strategy:

(1) Product (either tangible as in goods or intangible as a service):

Define your product or service brand and its features. Make it as simple as possible. And then answer this question:

How does your product or service satisfy a specific customer need?

To answer that question, you'll need to identify the brand look and feel (the personality of your product or service), packaging and labeling if required, whether there are multiple products or services, how those are connected and how you'll manage that product through its life cycle if required.

Using Kylie M Interiors above as the example, she rightly understood a customer need for low-cost, high-value decorating advice offered in a convenient way and delivered in a range of packages to fit the specific customer profile. She branded it in her own personality and that is the basis of her success.

The last two parts of this simplified product/service definition stage are the most important parts.

What is your value proposition?
What challenge or problem does your product or service address (or what condition or situation does it improve) that is of value to your target customer? Answer the question: Why will they buy? And note: if you can't answer the 'why buy' question in the voice of your customer and in one sentence, you haven't finished the value proposition.

What makes (and keeps) your product/service unique?
We referenced a book by Professor Youngme Moon earlier in *Cash Cows*. It's called *Different*. Find the book online and read it. Separating yourself from the herd (Ms. Moon's term) and keeping yourself separate is critical to succeeding in business – and more so today than ever before.

"WE LOOK EVERYWHERE IN THE WORLD TO SEE WHAT'S GOING ON EVERYWHERE ELSE. IT'S NOT THAT HARD TODAY. WE DO THAT BECAUSE THERE ARE LOTS OF OTHER BUILDERS HERE AND IF WE DON'T DIFFERENTIATE, WE WON'T BE AS SUCCESSFUL. WE'LL JUST BE LIKE EVERYONE ELSE. WE DID ONE PROJECT OF 40 HOMES – WITH BIG, UNIQUE ROOFTOP TERRACES AND WINDOWS – AND EVERYONE SAID THEY WOULD NEVER SELL BECAUSE THEY WERE SO DIFFERENT. BUT WE KNEW THIS TYPE HAD WORKED IN EUROPE, SO WE WENT AHEAD AND TRIED IT. THIRTY-TWO OF THE 40 HOMES ARE SOLD – WITH SOME NOT EVEN BUILT YET. IT'S BEEN A GREAT SUCCESS BECAUSE WE WERE DIFFERENT."

- PAUL TEEUWEN and VIM, Skyview Terraces, BC

(2) Place (refers to giving your target customer access to your product or service in a convenient and enjoyable way):

Define how you will get your product/service idea to market (distribution), what the size, scope and other parameters of that market are, what channels you will employ (direct, online, a mix, through retail, wholesale) how many locations there will be for customers to access your product/service and what inventory implications there will be.

In the case of Kylie M. Interiors, her 'place' is virtual or online. Her channel is strictly digital and her market, while well-defined in the context of who will appreciate her level of quality advice and convenience without pretense, her customers can be anywhere in the world as long as they communicate in English. If she chooses to take it on from a growth perspective, Kylie's biggest place challenge will be in replicating what she does through others.

One of the most significant challenges with regard to 'place' in your marketing mix is the disruption new technologies make possible. Technology brings a world of competition to your doorstep. If you're in retail, technology threatens to replace you outright. With regard to distribution and logistics, technology is streamlining processes and creating easier access for competitors with similar offers.

> "WE STARTED OUR COMPANY HERE BECAUSE WE WANTED TO RAISE OUR FAMILY IN A FAMILIAR PLACE WITH SUPPORT NEARBY. UNFORTUNATELY, THE MARKET IN THIS AREA IS SATURATED DUE TO A LOCAL COLLEGE AND SO WE HAVE CONSCIOUSLY SEPARATED OURSELVES FROM THE OTHERS BY BEING 'THE EXPERTS'. WE'RE MORE THAN GUYS WITH CHAINSAWS – WE WANT TO WORK WITH PEOPLE WHO CARE ABOUT THEIR TREES, WHO VALUE OUR EDUCATION AND CERTIFICATIONS AND WHO VALUE THE EDUCATION WE PROVIDE THEM. TYPICALLY, OUR CLIENTS ARE EDUCATED, MORE AWARE, AND APPRECIATE OUR PROFESSIONALISM."
>
> - **TRACY LOGAN**, Logan Tree Experts, Ontario

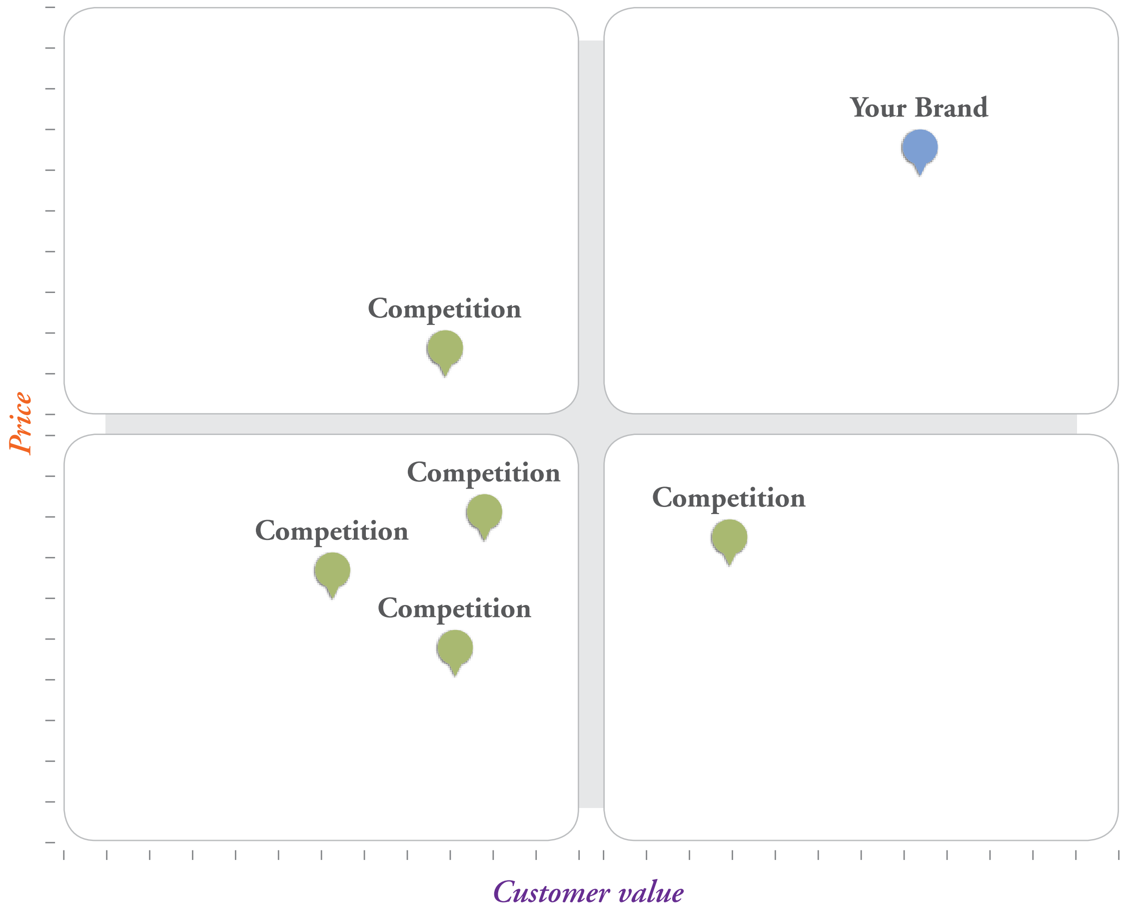
When strategizing in the context of place for your marketing mix, understand that the ground upon which you do business is now always moving. Updating how you give your customers access to your product/service in a convenient and enjoyable way should be a continuous exercise based on the speed of change in the markets for what we're selling.

(3) Price (refers to the base cost of your product to your customers, the additional cost of any time or effort required to acquire it and the perceived value your customers will give it):

Setting your price is often the greatest stumbling block for small business owners. That could be because we believe we have to be lowest cost to compete based on size – more likely it's because we don't do enough homework.

Start with the basics: What does it cost to build your product or deliver your service? Include formulation or manufacturing, day-to-day operating costs, packaging, promotion, human resources – build the cost so you know what the breakeven of your product is per unit or by whatever the norm for service delivery is (by the hour, by the plate, by occupancy and so on). How much does it cost you to get what you sell to your customer?

Figure that out first. Then look at your product through the customer's eyes. What is the value of your product or service to them – how much do you think they will pay? You can always ask them – a simple survey will tell you a lot about pricing. Also look at your competitors (we all have them – don't kid yourself). Where do you fit? See the simple pricing graph below – and plot your competitors on it.



In this simple illustration, you've plotted the five competitors you know about – all of them offer a low-value version of your product or service at a low price. There is a pricing gap in the higher value/higher price quadrant. Is there a market there for what you produce or deliver? If so, that knowledge can inform your pricing.

Kylie M. Interiors started with a lower-price, high convenience service in the form of answering simple decorating questions online. As she learned more about what customers really needed, she created pricing packages that increased value and revenue. Kylie's interior-design competitors are primarily near the centre and up to the right of the price/value matrix. She found the gap in price and value and has been growing ever since.

When you know what it costs to create and deliver your product (including everything from R&D to point of sale), and you know what your customers will pay (based on value and convenience), you can complete your pricing strategy based on the gaps you find. That's your profit – and only after you determine that can you start to tinker with discounts and commissions and concepts like lost-leaders.

(4) Promotion (refers to the mix of tools you use to create awareness, preference and demand for your product or service):

Before getting into the strategic considerations of promotion (advertising and all forms of communications, digital everything, media of all kinds, messaging and the purchase journey), go back to the Price section and ask yourself: Have I included the cost of promoting and selling my product or service in the overall cost structure of that product or service?

If the answer is no, your pricing strategy is flawed. Consider this example of how to do it right: Successful home builders include the cost of promoting the homes they build in the cost of building those homes; it's often set on a per unit basis – several thousand dollars per home and that cost is factored into the finished price they expect to get from a home buyer.

Build the cost of promoting and selling your product or service into it's breakeven cost of creation and delivery to market. And in that way, you won't be asking yourself what to budget for reaching out to customers as an additional expense.

There are four basic components of promotion or communicating with your prospective customers and existing customers to create and sustain revenue.

- **THE PROMOTIONAL MIX:** What communications tools do your prospects and customers use to research, find and acquire the products and services they need? Hint – There is no single choice that solves all. You need to layer or integrate several tools to be successful.

- **CHANNEL / MEDIA STRATEGY:** What channels (points of sale, points of access to your product or service, sales structure) are optimal for getting your product in the hands of your prospects or customers? Hint: How you sell has to align with your brand – in fact, your sales team, whether that be you, your people or your point of sale partners are the primary ingredients of your brand. They walk and talk for themselves – they become the personality of your brand.

- **MESSAGING STRATEGY:** What blend of emotion and logic will you build into a message that is meaningful to your customers and leads to a purchase? Logic (or features) alone will not sell your product or service. Hint: Emotion is always the first point of contact and that which will attract the people most likely to buy. Start your messaging with emotional context (or an insight into what you're solving or improving for your customers) – back that emotional insight up with the factual logic of your offer. Humans buy on emotion and validate that purchase with logic.

- **MESSAGE DELIVERY:** How often do you need to be in front of your customers to get their attention and build or sustain awareness? Hint: There was a time when it took about three interactions with your messaging to start prospects on the path to purchase. And while getting to that first step is probably still accurate, it's all the other steps to purchase that are now far more complex due to the unrelenting clutter of communications in the market for any product or service. You have to map out the journey now – perhaps you always did. What are the engagement steps between awareness and repeat customer? Write them down. And beside each step, apply a communications tactic to reinforce and nudge them along.

ADVOCACY	The point at which your customers create word of mouth and refer you.	(Use: Loyalty programs, blogs, customer community building and social media)
PURCHASE	The point at which a customer makes a first purchase and generates revenue for you.	(Use: Point of sale tools, bounce-back tools to reward second purchases and digital reinforcement/social media)
CONSIDERATION / TRIAL	The point at which the customer has decided to try your product/service for the first time.	(Use: Customer testimonials, education, digital and website offers, public relations, personal sales)
FAMILIARITY	The point at which the customer knows enough about your value proposition to become seriously interested. More than just awareness or knowing your company name.	(Use: Long-form search, video, websites, digital media, public relations, advertising, search engine optimization and search engine marketing to create conversion)
AWARENESS	The point at which a customer remembers your product/service name and possibly your website url. This is the beginning of purchase behaviour.	(Use: Brand awareness communications like advertising – in a variety of digital and traditional media)

The single biggest mistake all business leaders make is jumping to the tactics or promotional components of marketing before doing the up-front work of product/service and brand development, understanding customer needs and wants, place-based decision making and the costing/pricing strategy.

That said, without promotion and behaviour reinforcement along the path to purchase, your prospective customers will never know you, become familiar enough to buy, consider trial, make the purchase and keep coming back.

Kylie M Interiors uses her personality as the emotive component of her service (inspiring prospective customers to say, hey – she's just like me and funny and I want to know more). Her pricing along with good content up front on her website provides the logic for purchase. She also optimizes her website for search and keeps customers and prospects coming back for her blog – which is Kylie's approach to reinforcement and engagement.

The 5th P – The Impact of People

Business is in a continuous state of evolution and that includes adding elements to the core structures of marketing strategy. The most important change over the last two decades is the impact of different groups of people and individuals within those groups. Some of this evolution is technology-inspired: The power of one is now equal to the power of many. While other aspects of the shift to more people in your marketing strategy is based on a better educated, more marketing savvy population, the competition for talent and increasingly fragmented attention spans.

Here's how 'people' impact your marketing success and why managing that impact is more important than ever before. We'll work from the inside out.

- **MANAGEMENT:** The biggest marketing difference between a sole decision maker and the formation of a management team in a growing business is the need for the leader to sell her or his vision and align the efforts of a team around that vision. Everyone must lead and manage through the same brand filter. Conversely, if there are multiple definitions of the brand, what gets delivered to market will not be consistent. Example: If the brand is about delivering high quality/highest value and the finance manager is only interested in cutting costs, the brand will inevitably suffer. Same scenario if the head of sales is selling on price discounts instead of selling based on value to the customer. Ensure your management team believes and delivers the same vision and brand attributes you do.

- **EMPLOYEES:** Brands used to sit on shelves and not say much. Brands today, from innate products to consumer services are comprised of people; those who make the products and those who deliver the products to market or customers. Spend as much time, effort and money on your people as you do on your customers and success will follow. Conversely, spend too little time, effort and money on your people and your brand will suffer in social media and on the bottom line.

- **INFLUENCERS:** The world has always been full of influencers like journalists and professional experts on almost every topic. The difference today is that these influencers are online and more often than not, included in the search activities of your customers and prospects. List the individuals and groups of experts who influence your customers and prospects. Engage them with content, samples and messaging if possible – that's not the same as trying to buy them. Influencer marketing is a thing – they are often the lowest cost and most effective target of promotion. And it's one tactic that should be on every small business owner's to-do list.

- **COMPETITORS:** Simply keep an eye on what they are saying and doing in the market. You can now thanks to the Internet. Update your list of competitors and how they sell every six months or so. Your competitors are inevitably people, directly and indirectly trying to win market share from you. Having insights into the decisions they make and how those decisions are communicated is simply good research.

- **CUSTOMERS:** How well do you know the people who buy your products or services? What common aspirations and challenges do they share? How do you engage with them before and after they buy? How do you use their perceptions to adjust your business and to predict future sales? Getting to know your customers (whether in person or through relevant and ethical data collection) is what every business owner we interviewed said is the key to success. Involving your customers in your strategy development as you go to market with new ideas is the best way to keep them and find new ones.

"THERE'S A GUY OUT OF THE US, ZANE'S CYCLES, AND HE FOCUSES ON THE LIFETIME VALUE OF A CUSTOMER. THEY START WITH A TEENAGE BIKE, THEN THE 20-SOMETHING BIKE, THE 30-SOMETHING BIKE AND THEN THE MID-LIFE CRISIS BIKE. HE KNOWS THAT CUSTOMER IS WORTH $15,000 LIFETIME, SO HE DOESN'T MIND GIVING AWAY THE ODD FREE WATER-BOTTLE OR TIRE REPAIR ALONG THE WAY. HE'LL TRADE THAT FOR $15,000 PER PERSON ANY TIME."

- **DAVID COHEN**, The David Cohen Group, Ontario

- **PROSPECTS:** This is your pipeline for the future. They probably don't know you yet, but you should certainly know them. How? Because you did your customer research at the beginning and the prospects list will reflect more of the same. Either that, or a twist on your product/service offer will add a completely new type of prospective customer to your pipeline. Understanding your current customers (demographics, preferences, behaviours, needs, wants and challenges) will help you understand and align with prospective customers, new and more of the same.

Marketing Challenges by Business Sector

The sector in which you do business will impact the marketing challenges you face. What follows are examples only.

SECTOR	DOMINANT MARKETING CHALLENGES
Agriculture	You'll need to pay special attention to pricing, costing, distribution or place factors and your network for promotion.
Construction	Price (land costs and financing) and people (talent and skills). Product differentiation is also critical according to our business owners experts in this sector.
Manufacturing	Product and pricing, technology disruption, finding people and growing distribution beyond where you started (exporting).
Business Services	Differentiation is critical, competition growth is exponential, technical disruption is inevitable and your network is the most important channel.
Technology	Pricing and financing, people (skills, talent), promotion (consistently under-valued in this sector).
Hospitality	Price and costing, place, disruption (sharing economy influencers), promotion, people (service).
Real Estate / Development	Regulatory impact on pricing, people (skills), differentiation, access to land, promotion.
Retail	Disruption (the Amazon effect), pricing and margins, place (virtual and bricks/mortar), cost of promotion, differentiation (and lack thereof).
Resources	Distribution, pricing and costs, global markets and influencers, environmental and people in the right places.
Transportation / Distribution	Place (supply chain and logistics disruption), pricing and costs, customer loyalty.

Marketing is the process, the planning and the strategies small business owners can and should use to manage for and maybe even control the impact of specific factors on their ability to find and keep customers. Note how seldom promotion came up in the list despite promotion being what everyone thinks marketing is.

Be great marketers – get the help you need and the promotion spend you inevitably have to make will be more effective as a result.

What is a Brand

We don't spend a lot of time here on brands because entire, well-conceived books have been written on the topic and there's no shortage of advice online. Here are the basics that you should understand to use branding to your advantage.

(1) BRANDS ARE NOT LOGOS – Logos represent brands as short-forms. What brands are is as follows: the reason your prospective customers will prefer your product or service over others; will value what you solve or improve and; why they will connect or engage with your product or service emotionally. Everyone and every business out there has a brand. How you shape it and sell it is what matters.

> WHEN YOU SAY TO PEOPLE – LET'S TALK MARKETING AND SALES, THEY INSTANTLY THINK ADVERTISING. AND I THINK THAT'S WHERE THE DISCONNECT IS. MARKETING AND BRANDING TO ME IS EVERYTHING THAT WE DO. IT'S THE VEHICLES WE DRIVE AND EVEN HOW WE DRIVE THEM. SO IF YOU'RE DRIVING A TRUCK THAT'S FULLY DECALED WITH YOUR NAME ON IT, YOU BETTER NOT BE CUTTING OFF THAT A LITTLE OLD LADY OR FLIPPING THE BIRD TO SOMEONE. THAT'S MY BRAND OUT THERE. IT'S ALL THOSE LITTLE THINGS THAT HAVE NOTHING TO DO WITH RADIO COMMERCIALS OR FACEBOOK ADS.
>
> - **DAN YUNGWIRTH**, Miller Contracting Ltd., Saskatchewan

(2) YOUR BRAND REFLECTS YOUR POSITION OF ADVANTAGE in the market and in your customers' hearts and minds. *Positioning*, a book by Al Ries and Jack Trout, outlines how you position in the market, how you position the competition and how this impacts your business operations and promotion. Sometimes this gets written as a value proposition and sometimes as a Vision statement. Regardless, understand your advantage in the context of the consumer and use that as the basis of your brand.

(3) ALL BRANDS AND BUSINESSES HAVE STORIES. Stories are how humans transfer information one to the next and even through generations. Stories are how we learn and how we become emotionally connected. Write your story or have a professional write it for you. Start with the context of your customers and state in narrative form how your brand relates to that context and what it solves or improves. That becomes your value proposition in narrative form.

Your brand reputation and connection to the people who impact your ability to generate revenue (people inside your business and your customers) is foundational to creating your cash cow. Learn about it, nurture it and reinforce it whenever possible. Because without a brand, you're always pushing string uphill.

Marketing in a Digital World

Here's the understatement of this decade and the next few. The Internet and technology have changed everything to do with your business (or it will next week). Yet here's another truth – technology and the Internet have the capacity to level the playing field between small businesses and their larger competitors.

Marketing in a digital world gives you more access to more customers, can reduce the cost and improve the accuracy of promotion, can eliminate pricing challenges by increasing productivity and can expand where you do business without actually being somewhere else.

ACCORDING TO ONE OF OUR BUSINESS OWNER PARTICIPANTS IN ONTARIO (WHO REQUESTED ANONYMITY): "25% OF MY BUSINESS IS STRICTLY ONLINE – THROUGH AN ETSY STORE. I HAVE MY SITE; BUT THE E-COMMERCE RUNS THROUGH ETSY AND THAT MEANS YOU GET PASSED AROUND VIRTUALLY. I GOT PICKED UP IN SOCIAL MEDIA IN THAT WORLD; GOT PINNED AND TAGGED AND LOVED (PINTEREST) AND ALL THIS HAPPENED WITHOUT ME HAVING TO TRAVEL AND GO TO SHOWS. THAT WAS GOOD BUSINESS FOR ME."

That's the upside. The downside is equally profound: Technology and the Internet gives your competitors more access to your customers, complicates promotion due to extreme fragmentation, challenges you to find qualified people who understand this new world and challenges the cost structure of every existing bricks and mortar business.

"ONE OF THE BIG CHANGES OVER THE LAST TEN OR FIFTEEN YEARS IN THE RESTAURANT BUSINESS IS THE IMPACT OF TECHNOLOGY – PRIMARILY THAT GREAT UNTAMED BEAST CALLED SOCIAL MEDIA AND REVIEW WEBSITES. TO SOME EXTENT, THE MORE THOUGHTFUL FORMS OF FOOD WRITING AND REVIEW HAS BEEN STAMPED OUT, REPLACED BY ANONYMOUS REVIEWERS AND THEN THE PUBLIC WADES IN. YOUR RESTAURANT GETS LUMPED IN WITH EVERYONE ELSE AND THE INFORMATION GETS DILUTED."

- **ANDREW WONG**, Wild Rice, BC

While over-simplified with regard to upsides and downsides, the more important scenario revolves around how you embrace digital tools and skills to improve your business. And that goes back to the core structures of genuine marketing strategy. Instead of being overwhelmed by it, use it. Use technology to understand your customers better and provide more convenient access to your products/services. Use technology to leverage your physical environment or overcome market limitations through virtual expansion. Use technology to easily create better, more fluid pricing models and scenarios. And by all means, use technology and the Internet to promote your business (which we'll cover in some depth in the Meat & Potatoes that come next).

Marketing is not advertising. Nor is it a website or social media posts or optimizing for Google search. Marketing is not sales – in truth, sales come after the marketing strategy is complete and are more effective as a result. Marketing is not trade shows and events and it's not a bunch of pretty pictures on your truck though all those things are elements of a good tactics plan that is related to your strategy.

CU Tip

THE QUESTION WE ASK ABOUT MARKETING IS A SIMPLE ONE: HOW MUCH HAVE YOU PUT IN YOUR BUDGET TO LET PEOPLE KNOW WHAT YOU DO AND WHAT MAKES YOU DIFFERENT – ABOUT WHY THEY SHOULD NOTICE OR CARE? AND MORE OFTEN THAN NOT, BUSINESSES, ESPECIALLY WHEN THEY ARE NEW, DON'T HAVE ANYTHING BUDGETED. WE DON'T SAY ADVERTISING SPECIFICALLY – BECAUSE IT MAY NOT BE ADVERTISING PER SE. HOW WILL YOU DO IT, HOW WILL YOU MEASURE IT? WHERE IS YOUR MARKETING STRATEGY?

Enough about that, though. What you really wanted in the first place was everything about websites and SEO and big data collection and algorithms. ***Here you go...***

MEAT & POTATOES

Communications: Old, New, Both?

You own a business and likely as not, are trying to promote it. You have so many options – actually, countless, ever-changing options. You have no shortage of advice – in person, online, in old media and in new media. It's like fishing in a barrel – you can't lose, right? Not so fast...

> "Sales and marketing communications are both key and the hardest to spend money on. There's no mechanism that says if I spend $100,000 on communications here's what I'll get back. It's a gamble."
>
> \- **KEVIN DHALIWAL**, Essence Properties, BC

So let's start again: You're running a business and trying to promote it, to reach customers, attract them, convince them and retain them as significant change wreaks havoc in the communications sector. Disruption is being driven by technology and, more importantly, consumer behaviour is changing too. Attention spans are decreasing, clutter is increasing meaning consumers are turning off, ads are increasingly distrusted (in all media, new and old) and the practices of using data analytics to shape what consumers are served in media are now under assault. How people shop, research, engage and make their purchase journeys are all changing rapidly.

And that barrel you were fishing in for customers has become a frothy ocean of pixels, algorithms, dying newspapers, PVRs and consumers with almost unlimited choices and sources of information – in addition to the massive power of social media (equally negative and positive).

To prove the point, what follows this general overview of marketing communications are two glossaries of marketing communications terms and tactics. One focuses on traditional marketing communications and one focuses on digital marketing communications. The traditional communications glossary uses about 2,700 words to cover the full range of tactics. The digital glossary uses up almost three times the word-count to cover the range of concepts and tactics. The traditional world is easy by comparison – and the digital world glossary will have evolved again by the time you read through it (still worth reviewing because many of the terms will simply keep evolving as opposed to changing outright).

Making choices in that ocean of change is tough – while you have more access to communications and your customers than ever before, that doesn't always translate into ROI. Just because you know someone's preferences based on data analytics, doesn't mean they will prefer your brand. You still have to do your homework before you make choices.

What's a Small Business Owner To Do?

Start by looking on the bright side. According to Don Wik of RM Office Solutions in BC: **Social media gives you the power of a big business – the marketing presence of a Walmart for very little cost compared to 20 years ago.**

While that is true, the commitment you have to make to social media is far more disruptive than most people think (which is why many small business owners who start using it stop after three months). It takes too much time and the payout is often hard to track. Be that true, most of the small business owners in *Cash Cows* use social media and depend on it to either woo prospects or sustain customer engagement between purchases.

The best course of action is to plan first and go into the tactical side of making choices knowing that for the foreseeable future, you will need elements of both traditional and digital marketing communications in your toolkit.

Chances are you will still consider traditional communications choices like billboards, radio, events and trade shows and public relations (getting your story talked about in all forms of media) to cast a wide net. Chances are equally good you will need paid digital media, social media, search engine marketing and optimization on your website to turn what you catch in the wide net into customers (this is known as conversion). The lines between old and new still exist – you still need prospects to know your brand before they know to search for it or recognize it when they find it.

> "THERE'S A LOT OF NOISE OUT THERE – ESPECIALLY WITH THE EVOLUTION OF SOCIAL MEDIA. HAVING FOCUS NOW MEANS YOU'RE TRYING TO DISTINGUISH YOURSELF FROM THAT NOISE BY HAVING VERY SPECIFIC GOALS AND VERY SPECIFIC OUTCOMES IN MIND – AND THEN CHOOSING THE TACTICS YOU NEED TO GET THERE. IF SOCIAL MEDIA IS ONE OF THOSE TACTICS, STICK WITH IT AND FOCUS."
>
> - **BURKHARD MAUSBERG**, Friends of the Greenbelt Foundation, Ontario

There are three simple steps to take before you start making choices:

(1) Learn the search and purchase habits of your customers. This will be based on demographics (age and stage, location, educational achievement, household income, etc.) and psychographics (lifestyle preferences, clusters and characteristics). A good source of this information is actually Canada Post (sometimes free and always low cost). Create a profile of the people you want to attract and include their information consumption habits (do they read newspapers and magazines, how do they use digital media, what social media do they prefer, how do they search, do they PVR everything or watch Netflix only). When you achieve customer intimacy, you'll have a good basis upon which to make tactical choices.

(2) Know from the outset (without doubt) that you will need to layer your communications in multiple tactics to attract customers, inspire them, create trial and finally make the sale. You will need additional tactics to keep them engaged. Simply building a website does not guarantee your best prospects will find it or use it. Choosing digital media only will not guarantee you achieve enough awareness to break through the clutter. Social media alone, while powerful, is not the only business driver needed for the majority of people who read this book. Map the purchase journey to your door (or e-commerce enabled website). Attach relevant communications tactics to each step in that journey to the maximum of your capacity.

(3) Focus and brand consistency are more important than ever before. Don't let the tactics and all the cool, fun promotional options out there drag your brand image and message onto the merry-go-round of endless change. While your administrative assistant may use Facebook a lot, that doesn't make that person a brand communications expert. Know your objectives. Own your brand and messaging. Be the steward of keeping it on target. And be more focused that ever before.

Sure you can do it yourself, but...

You've got a smart phone – you can shoot your own videos. You have a social media network, you can connect without any assistance. You know how to write – everyone knows how to write, so a content strategy is no problem.

Here's the problem with doing it yourself. You actually can and at different stages in the evolution of your business, you probably should (like in the early, post-start-up years when money is tight). But there comes a point when sophisticated communications strategy and tactics (and spending) will have more of an impact on your brand and customer relationships. At about the same time, your time will become too stretched to do a good job of it. And finally, as in all things to do with running your business, knowing when to let go is the first step in growing beyond what you achieve alone.

Get help when the time comes. Treat your communications partner the same way you treat your lawyer or accountant. Don't hire them unless the chemistry is there and trust grows. Then let them do what they do – and what they do is captured in the terminology and tactics that follow for the next 31 pages.

Traditional Marketing Communications Glossary (primarily advertising and public relations)

A

ADVERTISING – The paid promotion of goods, services, companies, or ideas by an identified sponsor. Marketers see advertising as part of an overall promotional strategy.

ADVERTISING CAMPAIGN – A series of advertisements, commercials, and related promotional materials that share a single idea or theme. Designed to be used simultaneously as part of a coordinated advertising plan.

ADVERTORIAL – An advertisement in a print publication that has the appearance of a news article.

AFFINITY MARKETING – Affinity marketing targets promotional efforts toward one group or category of clients based upon established buying patterns. The marketing offer is communicated via e-mail promotions, online, or offline advertising.

ANGLE – The viewpoint from which a story is told. Publicists, reporters, and journalists all use a specific angle, or approach, to communicate their story to a targeted audience. Typically, it is not possible to write about subjects in their entirety. The "angle" narrows the focus of the story to communicate a clear, yet limited, perspective of an issue, event, etc.

B

BILLBOARD – (1) An outdoor sign or poster, which is typically displayed on the sides of buildings or alongside highways; (2) An introductory list of program/sponsor highlights that appears at the beginning or end of a television show or magazine.

BOILERPLATE – Often found in press releases, a boilerplate is standard verbiage that gives a brief history of the organization(s) and is located at the bottom of all company-issued releases. The term comes from the early 1900s, when steel was issued in steam boilers – the boilerplate text is "strong as steel".

BRAND IDENTITY – The outward expression of the brand, which is the symbolic embodiment of all information connected with a product or service, including its name and visual appearance. The brand's identity is its fundamental means of consumer recognition and differentiates the brand from competitors.

BROADCAST MEDIA – Communication outlets that utilize air space, namely television and radio. Advertising in broadcast media often targets a specific demographic group, is designed to create buzz, and can also be used as a strategic branding tool.

BROADSHEET – Standard size newspaper (i.e. New York Times) which is characterized by long vertical pages (Typical size: 16 x 24 inches). Another popular newspaper format is the tabloid.

BUZZWORD – Considered hip and trendy, a buzzword is a word or phrase that takes on added significance through repetition or special usage. Although buzzwords are widely used, they rarely have definitive meanings.

BYLINE – The name, and often the position, of the writer of the article. Bylines are traditionally placed between the headline and the text of the article, or at the bottom of the page to leave more room for graphical elements around the headline.

C

CIRCULATION – In the media industry, circulation typically refers to the number of copies a print publication sells or distributes.

COLLATERAL MATERIALS – A wide range of documents including catalogues, brochures, counter displays and sell sheets that companies use to promote themselves to their target audience.

COMMUNICATIONS AUDIT – The systematic appraisal of all of an organization's communications. A communications audit analyzes all messages sent out by the organization and may also study messages received by audiences about the organization.

CONCEPT STORY – Feature story designed to pique the interest of a particular demographic audience.

CONTENT – The design, text, and graphical information that typically informs thought-leadership strategies (content marketing).

CONTENT MARKETING – A process that uses intellectual property to build trust between an organization and its constituents.

CO-OP ADVERTISING – A joint advertising program by which ad costs are shared between two or more parties. Many national manufacturers offer these programs to their wholesalers or retailers, as a means of encouraging these parties to promote goods. The manufacturer typically reimburses the local advertiser in part or in full for their placement of ads (print and broadcast).

CORPORATE FACT SHEET – A document describing a company's principles, services, philosophy, and fees, along with all company contact information – address, telephone, fax, and e-mail.

CORPORATE IDENTITY & POSITIONING – The physical manifestation of the brand, including logo and supporting devices, color palettes, typefaces, page layouts, and other means of maintaining visual continuity and brand recognition. Positioning defines the application of the identity.

COST PER THOUSAND (CPM) – This is an industry standard which represents the cost per 1000 people reached during the course of an advertising campaign. The CPM model refers to advertising purchased on the basis of impression opposed to pay-for-performance options (price per click, registration). (Note: "M" represents thousand in Roman numerology)

CRISIS COMMUNICATION – Communications tactics that organizations use when experiencing a crisis. It is differentiated from the standard messages communicated by the organization.

CUSTOMER RELATIONSHIP MANAGEMENT (CRM) – A system that manages a company's interactions with existing and potential customers.

D

DAYPART – Different time segments of the day utilized by broadcast media to sell advertising. Advertising costs vary by the daypart selected. Time periods of the broadcast day include Daytime, Early Fringe, Prime Time, (television) and Morning Drive, Midday, Afternoon, Drive, (radio).

DEMOGRAPHICS – Selected characteristics of a population, such as ethnicity, income, and education that define a particular consumer population.

DIRECT MAIL – A form of marketing that attempts to send its messages directly to consumers using "addressable" media, such as mail. Direct mail may include a marketing letter, brochure, or postcard.

F

FREE-STANDING INSERTS (FSI) – An advertisement in a print publication which is not bound and separated by any editorial. FSI's are typically distributed with newspapers, magazines, and catalogs.

FREQUENCY – The estimated number of times individuals are exposed to an advertising message.

FULL POSITION AD – An ad bordered by reading matter in a newspaper, increasing the likelihood that consumers will read the ad.

G

GHOSTWRITER – As a writer with no byline, ghostwriters usually work without the recognition that credited authors receive. They often get flat fees for their work without the benefit of royalties.

GRAPHIC DESIGNER – The person who arranges image and text to communicate a specific message. Graphic design may be applied in any media, such as print, digital media, motion pictures, animation, product decoration, packaging, and signs.

GRAND OPENING EVENT – A promotional activity held by newly established businesses to notify the public of their location and products/services available to the community.

H

HORIZONTAL PUBLICATIONS – Business publications intended to appeal to people of similar interests in a variety of companies or industries.

I

IMAGE ADVERTISING – Advertising that is directed at the creation of a specific image or perception of a company, product, or service. The unique personality (i.e. luxury, reliability) is promoted as distinguished from advertising directed at the specific attributes of the entity. Advertisers believe brand image advertising is effective in leading consumers to select one brand over another.

INBOUND MARKETING – Unlike traditional 'push' marketing, Inbound Marketing pulls in audiences by offering information that they are already interested in. This information is often available as a downloadable paper or e-book and these leads may be nurtured through an online marketing program that aims to convert prospects into customers.

INSERTION ORDER – A formal authorization to place an ad campaign, which identifies the specific print publication, run dates, and associated fees. This serves as a contract between the publisher selling the advertising space and the media buyer.

L

LEAD – Details about a potential customer, which may be gained through an Inbound Marketing program.

LOGO – A logo, or logotype, is the graphic element of a trademark or brand, and is set in a special typeface/font and arranged in a particular way. The shape, color, and typeface should all be distinctly different from others in a similar market.

M

MARKETING CAMPAIGN – A specific, defined series of activities used in marketing a product or service. The future estimated effects of a new marketing campaign must be included in demand and resource planning.

MARKETING PLAN – A strategic plan that details the actions necessary to achieve specified marketing objectives. It can be for a product, service, brand, or a product line. Many marketing plans cover one year (referred to as an annual marketing plan), but may cover up to 5 years.

MARKETING RESEARCH – The process of systematically gathering, recording, analyzing, and interpreting data pertaining to the company's market, customers, and competitors with the goal of improving marketing decisions.

MARKET SHARE – A company's sales, in terms of dollars or units, in relation to total industry sales. It is typically expressed as a percentage and can be represented as brand, line, or company.

MEDIA ADVISORY – A written document sent to local media outlets about an upcoming press conference, briefing, or other event. A media advisory usually includes the basic details about the event and its schedule and location. The goal of a media advisory is not to tell the complete story, but instead to entice media to attend and learn more.

MEDIA KIT – A media kit, sometimes called a press kit, is a set of promotional and informative materials about an organization or event. It includes company information, specifically a letter of introduction, press releases, news articles, and a company profile.

MEDIA INTERVIEW – A recorded conversation, usually conducted by a reporter, in which an individual provides information and expertise on a certain subject for use in the reporter's article.

MEDIA OUTLET – A publication or broadcast program that provides news and feature stories to the public through various distribution channels. Media outlets include newspapers, magazines, radio, television, and the Internet.

MEDIA PLAN – A plan designed to target the proper demographics for an advertising campaign through the use of specific media outlets.

MEDIA PLANNING & BUYING – The role of an advertising agency in finding the most appropriate media products for each client and negotiating/buying 'space' based upon a predetermined budget.

MEDIA POLICY – Organizational instructions as to how company representatives will communicate with the media.

MEDIA RELATIONS – A practice in which people converse with the press in the hopes of securing interviews, placing quotes, and fostering relationships between individuals and organizations and the media.

MEDIA TOUR – A series of engagements, or a single event to promote a certain organization, product, or service to members of the public press. Common resources for a media tour include a press kit, presentation material, and a representative (internal or external) to interact with the press.

MEDIA TRAINING – Providing individuals with guidelines, strategies, and skills to work efficiently and effectively with media for public relations purposes.

N

NEW PRODUCT LAUNCH – The introduction of new merchandise to the general public. This can be executed through a special event, ad campaign or PR push.

NEWS CONFERENCE – A media event staged by an individual or group wishing to attract media coverage for an item of news value. Television stations and networks especially value news conferences as source of "news" footage.

NEWSLETTER – A publication sent out at specific intervals in print or via e-mail and generally about one main subject or topic that is of interest to its subscribers.

NEWSWIRE – An electronic data stream sent via satellite that delivers the latest news directly to print, broadcast, and online media databases across the world. Many organizations submit press releases to a newswire service to alert the world's media about their latest news.

NIELSEN RATING – A measurement of the percentage of U.S. television households tuned to a program for a designated time period. Similar to Arbitron, A.C. Nielsen is a marketing/ media research company that conducts diary surveys to measure television-viewing habits.

O

OUTDOOR ADVERTISING – A form of advertising (i.e. billboards, movie kiosks), which promotes a product or service in high-traffic outside locations.

P

PARTNERSHIP MARKETING – Aligning one's business with other organizations and businesses to equally expose partner brands to one another's customers. Typically, partnerships are formed when two or more companies find value for their customers in each others products and/or services.

PASS-ALONG RATE – The number of times a received document (article, newsletter, brochure, report, etc.) is shared with other individuals. This number is higher than the circulation numbers because it is an estimate of how many readers view the same copy rather than how many copies are distributed.

PITCH – A concise verbal (and sometimes visual) presentation of an idea for a story, generally made to a media outlet in the hope of attracting positive coverage for a client.

POINT-OF-PURCHASE (POP) DISPLAYS – Promotional piece typically placed in an area of a retail store where payment is made.

PRESS RELEASE – A press release or news release is a concise written statement distributed to targeted publications for the purpose of announcing something of news value. Typically, it is mailed, faxed, or e-mailed to assignment editors at newspapers, magazines, radio stations, television stations, and/or television networks. Commercial newswire services can be hired to distribute news releases.

PRINT MEDIA – A medium consisting of paper and ink, including newspapers, magazines, classifieds, circulars, journals, yellow pages, billboards, posters, brochures, and catalogues.

PRODUCT DIFFERENTIATION – Establishing clear distinction between products serving the same market segment. This is typically accomplished through effective positioning, packaging, and pricing strategies.

PROMOTIONS – Communications activities, excluding advertising, that call attention to a product or service by creating incentives. Contests, frequent buyer programs, unique packaging, and coupons are all examples of tools commonly used in promotions.

PUBLIC RELATIONS – Considered both an art and a science, public relations is the management of communications between an organization and its key public to build, manage, and sustain its positive image. It is any activity used to influence media outlets to print stories that promote a favorable image of a company and its products or services.

PUBLIC RELATIONS PLAN – A document that details precise actions to achieve a public relations result. It can consist of target publications and media lists, planned events, community outreach, etc.

PUBLICITY – A component of the promotional mix, the deliberate attempt to manage the public's perception of a subject. Whereas public relations is the management of all communication between the client and selected target audiences, publicity is the management of product- or brand-related communications between the firm and the general public.

Q

QUALITATIVE RESEARCH – Research that is conducted to determine subjective information about a company, product or an ad campaign. Two methods of securing information include focus groups and in-depth interviews.

QUANTITATIVE RESEARCH – This method of market research utilizes sampling techniques (opinion polls, customer satisfaction surveys) to collect objective data. Numeric relevance of various kinds of consumer behaviour, attitudes, or performance is tabulated and statistically analyzed.

R

REACH – Reach refers to the estimated number of individuals or households exposed to an advertising message during a specified period of time. It can be given as either a percentage or number of individuals.

READERSHIP – The total number of primary and pass-along readers of a publication.

REPUTATION MANAGEMENT – The practice of correcting and/or enhancing the perception of a brand, individual, organization or business. Reputation Management programs are often executed following crises.

ROI – Return on Investment (ROI) seeks to find the actual or perceived future value of a marketing campaign. It is calculated as the ratio of the amount gained or lost, relative to the initial investment.

S

SEASONALITY – The seasonal fluctuation in sales for services and products throughout the year.

SPEAKING ENGAGEMENTS – A planned event in which an individual educates the public on a particular topic. In marketing, speaking engagements are used to increase a client's visibility and strengthen his or her reputation as an expert in the field. In addition, these opportunities give the speaker direct contact with his or her target audience.

SURVEY – An accumulation of a sample of data or opinions considered to be representative of a whole. Surveys are useful in public relations to support a client's claim(s). They can be cited from other sources or funded by the client and conducted by a third party.

SOCIAL NETWORKING – The practice of gaining social and/ or business contacts by making connections through individuals via meetings, conferences, tradeshows, social media, etc.

SYNDICATED PROGRAM – A radio or television program that is distributed in various markets by a specialized organization.

T

TABLOID – A newspaper that measures at 12" wide by 14" high and is approximately half the size of a standard newspaper.

TAGLINE – A meaningful phrase or slogan that sums up the tone and premise of an organization in a way that is memorable to the public. A tagline is often the theme for a larger campaign.

TARGET AUDIENCE – Groups in the community selected as the most appropriate for a particular marketing campaign or schedule. The target audience may be defined in demographic or psychographic terms, or a combination of both.

TEAR SHEETS – A page sent to the advertiser that serves as proof of the ad insertion.

TELEMARKETING – The process of using the telephone as a medium to sell goods and services directly to prospective customers.

TRADE PUBLICATION – A trade publication often falls between a magazine and a journal, with articles focusing on information relating to a particular trade or industry. Trade publications typically contain heavy advertising content focused on the specific industry with little if any general audience advertising.

TRADEMARK – A trademark is a design, logo, or brand name registered for the exclusive use by a manufacturer to distinguish its product or service.

The Digital Marketing Communications Glossary (focused on new media emerging media and digital tactics)

A

AD EXTENSIONS – Additional pieces of information that can be added to Google AdWords ads, including reviews, address, pricing, callouts, app downloads, sitelinks, and click-to-call. Ad extensions help advertisers create richer, more informative ads that take up more on-page real estate, which generally lead to higher Click Through Rates.

AD MANAGER ACCOUNT – An advertising account on Facebook that allows you to run ads on the Facebook Ad Network.

AD NETWORK – A grouping of websites or digital properties (like apps) where ads can appear. For example, Google has 2 ad networks: the search network (text ads that appear in search results) and the display network (image ads that appear on millions of websites that have partnered with Google).

ADWORDS (GOOGLE ADWORDS) – A Google owned program that is used by advertisers to place ads on Google search results pages, on YouTube, and on Google ad network sites. AdWords is the primary platform for PPC advertising.

ALT TEXT (OR ALTERNATIVE TEXT) – An attribute added to HTML code for images, used to provide vision impaired website visitors with information about the contents of a picture. Best practice dictates that all images on a website should have alt text, and that the text should be descriptive of the image.

ANALYTICS (OR GOOGLE ANALYTICS) – A Google platform that allows webmasters to collect statistics and data about website visitors. Google Analytics (sometimes abbreviated as GA) allows webmasters to see where web traffic comes from and how visitors behave once on the site.

ANCHOR TEXT – The clickable words in a hyperlink. In SEO, anchor text is a ranking signal to Google, as it provides context about the destination site. For example, if many websites link to one particular website using the anchor text “free stock photos”, Google uses that information to understand the destination site is likely a resource with free stock photos. Theoretically, that could help the stock photos website rank in Google for keywords related to stock photography.

ADSENSE (GOOGLE ADSENSE) – A Google platform that allows websites to earn money by publishing Google network ads on their website.

ALGORITHM – A process or set of rules that computers follow to perform a task. In digital marketing, algorithm usually refers to the sets of processes Google uses to order and rank websites in search results. The SEO industry gives various Google algorithms their own nicknames like Penguin (which analyzes the quality of links pointing to a website) and Panda (which assesses the quality of the content on a website). The main ranking algorithm in SEO is referred to as "the core algorithm".

ALGORITHM UPDATE – A change made to a Google algorithm. Updates typically affect the rankings of websites. Google makes hundreds of adjustments to their algorithms throughout the year, as well as several major updates each year.

ALEXA (AMAZON ALEXA) – Amazon's home assistant device that uses voice commands to do various things like: play music, answer questions, give weather updates, and more. Voice search is becoming more interesting to the SEO industry as more people use devices like Alexa in place of computers for searches.

AUTOMATION – Using computer programs to perform tasks that are repetitive, that would normally be completed by a human. Email programs can use automation to send email messages to people based on certain triggers (new customers, did or did not open the last email, etc.). Marketers also use automation to nurture leads by sending relevant content to previous visitors of a website, in an attempt to get the visitor back to convert into a sale.

AVERAGE POSITION – A metric in Google AdWords that helps advertisers understand where, on average, their ads are showing in Google search results pages. There are usually 4 available ad slots at the top of a search result page (where 1 is the first ad, 2 is the second ad, etc.), so for the best results advertisers typically want an average position between 1-4. Average position 5+ indicates that your ads are showing at the bottom of the search results page.

B

BACKLINK – Also known more plainly as a "link", this is when one website hyperlinks to another website using HTML href code. Backlinks are used by Google in their SEO ranking factors, with the basic idea being that if "website A" has incoming backlinks from other strong websites (websites B, C, and D), the links are votes of trust for website A, and website A gains some authority from B, C, and D through the links.

BANNER AD – A popular type of digital image ad that can be placed across various websites. The largest and most popular image ad network is run by Google, and allows ads in the following common sizes:

250 x 250 – Square

200 x 200 – Small Square

468 x 60 – Banner

728 x 90 – Leaderboard

300 x 250 – Inline Rectangle

336 x 280 – Large Rectangle

120 x 600 – Skyscraper

160 x 600 – Wide Skyscraper

300 x 600 – Half-page Ad

970 x 90 – Large Leaderboard

BING – A web search engine that provides search services for web, video, image and map search products. Bing is owned and operated by Microsoft, and it powers Yahoo! Search. Bing now controls approximately 20% of the search share.

BING ADS – A platform that provides pay-per-click advertising on both the Bing and Yahoo! search engines. The service allows businesses to create ads, and subsequently serve the ads to consumers who search for keyword that the businesses bid on. This platform also offers targeting options such as location, demographic, and device targeting.

BLACK HAT – Slang for an unethical digital marketer or SEO who uses spammy tactics to rank websites, like article spinning, mass directory link building, or negative SEO.

BLOG – Short for "web log", a blog is a web page or a website that is regularly updated with new written content. Blogs are an important section of a website in digital marketing, as they offer fresh new content on a regular basis which can help attract new visitors, engage existing visitors, and give authority signals to Google.

BOT – An automated program that visits websites, sometimes also referred to as a "crawler" or a "spider". A spam bot visits websites for nefarious reasons, often showing in Google Analytics as junk traffic. However, Google uses a bot to crawl websites so that they can be ranked and added to Google search.

BOUNCE RATE – The percentage of visitors to a website that leave immediately without clicking or interacting with any portion of the page. For example, if 100 people visit a website, and 50 of them immediately leave, the website has a bounce rate of 50%. Websites aim to have as low of a bounce rate as possible, and averages tend to be anywhere between 40-60%.

BREAD CRUMBS – Navigation links at the top of a web page that better help the user understand where on the website they are. These links often appear near the web page's title and look something like this: Home > Services > Specific Service

BUSINESS MANAGER – A Facebook platform that allows marketers to manage multiple pages and ad accounts in one central location.

C

CAMPAIGN – A series of advertising messages that share a theme, and market a product or service. In the context of digital marketing, campaigns can be run through search and display network advertising platforms (i.e. Google, Bing), social media, email, or other online platforms.

CANONICAL (REL=CANONICAL) – A piece of code that is added into the HTML head of a web page to indicate to Google whether a piece of content is original or duplicated from somewhere else. Original content should canonical to itself, and content taken from other places should point the canonical to the original source URL. Canonicals can also be used to avoid duplicate content issues within a website.

CLICK-THROUGH-RATE – A metric showing how often people click on an ad after they see it. It can be calculated by dividing the number of clicks on the ad divided by the number of impressions (how many times it was seen). This ratio can be useful when determining whether an ad's messaging matches what the consumer is searching for, and if it resonates with them.

CODE – The languages used to build a website. The most commonly used languages in web design are HTML, CSS, JS, and PHP.

CONTACT FORM – A section on a website with fillable fields for visitors to contact the website owner, most commonly used to collect name, phone number, and email address of potential customers.

CONTENT – Any form of media online that can be read, watched, or interacted with. Content commonly refers specifically to written material, but can also include images and videos.

CONVERSION – The completion of a predefined goal. This is often used to track the number of site visitors that have been "converted" into paying customers, though sales are not always chosen as the metric. Other common goals are newsletter subscriptions and downloads of content from the website.

CONVERSION RATE – The rate at which visitors to a website complete the predefined goal. It is calculated by dividing the number of goal achievements by the total number of visitors. For example, if 100 people visit a website and 10 of them complete the conversion goal (like filling out a contact form) then the conversion rate is 10%.

CPA (COST PER ACQUISITION) – A metric in paid advertising platforms that measures how much money is spent in order to acquire a new lead or customer. It can be calculated by dividing the total spend by the number of conversions, for a given period of time. For example, if in a month a PPC account spends $1,000 and gets 10 conversions (leads), then the cost per acquisition is $100.

CPC (COST PER CLICK) – The amount of money spent for a click on an ad in a Pay-Per-Click campaign. In the AdWords platform, each keyword will have an estimated click cost, but the prices change in real time as advertisers bid against each other for each keyword. Average CPCs can range from less than $1 dollar for longtail or low-competition keywords, to upwards of $100 per click for competitive terms, primarily in legal, insurance, and water damage restoration industries.

CPM – Stands for "Cost Per Thousand" (M is the roman numeral for 1,000). This is the amount an advertiser pays for 1,000 impressions of their ad. For example, if a publisher charges $10 CPM, and your ad shows 2,000 times, you will pay $20 for the campaign ($10 x 1,000 impressions) x 2. Measuring ad success with CPM is most common in awareness campaigns, where impressions are more important than conversions or clicks.

CRAWLER – An automated piece of software that scans websites. The name reflects how the software "crawls" through the code, which is why they are sometimes also referred to as "spiders". Crawlers are used by Google to find new content and to evaluate the quality of web pages for their index.

CRO (CONVERSION RATE OPTIMIZATION) – A branch of digital marketing that aims to improve the conversion rate of web pages, thus making the pages more profitable. Conversion rate optimization combines psychology with marketing and web design in order to influence the behaviour of the web page visitor. CRO uses a type of testing called "A/B split testing" to determine which version of a page (version A or version B) is more successful.

CSS – Stands for "Cascading Style Sheets". CSS is a document of code that tells the website's HTML how it should be appear on screen. CSS is a time saving document for web designers as they can style batched-sections of HTML code, rather than styling individual lines of code one-at-a-time.

CTA (CALL TO ACTION) – An element on a web page used to push visitors towards a specific action or conversion. A CTA can be a clickable button with text, an image, or text, and typically uses an imperative verb phrase like: "call today" or "buy now".

CTR (CLICK THROUGH RATE) – The ratio of how many times an advertisement was clicked on, versus how many times it was shown. It is calculated by dividing the ad's clicks by the ad's impressions. For example, if an ad is shown to 100 people, and 10 of them click the ad, then it has a click through rate of 10% (10 clicks / 100 impressions = 10%).

D

DASHBOARD – A web page that contains and displays aggregate data about the performance of a website or digital marketing campaign. A dashboard pulls information from various data sources and displays the info in an easy-to-read format.

DIGITAL MARKETING – A catchall term for online work that includes specialized marketing practices like SEO, PPC, CRO, web design, blogging, content, and any other form of advertising on a internet-connected device with a screen. Traditionally, television was not considered digital marketing, however the shift from cable television to internet streaming means that digital advertising can now be served to online TV viewers.

DIRECTORY – A website that categorically lists websites with similar themes. Some directories like chambers of commerce (a list of businesses in one geographic area) can be helpful for SEO, however widespread abuse of spam directories led Google to discount links from directories whose sole purpose was selling links.

DISPLAY ADS – Ads on a display network which include many different formats such as: images, flash, video, and audio. Also commonly known as banner ads, these are the advertisements that are seen around the web on news sites, blogs, and social media.

DISPLAY NETWORK – A network of websites and apps that show display ads on their web pages. Google's display network spans over 2 million websites that reach over 90% of people on the internet. Businesses can target consumers on the display network based on keywords/ topics, placement on specific web pages, and through remarketing.

DNS – Stands for Domain Name System, it is a protocol that translates website URLs (which use alphabetic characters) into IP addresses (that use numeric characters). DNS exists because it is more useful for internet users to remember letters and words in website URLs, but the world wide web communicates in numbers with IP addresses. Without DNS, every website would just be a string of numbers rather than a traditional URL.

DOFOLLOW – A phrase that denotes a hyperlink absent of a "nofollow" tag. By default, a hyperlink is a dofollow link until a "nofollow" piece of code is added to it. Dofollow links pass SEO equity to the destination URL, while "nofollow" links do not.

DUPLICATE CONTENT – Refers to instances where portions of text are found in 2 different places on the web. When the same content is found on multiple websites, it can cause ranking issues for one or all of the websites, as Google does not want to show multiple websites in search results that have the exact same information. This type of duplicate content can result from plagiarism, automated content scrapers, or lazy web design. Duplicate content can also be a problem within one website – if multiple versions of a page exists, Google may not understand which version to show in search results, and the pages are competing against each other. This can occur when new versions of pages are added without deleting or forwarding the old version, or through poor URL structures.

E

ECOMMERCE (OR E-COMMERCE) – Stands for Electronic Commerce, it is a classification for businesses that conduct business online. The most common form of e-commerce business is an online retailer that sells products direct to the consumer.

EMAIL AUTOMATION – A marketing system that uses software to automatically send emails based on defined triggers. Multiple automated emails in a sequence are used to create user funnels and segment users based on behaviour. For example, an automation funnel could be set to send email 1 when a person provides their email address, then either email 2a or 2b would be sent based on whether or not the person clicked on the first email.

EMAIL LIST – A collection of email addresses that can be used to send targeted email marketing campaigns. Lists are typically segmented by user classification so a list of existing customers can receive one type of communication, while potential customers can receive more promotional communication.

EMAIL MARKETING – The use of email with the goal of acquiring sales, customers, or any other type of conversion.

F

FEATURED SNIPPET – A summarized piece of information that Google pulls from a website and places directly into search results, in order to show quick answers to common and simple queries. Featured snippets appear in a block at the top of search results with a link to the source. Featured Snippets cannot be created by webmasters; Google programmatically pulls the most relevant information from an authoritative site. Most featured snippets are shown for question queries like “what is _____” or “who invented _____”.

FACEBOOK ADVERTISING – Facebook allows advertisers to reach its users through their ad network. A range of ad types can be created to reach various goals set by companies. Facebook advertising is unique in that audiences are set up based on vast demographic information that Facebook has about their users, as compared to Google advertising that uses keywords.

FACEBOOK PROFILE – A personal Facebook account. Profiles are automatically created when a user signs up.

FACEBOOK BUSINESS PAGE – A public web page on Facebook created to represent a company. Using a business page gives users access to Facebook Ads Manager. It also allows businesses to engage with users (i.e. page likes, message responses, post content).

FACEBOOK ADS MANAGER – Ads Manager is a tool for creating Facebook ads, managing when and where they'll run, and tracking how well campaigns are performing on Facebook, Instagram or their Audience Network.

FORM FILL – When a visitor has filled out a contact form on a website, commonly used as a noun to refer to a conversion. "This month our marketing campaign generated 20 phone calls and 8 form fills."

G

GOOGLE – Company behind the search engine giant Google.com. Founded in 1998, Google now controls approximately 80% of the search market. Google has also expanded to include many software services, both directly related to search, and targeted towards consumers outside of the search marketing industry like Google Chrome (a web browser), Google Fiber (internet service), Gmail (email client), and Google Drive (a file storing platform). Google is owned by parent company Alphabet.

GOOGLE+ – Google's own social media platform. Google+ has been used to varying success by the company, and is still receiving updates that change functionality in a variety of ways. Google+ can also be used for business pages (Google My Business), which can feature information, company events, updates, and more.

GOOGLE ANALYTICS – A free software platform created by Google, which is used to analyze nearly every aspect of users accessing a website. Website traffic, conversions, user metrics, historical data comparisons, and effectiveness of each channel of marketing can all be managed using this tool.

GOOGLE ADWORDS – Google's online advertising service. This system allows advertisers to reach customers through their search and display networks. AdWords offers several cost models which vary by bidding strategy and company goals. Advertisers can bid on keywords which allows their ads to show in Google search results and on Google's network of partner websites.

GOOGLE MY BUSINESS – The platform on which businesses can input information to appear in search results, map packs, location searches, and more. Name, address, phone number, website link, hours of operation, and reviews can all be managed through this platform. GMB is crucial to local SEO campaigns, as this is directly related to location-based searches.

GOOGLE PARTNER AGENCY – An agency that is certified by Google for meeting certain requirements. To be a Google Partner, an agency must have an AdWords certified employee affiliated to the company profile, meet spend requirements, and meet the performance requirement by delivering overall ad revenue and growth, and maintaining and growing the customer base.

GOOGLE HUMMINGBIRD – The industry nickname for one of the first major overhauls to the main Google search algorithm. In contrast to algorithm updates like Panda or Penguin, Hummingbird was intended to completely update the way Google interpreted user search queries. Previous to this update, Google results were mostly provided based on specific keyword matching within the user query. Now, a search for "cheapest way to build birdhouse without using wood" will show results directly related to that query. Previously, users might see results that included wood as a building material. (See also: Google Algorithm, Google Panda, Google Penguin)

GOOGLE HOME – A device for consumers that connects to their home network and can perform many basic tasks through voice commands. Typical uses for Google Home include asking basic questions, making Google searches, scheduling appointments, playing music, or setting alarms.

GOOGLE MAPS – The location and navigation service provided by Google. Using maps.google.com, users can search for stores, restaurants, businesses, and landmarks anywhere in the world. Typically, users will find routes to nearby establishments including local businesses using Maps.

GOOGLE PANDA – A Google algorithm update focused on analyzing the quality of a website's on-page content. Initially released February 2011, and updated periodically after this release, similar to Google Penguin. This update would determine if content on site pages was related to queries it was being displayed for, and alter the site's rankings accordingly. Sites with low-quality content saw significant ranking drops due to this algorithm update. The algorithm has now been assimilated to Google's core search algorithm, and can assess content quality in real time. (See also: Google Algorithm, Google Penguin)

GOOGLE PENGUIN – A Google algorithm update focused on analyzing the quality of links pointing to a site, or more accurately, the overall quality of a site's backlink profile. First announced on April 2012 and updated periodically after this release, similar to Google Panda. This algorithm targeted so-called "black-hat SEO" tactics which manipulated search rankings by creating links to sites in an unnatural manner. Google analyzes all of the pages which link to a specific site and determine whether the links are a benefit to users, or if they simply serve to manipulate search rankings and adjust the site's standing accordingly. Google estimates that Penguin affects 3.1% of all searches in English, a relatively large number for one algorithm. (See also: Backlink, Black Hat, Google Algorithm, Google Panda)

GOOGLE PIGEON – A Google algorithm update focused on providing locally relevant results to searchers. For example, searching for "SOHO coffee shop" will return results primarily centered around that neighborhood. In addition, Google can determine your location when you enter a search, and show you local businesses nearby your area even without localized keywords. This algorithm greatly influenced the potential for local businesses to appear in search results. (See also: Google Algorithm)

GOOGLE ALGORITHM – A mathematical programmatic system that determines where websites will appear on Google search result pages for any given number of queries. Sometimes also called the "Core" algorithm, though this is a less specific term. Google's algorithm is constantly updated (approximately 500-600 times a year, or two times per day), which can have varying levels of impact on the rankings of websites across the world. Google's actual algorithm is kept deliberately secret to prevent webmasters from manipulating the system for rankings, though Google does publically state their suggested "best practices" for appearing higher in search results.

GOOGLE REVIEWS – Reviews left using the Google My Business platform. Reviews are on a 1-5 star scale, and include a brief message written by the reviewer. Reviews can show up in the knowledge graph in Google searches, and have been shown to positively correlate with SEO rankings. (See also: Google My Business)

GOOGLE SEARCH CONSOLE (FORMERLY WEBMASTER TOOLS) – Search Console is a free tool Google offers to webmasters. Within the tool are several areas that include data on how a site is performing in search. Search Console differs from Analytics – it does not measure traffic, it measures a site's visibility on search pages, and indexability by Google crawler bots. Metrics Search Console measures are Click-Through Rate, Number of Indexed Pages, Number of Dead Links (AKA 404 pages), and more. (See also: Google Analytics, Click-through rate, Index, Crawler/Spider)

GCLID – Stands for Google Click IDentifier. This is a small string of numbers and letters that serves as a unique ID badge for visitors to a website. Typically, this is used to keep track of individual users as they click on a PPC ad, so that their interaction with the website (whether they converted, on which page, and using which method) can be tracked and attributed properly using Google Analytics. (See also: Google Analytics, PPC)

GRAVITY FORMS – A WordPress plugin that adds a customizable contact form to a website. This plugin keeps track of all completed form submissions, and allows for all of the fields on a form to be customized. Gravity Forms is the standard contact form plugin used on sites built by Geek Powered Studios.

H

HARO – Stands for Help A Reporter Out. Three times a day Monday through Friday, HARO emails are sent out, listing different stories that reporters need sources for. Used as a marketing strategy to gain PR and link opportunities.

HASHTAG – A phrase beginning with the symbol "#" used in social media as a way for tagging content for users to find. Adding hashtags to a post allows users to find that post when searching for that topic. This can be used for finding users looking for broad topics on social media, as well as niche, detailed topics.

HEADER – Can refer to either the top portion of a web page that typically contains the logo and menu, or the section of HTML in a website's code that contains important information about the site.

HEADER CODE – On a website, certain code is placed in the universal header section so that it can be accessible across all pages of the website. Typically in the header code, you'll find things like Schema Markup, Analytics Code, AdWords Code, and other tools used for tracking data across a website. These are placed in the header code so that they can be rendered and start tracking information as the site loads.

HEADER TAGS (H1, H2, H3, ETC.) – Header tags are used in HTML for categorizing text headings on a web page. They are, in essence, the titles and major topics of a web page and help indicate to readers and search engines what the page is about. Header tags use a cascading format where a page should have only one H1 (main title) but beneath can be multiple H2s (subtitles) and every H2 can have H3s beneath (sub-sub titles) and so on.

- H1 is used only once on a web page, and is used to display the most important title.
- H2 is used to display the major subtopics of a certain web page
- H3 is used to display the major subtopics underneath an H2 tag.

HEATMAP – A heatmap is a graphical representation of how users interact with your site. Heatmapping software is used to track where users click on a page, how they scroll, and what they hover over. Heatmaps are used to collect user behaviour data to assist in designing and optimizing a website.

HTML – Stands for Hypertext Markup Language. HTML is a set of codes that are used to tell a web browser how to display a web page. Each individual code is called an element, or a tag. HTML has a starting and ending element for most markups.

HTTP – Stands for Hypertext Transfer Protocol. HTTP is the protocol used by the world wide web to define how data is formatted and transmitted, and what actions web browsers and web servers should take to respond to a command. When you enter a website into your web browser and press enter, this sends an HTTP command to a web server, which tells the server to fetch and send the data for that website to your browser.

HTTPS – Stands for Hypertext Transfer Protocol Secure. Is a secured version of HTTP, which is used to define how data is formatted and transmitted across the web. HTTPS has an advantage over HTTP in that the data sent when fetching a web page is encrypted, adding a layer of security so that third parties can't gather data about the web page when the data is sent from the server to the browser.

HREFLANG TAG – A code in the HTML of a website that tells search engines like Google which spoken language a web page is using. These are especially useful for websites that have versions of pages in multiple languages, as they help Google understand which pages are related and which should be shown to specific audiences.

HUMMINGBIRD – See “Google Hummingbird”

HYPERLINK – A hyperlink is an HTML code that creates a link from one web page to another web page, characterized often by a highlighted word or image that takes you to the destined location when you click on that highlighted item.

I

IFRAME – An HTML document that is inside of another HTML document on a website. Iframes are used commonly to embed content from one source onto another web page.

IMPRESSION – A term used in pay-per-click advertising that represents how many times an ad was shown.

IMPRESSION SHARE – Used in pay-per-click advertising, this metric refers to the percentage of times viewers have seen an advertiser’s ad, in relation to the total possible amounts that ad could have been seen. If an ad campaign’s impression share is 70%, then the ads showed 7 out of 10 possible times.

INBOUND MARKETING – Inbound marketing refers to the activities and strategies used for attracting potential users or customers to a website. “Inbound” is a more recent euphemism for what has traditionally been called “SEO”. Inbound marketing is crucial to having a good web presence, as it’s used as a way to attract prospective customers by educating and building trust about your services, product and/or brand. (See also: organic)

INDEX – When used as a noun, index refers to all of the web pages that Google has crawled and stored to be shown to Google searchers (eg: “The Google index has billions of websites”). When used as a verb, it refers to the act of Google copying a web page into their system (eg: “Google indexed my website today so it will start appearing in their search results”).

IP ADDRESS – An IP (Internet Protocol) address is a unique number that identifies a device using the internet to communicate over a network. Each device has a unique IP address, and can be used to locate and differentiate that device from all other devices when using the internet. You can find your public IP address by going to Google and searching “what is my IP address.”

J

JAVA – Java is a programming language that is used to create applications that can run on a digital device. Java can be used on it's own, while Javascript can only be used in web browsers.

JAVASCRIPT (JS) – Javascript is a scripting language. Javascript is used on web browsers to provide interactive elements to web pages that are difficult or impossible to achieve with just HTML or CSS.

K

KEYWORD – A word or phrase indicative of the major theme in a piece of content. When you search for something in a search engine, you type in a keyword and the search engine gives you results based on that keyword. One major goal of SEO is to have your website show in searches for as many keywords as possible.

KEYWORD PHRASE – A group of two or more words that are used to find information in a search engine. Sometimes, when searching for something, one single keyword does not provide the information you seek, where a keyword phrase allows you to string multiple words together to find better information.

KEYWORD DENSITY – Keyword density refers to the percentage of how often a keyword appears on a web page in relation to the total words on that web page.

KEYWORD STUFFING – When a web page uses a keyword too often or superfluously, with the intent of manipulating search engines. This type of behaviour is frowned upon and can lead to either algorithmic devaluation in search, or a manual penalty from Google.

L

LANDING PAGE – The destination web page a user lands on after clicking on a link (either in an ad or anywhere else). Some landing pages are designed with the purpose of lead generation, and others are with the purpose of directing the flow of traffic throughout a site.

LSI (LATENT SEMANTIC INDEXING) – A search engine indexing method that creates a relationship between words and phrases to form a better understanding of a text's subject matter. Latent semantic indexing helps search engines serve up results to queries with higher precision.

LEAD – A potential customer in the sales funnel who has communicated with a business with intent to purchase through a call, email, or online form fill.

LINK – Also known as a hyperlink, a link is a string of hypertext transfer protocol structured text used to connect web pages on the internet. There are two main forms of links: internal links that point to pages on the same site, and external links that point to web pages on a different website.

LINK PROFILE – The cumulative grouping of all links pointing to a particular website. A link profile can be used to determine a website's power, trust, subject matter, and content. Link profiles are important at determining where a website ranks in Google search results. If a website has a high number of links from websites that are not trusted, adult in nature, spammy or against guidelines, the link profile will have a negative effect on rankings. If a website has a high number of links from websites that are strong providers of content or reputable sources of information it will have a positive effect on rankings.

LINKEDIN – A social networking website oriented around connecting professionals to jobs, businesses and other professionals in their industry. LinkedIn is also a strong platform for marketing, job posting, and sharing professional content.

LINKEDIN ADVERTISING – LinkedIn's advertising platform. Through different ad formats, advertisers can bid on ad space and target unique audiences based on job title, years of experience, industry, and many other demographics.

LINK NETWORK – A black hat link building strategy that uses a network of websites all interconnected with links in order to boost backlink profiles and rank certain sites higher in google search results. Some link networks can also be known as private blog networks (PBNs). Link networks and PBNs are against Google guidelines and are devalued or penalized when detected.

LOOKALIKE AUDIENCE – A targeting option offered by Facebook's ad service. This audience is created from a source audience (i.e. fans of your Facebook page, email list), and from this list Facebook will identify common characteristics between audience members. Facebook will then target users that exhibit similar interests or qualities.

LONG TAIL KEYWORD – A keyword phrase that is longer in length and hyper-specifically matches a user search query. A long tail keyword get less searches per month but has a higher search intent, and typically less competition by companies looking to serve up content to that search query. For example, a regular keyword might be "austin web designer" but a long tail keyword would be "affordable austin web designer that makes WordPress sites".

M

MAP PACK – The section of Google search results pages featuring three businesses listed in a local map section. The map pack shows up for queries with local intent, a general business type, or a "near me" search.

MEDIUM (SOURCE/MEDIUM) – Medium is the general category of traffic to a website tracked in Google Analytics. Some examples of common medium are:

- Organic
- CPC
- Email
- Referral

META TAGS – HTML snippets added to a web page's code that that add contextual information for web crawlers and search engines. Search engines use meta data to help decide what information from a web page to display in their results. Example meta tags include the date the page was published, the page title, author, and image descriptions.

META DESCRIPTION – One of the meta tags that gives a description of the page in 160 characters. The meta description is an important aspect of a web page because it is what appears in Google searches and other search engine results.

META KEYWORDS – A specific meta tag that displays the specific keywords addresses in a page. After meta keyword markup was abused on some websites, listed keywords no longer apply to how a page is categorized by Google and other search engines.

N

NAP (NAME, ADDRESS, PHONE NUMBER) – An acronym for local citations. Consistency in name, address, and phone number citations is an important piece of a local SEO Campaign. To build local SEO authority, a business's name, address, and phone number should be listed across local citation websites like Yelp, Google Business, Angie's List, Yellowpages, Better Business Bureau, Foursquare, and more.

NOFOLLOW – An HTML link attribute that communicates to web crawlers and search engines that the link to the destination web page should NOT transfer SEO equity (i.e. it shouldn't give SEO benefit to the recipient). According to Google's guidelines, any link that is unnatural (like you paid for a press release, or you gave a journalist a perk for writing about your product) should have a nofollow tag.

O

ORGANIC – A source of traffic to a website that comes through clicking on a non-paid search engine result. Organic traffic is a main measurement of an SEO campaign and grows as a site ranks better for keywords, or ranks for more keywords in search engines.

P

PANDA – A search engine algorithm developed by Google to rate the quality and relevance of content on a web page. Google Panda was released in February 2011 and devalued sites in search results that had thin, non original, or poorly written content.

PBN (PRIVATE BLOG NETWORK) – Also known as a link network, a private blog network is a collection of private websites all linking to each other. These networks are intended to manipulate search engines by adding large amounts of new links to a website's link profile.

PENGUIN – A search engine algorithm developed by Google to determine the quality of links pointing to a particular site. It was launched to deter spammers from black hat SEO practices such as private blog and link networks. Google Penguin was released in April 2012 and updated regularly until 2016 when it was then rolled into the Core Algorithm.

PIGEON – A Google search engine algorithm intended to serve up locally targeted information for certain searches. Google Pigeon was released in July 24, 2014 and helps users find local businesses from broad keyword searches.

PPC / PAY-PER-CLICK – An online advertising model in which advertisers are charged for their ad once it is clicked. The PPC model is commonly associated with search engine and social media advertising like Google AdWords and Facebook Ads.

POSITION – The placement in Google search results that a site is in for a specific query.

> **Featured Snippet:** When content within a web page is pulled into Google search results to instantly give the information a user is looking for.
>
> **First Page**: When a site ranks on the first page of Google search results.
>
> **Map Pack**: The first through third result on a Google search result page that serves up local businesses for a query.

PENALTY – An infraction issued by Google, to a webmaster, for breaking Google's guidelines. The penalty is issued by Google through Search Console, and can result in a sites' removal from search engine results. The issues that caused the penalty will need to be fixed before the penalty is lifted, and once the penalty is lifted it may still take some time to return to previous rank in Google search results. Penalty may also refer to an "algorithmic penalty" which is actually a misnomer; a website may be doing poorly in search results because of an issue that Google's algorithm has found in the site. This however is not really a "penalty" but a ranking problem. For there to be a true penalty, there would have to be a manual action from Google, as denoted by the message sent to the webmaster in Search Console.

PDF – A digital document format that provides a digital image of text or graphics. PDFs are the preferred document type when uploading documents to the internet because of its ease of use and its ability to be imported or converted easily. PDFs can be read and indexed by Google just as a normal web page can.

Q

QUALITY SCORE – Google AdWords' rating of the relevance and quality of keywords used in PPC campaigns. These scores are largely determined by relevance of ad copy, expected click-through rate, as well as the landing page quality and relevance. Quality score is a component in determining ad auctions, so having a high score can lead to higher ad rankings at lower costs.

QUERY – The term given for what a user types and searches using search engines like Google, Bing, and Yahoo!. Examples of queries include "austin electrician," "how do i know if i have a raccoon in my attic," "distance to nearest coffee shop," and many more.

R

RANKINGS – A general term for where a website appears in search engine results. A site's "ranking" my increase or decrease over time for different search terms, or queries. Ranking is specific to each keyword, so a website may have keywords that rank on the first page, and others that don't.

RECIPROCAL LINK – Two websites linking to each other, typically for the express purpose of increasing each search engine ranking. These types of links are sometimes deemed manipulative by search engines, which can incur a penalty or devaluation against both sites.

REDIRECT – A way by which a web browser takes a user from one page to another without the user clicking or making any input. There are various types of redirects (the most common of which is the 301 redirect), which serve different purposes. Typically, this helps improve user experience across a website.

REFERRAL – A medium denoted in Google Analytics that represents a website visit that came from another website (as opposed to coming from a Google search, for example). When users click on a link to another, external web page, they are said to have been "referred" there.

REL CANONICAL – In HTML, "rel" is an attribute associated with links. "Canonical" can be applied to the "rel" attribute, which will link to the original or authoritative page from which content is being used or referenced. The "canonical" page is the original content, and any page referencing it is a duplicate or otherwise similar page. Used to prevent duplicate content issues and maintain search engine rankings.

REMARKETING – Also known as retargeting, a type of paid ad that allows advertisers to show ads to customers who have already visited their site. Once a user visits a site, a small piece of data called a "cookie" will be stored in the user's browser. When the user then visits other sites, this cookie can allow remarketing ads to be shown. Remarketing allows advertisers to "follow" users around in attempts to get the user back to the original site.

RESPONSIVE WEB DESIGN – A philosophy of creating a website that allows all of the content to show correctly regardless of screen size or device. Your website will "respond" to the size of the screen each user has, shrinking and reorganizing on smaller screens, and expanding to fill appropriately on large ones.

ROAS – Stands for Return On Ad Spend. A PPC marketing metric that demonstrates the profit made as compared to the amount of money spent on the ads. Similar to ROI.

ROBOTS.TXT – A text file stored on a website's server that includes basic rules for indexing robots which "crawl" the site. This file allows you to specifically allow (or disallow) certain files and folders from being viewed by crawler bots, which can keep your indexed pages limited to only the pages you wish.

ROI – Stands for Return On Investment. In order for a business to receive a positive ROI, they must earn more money using marketing channels than they are spending on the marketing itself.

RSS – Stands for Really Simple Syndication. It is a way for users to keep track of updates to multiple websites (news sites, blogs, and more) in one place, as opposed to having to manually check in on every single site individually. An RSS Feed is a place where all updates are tracked together, in an easily viewable format.

S

SCHEMA MARKUP – Code that is added to the HTML of a website to give search engines more relevant information about a business, person, place, product, or thing. Also known as rich snippets or structured data.

SEARCH NETWORK – A group of websites in which ads can appear. Google's Search Network, for example, is a group of Google and non-Google websites that partner with Google to show text ads.

SEARCH ENGINE – A program that searches an index of information and returns results to the user based on corresponding keywords. The most well known search engines are Google, YouTube, Bing, and Yahoo!.

SEARCH OPERATOR – A text modifier that can be used in Google searches to return more specific results. Search operators essentially act as shortcuts to an advanced search.

SEM (SEARCH ENGINE MARKETING) – A nebulous term that can apply to either (1) Any digital marketing that involves the use of a search engine, or (2). Only paid digital marketing that involves a search engine, i.e. PPC (pay-per-click). There is not an industry standard as to which definition is correct, however the latter is most commonly used.

SEO (SEARCH ENGINE OPTIMIZATION) – The process of improving a website's performance and positioning in organic search engine results through a variety of methodologies including content production or improvement, technical and code improvement, and link acquisition.

SERP – Stands for Search Engine Results Page, the page featuring a list of search results that is returned to the searcher after they submit a keyword search.

SESSIONS – A metric in Google Analytics that measures one user interacting with a website during a given period of time, which Google defaults to 30 minutes. A session is not dependent on how many pages are viewed, so if a person goes to a website and looks around at different pages for 20 minutes, it would count as one session.

SIRI – Apple's voice search technology that allows for hands free search on iPhones and other Apple products.

SITELINK – An ad extension in Google AdWords that appears below the main ad copy which links to a specific page on the website (i.e. Contact Us, About Us, etc.). Ads can have from 2-6 sitelinks.

SITEMAP – An XML file or page on a website that lists all of the pages and posts for search engines to see. This document helps search engines quickly understand all of the content that they should be aware of on a particular website.

SLUG – Slang for the portion of a URL that comes after the .com. For example, the homepage might be http://www.domain.com, but for the Contact Us page, a slug would be added to the end of the URL to direct the browser to a page within the website i.e. http://www.domain.com/contact-us.

SOURCE – A term in Google Analytics that helps webmasters classify where traffic is coming from (i.e. the "source" of the web traffic). Source can be a search engine (for example, Google) or a domain (website-example.com).

SPAM – A broad term that includes many different nefarious activities in digital marketing that are done either to help a website rank better or to harm a competitor website. Spam is often in seen the form of hundreds or thousands of low-quality backlinks that were built by a black hat SEO to manipulate rankings.

SPIDER – An automated program that visits websites, sometimes also referred to as a "crawler" or a "bot". A spam spider visits websites for nefarious reasons, often showing in Google Analytics as junk traffic. However, Google uses a bot to crawl websites so that they can be ranked and added to Google search.

STYLE SHEET – Shortened term for Cascading Style Sheet (CSS). CSS is a document of code that tells the website's HTML how it should be appear on screen. CSS is a time saving document for web designers as they can style batched-sections of HTML code, rather than styling individual lines of code one-at-a-time.

T

TAG – In WordPress, a tag is an identifying marker used to classify different posts based on keywords and topic. Similar to WordPress categories, but tags are more granular and specific, whereas categories are broad and thematic.

TITLE TAG – An HTML element that is used to describe the specific topic of a web page. Title tags are displayed in the tabbed top bar of a web browser. In SEO, it is best practice to have descriptive title tags featuring your main keywords, rather than something basic like "home".

TRACKING CODE – A script, often placed in the header, footer, or thank you page of a website that passes information along to software tools for data gathering purposes. Tools like Google Analytics, Google AdWords utilize tracking codes so that they can track information about users who view a site.

TWITTER – A social media platform where users interact, or "tweet" by posting a message or replying to a message in 140 characters or less. Each keystroke on a keyboard is considered a character. Twitter is used to share information and links, and utilizes hashtags to categorize information. Tweets are typically public and can be seen by anyone. If you are followed by another user, that user will see your tweets in their feed. Similarly, you will the see the tweets of anyone you follow in your feed.

TWITTER ADVERTISING – Allows marketers to promote a tweet on users feeds without that user having to follow your brand for it to appear on their feed. These advertisements can be used to grow brand awareness, gain more followers, extend social media reach, and/or reach out to prospective customers about a product or service.

U

UNIQUE VISITORS – A metric used in web analytics to show how many different, unique people view a website over a period of time. Unique visitors are tracked by their IP addresses. If a visitor visits the same website multiple times, they will only be counted once in the unique visitors metric.

URL – Stands for Uniform Resource Locator and is the address of a web page. The URL refers to what specific web page a web browser is viewing.

UI – Stands for User Interface. User interface is the area with which a user interacts with something through a digital device. Good UI should be fluid and easy for most people to understand.

UX – Stands for User Experience. UX refers to how a user interacts with a website or app (where they click, which pages they visit). UX can be shaped by testing differences in page layouts, CTAs, colors, content, etc to improve conversion rates. Having a good UX is crucial to having a good business, as it drives repeating users and engagement.

V

VISITS – An old term in Google Analytics which was recently changed to "sessions".

VISITORS – A metric in Google Analytics that quantifies a user of a website over a particular period of time. Visitors are often broken down between "new visitors" who are browsing for the first time in the allotted time period, or "returning visitors" who have already browsed at least once in the given time frame.

W

WEB 2.0 – The second major phase of development of the World Wide Web, marked by a shift from static web pages to dynamic content, as well as social media and user generated content.

WEBSITE – A document of group of documents that are accessible on the World Wide Web.

WEBINAR – An online seminar used to train, inform, or sell to an audience of viewers who signed up to view the presentation.

WHITE HAT – Term for ethical digital marketers who don't participate in work that could be viewed as unethical or as spam.

WIREFRAME – A cursory layout drawing of a web page that acts as the first step in the design process.

X

XML – Stands for eXtensible Markup Language. Similar to HTML (Hypertext Markup Language) in that it is primarily used to categorize various data for computers and humans to use more effectively. In basic terms, XML allows for customizable tags for marking up information that is otherwise difficult for computers to understand.

XML SITEMAP – A document in XML format that categorizes all relevant pages, posts, files, etc. of a website. This document is not intended for human use, though it can be viewed by humans. Instead, an XML site map is designed to help search engine crawler bots easily find all of the pages for a given website – very similar to a roadmap or atlas that one would use when driving a car long distances.

Y

YELP – A social review platform and search engine that allows users to leave reviews for businesses. Yelp also offers an advertising program which gives advertisers the ability to show their marketing assets to qualified Yelp users based on keyword searches.

YOUTUBE – A video sharing website, bought by Google in 2006. YouTube is part of Google's ad network. YouTube is currently the second most used search engine in the world.

YOUTUBE ADVERTISING – YouTube offers advertising in six different formats. Display ads, overlay ads, skippable video, non-skippable video ads, bumper ads, and sponsored cards. These ads can all be created and run through the Google AdWords platform.

YAHOO! SEARCH – The third largest search engine in the US, owned by Yahoo!. As of 2009, the engine has been powered by Bing.

YAHOO! ADVERTISING – Yahoo! and Bing ads are both run through the Bing Ads platform. These search engines share advertising networks.

This digital glossary was compiled by: John Leo Weber, a digital marketing expert in Austin TX. He writes about digital marketing and SEO for a variety of websites and is a contributor at Search Engine Journal.

"Five years ago, there might have been one business owner trying to sell in that market. Now the one is 10 or 20 owners who want to sell and there's no one to buy."

- CREDIT UNION EXPERT PANEL

Chapter 6

IF AT FIRST YOU DON'T SECEDE...

The original title for this chapter was Happy Endings. Yet with so many boomers out there casting about for so few business buyers, we thought it might be a bit of a stretch. And that the happy ending we all want might be closer to the 'real end' than we hope. More than half the small businesses in Canada are owned by boomers (various sources and conservative). And easily more than half of those are close to retirement. It's common knowledge that demographic imbalance alone is the biggest obstacle – there's not enough potential buyers in subsequent generations and that challenge is even more acute in smaller towns and rural areas. There is no shortage of resources to tell you how to plan your succession (there's one in the Meat & Potatoes of this chapter). There's no shortage of advice from accounting firms, financial institutions and consultants. So what's holding everyone back? And how do you overcome those obstacles? That's what *Cash Cows* is about – if at first you don't secede, as in separate from your business, try and try again.

According to Microsoft Canada (2017), half of all small business owners in Canada will retire) over the next **10-15** years – or well over **500,000** businesses! According to a Canadian Federation of Independent Businesses forecast in 2012, as much as **$1 trillion** worth of small-business assets changing hands in one decade. And BDC (2017) reports that as many as **41%** of all entrepreneurs will leave their businesses within the next five years. Of those, **71%** are reluctant to take risks to improve their business performance and **52%** have little interest in expanding their business, which may cause them to sell below market value.

AES ENGINEERING – SUNNY GHATAURAH: THE SUCCESSION ENGINEER

AES Engineering in BC and Alberta is all about collaborating with architects and builders on major infrastructure projects in the context of electronical consulting. Sunny Ghataurah is the company's Top 40 Under 40 CEO (2014), helping the company grow from 15 people in 2008 to over 90 people today and a healthy share of the sector wherever they have offices.

Despite the growth curve and obvious crush of responsibilities, Sunny and his team have made time to properly plan their succession strategy. And there's learning in that strategy for every small business owner.

"Succession planning is tough and no matter what you do, you won't please everybody. Knowing that is a good place to start," he recalls.

"We knew the revenue of our business was about $120,000 to $140,000 per person. We started with those metrics and brought in professional valuators who specialize in the engineering and architectural community – that's all they do. So we have a valuation of the business now that is ongoing and always up to date. It's an independent, verified number. We can add or remove shareholders as required and it's not based on someone's best guess or anyone's emotions."

Lesson one – know the value of your business and keep it current.

"I'm already looking at my succession 25 years year out from now because we're going to continue to grow, to bring people on board and help them retire. That's the nature of a business like this. If you have a business that will simply keep doing what it's doing forever and stay the same, you never need a valuation. You'll just shut it down. But if you're serious about it and growing it, there's no better time than now to plan for succession."

"Seriously, would you get a mortgage for your home based on a scribble on the back of a napkin? Everyone who has property – I'll bet you anything – knows exactly what their property is worth at any given time. Why? Because if they want to sell, they need to know. If they want to borrow, they need to know. There isn't a property owner in Canada who doesn't know that. But when it comes to our businesses, we don't have a clue. That just doesn't make sense."

Sunny suggests that if you don't know the value of your business as an evolving asset, you're not being serious enough about your business. That may be true...

"A true business owner will need to know – if you're just in it to collect a paycheque, that's okay and you can forget it. Most adults and even some young adults have personal net worth statements – if you don't, you are ignoring an important piece. A business owner needs to think the same; your net worth includes the value of your business."

Of course, the natural conclusion to all this is the exit strategy and in that, Sunny is equally candid: "You need to know your exit strategy within the first five years. If you don't, all you'll have are problems down the road."

If Succession is all about planning, what's the problem?

As mentioned earlier, there's shortage of resources available to business owners who want to plan their exit. And there are only three directions you have to choose from: Selling to management and/or employees, selling to family heirs and selling outright to another company or organization. Perhaps there's four ways to do if you count winding it down completely.

So what's stopping so many business owners when it comes to succession? In a word, execution – actually implementing the plan, doing the work, having the meetings, setting the price and getting it done.

In some respects, we're loathe to begin because there's a fear of failure or being exposed as less successful than everyone thought because the value of the business works out to be lower than hoped for. It's also a lot of work – and if you're still running the show and being the alpha thinker and doer, where do you find the extra time?

Execute, you must however. So instead of boring you with the usual five steps to plan your succession, which, frankly are easy to find online, here are the thirteen barriers to execution and what to do about each of them.

It's a lot like quitting smoking if you were unfortunate enough to get hooked in the first place years ago. Once you make up your mind to quit, it may take many, many attempts to end the habit. But in the process, you will be creating habits that get you further along. Oddly enough, the same goes with executing a succession plan. The more you keep trying, the fewer obstacles there will be. Only thirteen to go...

13 Common Barriers and How To Leap Them

While it's an unlucky number, these 13 barriers are the most common reasons succession plan implementations run aground. There may be more – but deal with these and you'll be a pro at dealing with whatever else arises.

SUCCESSORS

While the term successors often refers to family members, think about it in a wider context. You're to replace yourself with someone equal or better. And you've had 10, 20 or 30 years to get it right. Many succession plans fail because the wrong people are being groomed to take over. You haven't pinpointed the skills you have and need to do the job. You haven't been candid with yourself about the people you've selected. You might even be so happy that someone is stepping up to the plate that you turn a blind eye to the reality. And eventually, that person or group of people let you down. It happens a lot – you're not alone.

CU Tip

ALL TO OFTEN THE NEXT GENERATION FAMILY MEMBER DOESN'T HAVE THE SKILL SETS TO MAKE A SUCCESSION PLAN WORK. THEY ARE ONLY THERE BECAUSE THEY ARE PART OF THE FAMILY. THE RELATIONSHIP IS DRIVING THE SUCCESSION PLAN AS OPPOSED TO KNOWING WHAT YOU'RE DOING. VET FAMILY MEMBERS THE SAME WAY YOU'D VET ANY OTHER SUCCESSORS. WHEN THE BUSINESS OWNERS WE KNOW DO THAT, THEY ARE MORE LIKELY TO ACHIEVE THEIR GOALS.

Overcoming the barrier takes a little bit of self-actualization on your part and a lot of time with the people involved. Mentoring, training, and assessing their commitment are all important steps. One common test to determine commitment is whether they're willing to put skin in the game (getting your successors to make the financial commitment).

However you choose to do it, having the right people in line for your job is more than 50% of the journey. *The Succession Planning Toolkit for Business*

Owners (see Meat & Potatoes in this chapter) reveals all the steps you need to take to ensure you have the right people, the right process and arrive at the right conclusions.

LACK OF SYSTEMIZATION

If you haven't fully systemized your business and delegated both responsibility AND authority, your business will suffer in the growth department. The same holds true in succession implementation.

> "EVEN THOUGH WE'RE YOUNG, WE THINK ABOUT IT (GETTING OUT OF THE BUSINESS DOWN THE ROAD) A LOT. YOU'D BE FOOLISH NOT TO. IT USED TO BE VERY MUCH ABOUT US – NOW WE HAVE GOOD PEOPLE ON THE TEAM WHO ARE ABLE TO DO PIECES OF IT AND WE'VE BEEN ABLE TO SYSTEMIZE THINGS SO THEY CAN. BASICALLY, I'M TRYING TO WORK MYSELF OUT OF A JOB. OUR SYSTEMS ALIGN WITH OUR VALUES – THIS IS HOW WE DO THINGS AND WHY, THIS IS OUR VOCABULARY, THIS IS HOW WE OPERATE AND WHY. WE MAY BE ON A TRAJECTORY THAT'S 20 YEARS OUT, BUT I KNOW IT'S IMPORTANT TO BE THINKING ABOUT IT NOW."
>
> \- **SONIA STROBEL**, Skipper Otto's CSF, BC

E-Myth, the book, has been referenced several times in *Cash Cows* as a reference our business owners find useful when it comes to the importance of systemization and how to do it – how to work on the business instead of in it. That's a good place to start.

You can't implement a succession plan if you haven't opened up time to do so. Delegate and be free – easy to say, critical to do.

VALUATION

It's almost certain the business will not be worth what you think it is worth. The higher number (your number) is amplified by emotion and years of hard work and risk-taking. And it's rare someone else will pay for your legacy and your past efforts.

> "I'VE DONE EIGHT ACQUISITIONS AND EVERY ONE OF THEM HAVE BEEN DIFFERENT; DIFFERENT EMOTIONS, DIFFERENT APPROACH TO VALUATIONS. I DID ONE WHERE THE ASKING PRICE OR VALUATION WAS WAY OUT OF WHACK AND I COULDN'T FIGURE OUT WHY. I LEARNED THAT ONE OF THE OWNER'S PARENTS WAS STILL A SHAREHOLDER AND THERE WAS A CERTAIN AMOUNT OF PRIDE BUILT INTO THE PRICE. HIS MOM HAD WORKED THERE WITH HIS DAD, BUT WHEN HIS DAD PASSED, HE DECIDED TO FORGO UNIVERSITY AND RUN THE BUSINESS. THERE WAS THIS RELATIONSHIP BUILT INTO THE PRICE. SO WE CHATTED AND TALKED IT THROUGH AND WE FOUND A WAY TO GIVE HIM HIS PRICE, BUT OVER TIME AT ZERO INTEREST WHICH SAVED US ENOUGH TO MAKE IT WORTHWHILE ON THE FINANCING SIDE. EVERYONE WAS HAPPY. THERE'S ALWAYS A WAY TO WORK THINGS OUT AND A VALUATION IS JUST A STARTING POINT."
>
> - **TIM YOUNG**, Young's Equipment, Saskatchewan

Getting a professional valuation is an important step in negotiating the sale (over time or outright) of your company. The valuation clears up the unknowns – and knowing the number from an unbiased resource (a CBV) is a solid place to start. It may not be the number you want or even get eventually, but you'll know and that's a position of strength.

CU Tip

IT'S THE OWNER OPERATOR CONUNDRUM; WITHOUT THEM BEING THERE TO OPERATE IT, THERE IS NO BUSINESS. MUCH OF THE TIME, THE GOODWILL IS CONNECTED DIRECTLY TO THEM. THAT'S THE CHALLENGE. THEY LIVED IT, BREATHED IT, SEEN IT GROW FOR YEARS AND YEARS – THEY HAVE AN EMOTIONAL CONNECTION AND THAT MAKES IT WORTH TEN TIMES EBITDA. WHEN THEY ARE REMOVED, WHAT IS THE VALUE? WHERE ARE THE ASSETS, WHAT CAN IT DO? THAT'S WHAT A LOT OF OWNERS ARE RUNNING FLAT INTO NOW; THEY DON'T HAVE ANSWERS TO THOSE QUESTIONS. OUR JOB IS TO HELP THEM FIND ANSWERS.

After you finalize your valuation and have the bias-free number, work with your advisors to keep the process on track. They'll help you with advice to clean up your balance sheet for sale, optimize revenue, adjust how you take income and other financial performance indicators of business health.

And be prepared. What your business is worth is always and only what someone will pay for it. That could be above or below your valuation. Getting your head around that early in the process removes a significant barrier to executing your plan to exit.

FINANCIAL PERFORMANCE

The succession planning and execution journey can take up to five years. So – if you're coming out of a recession and a few years where the valleys are low and the peaks hard to see, addressing financial performance and building value back into your business is worth the time.

There are many steps you can take to do this (updating your marketing plan, improving ratios, reducing debt, reducing expenses, growing new sources of revenue, adding firm contracts and managing legal obligations like lease terms and duration).

The best step you can take is to first inform yourself on the current attractiveness of the business. Is it financially optimized? The second step is to correct what needs correcting.

Building Value in Your Company by Howard E. Johnson is a smart tool for both educating yourself and taking the steps required to upgrade financial performance. You'll find it by searching castore.ca/product/building-value-in-your-company.

Finally in the context of financial performance, how are your books? Are your taxes up to date? Are your expenses still in a shoe box? Most of the business owners we interviewed for *Cash Cows* are savvy, buttoned-down operators. We know that's not true of all. So if selling your business is on your agenda, take the time to clean up your books and create statements that at-a-glance reflect the professionalism of your company's operations.

TOO BUSY

If you're too busy to plan your exit and reap the rewards of your hard work, you haven't delegated, you haven't systemized the business and you probably haven't grown your company out of its dependence on one person – that being you.

That means one of two things – either you sell the business with you in it for longer than you want (you working for someone else – how will that go?). Or you keep going and gradually wind it down without a sale.

The best solution to this barrier is to start earlier and make succession a key part of your annual planning and business structure – so it doesn't feel like extra work; it's simply part of your day. That may sound too easy – it's not, but it works.

TOO LATE

> "WHAT I'M SEEING NOW IS THAT A LOT OF BUSINESS OWNERS ARE STARTING THEIR SUCCESSION PLANNING FAR EARLIER – EVEN AS THEY'RE STARTING OUT. I'M SEEING CLIENTS OF MINE SET UP DIVESTITURE PLANS IN THEIR PARTNERSHIP AGREEMENTS – THAT WAS UNUSUAL, BUT NOT ANYMORE AND IT'S DIFFERENT THAN A SHOT-GUN CLAUSE. THAT COULD BE RELEVANT TO ANY BUSINESS INCLUDING FAMILY BUSINESSES. BASICALLY, YOU START DIVESTING OF YOUR OWNERSHIP SOONER SO BY THE TIME YOU REACH 65 OR WHATEVER AGE YOU WANT TO LEAVE, YOU'LL HAVE FULLY DIVESTED AND HAVE REALIZED THE RETURN ON YOUR BUSINESS. THAT'S THE OPPOSITE OF HANGING ON TOO LONG ONLY TO FIND THE KIDS HAVE MOVED AWAY OR YOU HAVE HEALTH ISSUES AND YOU'RE TRYING TO SELL THE BUSINESS UNDER CONDITIONS THAT ARE NOT FAVOURABLE."

- **STEPHEN KYLIE**, Lawyer, Ontario

TIME

Executing a succession plan is not a just-in-time exercise you can pull together over a few weekends. The barrier, then, is believing it can be done fast. It can't. Not done right.

Overcoming the barrier (or the delusion) requires that you start early and entrench succession in your long term business strategy.

WHAT WE'RE SEEING AND WHAT WE'RE RECOMMENDING WHEN APPROPRIATE IS THAT OUR BUSINESS OWNERS ARE THINKING SUCCESSION OR DIVESTITURE VERY EARLY ON. AS SOON AS YOU'RE ON YOUR FEET AND THE BUSINESS IS STARTING TO GROW, CREATE A SUCCESSION STRATEGY AND UPDATE IT EVERY FEW YEARS. THAT COULD INCLUDE A VALUATION, IT MIGHT INCLUDE SETTING ASIDE EQUITY, IT MIGHT INCLUDING STRUCTURING THE BUSINESS IN DIFFERENT WAYS. THE ADVICE HERE IS CLEAR: START EARLY AND MAKE IT PART OF YOUR ROUTINE IN PLANNING. THAT WAY YOU DON'T SUDDENLY GET OUT OF BED ON YOUR 65TH BIRTHDAY TO DISCOVER THAT YOU HAVE NOTHING TO SELL OR NO ONE TO SELL IT TO.

The generation of business owners who are retiring now didn't get that advice very often when they were starting out 30 years ago. That's why there seems to be so much focus on it and not a little panic about it now. The next generation of business owners has no excuse to find themselves in the same boat.

TAX IMPLICATIONS

Don't believe everything you've read about new federal small business taxes. There was enough noise and enough wrong with that legislation that it has evolved. But don't for a second believe the tax implications of selling your business or transferring it to a family member is easy. The barrier of tax is real and formidable.

Get help from a tax professional. Structure your business for exiting it from the start.

"MOVING THE BUSINESS TO A FAMILY MEMBER IS TRICKY – BUT IF YOU'RE RUNNING AN INCORPORATED FAMILY BUSINESS, MAKE YOUR CHILDREN SHAREHOLDERS OF THE CORPORATION. THAT BECOMES PART OF THE ESTATE PLAN, ALLOWING YOUR KIDS AT LEAST ONE GENERATION OF NO INHERITANCE TAX BECAUSE THEY'RE NOT INHERITING ANYTHING – THEY ARE SIMPLY TAKING OVER THE BUSINESS IN WHICH THEY ARE ALREADY OWNERS."

- **JOHN SAUVE**, Never Rest Farms Ltd., Ontario

OBSOLESCENCE

If your manufacturing equipment looks like something from the industrial revolution or your business services company still has a over-wired server room and clunky old desktop computing stations, there's a problem with your assets. Old, obsolete and limiting technology and equipment is a drain on succession plan execution. What it says about your company is that you haven't invested and that making do was okay.

Keeping the tools of your business and your facilities up to grade and in the moment is an important part of wooing a buyer or buyers. Overcoming the barrier means making strategic investments on a regular basis and drawing out your planned exit date or making tactical, smaller investments on the elements of the business that are most important to the kind of buyer you're looking for.

The side benefit of upgrading tools and facilities in the right places is that you'll also probably realize more productivity from your people. And that should make everyone happy.

FAILURE

We've discussed fear of failure earlier, but even worse is getting to the alter and being left there.

> "I'VE BEEN TO THE ALTER TWICE IN THE LAST THREE YEARS. FIRST THERE WAS A PROPOSED MERGER – IT WENT SIDEWAYS BECAUSE THERE WERE TWO SHAREHOLDERS ON ONE SIDE OF THE TABLE AND ME ALONE ON MY SIDE OF THE TABLE AND THEY STILL WANTED EQUAL THIS AND EQUAL THAT EVEN THOUGH I WAS BRINGING IN MORE THAN HALF OF THE WORKING CAPITAL. WELL THAT DIDN'T MAKE SENSE. SO I SAID, OKAY, I'LL TAKE SOME OF CAPITAL OFF THE TABLE AND THEY SAID NO, YOU HAVE TO LEAVE IT, WE NEED THAT – AND THAT'S WHEN I WALKED AWAY FROM THE ALTER. THE SECOND TIME, A COMPANY FROM ALBERTA AND I GOT TO WITHIN A WEEK OF CLOSING AND THEN SUDDENLY THEY WANTED TO PUT IT ON THE BACK BURNER. I SAID I'VE SUNK $100,000 IN LEGAL, ETC., INTO THIS AND THERE IS NO BACK BURNER. WE DO IT NOW OR I WALK. AND I WALKED."
>
> - **PAUL MARTIN**, DTM Systems, BC

Business owners are motivated by success. It stands to reason that being left at the alter would demotivate us. The good news in the story above is that Paul eventually found his buyers and also successfully sold a division of his business prior to that at a handsome profit. The lesson is simple: every experience is a learning experience, even when you sacrificed your soul a bit to achieve an end goal. Many, many succession plans will fail in the execution stage. What looks good on paper won't hold up in the harsh light of reality.

Keep trying. Keep learning. Get better at it. And you'll get more for it in the long run.

DO-IT-YOURSELFERS

As a business owner, it is highly likely you're a do-it-yourselfer. The two go hand-in-hand.

Let go when it comes time to succession planning and executing your exit. Get a hand from someone who has done it before, who knows the tax implications inside and out and who has your best interests front and centre. The bigger your business (from two or three people up), the more you need help.

NOTHING TO SELL

You've owned your company for years and you've enjoyed a good run. For thousands of business owners, that's enough.

CU Tip

SOME BUSINESSES WILL NEVER BE SOLD. THAT'S OKAY. THE PURPOSE OF THE BUSINESS WAS TO BUILD NET WORTH FOR THE OWNER OPERATOR AND WHEN SHE OR HE IS DONE, THEY'RE DONE.

NO BUYERS (CLOSE BY)

There are several types of business buyers. Knowing what they're looking for will help you groom the business to match their needs and find them outright.

STRATEGIC BUYERS: These are other companies that are either in your sector or trying to enter your sector (or want into your geography). They can be large or smaller businesses. They want to do more of the same (expansion), move in the value chain from where they are (like a manufacturer that wants its own retail outlets), eliminate you as competition or there is a synergetic benefit in the acquisition (the parts of your business that are strong are the parts of their business that are weak). These buyers are typically willing to pay your best price.

FINANCIAL BUYERS: These are true investors of all shapes and sizes. They are buying your cash flow for the most part and sometimes looking for favourable tax positions or hidden values like R&D tax credits. They typically want to pay less in hopes of selling later for more.

OPERATING BUYERS: These buyers are most like you. They see value in the business and want to run it. They are making a career change or have started as a self-employed owner in your sector and see the purchase as a way to expand.

Knowing what specific buyers are looking for helps you position your business to attract them. There comes a point, however, when you actually have to tell 'the world' that the business is for sale. There is risk in that – your clients may see that as an opportunity to find other vendors; your competitors may see it as an opportunity to steal customers. Be that as it may, you still have to put the word out and your professionals, with their connections, are the best people to help.

What they can't overcome is the fact that there are simply not enough potential buyers. It's true in large urban centres – it's even worse in rural and small town Canada. This is why business owner/operators are turning to their own management teams or employees more often. Buy-outs and buy-ins are excellent ways to exit the business while leaving it in the hands of the people who helped you succeed.

"I SOLD OFF THE SOFTWARE SIDE OF MY BUSINESS BECAUSE I DIDN'T HAVE A SUCCESSION PLAN FOR IT – THE REST OF THE BUSINESS I DO. I HAVE A GREAT GROUP OF PEOPLE AND THEY'RE IN A GOOD POSITION TO EARN OWNERSHIP AND THEY WON'T HAVE TO GO AND MORTGAGE THEIR HOUSES TO DO IT. IT WILL WORK LIKE AN ANNUITY – THEY'LL PAY ME OUT AS THEY EARN THEIR WAY IN. THE BUILDING WHICH I OWN CAN BE A PART OF THAT OR NOT, IT'S UP TO THEM. IF THEY WANT TO MOVE THE BUSINESS, THAT'S FINE TOO – I'LL FIND OTHER RENTERS. AND MY CASH COW WILL GO ON. IN THIS AGE OF RETIRING BABY BOOMERS, HELPING YOUR BEST EMPLOYEES INTO OWNERSHIP SERVES BOTH THEM AND YOU."

- **PAUL MARTIN**, DTM Systems, BC

There are many resources to help you structure management and employee purchase plans, and you might even find you get a lot of help with the hard work of executing the plan from a very interested group of purchasers.

Bottom line – there's always a buyer if you look hard enough and put as much creativity into succession as you do into operating the business.

FAMILY

Where to start – family relationships both complicate and facilitate succession plan implementation. That's because it becomes more than a business decision or transaction.

To avoid complications, and get past the barrier of simply not wanting to deal with it, adopt three practices in your family business. (1) Always have an outside advisor who is trusted by all family participants. (2) When implementing your exit plan, use a family business mediator to guide the process. (3) Treat family members the same way you'd treat any other successor candidates. Do they have the skills, the commitment, and the personality to be an owner? And do they have experience outside the business? That's critical according to several of our family business owners.

With so many family businesses changing hands over the next several years, we'll end this barrier with some good news. It's possible, it's happening every day and passing on a family business is as valid a strategy as any other.

> "I WAS RAISED IN A CONSTRUCTION FAMILY AND APPRECIATED THE INDUSTRY. SUCCESSION WAS ABOUT SPLITTING THE ASSETS AND THEN YOU WORKED THOSE ASSETS TO GENERATE INCOME. I SEE MY BUSINESS – APARTMENT BUILDINGS – AS SIMILAR IN THAT SUCCESSION IS A PROGRESSIVE SERIES OF EVENTS. I HAVE TWO BOYS. INSTEAD OF THEM BUYING THE BUSINESS OUTRIGHT, AND TRIGGERING MAXIMUM TAX, I CAN SELL THEM 20% OF THE BUSINESS NOW WHILE I RETAIN MOST OF THE ASSETS. THEY RUN THE BUSINESS AND EVENTUALLY WHEN I'M GONE, THEY'LL BE THE OUTRIGHT OWNERS OF EVERYTHING."
>
> - **BILL DRIESEN** , Double D Developments Ltd., BC

AGE & ENERGY

As you get older, the energy you once had will diminish. That may seem like a no-brainer. But there's a difference between knowing it and believing it. You can believe it – so take the steps you need to take now and do the succession work when you have the energy to do it right.

"MY DAD AND THE OTHER PARTNERS ARE IN THEIR 60s NOW, BUT WE'RE PLANNING ON SUCCESSION AND ACTIVELY INVOLVED IN IT. SUCCESSION IS NOT SOMETHING YOU WANT TO BE DOING BECAUSE YOU'RE FORCED TO. YOU'VE GOT TO HAVE TIME AND TAKE YOUR TIME. THIS IS HARD WORK – IT'S REALLY HARD ON THE OLDER GUYS BECAUSE IT IS EMOTIONAL. AND THERE'S A LOT OF TRUST AT STAKE. SO DO IT WHEN YOU'RE YOUNGER AND HAVE THE ENERGY FOR IT."

- **PARM PUREWALL**, PHL Capital Corp, BC

Thirteen barriers – 13 solutions, most of which are about putting yourself in a position to succeed early on and finding the time you need to do the work by delegating and systemizing the business. It's a five-year journey and while there are always exceptions to the rule, count on a half decade to get it done and if it happens faster, think of all the time you'll have on your hands.

MEAT & POTATOES

One Guide – 4,000 Points of Access

Succession Planning – A Toolkit for Business Owners is a comprehensive, step-by-step guide to planning, executing, completing and surviving the succession exercise. It's a solid tool – but even more important, it can come with a real financial expert attached. That would be a credit union commercial account manager; the person who knows you, your business, probably your family – and in many cases has watched your business grow, struggle, emerge and grow again over the years.

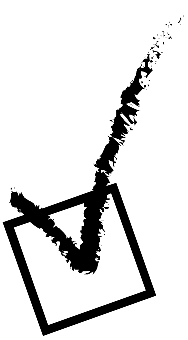
So sure, you can find thousands of tools and advisors out there. But this is very emotional stuff and you need someone who knows you and can be candid with you to guide you.

There are 1,700+ credit union branches of different sizes and colours across Canada. Every branch has access to this Succession Planning toolkit. And every branch has the financial expertise you need to make great choices.

And yes, that's obviously a plug for the credit union approach to business banking. Yet read between the lines – it's actually a plug for surrounding yourself with people you trust and can access easily, consistently and through every stage of your business. However you find those people is your call.

What follows is a summary of the Succession Toolkit. You know where to find it if you'd like to talk more.

Getting Started



Chapter 1: Your Roadmap to Success 9

PLANNING CHECKLIST

1.1 Getting Started

This checklist is designed to help you get started on your succession planning journey.

Family members often play a very important role. If you have not discussed these issues with your family, you will likely be surprised at how many sleepless nights they have had worrying about some of these very same issues, although usually from a different perspective.

Write down your answers to the following questions.

If something were to happen to you today...	
Valuation	
Insurance	
Legal	
Business	
Who are the stakeholders in your business?	
When would you like to slow down or exit?	
How much time do you have to prepare?	

As the title suggests, Getting Started is about understanding the basics and setting up your journey. The earlier you start the better – because you can modify the strategy as time goes by.

Exploring Your Options

Chapter 2: Exploring Your Options 25

PLANNING CHECKLIST

2.1 Setting Strategic Directions

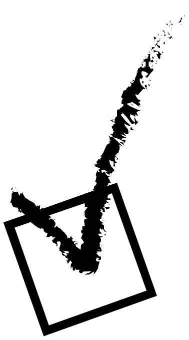
This checklist will help you analyze your business today and the direction you see your business heading in the future. This checklist can also help you develop a leadership profile if you plan to groom a successor to take over your business.

The business (overview)	
Your current position and responsibilities	
The future of your business	

There are three basic options: *passing on the business to a successor, management and employee buy-ins and buy-outs and selling the business. To determine what works best for you, you need to align business strategy and operations with the impact of or decisions about how you want to proceed.*

Keeping The Business in the Family

WORKING WITH A FAMILY BUSINESS FACILITATORS



PLANNING CHECKLIST

3.1 Working with a Family Business Facilitator

An experienced family business facilitator can play an important role in helping you and your family members/key employees discuss issues rationally and objectively and find constructive ways to resolve any conflict. This checklist provides a general overview of the areas where a facilitator can assist in the succession process.

The facilitator's role is to manage the entire process so that discussions will not get sidetracked and, therefore, results not achieved. A facilitator who is experienced in succession planning will be an asset to the process. A facilitator would work with you to devise a succession plan that reflects the specific circumstances of the business and family; however, this checklist is a good starting point for understanding the process and organizing your thoughts.

A facilitator can assist you to:

Current and temporary plans in the event of sudden death	
Stakeholders in the planning process	
Educating all stakeholders	
Stakeholder short term and long term objectives	
Identify, prioritize and address issues	
Coordinating with professional advisors	
Evolving plans as circumstances change	

Statistics support that 60% of business transfers are intergenerational – so this section in the Toolkit is for the majority of you and of interest to everyone else. It's also scary to note that 90% of those attempts fail. The section deals with how to avoid the obstacles that contribute to that finding, starting with the use of a Family Business Facilitator (similar to getting outside, bias-free advice that is referenced in Chapter Three of Cash Cows).

DEVELOPING A FAMILY PARTICIPATION PLAN

PLANNING CHECKLIST

3.2 Developing a Family Participation Plan

These questions provide a starting point for developing a Family Participation Plan[1] that will set out your expectations and provide guidance to family members who decide to work in the business. All family members should be involved in this process.

When and how can relatives enter the business	
What experience / education do they require?	
What return and rewards do they get?	
What if it doesn't work out?	
Who has leadership responsibilities?	
What community role should leaders play?	
What responsibility does each family member have to the other?	
What happens in the event of a marriage breakdown or death?	
Will the business support outside ventures by other family members?	
Conflict resolution	

Selecting and Grooming a Successor

DEVELOPING A LEADERSHIP PROFILE

Chapter 4: Selecting and Grooming a Successor 61

PLANNING CHECKLIST

4.1 Developing a Leadership Profile

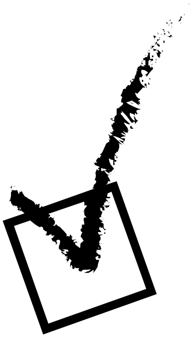
Based on your analysis in Checklist 2.1, set out the skills and experience the next leader will need to deal effectively with the challenges that the business may face in the future.

One way of doing this is to imagine that you are creating an advertisement to attract the right candidates from which you will select the one best suited to assume leadership of your business. List the characteristics, skills, experience, education and other attributes that an applicant would need to exemplify in order to make the cut for the first interview.

Characteristics	
Skills	
Experience	
Education	
Other factors	

It's hard to select a new leader and successor candidate unless you first understand and document what you're actually looking for and what it will take for them to succeed.

IDENTIFYING SUITABLE CANDIDATES



PLANNING CHECKLIST

4.2 Identifying Suitable Candidates

Using the leadership profile you have created in Checklist 4.1, complete an assessment for each of the potential candidates and identify any gaps. This step requires an honest and objective assessment of each candidate's capabilities.

Characteristics	
Skills	
Experience	
Education	
Other factors	

After you figure out what skills add up to success, assess how your candidates will match up.

PREPARING A MANAGEMENT DEVELOPMENT PLAN

Chapter 4: Selecting and Grooming a Successor 63

PLANNING CHECKLIST

4.3 Preparing a Management Development Plan

A Management Development Plan is a means of projecting the company's future management needs and guiding the career paths of family and non-family members to fill those needs.

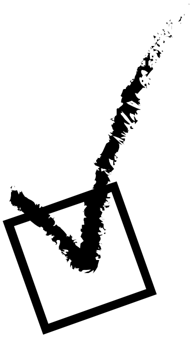
Consider:

- What skills do successors need to develop? How will successors develop those skills?
- What areas of the business do successors need experience in?
- How will the successor progress through the organization over the next 10 years?

Identify management positions, structure and reporting	
Identify how that chart will look in two – three years time (factor in retirements and promotions)	
Forecast what the chart will evolve into over ten years	

While forecasting out over time (be it two or ten years) is a best guess only, your guesses will be more accurate than any other. It's also true that you don't achieve what you don't plan for.

GUIDING SUCCESSOR CANDIDATES DEVELOPMENT



Chapter 4: Selecting and Grooming a Successor 64

PLANNING CHECKLIST

4.4 Guiding the Development of Successor Candidates

This sample chart can be used as a basis for developing the candidate's Personal Development Plan. Consider:

- What skills does the successor need to develop? How will the successor develop those skills? (Refer to the assessment of the candidate you completed in Checklist 4.2.)
- What areas of the business does he or she need experience in?
- How will he or she progress through the organization over the next few years? (Refer to the Management Development Plan you prepared in Checklist 4.3.)

Business operations and product knowledge	
Understanding customer needs	
Skills development	
Required skills and experience	
Leadership development	
Special project responsibility	

Use this section to align candidate education, skills development and business exposure to the needs of the business (as opposed to their personal wish list).

10 STEPS TO SUCCESSOR SELECTION AND GROOMING

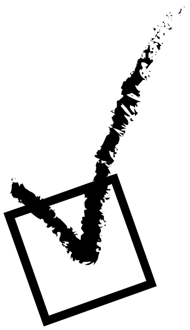
PLANNING CHECKLIST

4.5 Ten Steps to Selecting and Grooming a Successor

This checklist provides the step-by-step process for successfully selecting and grooming a successor and managing the transition.

Develop a leadership profile	
Identify suitable candidates	
Identify gaps in skills and experience	
Prepare a management development plan	
Prepare personal development plans	
Assign coaches and mentors	
Evaluate successor candidates	
Select the successor	
Communicate your succession plans	
Manage the transition	

This part of the Toolkit sums up the ten steps in one planning tool. It blends the other three components of successor selection and grooming with the end game of announcing the plan, the candidate and successfully managing the transition.



Chapter 5: Planning a Management Buyout 81

PLANNING CHECKLIST

5.1 Is Your Business a Good Candidate for a Management Buy-out?

This checklist is a starting point for taking a careful look at your business management team and current operations to determine if a management buy-out is the right option for you and your business.

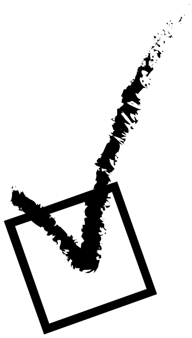
You should anticipate that the management team and its funders will also be looking at these important factors as part of their due diligence process for their purchase of the business.

Does your business have a strong management team?	
Is your business in a strong industry sector?	
Is your business reputable in its markets?	
Does your business have a history of profitability and earnings growth?	
What is the potential for future growth?	
Does your business have a good spread of customers and suppliers?	
Does your business have a sustainable competitive advantage (such as recurring contracts)?	
Does your business have modern equipment and facilities?	
Are there any factors that would encumber a management buy-out?	

Regardless of who you're selling it to, but especially to your own managers or employees who've helped you build the company, being real and candid about the security and prospects for your business is crucial. If you tell people that the business is worth $2,000,000 and the sky is blue for years to come when in actual fact it's worth $200,000 and there are storm clouds everywhere (based on a true story), the only person you ultimately fool is yourself and trust will erode accordingly.

Selling The Business

Chapter 6: Selling The Business 81



PLANNING CHECKLIST

6.1 Preparing for the Sale

To prepare a business for sale, you need to think like a buyer.

- If you were a potential purchaser of your business, how impressed are you with it?
- Are there any factors that might deter a potential purchaser?
- What steps do you need to take to make improvements before you bring your business to the market?

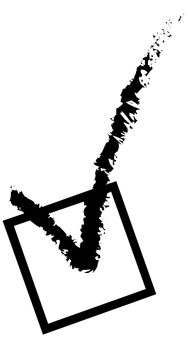
The chart below can be used as a starting point for performing a strategic review of your business. Identifying trouble spots and taking steps to improve these areas well in advance of the sale will ensure the business is better positioned when the time to sell finally comes. It may also be helpful to refer to Checklist 2.1 — Setting Strategic Directions, which you completed in Chapter 2.

Management SWOT	
Financial SWOT	
Marketing SWOT	
Operations SWOT	
Forecasting	

This section is about preparing the business for sale, marketing the business, negotiating the deal and closing the transaction. The tool at the end of the section defines the planning required to put yourself and your company in a favourable position. The best advice? Think like a buyer (just the way your sell your products and services).

Determining the Value of the Business

PREPARING FOR VALUATION



Chapter 7: Determining The Value of the Business 119

PLANNING CHECKLIST

7.1 Preparing for a Valuation

In order to begin the valuation assignment, the valuator will generally require at least the following information:

Reasons for valuation	
Names of all interested parties	
Who gets the report?	
Exact business/shares being valued	
Valuation dates	
Fives years of financial statements	
Business description	
Business plans, budgets, projections	
Fixed assets and appraisals	
Access to business documents and records	
Copies of major agreements	
Shareholders agreements	
Names of professionals/advisors	
Disclosure of prior valuations and prior purchase discussions/offers	

This is an exhausting amount of effort but worth the time and energy and once you've done it once, all you have to do is keep it up to date.

RETAINING A VALUATOR

PLANNING CHECKLIST

7.2 Retaining a Valuator

The following outlines some of the key issues that you should consider when you are retaining a business valuator. These issues are then summarized in the checklist that follows.

Qualifications	
Engagement	
Other specialists	
Checklist of requirements to valuator	

The advice here is simple. A CBV (Chartered Business Valuator) will cost a few dollars on top of your current professional advisors, but the knowledge gained and the security of knowing is worth every penny. It's hard to negotiate a sale price when you don't know the bias-free facts.

PLANNING CHECKLIST

7.3 Improving the Value of Your Business

This checklist sets out ways you can improve the value of your business prior to a sale.

Successor evaluation	
Focus on growth prior to sale	
Maximize profit	
Tax minimization tactics	
Management infrastructure development	
Diversifying customer/supplier base	
Removal of non-operating assets	
Structuring considerations to minimize taxes on sale	
Ensuring next generation competence	
Benchmark the industry prior to sale	

It's called dressing up the business for sale or grooming. You consider these factors because the balance sheet and operating tactics of a company for sales may appear very different than a company in the early stages of growth or a company with no succession goals.

Financing the Succession Plan

Chapter 8: Financing the Succession Plan 141

PLANNING CHECKLIST

8.1 The Lender's Analysis of the Financial Statements

This checklist sets out some of the information that the lender will examine in the financial statements (balance sheet, income statement and statement of changes in working capital) when evaluating the purchaser's application for debt financing.

A lender evaluating a loan request from the purchaser will generally require the most recent three years of the company's financial statements. Audited statements prepared by an accounting firm are considered the most reliable.

The balance sheet	
The income statement	
Statement of changes in working capital	

The success of a business sale, regardless of who it's to, depends on the financial, advisory and legal capacity of all parties to secure the final arrangements and sustain the business through the transition.

EMPLOYEE SHARE OWNERSHIP PLAN

Chapter 9: Understanding the Tax & Legal Issues 162

PLANNING CHECKLIST

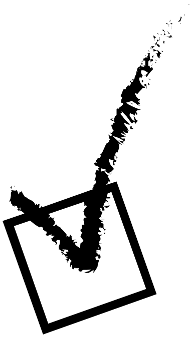
9.1 Employee Share Ownership Plan

ESOPs can make a successful company more successful. This checklist sets out some of the issues you will need to discuss with your professional advisors when considering this technique as the basis for a long-term management buy-out.

Strategic fit of the ESOP with the business strategy and objectives	
Corporate tax structure	
Employee and shareholder tax structure	
Financing sources	
Tax incentives	
Preliminary business valuation	
Integration with current benefit program	
Preliminary plan type (stock purchase, options, etc.)	
Legal structure	
Repurchase liability (exit strategy)	
Timing and costs	

Your employees are investing of themselves in the legacy of your business. Positioning them for success with regard to all the issues and factors that will impact them is the least you can do to help them through the process. Remember – they are the buyers.

THE SHAREHOLDERS' AGREEMENT



Chapter 79: Understanding the Tax & Legal Issues 163

PLANNING CHECKLIST

9.2 The Shareholders' Agreement

This checklist sets out some of the many matters you need to consider before meeting with your lawyer to prepare or amend the shareholders' agreement.

What happens to a shareholder's shares in the event of death or disability?	
What happens to a shareholder's shares in the event of a marriage breakdown?	
Under what circumstances is a shareholder allowed to transfer shares and to whom?	
What if a shareholder wants out?	
How are the shares to be valued?	
How will disputes be handled?	
How will major decisions be made?	
What if a shareholder fails to abide by the terms of the agreement?	

From shot-gun clauses to a full and candid discussion about conflict resolution, creating the shareholders' agreement is the most important step for the next generation of owners. This is especially important if the business is transitioning from a single shareholder to multiple shareholders.

DUE DILIGENCE

Chapter 9: Understanding the Tax & Legal Issues 164

PLANNING CHECKLIST

9.3 Due Diligence

This checklist sets out the major areas that the purchaser and his or her professional advisors may investigate when conducting the due diligence review of your business prior to the closing of a sale.

Property/assets	
Articles of incorporation, records	
Searches	
Statements	
Debts	
Real property	
Contracts	
Insurance	
Employment issues/litigation	
Environmental issues	
Related party transactions	
Intellectual property rights	

If the purchaser or purchasers are smart, they will look under every rock to ensure the financial and legal integrity of the business they are buying.

ANALYZING YOUR FINANCIAL PICTURE

Chapter 10: Managing Your Wealth to Secure Your Future 186

PLANNING CHECKLIST

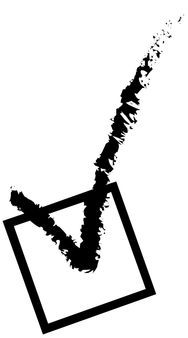
10.1 Analyzing Your Financial Picture

This checklist will help you analyze some of the key life changes that you and your family will undergo as you head into the future. Whether you will stay on in the business in a transitional role or you have sold the business outright, this checklist can help you focus on your short and long-term priorities and set the basic parameters for your financial planning.

Personal snapshot	
Business snapshot	
Overall financial plan	
Estate plan	

The outright sale or transfer of your business over time will impact your personal security and tax situation. The grey area between business and personal net worth will become more black and white. Get your financial picture clear and concise so you can plan for what's coming.

PREPARING TO MEET WITH YOUR FINANCIAL ADVISOR



Chapter 10: Managing Your Wealth to Secure Your Future 188

PLANNING CHECKLIST

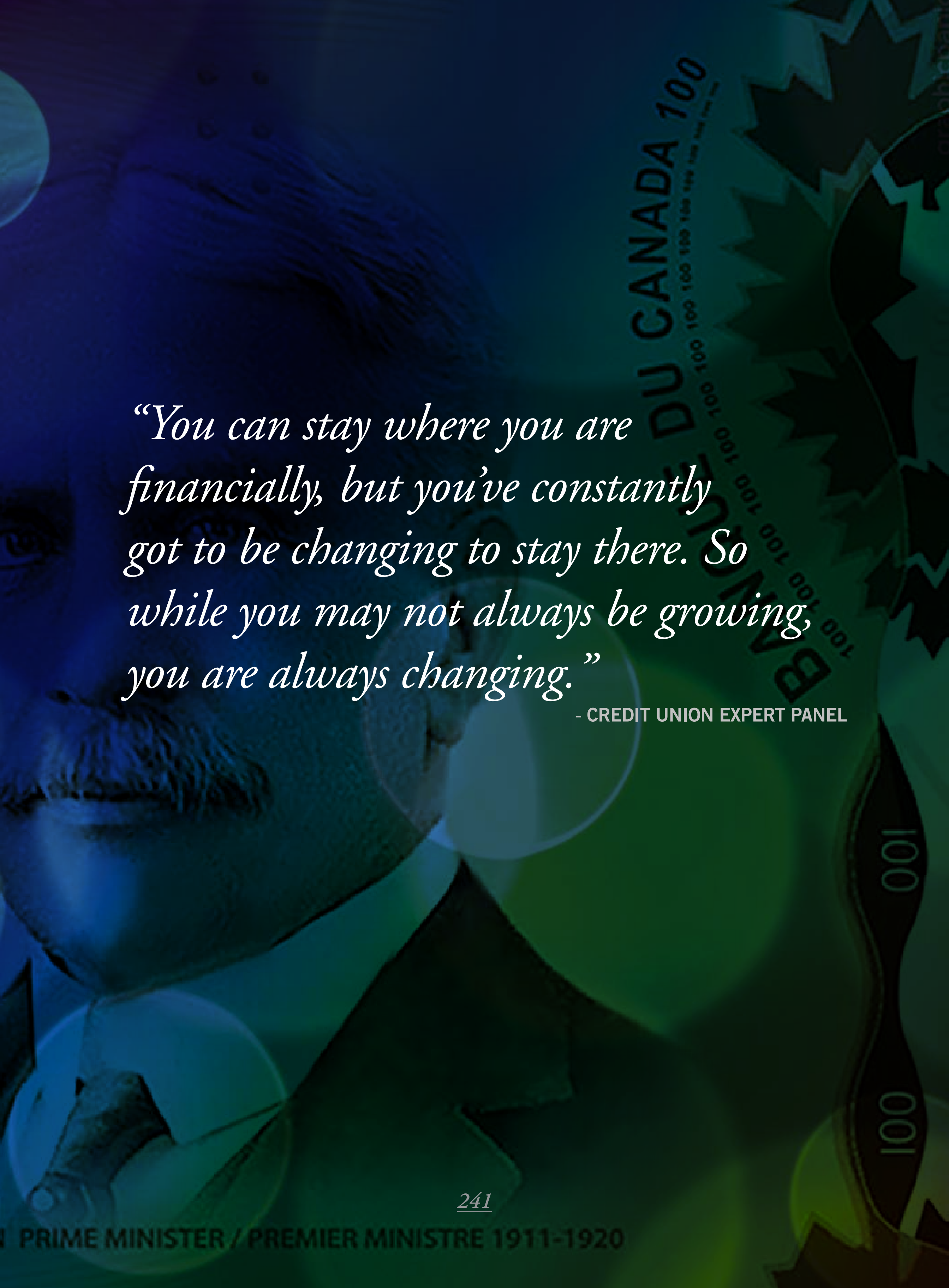
10.2 Preparing to Meet with Your Financial Advisor

This checklist will help you prepare to meet with your financial advisor to discuss your current situation and your goals. If this is an initial meeting, you can expect discussions on many aspects of your personal and business affairs, as well as those of family members who are integral to your financial and estate plans.

Goal-setting	
Tax planning	
Legal planning	
Insurance changes	
Will and estate updates (post succession)	

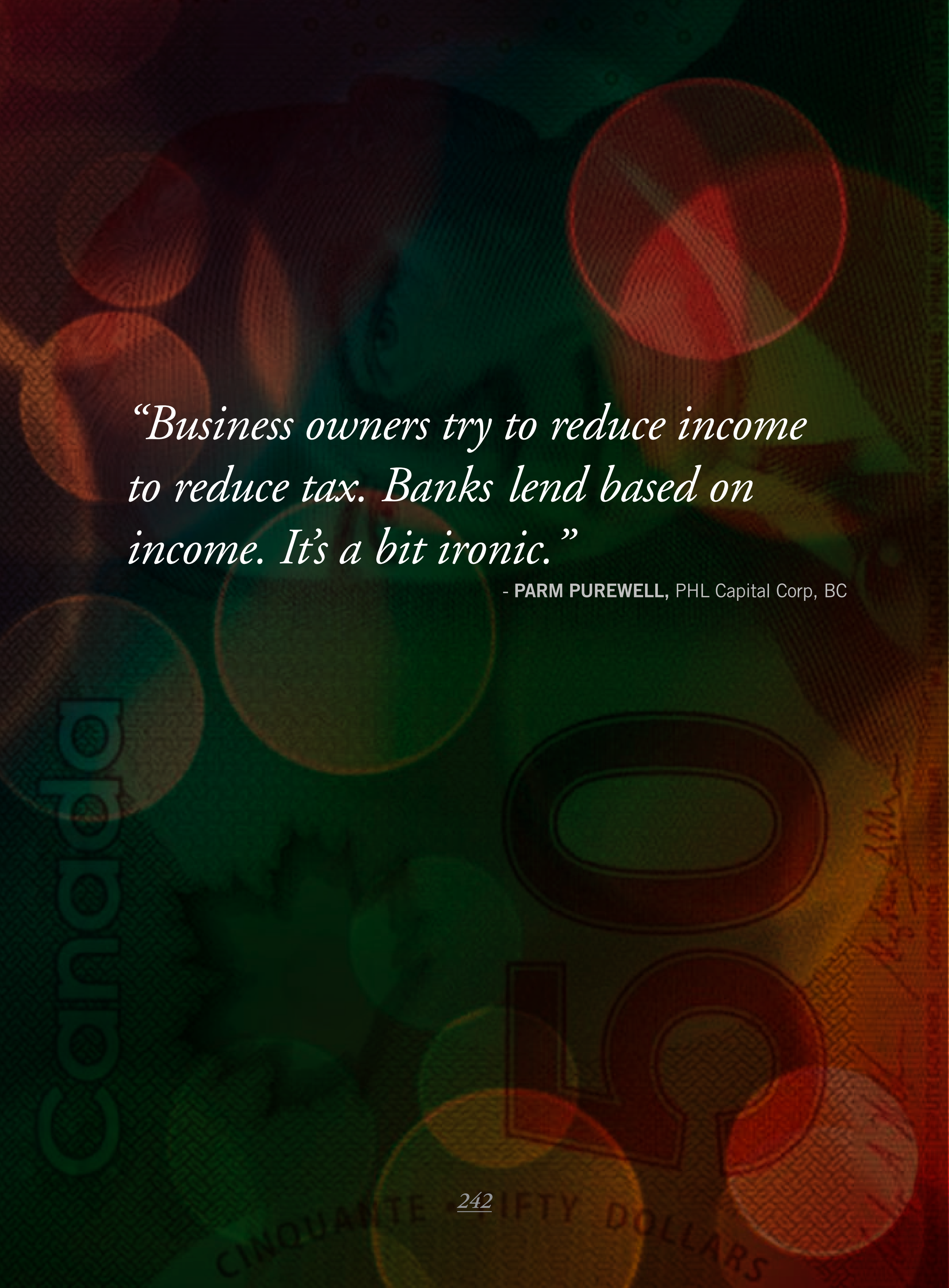
Do you have a trusted financial partner and personal legal advisor? Is your Will up to date in the context of not necessarily owning the business any more. Life will change – ensure your advisors are aware and ensure continuity of advice as you go through the transition.

The Succession Planning Toolkit for Business Owners is available at the majority of credit unions across Canada. To find the best fit for your business, visit ccua.com and start by searching options in your community.



"You can stay where you are financially, but you've constantly got to be changing to stay there. So while you may not always be growing, you are always changing."

- CREDIT UNION EXPERT PANEL



"Business owners try to reduce income to reduce tax. Banks lend based on income. It's a bit ironic."

- **PARM PUREWELL,** PHL Capital Corp, BC

Chapter 7

BUILDING YOUR CASH COW

We defined a Cash Cow as a consistently profitable business, property or product where those profits are used to finance a company's investments in other areas. That definition existed before this book was written and before the small business owner interviews took place. By that definition, more than half of the owners we interviewed are operating cash cows. The majority of them didn't achieve it overnight. Many more of them are headed in the right direction and a few will never get all the way there but it's been a good run.

Yet look at the stats below from the Canadian Federation of Independent Businesses. We're not exactly in rarefied air when it comes to annual salaries. The CFIB explains that's because small business owners are reinvesting in their businesses instead. And while that is true, it's also where the recipe of creating a cash cow lives.

Data from Statistics Canada show that two-thirds of Canadian small business owners are earning less than **$73,000**, and employers earning less than **$40,000** outnumber those earning more than **$250,000** by four to one. (Source: CFIB)

NEVER REST FARMS LTD.
Cash Crops, No Cows – All About Diversity

This book is called *Cash Cows* – this chapter is about how others build cash cows. And the editor selected an agri-business owner story to demonstrate how it's done. Coincidence? Completely. Even though it is a cash cropping farm operation, John Sauve's cash cow has nothing to do with the crop or livestock. And it has everything to do with diversification.

"Never Rest Farms Ltd. is a farm operation and a grain storage division that will hold about 220,000 bushels. On the operations side, I share the work with my two brothers. Then I have J. Sauve Trucking that takes care of what we produce and takes care of some of the neighbours too. There are six trucks in total."

What this is called is vertical diversification and John chose that route because he was investing in what he knew and in himself.

"Diversification for us was important in two ways. First, I was giving away about $50,000 per year to pay someone else for haulage. By owning it myself, that became $50,000 of income. I could have bought more land, but the prices are crazy. So I diversified into a related business for $150,000 (to buy the trucks) which is a whole lot less than the $1,000,000 it would take to buy the land. I generated the same income, $50,000, for a much smaller up-front investment."

Invest $150,000 to generate $50,000 in revenue per year with a payout of three years or spend $1,000,000 to generate $50,000 per year with a payout far into the future. Sounds like another smart farmer.

"The second reason I did it was control. I can have the trucks whenever I need them. That puts my business, my brothers and my neighbours first in line."

We asked John if diversifying into unrelated businesses was also a good idea – to keep spreading out his sources of revenue. He didn't think so.

"I'm leery about investing in things I know nothing about. I guess for huge organizations, that's easier – they have more resources. For small business owners, I don't think so. I need to know how the business functions. I know farming. I know everything related to farming. I can do the math very quickly. Technically, I invested in myself and in my farm, but in a totally different aspect of it. If I had a bad year in farming, I could have a good year in trucking and vice versa."

John's business is a great business. His net worth in land alone would astound you. A wonderfully unassuming man, he's a pragmatic and thoughtful representation of how any business owner can take those small steps, examine all the angles, stay focused and prosper.

Diversification Without Divergence

Strategic diversification is a common and well-known approach to growing your business. And that's a great idea. However, in talking to small business owners across Canada, we also discovered a different reason for doing it. You diversify with a goal to create operations and revenue that decrease the dependence of the business on you.

We all struggle with working on instead of working in the business. That's understandable – we're the core of our businesses whether we want to be or not.

Conversely, a cash cow business owner is either generating revenue from outside the core business or generating revenue from the core business without being directly involved in the day-to-day.

"I'M NOT SURE I'D CALL IT A CASH COW – BUT I'M IN A PLACE NOW WHERE I CAN WALK AWAY FROM THE BUSINESS, GO HOME TO WHISTLER AND NOT THINK ABOUT IT FOR A BIT AND NOT HAVE THE PHONE RING OFF THE HOOK. IT'S ALMOST LIKE IT HAS THIS MOMENTUM AND THINGS HAPPEN AS THEY SHOULD. AND THEY HAPPEN WITHOUT AS MUCH OF MY EFFORT AS IT USED TO TAKE."

- **PEGGY VOGLER**, Aphrodite's Organic Cafe, BC

Sound good? Not so fast. The problem with diversity is that business owners also find themselves chasing that shiny new bead while the core business is not necessarily ready to fend for itself. It's a double-edged sword.

So diversify without diverging from your core business. As John Sauve said, staying close to what you know or vertical diversification, seems to be the best course of action for most (not all) small business owners.

Based on a survey of nearly 1,000 Alberta businesses, a 2018 BDC report found that diversification – whether measured in terms of products and services, geography, or number of customers – correlates strongly and positively with financial success. Not only are the most diversified businesses by far the top performers, but even somewhat diversified firms are likely to outperform those that are undiversified. Diversification is found to be independent of business age and positively associated with financial performance, regardless of business size. Put differently, diversification appears to be a strategy that many successful entrepreneurs utilize right from the start.

If business diversification is the path to your cash cow, it is not without risks. Do your research and avoid leaping before you test your ideas. Get outside opinions you trust. Weigh costs versus risks – like delays or slower than predicted growth or even stretching your resources beyond capacity. Just do your homework.

But when all that is done, the only way to know for sure is to take that well-timed leap. Being risk-adverse has to give way to being risk-smart.

> "WHEN YOU OWN A BUSINESS, YOU CAN GET BLINDERS ON – AND I REGRET NOT LOOKING OUTSIDE THE BUSINESS OFTEN ENOUGH. I HAD AN OPPORTUNITY TO BUY A PIECE OF LAND. I GOT SCARED. I TALKED TO THE BANK AND THEY SAID SURE – YOU CAN DO IT, GO AHEAD AND WE'LL COVER YOU. BUT THEN I THOUGHT IT WAS TOO EASY AND I BECAME OVER-CAUTIOUS. THAT WAS YEARS AGO – THE COST WOULD HAVE BEEN $100,000. TODAY, FOR ABOUT THE SAME ACREAGE, I'M PAYING $700,000. SO THE LESSON IS, DON'T JUST LOOK AT YOUR BUSINESS AS IT EXISTS, BUT KEEP LOOKING AROUND IT FOR OPPORTUNITIES."
>
> - **NICK VEEN**, The Black Forest Restaurant, BC

There are standard approaches to diversification, and for the purposes of building a cash cow, other considerations that will generate the same outcome – that being the point at which revenue increases as your personal effort to generate it decreases.

The Standards:

Lowest Risk	Creating new, related products or services for existing customers.
Medium Risk	Finding new markets for existing products or services.
Highest Risk	Creating completely new products or services for completely new markets.

In addition, we also learned that diversifying vertically within your sector by acquiring subsets of your business like agri-producer John Sauve did with trucking is a standard approach and lower on the risk scale. Then, there's also the myriad of opportunities available to those who define the path differently.

> "YOU WANT TO DIVERSIFY YOUR RELATIONSHIP FOOTPRINT, SO YOU DON'T HAVE ALL YOUR REVENUE COMING FROM TOO FEW CUSTOMERS. OR WHAT IF YOUR BEST CUSTOMER GOES INTO RECEIVERSHIP? SPREADING THINGS OUT – NOT TOO FAR OUT – IS GOOD. ANY TIME YOU CAN REDUCE YOUR RELIANCE ON A CUSTOMER TO WELL UNDER 20%, THAT'S A GOOD IDEA. THAT'S DIVERSIFICATION."
>
> \- **ROD STANG**, Steel View Energy & Industrial Services Ltd., Alberta

So lets say we agree with Rod and that the definition of diversification is bigger than the standard approaches. What can that look like based on what we learned from our business owner interviews?

Additional Options for Cash Cow Builders:

Diversity in People	Hire for new skill sets, different cultural insights, additional capacity within a growing area of the business. Hire people who will grow your business beyond what you can do yourself (see Chapter 3).
Acquisitions & Mergers	It works for entrepreneurs who have proven systems, equity beyond the needs of the existing business and market conditions that are favourable (for example; other owner/operators who want to sell at a discount).
Delegation	Systemize the business to make it easier for those around you to duplicate your success. As they grow and adopt proven systems, time for you opens up.
Real Estate	Become your own landlord. Under the right conditions, this is a proven lower-risk strategy and it also serves your succession plans. Your financial partners will like it too, especially if you own a services business where the only other assets you have are human and/or quickly depreciating computers.
Investments	Use the equity in your successful business to invest in or partner with other successful business owners. This allows you to share risk with other like-minded and business savvy entrepreneurs.

"I WANT TO SHARE RISK – THAT'S A FORM OF DIVERSIFICATION. I SPREAD OUT MY PORTFOLIO INTO REAL ESTATE AND SO ON, AND I SHARE THAT RISK WITH OTHERS. SO SURE – I'M RUNNING OIL PRESSURE AND WANTING IT TO GROW, BUT I'M ALSO GROWING ELSEWHERE – JUST NOT ALL ON MY OWN DIME."

- **ROD STANG**, Steel View Energy & Industrial Services Ltd., Alberta

There's No Time Like The Present

Even in the age of specialization, diversity is more important than ever. You'd think those two concepts would be mutually exclusive of each other. They are not. Most businesses start by specializing. And sustaining a strong area of specialization is also what diversifying business owners do. One concept leads to the next. And you can start your path to diversity after you establish your area of specialization as you near the end of your business venture, in the middle or closer to the beginning as your life changes.

> "IN ONE ASPECT, I BELIEVE THAT WE'VE ACHIEVED OUR CASH COW. WE HAVE A YOUNG FAMILY NOW AND WE HAD TO ENSURE THE BUSINESS WAS WORKING FOR US INSTEAD OF THE OTHER WAY AROUND. OUR BIG GOAL WAS TO GET PEOPLE AROUND US – A TEAM – WHO COULD DO MANY OF THE JOBS SO WE WOULDN'T HAVE TO ALWAYS BE HERE. NOW WE CAN – IT WASN'T LIKE THAT IN THE BEGINNING. I DON'T THINK EITHER OF US TOOK A DAY OFF OR HOLIDAYS IN THE BEGINNING. NOW AS WE'VE GROWN OLDER AND STARTED OUR FAMILY, WE'VE LEARNED THAT TO BE SUCCESSFUL, WE NEED TO STEP BACK AND NOT BE 'IN IT' ALL THE TIME."
>
> \- **CRYSTAL MOORE**, Crust Bakery, BC

***Entrepreneur* magazine (2014) offers four key steps for determining whether now is the right time for you to begin:**

(1) Ensure that whatever you expand into or however you delegate, that the customer value you provide as a result is clear, proven and unique.

(2) Become an expert in whatever you're doing that is new before you actually do it. Diversification is no place for learning on the fly. If you're expanding by market or product extension, understand the new implications. If you're diversifying by acquisition, study the process and be expert in what to look for financially and operationally. If you're diversifying by delegation, be expert in systemizing your business so others can follow.

(3) Understand the strengths of your core business or area of specialization and diversify on those same strengths. If your core strength is technology-based, expand into other technology-based business activities for example.

(4) Ensure the people who got you to where you are will be around for the next stage in the journey. That list of people includes your management team, your employees, your financial partners and your professionals. For small business owners, it also includes your family. Actually, including your family in these decisions probably comes first.

"SUCCESS IN BUSINESS FOR ME – MY CASH COW – WILL BE WHEN WE CAN HIRE PROFESSIONALS TO RUN THE BUSINESS AND, AS A RESULT, NOT NEED TO BE THERE EVERY DAY. AT THE VERY LEAST, YOU DON'T NEED TO OPEN AND CLOSE. IF I'M HANDS OFF THE DAY-TO-DAY, THAT'S A CASH COW. THAT LEAVES THE FAMILY FREE TO WORK ON GROWTH AND EXPANSION – IF I COULD GET TO THAT 50% OF THE TIME, THAT WOULD BE GREAT. AND WE'RE NOT THERE YET."

- **RAJINDER BAGGA**, Everland Natural Foods Inc., BC

Why Go To All the Trouble?

Coming up with new ideas, writing and researching new business plans, talking to customers over and above your normal course of business, explaining to your family why you'll be away a little more than usual – building a cash cow, like building a business, is a lot of work. Yet of the business owners we interviewed, most seemed to be either enjoying the effort or enjoying the fruits of it. There is a certain amount of pride that comes with success. Not the boastful kind, not the wealthy show-off kind. But the simple recognition that you were able to pull this off when there was very likely many around you who doubted you could.

According to Todd Peterson, a US business owner who grew his company from barely making ends meet in the pest control business to a $2 billion operation that was eventually acquired, there's a natural inclination to maintain the status quo as a business. It's safe and risk-free. We have realized, however, that the most successful businesses are not afraid to do things differently. With every change and expansion we make, we want to reinvent the industry and do things no one has before.

There's a rush that comes along with successfully navigating new risks. That's part of the business owner's DNA. You wouldn't be doing what you're doing if you weren't a little different and as a result, wanted to do things differently.

There's the notion of legacy – you've worked for years to build something bigger than yourself. Watching it prosper without you is (a little) like raising a child who grows into a contributing, happy, successful and independent adult. One who wouldn't exist if not for you.

There's the idea of relief – you will make it to the end without anyone finding out you didn't have a clue what you were doing. This is called imposter syndrome. Of course, only you suspect this and in the building of a cash cow, you finally realize you knew what you were doing the whole time.

Obviously, there are financial reasons for building your cash cow. As business owners, we don't have guaranteed pensions. We may have invested more in the business than we have in building personal wealth. We don't think business owners see their companies as RRSPs, but even in finishing up, they do see their businesses as financially important to their futures.

There are reasons for building a cash cow that are connected to giving back. We know small business owners contribute more to their communities than any other segment of the population (Source: BDC). We also know business owners want to continue giving back as the revenue of their company becomes less dependent on their time. A cash cow is the gift that allows you to keep on giving.

And finally, maybe how you define your cash cow is less about legacy or financial factors and more about freeing you up to make choices about your lifestyle and your family. We'll leave you with that thought – and the description of what we see as a lifestyle cash cow called Castleton Hills RV Park.

> "WE HAVE FIVE KIDS UNDER THE AGE OF 15. ONE IS SPECIAL NEEDS AND SHE'LL BE WITH US FOR LIFE. SO WE DIDN'T BUY THIS CAMPGROUND AND START A FAMILY BUSINESS TO GET RICH. WE'RE NOT GOING TO MAKE TONS OF MONEY. WE MADE A LIFESTYLE CHOICE AND THAT INCLUDED STARTING A FAMILY BUSINESS. WE ONLY NEED ENOUGH TO PAY OUR EXPENSES, FEED OURSELVES, SEND THE KIDS TO SCHOOL. WE'RE GIVING OUR DAUGHTER A UNIQUE HOME FOR LIFE. AND WE HOPE ONE DAY ONE OF OUR CHILDREN WILL TAKE IT OVER. THAT'S THE PLAN AND THIS IS THE BUSINESS THAT GETS US THERE."
>
> - **STEPHANIE BERRY**, Castleton Hills RV Park, Ontario

Diversification Options by Business Sector

There are too many business-by-business and market-by-market variables to take what's below as gospel. So use this list of diversification options by sector as thought-starters only. Then, if an idea 'happens', take the time required to create a diversification plan the same way you'd build a business plan. Start with the financials: revenue projection, costs or overhead and investment required. Then add marketing (customer lifetime value, pricing, promotion and HR requirements). Be tough on your forecasting – avoid rose-coloured glasses. And be sure the impact of something new does not undermine your existing core business.

SECTOR	DOMINANT MARKETING CHALLENGES
Agriculture	Look out into your distribution network for opportunities to get your product to market that you can own outright (trucking, marketing). Also look at the market for what you produce – is it changing (based on demographics or concentrations of new cultures for example)? Can you use that back acreage to test the idea of diversifying what you grow?
Construction	Expanding into new geography is a popular yet high-risk diversification strategy for construction companies. For those who are risk-adverse, instead consider using core skills to add value (building management, project management consulting) to not-for-profit and local government projects during slower periods. Business owners also described how specialization in specific aspects of construction diversified revenue (HVAC or electrical specialization for example).
Manufacturing	Diversity in the manufacturing sector is typically based on finding new markets for existing product lines or connecting more directly to the consumers of your products using technology. Both approaches are higher risk. If expanding into the US, consider finding US distribution and sales help and take the time to understand the legalities of different jurisdictions before you stick your toe in.
Business Services	Your best source of diversified revenue is likely hiding in the good business relationships you already have. What other related services do your existing customers need? What skills do you need to add to increase your share of wallet with your customers, and how many other prospects are there outside your existing base who might be interested in these new services?

SECTOR	DOMINANT MARKETING CHALLENGES
Technology	Chances are, the foundation of your tech business is a core skill set of your people or focused on a single area of disruption in the market. Revenue diversification happens when you expand beyond that core skill set and market need. How else can the skills of your people be applied to a consumer need or business function? All too often, tech companies are so interested in their technology, they forget about the broader needs of the customer base. Start by talking to the people who buy from you now. What else do they need or want that is related?
Hospitality	This sector is often limited by seasonality; sometimes as few as ten weeks a year is when 90% of a resort or hotel operator's revenue is generated. Restauranteurs have a slightly different issue – Sundays through Wednesdays are often far slower than weekend bookings. It stands to reason, then, that strategies around shoulder seasons or early week bookings will make better use of existing resources and facilities. Building revenue in hotel and resort shoulder seasons is almost always about adding value or events to attract guests (returning guests and specialized new customer segments). Restaurant revenue grows early in the week with special menus and tastings. Franchising and opening new locations are also popular hospitality diversification strategies.
Real Estate / Development	Most of the real estate developers we interviewed talked about diversity in the context of being flexible about what they build and being able to alter direction mid-build (from outright for purchase properties to rental properties for example). Sounds easier than it probably is. Other areas of possible diversification are in demographic specialization (building for seniors for example) and adding building contract management services.
Retail	Most independent retailers are under assault from online retail giants and as a result of changing consumer shopping patterns. Apart from focusing on and expanding what makes your store unique, diversification strategies include opening secondary locations and pop-up short-term locations, and adding simple and direct e-commerce options for your existing customers. Equally interesting, consider adding services that help your customers use the products they purchase from you or explore opportunities to manufacture and wholesale elements of your unique product line.
Resources	Almost every resource-based company owner we interviewed (all successful) diversified through acquisition during down markets for their sector. They acquired less-successful competitors in their own markets – they acquired similar businesses in new markets to gain entry. Basically what they're doing is leveraging what they've done right and the equity they've built to expand their base of operations for whenever down markets rebound (which they almost always do).
Transportation /Distribution	While specific strategies to diversify transportation and distribution businesses were not as consistent or evident, we suspect there are many similarities between these firms and companies that service specific resource sectors. Expand in markets and eliminate competitors by applying your equity and strong systems to less successful similar firms with ownership that is closer to their best-before-date than their start-up date.

"Life begins at 40 – before that, you're just doing research."

\- **GLENN BUURMA,** Penta Equipment, Ontario

Chapter 8

INSIGHTS AND MUSINGS

Over 800+ pages of verbatim business owner interviews are stored in the *Cash Cows* archive. We've selected more than a few of the best that we couldn't make room for elsewhere in the book – musings and insights that may prove helpful or cause you pause. We've also included a few comments from our credit union commercial banking experts. There's always a larger story behind every comment, so it's enough here to get you thinking.

Learning on the fly...

Every business owner we interviewed exhibited a genuine curiosity for learning – for knowing their weaknesses and knowing what they had to learn to thrive.

> *"If we'd been marketers first instead of product manufacturers first, we could have learned to do more with less."*
>
> \- **RAJINDER BAGGA**, Everland Natural Foods Inc., BC

> *"We have had an advisory group from the beginning made up of local business owners who help guide us. Example: when we started the business, we called ourselves 'Arboriculture Solutions'. The advisory group helped us realize that people struggled with the name and so we ended up changing it."*
>
> \- **TRACY LOGAN**, Logan Tree Experts, Ontario

CU Tip

YOU CAN LEARN BY WORKING WITH THE RIGHT FINANCIAL PARTNERS. MANY CREDIT UNIONS OFFER DEVELOPMENT WORKSHOPS ON A DIVERSE RANGE OF TOPICS FROM OPTIMIZING SOCIAL MEDIA AND MARKET RESEARCH TO CASH FLOW MANAGEMENT AND SUCCESSION PLANNING.

"When it comes to the reputation of the company and of the owner, doing good comes around. We put an open air cinema in the park a couple of years back – we dropped maybe $8,000 on it through the summer and people showed up and loved it. There isn't a direct correlation between investing money in the community by doing something like this and making more money for the business; and there doesn't have to be. I've made a positive contribution to the community."

- **HARJ SEKHON**, Subway Multi Unit Franchisee, BC

CU Tip

WHEN YOU'RE RUNNING A SMALL BUSINESS NOW, COMPARED TO IN THE PAST, YOUR SUCCESS NOW STARTS WHEN YOU'VE CARVED OUT A SMALL, LUCRATIVE NICHE AND BUILD OUT FROM THERE. EVERYTHING IS BECOMING MORE REFINED, MORE FOCUSED. THOSE ARE THE HALLMARKS OF SUCCESSFUL BUSINESS OWNERS.

"People don't understand the importance of a Mission statement – it has to describe exactly what you're going to do and then it has to drive you to do it. You actually need to live it. Too many people think it's a buzz word. It's not – it defines what's important and how you will achieve that thing that makes you special. For us, it's about providing an experience that guests will come back for. That governs everything we do."

- **JOE ANNE HOLLOWAY**, Bayside Vacation Resort, Ontario

Business Math & Financial Partners…

The simple truth is that if you avoid the math of business and withdraw from finding advisors who genuinely help, storm clouds will brew. The opposite is also true – learn the math and learn from advisors who match your values.

> *"You need to know how to do proper accounting. Seems obvious enough, but it's not for a lot of small business owners. You can't just collect your receipts at the end of the year and hand them off to your accountant. That's inevitable business suicide. You have to watch your numbers, especially in a family business. You have to have family conversations about numbers. You need all your professionals on the same page: if the accountant is trying to compress taxes while the lawyer is trying to protect your assets and your banker is simply trying to ensure they won't end up owning a property, those are three different siloes. And you're caught in the maze."*
>
> \- **JOE ANNE HOLLOWAY**, Bayside Resort, Ontario

CU Tip

WE'LL ASK YOU ALL THE SAME QUESTIONS ANY OTHER FINANCIAL INSTITUTION WILL ASK. BUT WHAT WE'RE REALLY INTERESTED IN IS YOUR STORY. WE'RE INTERESTED IN HOW YOUR BUSINESS WORKS AND WHAT YOUR OPPORTUNITY IS. WE'RE A PARTNER IN THAT WE'RE INVESTING IN MORE THAN RATIOS AND RETURNS. WE'RE INVESTING IN YOU.

CU *Tip*

THERE'S A DIFFERENCE BETWEEN RUNNING A BUSINESS AND DOING BUSINESS. IF I'M A PLUMBER AND I'M DOING BUSINESS, I'VE GOT MY CERTIFICATIONS AND MY TRUCK AND I'M FIXING TOILETS AND MAKING MONEY AT IT. BUT I'M NOT LOOKING AT MY MARGINS, I'M NOT DOING CASH FLOW PROJECTIONS, BUDGETS AND FORECASTING. I DON'T KNOW WHAT IT'S GOING TO COST ME TO GROW, TO ADD A PERSON OR TWO PEOPLE. LOOKING AT THOSE THINGS IS WHEN YOU'RE RUNNING A BUSINESS AS OPPOSED TO DOING IT.

"When you're dealing with a financial institution, treat it like you're selling an investor – because you are. You want to show them you are an investment opportunity in a clear and quantitative manner that tells your story in their language. You have to communicate in a way that they will nod and understand. You also have to understand that their time is constrained – so you can't give them a novel. Keep it short, keep it sweet. You're always pitching. That's your job."

- **DAN KERSHAW**, Furniture Bank, Ontario

"I'm not really that sophisticated. When I started in this, I was just a plumber. But I also happen to be a plumber who doesn't like debt. We've grown from two people to 40 people because we left money in the company and reinvested when appropriate. And we did it with our own cash flow for the most part."

- **DAN SCHUBERT**, Schubert Plumbing & Heating Ltd., BC

"In order to be profitable, I base my business forecasting with regard to breaking even on the cost of staff and relevant overhead per staff using two and a half to three times a person's salary. So for every person we hire, we have to generate two and a half to three times that new salary just to break even. Everything after that is profit."

- **RANDIP BHANDAL**, ConEcon Group, BC

"Entrepreneurs do not always plan for a worst case scenario; this can cause a big problem as you need to anticipate on a way out, as it can easily inflict bankruptcy. We build contingencies into our scenarios for the possibility of a worst case. Now we can see it coming and address it accordingly. A good example is a residential development we did – we built the units but sales weren't going well back in 2008, so we adapted based on our planning. We turned those units into rentals for a few years until the market came back. In our budget we had the associated costs built into our contingency. We're optimistic but also need to be pragmatic."

- **PAUL TEEUWEN**, Skyview Terraces, BC

CU Tip

WHEN IT COMES TO LENDING, SECURITY IS INSURANCE, NOT THE REASON TO APPROVE AN APPLICATION. CASH FLOW IS WHY FINANCIAL INSTITUTIONS APPROVE APPLICATIONS. HOW WELL DO YOU KNOW YOUR BUSINESS, YOUR MARKET, YOUR COMPETITION. IF YOU DON'T KNOW YOUR BUSINESS – OFF THE TOP OF YOUR HEAD – IT'S HARD TO INVEST IN YOU. LOANS AND CREDIT LINES ARE INVESTMENTS.

Coming Soon...

We learn from the past yet it's the future we're all worried about. Especially when forecasting beyond six months out is so difficult. So what's next in your business?

"I think, from a marketing point of view, there are opportunities rising again for boutique storefront operations. We already went through big change and amalgamations and the little guys got bought up or wiped out. Now, regardless of the industry you're in, if you can connect with your customers locally, and be more engaging, you will attract people back to that unique value."

- **JON SMITH**, P.A. Rental & Leasing Services Ltd., Saskatchewan

"My Dad had it crazy close to correct when it came time to start selling me the business. Because we started learning the value of that when we were seven or eight years old. I was picking stones, and hoeing weeds – but not for free. I earned a wage and learned the value of that. And the other thing he did for me was that he sold me the profitable part of the business first – the inventory side of it where the money was made. And the lesson there for family businesses is don't treat your successors as free labour and when it comes time to transfer the business, don't saddle them with a mountain of debt. Sell the smaller parts that make money one step at a time and let them learn to carry the weight."

- **GLENN BUURMA**, Penta Equipment, Ontario

"Small businesses aren't going to need giant financial institutions in the future for their transactions. You have cloud-based systems, disintermediation, new kinds of partners who can handle any kind of function traditionally handled by a big bank. You have millennial business owners who are very comfortable with operating their organizations virtually – no big brother required. All the commoditized service will be replaced. High touch service and high value, on the other hand, will be more in demand and a more consultative approach will be the preferred service."

- **DAN KERSHAW**, Furniture Bank, Ontario

"I have ten grandchildren and I look at the future this way: I'm a big believer in the next generations coming up. Their intelligence level is amazing. It's so much greater than ours was. That's what will get us through the next 20 to 40 years."

- **DON WIK**, RM Office Solutions, BC

Human Nature...

As highlighted earlier, people, talent or however you define it will cause most business owners more sleepless nights than financing and operations combined. Add to that family dynamics, and there are more than a few things to think about...

"One of our great successes is being very involved in our community; having staff who live and work in this community is important. Being involved with local running groups and cycling groups is very important. Giving back to this

community is very important. It's all about how we differentiate ourselves and apart from location and the clinic space itself, it's about the culture; very strong pride in our professionalism. That helps with staffing and that helps keep customers."

- **NATHAN VANDERKUIP**, Pivotal Health, BC

"There's something like 160 tech firms within a four block radius of our office in downtown Toronto. Any one of our people could walk down the street and have a new job in less than two hours. That's the environment we're working in – that's how tough it is."

- **DAVID KONRAD**, Konrad Group, BC & Ontario

"Staffing is our biggest challenge. We train people and they leave. We keep losing good people, in part because of the industry we're in (printing). You're competing for people (semi-skilled) against sectors like the resource industry and when that's booming, they pay double what we pay. Anyone in government, they pay double. I'm competing for people against my own tax dollars. There's no win, no solution to that; you just have to keep trying and the hours never go down as a result."

- **DON WIK**, RM Office Solutions, BC

"We have a good relationship my two brothers and I. I trade the use of my equipment and manpower for the use of their manpower – none of us quit until we're all done. We're

individual owners of our own farms – we share the work. We've had maybe two disagreements in thirty years or so – apart from that it's been terrific. All three of us put the other two ahead all of the time. That's how it works."

- **JOHN SAUVE**, Never Rest Farms Ltd., Ontario

"A husband and wife team can definitely have its challenges. Having all of our eggs in one basket can be stressful, especially with a slow season. Also, balancing family, kids and business can be difficult. However, it's also great to build something together and feel good about providing a great service and showing your kids that hard work pays off."

- **TRACY LOGAN**, Logan Tree Experts, Ontario

CU Tip

ESTABLISH COMMON LANGUAGE WITH YOUR FINANCIAL PARTNERS FROM THE GET-GO. REFER TO THINGS LIKE REVENUE AND CONTRIBUTION MARGINS THE SAME WAY. AND KEEP IT SIMPLE ALL THE WAY THROUGH YOUR RELATIONSHIP. IT'S NOT ALL BANK-SPEAK AND IT'S NOT ALL BUSINESS-SPEAK. IT'S THE LANGUAGE THAT WORKS FOR EVERYONE, A MIX OF BOTH.

"At the very start, I had a good friend and he said he'd do our accounting for us. And it dragged on and on. And finally we had to let him go. And it was tough. So the key learning for me would have been to get my business systems in order earlier, to set better boundaries and expectations and then

live up to those boundaries and enforce those expectations. Partners, employees, accountants, lawyers – they all need to know your expectations and there needs to be consequences. Otherwise, you're allowing relationships to make problems worse than they are."

- **JON SMITH**, P.A. Rental & Leasing Services Ltd., Saskatchewan

"Trust is everything, especially when some of the family members are just investors. Like my cousin and his Dad. They don't ask to see numbers, they trust that I know what I'm doing – I show them the summaries and what I think they need to see, but apart from that, they are investors. And they've done well for their original low six-figure investment; now it's worth a healthy mid-seven figures. I guess that helps."

- **TIM YOUNG**, Young's Equipment, Saskatchewan

"Farming isn't like owning a business in the city. I walk 50 feet between work and home. I'm staring at work out the kitchen window all the time. You have to work much harder to separate the two and turn it off."

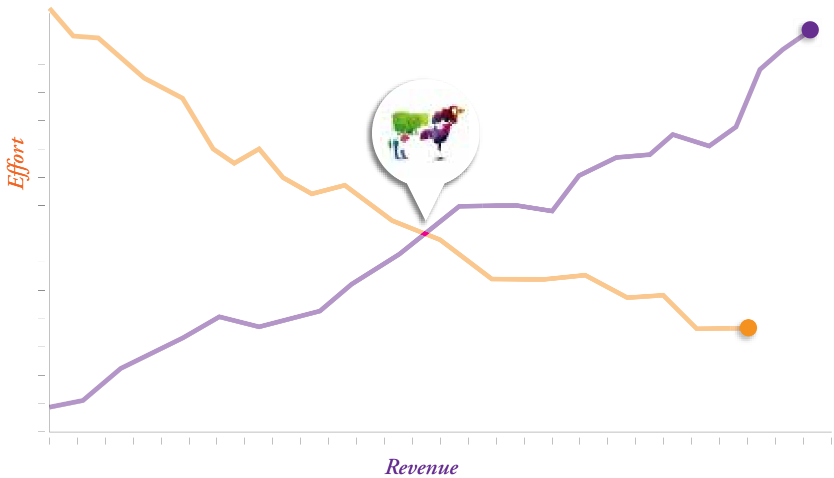
- **JOHN SAUVE**, Never Rest Farms Ltd., Ontario

“Business expenses or personal, the money comes from the same pair of pants. Just different pockets.”

- **GORD MILBURN**, Thompson Machine & Tool Ltd., Ontario

Chapter 9

THE CASH COWS TO-DO LIST



Of the 80,000+ words in *Cash Cows*, and all the insights of over 40 successful business owners, hundreds of credit union business banking experts and countless sources of data and advice, the to-do list that comes from this book (if building a cash cow seems like a good idea to you) is much shorter and consistent across all points of reference. We've distilled the advice from each chapter here so you can make the choices that fit the age and stage of your company.

According to a Harvard Business Review Study, three quarters of business organizations regardless of size struggle with executing their strategies. Why? **(1)** Individual team members are not given specific goals, objectives and metrics. **(2)** Not everyone is aligned on the big picture. **(3)** The team doesn't have a plan for communicating and collaborating on the plan in real time.

A Plan Without Execution Is a Door-Stop

We've all been there – either alone or with your team, you prepare the company business plan and everyone leaves the exercise excited and ready to roll. A year later, you're still fighting fires and everyone is using the nicely bound document as a door stop (if your office still has individual doors, that is).

The difference between success and failure is in consistent execution. So how do you achieve that when so many struggle?

(1) Identify the metrics (measures) and break them down into smaller steps that can be reported monthly.

(2) Keep the big picture front and centre at every stage. Entrench the WHY of what you're trying to achieve.

(3) Connect communication and collaboration around executing the plan to how team members are compensated. You get what you reward.

You and your team will continue to fight fires and work 'in the business' as the top two priorities for as long as you allow that to happen. Change the game – make execution of the bigger plan an equally important priority by building it into the culture and the compensation of your team.

The To-Do List

What follows is a simplified structure for mapping out what it will take to build your cash cow. Good luck!

BUSINESS PROOFING

WHY	WHAT	NOTES
Business Proofing	**PEOPLE:** Make talent identification, development and mentoring the cornerstone of your business. Give HR a seat at the management table as you grow.	
	TECHNOLOGY: Stay just one step behind early adoption of new technologies – let the pioneers take the risks; learn from their mistakes. Get help (either on staff or outside) from bias-free technology experts. Have a healthy mix of younger and middle-aged managers (those who grew up with technology mixed with those who had to adapt to it).	
	DISRUPT: Identify opportunities to eliminate intermediaries in your business value chain (get closer to your customers). Look for operating or marketing gaps that have not evolved in your area of expertise – the sector in which you generate revenue. What can you do different that is better for the end customer?	
	DIFFERENTIATE: What does your business do for your customers that is genuinely unique and important to them? Identify it, test it, sell it.	
	GET FAST: Identify where speed matters most in your business (it doesn't have to be everything). Rethink systems to be faster by eliminating wasteful steps or activities. You won't speed up using systems and thinking from the 1990s.	

MIND THE MONEY

WHY	WHAT	NOTES
Mind The Money	**EMBRACE THE NUMBERS:** Get over your F.O.N. (fear of numbers). Learn early from a seasoned business mentor. Track cash flow weekly. Learn to enjoy it. Understand your statements. Know where your tipping point is (that magic number or margin where revenue becomes profit).	
	TREAT PROFIT AS AN EXPENSE: Include the profit percentage that you are trying to achieve in the overhead analysis of your business. It's like paying yourself first in a personal financial plan – only you're doing it for the business.	
	FOCUS ON CASH FLOW: It's simple to say *'earn more than you spend'*. Sometimes it's hard to see. Weekly cash flow statements and understanding the nuances of your cash flow (seasonal fluctuations, project expenses, historical revenue patterns) is a good starting point. Cash flowing into and out of your business is its oxygen. Embrace it to keep breathing.	
	FIND A FINANCIAL PARTNER: While this sounds soft, it's a common factor for most successful small business owners. Find a financial services partner who is consistently there, accessible, understandable (who speaks business in addition to 'banking') and who demonstrates they're actually interested in your success (by the questions they ask, their willingness to come to you and the help they provide when business cycles look like valleys).	

PEOPLE

WHY	WHAT	NOTES
People	**BUILD AND CELEBRATE YOUR CULTURE:** Creating and sustaining a work environment that challenges people in the right ways, develops skills, provides mentoring and compensates by performance – while having a social aspect to it too – is what attracts and retains the best people. It's not about Christmas parties and suspect benefits plans. And it doesn't have to be all about wages.	
	DELEGATE: If you can't delegate to your people and trust the results (both success and the learning in failure), you won't grow, you'll find exiting difficult and you'll burn out. There's no magic wand here – you either do or you don't.	
	CULL THE HERD: It sounds harsh, but keeping people on staff who don't perform well or refuse to work toward the Vision are undermining the confidence of your good people and, in most cases, not serving the suspect performer well either. They're not all toxic – they just don't fit. Help them out the door sooner and understand that it doesn't make you a bad person.	
	FEED YOURSELF: Think of a neglected sports car. No oil changes, wrong fuel, no regular maintenance – not even a wash and shine on a regular basis. The rust soon sets in, the performance you bought it for diminishes. Your mind and body are the same. If you don't find time for yourself and conduct regular maintenance, you'll wear out at the worst time. Find 30 minutes a day for yourself. Pay attention to your family at home.	

GROWTH

WHY	WHAT	NOTES
Growth	**HIRE FOR GROWTH:** There comes a point when you've grown the business to the best of your ability. Incremental growth can happen when you start recruiting people who bring new ideas, new sources of complementary revenue, and new energy to the business.	
	USE SMART PLANNING: Is your growth strategy specific, measureable, attainable, realistic and time-bound? If not, it's a pipe-dream. Too many business owners rely on wishful thinking to grow. Even worse, they don't know the difference between good growth and bad growth. Be SMART – follow the simple steps and grow accordingly.	

MARKETING

WHY	WHAT	NOTES
Marketing	**LEARN:** Marketing is what you do before you start selling. Do the work on your product, your pricing, your costs and the place factors that impact how your customers acquire what you're selling. Then ensure your people, including your sales people, are following the plan. And finally promote what you're selling in a mix of media and tactics that fits your target audience. Get professional help – the promotional side of marketing is even more expensive when it misses.	
	CALCULATE LIFETIME VALUE: Identify the lifetime value of a customer (gross revenue less costs multiplied by an average number of years based on the historical track record). Use that number to decide how and how much you should invest in the retention of existing relationships. Use it again to decide what your annual budget should be for investing in new customer attraction over time.	
	INVEST: If you only see marketing as an expense, you'll never achieve a consistent return from it. You'll also tend to cut it first when times get tough. See it as an investment, made consistently over time, and it will be the last thing you cut because the ROI will be obvious. Investing in marketing fuels the development of your cash cow.	
	FIND HELP: You'll get to a stage of growing where marketing and specifically the communications side of marketing becomes a crushing time killer. So whether on staff, on a retainer with an individual consultant or with a firm, find help. Look for people with both strategic and tactical skills across a broad range of outcomes – avoid single-idea vendors (like those selling social media only or radio only). The purchase path of your audience has changed; find someone who gets that strategically and can match it with unique tactics every step of the way.	

SUCCESSION

WHY	WHAT	NOTES
Succession	**START EARLY:** Every business owner we interviewed wishes they had started their succession planning earlier. Our experts advise starting as early as five years into your business life cycle. Based on research that's easy to find, aging boomers across the board all regret not having started sooner when the pressure wasn't as intense. What else do you need to know. Start working on your exit today.	
	KNOW THE NUMBER: Getting a professional valuation of your business after it is established and has some equity along with a few years of results, is the starting point of sound succession planning. Keeping the number up-to-date as the business changes is equally important. You always know what your home is worth whether you're selling it or not. Know just as much and more by understanding the value of your business as it changes and grows.	
	WORK THE DETAILS: Succession planning is a detailed process that requires digging and hard work. Only the very lucky avoid that truth. So – find a process that works for you (see Chapter 6) and start planning the work – so you can work the plan.	

CASH COW

WHY	WHAT	NOTES
Cash Cow	**DELEGATE:** You can't build a cash cow if you're doing all the slogging on the core business. Finding the right mix of managers you trust and doers who can take the load – and then giving it over to them – is the surest path to cash cow status.	
	SYSTEMIZE: If all the processes, the Vision for the business, the marketing and communications plan and the operating procedures are in your head, how will anyone else do it your way? Write it down, keep it simple, add some inspiration and proof of concept (why it works) and let it go. If your people can't follow it, you have other issues.	
	DIVERSIFY: Once your core business is humming along and you've found time to work on the business, start researching the concept of diversity. Based on what we've learned, that is the path to cash cow freedom. Diversity can include being your own landlord, adding new lines of business, adding people who can grow the business in new markets, and even acquiring other businesses.	

Be A Constant Learner

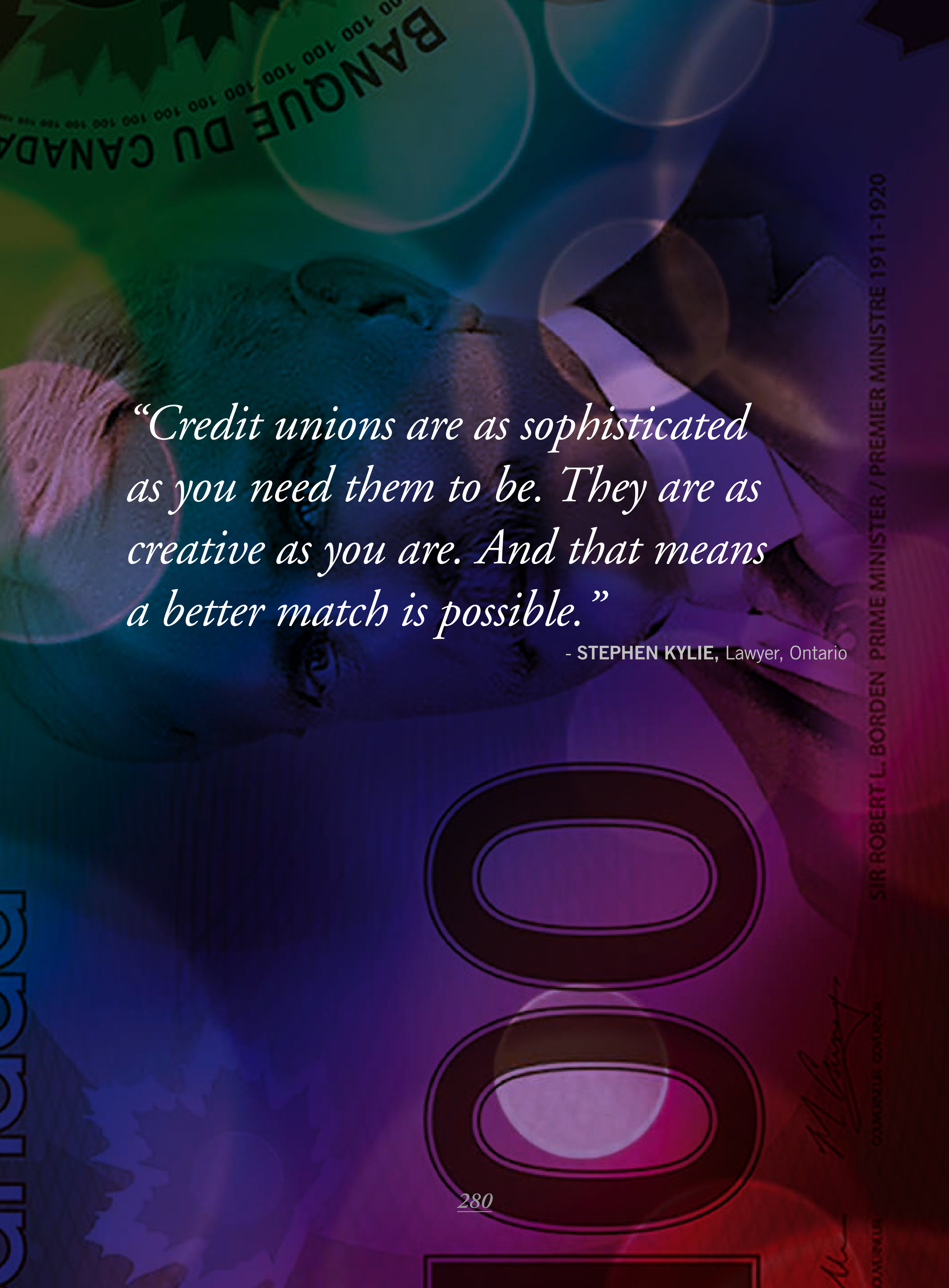
It never stops – the most successful business owners, regardless of size, are always learning. Here are some of the key books our owners and experts recommended.

Reading List:

- *E-Myth* by Michael Gerber
- *Different* by Youngme Moon
- *How to Build Value in Your Business* by Howard E. Johnson
- *The Succession Planning Toolkit for Business Owners* by Canada's Credit Unions
- *Positioning* by Al Ries and Jack Trout

The majority of small business owners will never be found in the ranks of the rich and famous. However, you will find most of them doing more than their share when it comes to community support. You'll find they've invested outside their businesses and in the well-being of their families. While they don't have juicy pension plans, they seem to be traveling a lot in retirement (and even before retirement). And even in retirement, many still have their fingers in a few interesting projects – you just can't fight the DNA. We also suspect that somewhere along the way, knowingly or not, they created a cash cow by doing many of the things on this to-do list. We wish you the best of luck in your endeavours.


CINQUANTE • FIFTY DOLLARS
50
Canada
OF CANADA 50



"Credit unions are as sophisticated as you need them to be. They are as creative as you are. And that means a better match is possible."

\- **STEPHEN KYLIE,** Lawyer, Ontario

Chapter 10

BUSINESS BANKING WITH PRINCIPLES?

The second largest lender to small business in Canada is not a major bank. It's all of Canada's credit unions combined. Surprised? You shouldn't be – credit unions thrive in the same places that small businesses thrive; locally, in small towns, big cities and in every neighbourhood in between. Today's credit unions are highly-sophisticated with all the advanced services and digital access any business owner needs – yet what differentiates the pros who work for credit unions is their deep personal commitment to the people they serve. And based on the *Cash Cows* interviews, that's what small business owners appreciate.

What is a Credit Union

This is the short version of a long story that is still being written across Canada.

Credit unions are owned by their customers – referred to as members or ‘owners’. Credit unions are managed by professionals and governed transparently by an elected Board. Like banks, credit unions are fully regulated; the difference is, banks are regulated federally while credit unions are regulated provincially. And the point is, credit unions are as secure as any major institution in Canada’s well-known and trusted financial services sector.

Credit unions offer all the online, mobile and convenience solutions that technology in financial services makes possible. For business owners, dedicated account managers with access to subject-matter expertise (lending, succession planning, investments, financing, commercial mortgages, sector trends and more) are available at the majority of branches (there are 1,700+ credit union branches across Canada). That’s a lot of help very close to where you live.

Credit unions serve locally and focus locally – meaning as far as the ecosystems of communities go, credit unions have a positive impact on individuals, households and families, on the economy by supporting local business owners and on the social health of those communities. Credit unions offer personal banking, business banking, specialized farm banking, mortgages (commercial and personal) and investment solutions. They also offer the personalized advice and care that makes the financial lives of their members easier.

To learn more about credit unions in Canada, visit ccua.com.

Nine Principles

There are Nine Principles of commercial and farm banking service that the majority of credit unions adhere to in addition to their unique brands and member commitments.

These principles also align with what small business owners have said matters to them most. (Oddly enough, when price was mentioned in our owner interviews, it wasn't the most important factor; see page 46 on Finding a Financial Partner. That's because the majority of financial institutions that lend to businesses are very close on pricing.)

So – if price isn't 'it' in most cases, what matters more?

Here are the Nine Principles of business banking service from Canada's credit unions:

1	**We're your advocates**	The credit union person who serves you represents you. When financing decisions are being made, you'll find we have more local influence over these decisions.
2	**No musical chairs**	We're big believers in continuity. We'll try to keep the people we put in front of you in front of you longer. The trust you build today will remain intact tomorrow.
3	**Cutting red tape**	It's a fact of business that policies sometimes limit what you can do. So here's what we do better – we'll be more accountable, we'll do it personally, and we'll never pass the buck. Sound fair?
4	**Good judgment vs. formulas**	Facts are formulas used to calculate potential and assess risk. But formulas are only one measure. So is your character, your business plan, as is your track record.
5	**Personal service vs. technology**	We're not anti-technology – quite the opposite. We use technology to make personal service better. Online banking, mobile solutions, ATMs and other advances are always tailored to you, not the other way around.

6	**Access to experts**	What good are financial experts to you if their smarts are reserved for giant corporations? As a credit union member, you not only have access to our best talent but to a full range of expertise.
7	**Access to humans**	Call centres are wonderful things. So is voicemail. And email or texting. But never at the expense of picking up the phone to connect with a warm, thinking human on the other end of the line. Like at a credit union.
8	**Getting to yes**	"No" should never be the only answer or the last word. Every business owner deserves an opportunity to make good things happen. We'll help you figure it out.
9	**Riding the cycles with you**	Everyone has good days and bad days. Every business goes through the natural ups and downs. What gets you through is the trust we build together. This isn't lip service. It's business banking between equal partners.

To find a credit union close to home and your business, visit locator.ccua.com.

"We work outside the hours that our kids need us."

- **JAYMIE CROOK,** Bosco & Roxy's, Ontario

CU *Tip*

IF YOU NEED A GLOSSARY TO HAVE A CONVERSATION WITH A FINANCIAL INSTITUTION'S REPRESENTATIVE ABOUT YOUR BUSINESS AND FINANCING, YOU SHOULD RETHINK YOUR RELATIONSHIP. EVEN BETTER, START WITH AN UNDERSTANDING ABOUT WHAT TERMINOLOGY YOU'RE GOING TO USE, WHAT IT MEANS, WHY IT'S IMPORTANT AND HAVE A CONSISTENT, MORE MEANINGFUL CONVERSATION FROM THERE. IF YOU'RE TALKING MONEY AND SPEAKING A DIFFERENT LANGUAGE THAT'S A HUGE PROBLEM.

Chapter 11

A BUSINESS GLOSSARY FOR MOST OF US

For most small business owners, business-speak is not their first language. Few of us are MBAs or B-Comm grads and even fewer have a deep understanding of tax and business structures. That's okay – we have experts for those challenges and we're all very fluent in the language of our company and the business sector in which we operate. Learning what you need to know about financial language becomes more important as your business grows and our *Cash Cows* interviewees suggested you embrace it sooner than later. So here, for most of us, is a simplified glossary of terms that will impact your business over time.

Both business terms and business structures are covered in this glossary. Use it as a guide only – perhaps even the starting point for a more in-depth search about what you're trying to learn. Take Current Ratios, for example. The definition that follows says *it's a number that reflects a company's current assets relative to its liabilities; a measure of liquidity*. But you need more information than that – why is it important, how do you calculate it, how do financial institutions use current ratios as they make their lending decisions?

The world we live and operate businesses in makes learning very easy thanks to online search and easy access to complete libraries of information and advice. In the past, small business owners were often in the dark, at the mercy of financial institutions and even our lawyers and accountants. That's no longer the case. It's all at your fingertips now.

Here's the starting point for learning what you should know with regard to business language.

Simplified Glossary of Business Language

ANGEL INVESTOR – Someone who invests their own money in your company; often a successful businessperson in the same industry.

ASSET – Property or equipment owned by the company.

BALANCE SHEET – A financial statement summarizing company assets, liability and shareholder equity at a specific date.

BOOTSTRAPPING – Using existing resources as start-up funding.

BOTTOM LINE – The final result of a financial statement.

BUDGET – Estimate of expenditures and income for a specific future period of time.

BUSINESS NUMBER (BN) – A nine-digit identifying number assigned to your company by the government.

BUSINESS PLAN – Written statement of the goals, objectives, structure and future plans for your company.

CAPITAL – Money or other assets owned by the company.

CASH FLOW – The amount of money going in and out of your business.

COLLATERAL – Security pledged against payment of a loan.

CONTRIBUTION MARGIN – The price of your products or services less variable costs

CORPORATION – A business structure that is recognized as a legal entity apart from its owners.

CREDIT BUREAU – A company to which financial institutions, credit card companies, etc. report payment information on an individual.

CREDIT SCORE – A number that indicates an individual's creditworthiness used to evaluate their likelihood of repaying debt.

CREDIT UNION – A not-for-profit cooperative that offers a variety of financial services to its members.

CROWDFUNDING – Raising money in small amounts from a large number of people – typically an online activity.

CURRENT RATIO – A number that reflects a company's current assets relative to its liabilities; a measure of liquidity.

DEBT-TO-INCOME RATIO – Calculated by dividing recurring monthly debt by gross monthly income; one way lenders gauge an individual's ability to repay debt.

DEPRECIATION – Reduction in an asset's value due to the passage of time and use.

DIVIDEND – Money paid to shareholders by a company from its profits.

EARNINGS BEFORE INTEREST AND TAXES (EBIT) – A measure of profitability that accounts for all expenses except taxes and interest.

EQUITY – Ownership interest.

EXECUTIVE SUMMARY – Part of your business plan, this section is the bird's-eye view of your company.

FIXED COSTS – Expenses that don't fluctuate with business activity or the market.

FORECAST – Predict future financial data such as income or cash flow.

GENERAL PARTNERSHIP – A business arrangement for a joint venture where partners share responsibility and liability.

GROSS – Total income or profit before any deductions for expenses or taxes.

INCOME STATEMENT – A financial account of a company's performance over a given period.

KEY PERSONNEL – Individuals who make a particularly substantial contribution to a company's activities.

LIABILITY – Debt or obligation incurred through the course of business operation.

LIMITED PARTNERSHIP – A business arrangement in which at least one general partner is responsible for business operations and limited partners carry only liability for the amount of their investment.

LINE ITEM – An entry on a financial statement, ledger or budget.

LINE OF CREDIT – A loan amount extended by a lender that establishes a maximum balance.

LIQUIDITY – The availability of cash to a company.

MARKET SHARE – The portion of a market segment dominated by a company or product.

NET – Income or profit after applicable deductions for expenses and taxes.

OPERATING CAPITAL – Money used for daily operations.

PREMIUMS – Amounts paid for an insurance policy.

PROFIT & LOSS (P&L) – A financial statement reflecting revenue and expenses over a specific period of time.

PROFIT MARGIN – The difference between the cost and sale price of a product or service.

PROJECTION – See forecast.

RECEIVABLE – An amount owed to a business.

RETAINED EARNINGS – The amount of net earnings reinvested in a business and not paid out as dividends to shareholders.

REVENUE – Income.

SHAREHOLDER – An owner in a company.

SOLE PROPRIETORSHIP – A business owned by one person with no legal status of its own.

SUCCESSION – The process by which a business owner succeeds ownership.

SWOT (STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS) – Analysis of a business's potential for success.

TAX BRACKET – A range of incomes subject to certain tax rates.

TAX CREDIT – An amount deducted federally or provincially from taxes you owe.

TAX DEDUCTION – A business expense that lowers your net income for tax reporting purposes.

TAX SHELTER – A financial arrangement to avoid paying taxes.

TERM LOAN – A loan repaid over a set period of time.

VALUATION – An estimate of worth.

VARIABLE COSTS – Costs that fluctuate with output.

VENTURE CAPITALIST – A private investor who provides your start-up with capital.

Structuring Your Business

Cash Cows is full of advice about structuring your business for growth and even succession very early on. Depending primarily on the scale of the business and who's involved, you've got to decide whether yours is a sole proprietorship, a partnership or a corporation. Each has different ramifications, both in terms of working relationships and taxation. And don't forget the future – while that's hard to predict in the early days, keeping your decisions and structure up to date become increasingly important as you close in on succession planning and realizing the full financial benefits of your cash cow.

SOLE PROPRIETORSHIP

A business run by an individual can be simply structured as a sole proprietorship. Many owner-operators, freelancers, creative professionals, consultants and one-person subcontractors choose this method, both for ease of setup, and for the fluidity with which you can arrange your personal and business finances. Rose Cronin, a certified general accountant and the author of *The Healthy Business*, calls this type of business "owning your job." Unlike owning a business that juggles employees, has succession plans and builds value over time (in case you want to sell it), a sole proprietorship runs on one engine: you. If you don't show up, there is no business.

A sole proprietorship has no legal status of its own – financially, it has only the status you have earned personally, from maintaining good credit, to pursuing loans, to being personally liable for any debts incurred and taxes owed.

All it takes to set up a sole proprietorship is to register a name (very often people choose their own) and obtain any local licenses required of your industry.

The mingling of personal and business finances can be a benefit or a detriment, largely depending on your personality type. If you're good with hanging onto withheld taxes (you must collect HST/GST once your business income reaches $30,000 annually, and there are no at-source deductions for income tax), this setup will suit you better than if you tend to spend every dollar that passes through your hands.

Likewise, self-motivation and following tasks through to completion can be a tough go for some. When you are in a position to get some help, such as bookkeeping, accounting, office assistance or cleaning, for example, you simply subcontract, which often means hiring other sole proprietors. You are not responsible for withholding taxes on their behalf; you just have them invoice you and remit payment as required.

As in any self-propelled business, vacations can be scarce, as the success of the business often depends on your being available to clients whenever they need you.

The biggest potential pitfall of this type of business structure is personal liability, not just for debts incurred and taxes owed, but also for any lawsuits levied against the business. A sole proprietor can find himself or herself with levies against personal property, even their home, should the business fail or lawsuits succeed.

Sole proprietors must rely on their personal credit to obtain business funds that can't be garnered through friends or family – raising money by selling shares isn't an option. A business structured as a sole proprietorship has no retained value, so you won't be leaving an empire for your children.

The upside is that any profits made are yours alone; just make sure you save up those taxes, as profits from a sole proprietorship count as personal income.

PARTNERSHIP

A partnership can be formed when two or more people plan to share responsibility and liability for the business. A partnership in which both parties are actively involved in management is a general partnership, while partners whose sole contribution is as passive investors are called limited partners. Limited partnerships are administratively complex, and can mean a lot of filings. General partnerships are easier to form, but still require more legal and accounting advice than a sole proprietorship.

As in a sole proprietorship, general partners are personally liable for debts and obligations acquired by the business. In most cases, each partner can take out loans and make decisions that affect the business. With some legal advice, you can structure a partnership so that not all decisions are binding to all partners.

Partnerships don't pay tax on business income, but rather pass along profits and losses to the individual partners in the agreed-upon proportions, which is then disclosed in tax returns including income and business losses, filed to the Canada Revenue Agency.

Partnerships are often as difficult from a personal standpoint as from an administrative one. We're all human, and getting along can be tough. It's wise to be careful when choosing business partners, especially if the business partners are both active and equal. Two strong personalities may clash, while two passive personalities may have difficulty getting things done. Partnerships are most fraught with potential difficulties when they involve only two people who share responsibility and liability 50/50.

If you're considering forming a partnership, you should, with legal advice, draft an agreement outlining the responsibilities of each partner, how disputes will be resolved and, should someone want out of the partnership, how a buyout will be handled. Most partnerships are set up so that if one party wants out, the other partner or partners can purchase their share before it's sold to another party. It's a good idea to have an impartial third party, such as your attorney, determine the value of the business should you need to dissolve it.

The greatest benefit of a partnership is that liability, like profit, is shared. Partners with different skill sets who can come to an agreement on the terms of the partnership have the best chance of success.

CORPORATION

A corporation is a separate legal entity from its shareholders (namely you) that is overseen by a board of directors. The board of directors then elects (usually annually) officers such as a CEO, treasurer and secretary who run the day-to-day business. Corporate bylaws are put in place to outline the authority and responsibilities of each officer.

Many accountants will recommend forming a corporation only once profitability reaches a certain level, because they generally involve some expense. While it is possible to incorporate your company online on your own, obtaining some legal advice when incorporating is wise. It generally involves registering your company for a ‘numbered’ name (such as 1234567 Company Inc., a name unique to your company that the government will issue to you), plus an operating name if desired.

Even in the most simply structured corporation, care must be taken to keep accurate books and keep business and personal finances separate. Stock is issued to shareholders (of which you may be the only one), who transfer cash or assets to the corporation in consideration. A sole shareholder can elect himself or herself to the board of directors as well.

The biggest advantage of a corporation is that owners, or shareholders, have limited personal liability for the business; if it fails, their loss is limited solely to the amount they invested in stock, and their personal assets, such as their home or car, are safe. However, be aware that directors are still personally responsible for payroll taxes and HST/GST owed by the business, since they were already collected by the business, which is merely holding it for the government. Especially at the beginning, when the company has no established credit of its own, you may have to rely on your personal guarantee to secure financing.

From an accounting perspective, once incorporated, you will want to have a professional keep your books – unless you want to tackle a pretty big learning curve and spend as much, if not more, time and energy running the administrative side of the business as you do producing goods or performing services. Even the smallest corporation must adhere to the same laws that govern big national corporations. Depending on the industry, simple compliance with government regulations can be an onerous task.

While salaries to employees are deductible as a business expense, dividends (percentages of profit paid regularly) to shareholders are not, so there is the potential for double taxation: your corporation pays tax on profits, and as a shareholder, you pay taxes on dividends. Business owners often increase their salaries to reduce or eliminate corporate profits.

The key benefit of incorporating is that it protects your personal assets, but the profits and tax advantages must offset the costs, which is why many business owners don't incorporate until their business is profitable.

You can learn more about registering your business on the Canada Revenue Agency's Business Registration Online website.

Your choice of business structure will impact the taxes you pay and the amount of paperwork and professional services your business requires, so seek qualified advice and give the decision enough consideration.

A very few last words...

> "THE DIFFERENCE BETWEEN A SUCCESSFUL PERSON AND AN UNSUCCESSFUL PERSON IS THAT THE SUCCESSFUL PERSON DOESN'T GIVE UP."
>
> \- **NICK VEEN**, The Black Forest Restaurant, BC

There are many paths to business success and success isn't always measured by financial wealth. It is equally true there will be bumps and bruises along the way regardless of the ideas you try and your achievements in between. The idea of not giving up is common to all and to everyone's entire journey. For that reason, the contributors to *Cash Cows* are truly inspiring women and men. They share the character trait of resiliency – the ability to bounce back again and again from adversity and the doggedness required to simply get what needs doing done.

We've learned that to be successful as a small business owner in Canada, you need that resiliency above all else. You won't find it in a book – like the people we interviewed, they found it inside themselves. And from there, they prospered.

Cash Cows is good news for everyone who wants to start a business and all those in the middle or near the end of their journey. Success is more than possible. It's probable – because of who you are as opposed to what you choose to do.

All the best from the *Cash Cows* writing and editing team and Canada's credit unions.

THE END

"On a good day, I can see the sun come up over this place that we live and breathe, which feeds my soul. I might also see the grasshoppers wiping out my grass."

- **JOHN CHUIKO,** Rancher, Saskatchewan

BACK COVER