Flying Solo podcast - Kobi Simmat

The best advice for buying or selling a business

***Automated transcript**

Cec Busby [00:00:00]:

You. Hi, everybody. I'm Cec Busby, editor of Flying Solo. Welcome to our weekly podcast, where we step inside the minds and lives of soloists and small business owners.

Now, whether you're looking to buy a business or you're in the market to sell, today's guest, Kobi Simmat, has you covered. Kobi is a business coach, entrepreneur and the author of *How To Build A Business Others Want To Buy*. He joins us today on Flying Solo to share just what it takes to differentiate your business from its competitors and set it up for a successful sale.

Hi, Kobi. Thank you so much for joining me on the show today. Welcome.

Kobi Simmat [00:00:41]:

No worries at all. Thank you so much for having me. It's great to be here.

Cec Busby [00:00:45]:

It's my absolute pleasure. Now, let's dive into the beginning, the genesis of the Kobi story. Can you tell us a little bit about your entrepreneurial journey and how you became involved in buying and selling businesses and coaching people around business strategy?

Kobi Simmat [00:01:07]:

Yeah, it starts way back when I was 15 years old, and, well, it actually starts when I was born because I was born into a family that had a family business. My father's an architect. He was an architect with a builder's license, so he was either designing houses, buildings, theatres, all sorts of things, or he was building them. So from a very early age, I watched my dad at the drawing board. He was building models for government buildings and things like that on the dining room table. And on all of our family holidays, we were going to site visits, having holidays with clients, out to dinner with clients. And so at kind of 15 years old, when you start to be really influenced by your surroundings, what I didn't have was I didn't have a parent that was going to work every day at a job. I had someone who was basically running a business 24/7, and that was the person I looked up to. Unfortunately, that was the peak of the 80s, when everything was raging and high interest rates and high inflation. And it's funny to maybe see history repeating itself at the moment.

Cec Busby [00:02:19]:

I don't know about funny, Kobi.

Kobi Simmat [00:02:21]:

Well, yeah, ironic, maybe is a better choice of words from my vocabulary there, but I'm finding it ironic, interesting to watch some of those similar things. But my dad's business collapsed with the collapse of the construction industry, and we lost our family home. So I guess what I saw in that moment was how would I basically take control of my destiny? I've been self-funded since I was 15 years old, and so whether I was working a part time job or having a go at trying to start businesses from a very early age, it was all about taking control of my destiny. And I haven't really had a financial leg up from anybody. I'm 100% self-made. And so along my journey of experimenting, it's always been about, first and foremost, I'm passionate about serving people, and I love putting a smile on someone's face, and then on top of that is having uncapped potential. I don't behave and perform very well in an environment that has walls and constraints. I'm not real good at either the school game, the education system game, or the political game in corporate. And so I really actually didn't have a choice. So here we are, whatever it is, 30-odd years later, 35 years later, in a situation where I've grown business, started at businesses, failed at business, you know, been involved in, you know, acquisitions and divestments and and ultimately I built a business that was a very conscious decision that it would eventually sell. You know, so we were constantly focusing on the valuation and one of those businesses sold in in 2022, which was quite exciting. So it was good to kind of start that one, take it all the way through to fruition and do the exit. And we've got a few other irons in the fire at the moment. So I coach and advise people nowadays on basically the lessons that I've learned along the way and, you know, maybe on some of the things that these are the stepping stones that I stepped on to get myself down the path. And you can step on the same ones or let's have a look at the ones that you want to step on and let's see if I can see some better ways to do things and/or some warning to people who might be about to make significant mistakes. And we're seeing some great success in some of the businesses I'm working with.

Cec Busby [00:04:54]:

So a lot of small business owners start their business from a hobby or a side hustle that kind of eventually turns into a business. So do you have any advice for them about how they can transform that side hustle into a successful and profitable venture?

Kobi Simmat [00:05:12]:

Yeah, look, I think that my first piece of advice is that sometimes those side hustles will never make you a billion dollars, and it's never going to. And I think that, unfortunately, social media is maybe convincing us that every single idea that we have, or side hustle we have, will be the next unicorn and make us a lot of money. And that is just simply not the case. So I think the first piece of advice is look around and see if that product or service is serving a lot of people and has the potential for a lot of revenue.

And then the second thing is to look at whether that product or service is able to be made profitable. And I think that we are convinced by people that we can now see very obviously, we can see a lot of business people are becoming rock stars in some instances, that we fall into the trap. Our brains help us fall into the trap of thinking that we can be better - better quality and better in whatever way - than our competition, and cheaper. But we fall into the trap of the assumption that our competitor is profitable and it may be the profitability constraints that are causing our competitor to be poor quality. So any side hustle or hobby can be turned into a way of bringing in income, but to create generational wealth, money that can be used to fund life, if you like, we need to maybe have a little bit of a careful look around us. And you can do lots of googling, you can buy books, you can maybe try and buy some books that have been written by somebody who has done that product or service or industry or is solving the same problem. So sometimes our side hustle or our small business is an alternative solution to a problem and we can often come up with that. And I think that we've really got to look at are people easily able to hand over money to have their problem solved or get the benefit they're looking for? And if you can see that happening, then it's a good idea. But if you can't see that happening and you're kind of scratching your head going, where are the potential people that might readily give me money in exchange for the benefits that I offer them? And I'm being very conscious to not talk about features or the product or the service because when people exchange money, they're looking for the benefit that they get from your product or service. They're not looking for specific - they're not looking for a red car. They're looking for a car that makes them feel amazing, that gets them from A to B, that they're proud of, and it just happens to be red. So we've got to focus in on the benefits. Is that helpful?

Cec Busby [00:08:01]:

That is helpful. I'm also wondering about would it need to be either a business that's first in class or best in class, or maybe it's cheapest in class? Are those the things that you need to focus on as well?

Kobi Simmat [00:08:15]:

Yeah. Look, I think if we just keep coming back to the best in class, first in class kind of concepts, that we can spend a lot of time trying to educate a potential customer on why our product or service is great, but there will be a subconscious block for that customer if we're cheaper. The easiest way to differentiate yourself in a marketplace where it's crowded and there's lots of opportunities, if you are genuinely the best in class, then you need to be the most expensive and the most expensive price. And it doesn't need to be by a lot, but price is the easiest way and the simplest way to differentiate quality. And it saves a lot of effort and breath and talking and educating the marketplace. And there will be customers in the marketplace that want the better quality solution. Just look at smartphones, for example. The differentiator is obviously on price. And yes, there's 1,000 features in a Samsung, but Apple still outsells Samsungs, and in most cases they're more expensive. So I think it would be wise to consider being the most expensive price and then focus on being best in class and best product. Because sometimes our ego tells us we're the best and we're not necessarily the best. And I think that when we are the most expensive, then we also are then subconsciously holding ourselves accountable to actually delivering on that egotistical principle which we're best in class, first in class, best quality, et cetera.

Cec Busby [00:09:57]:

Why do you think so many business owners are averse to being the most expensive? Like they're worried about being the one that charges the most for their product or the service.

Kobi Simmat [00:10:09]:

I think it comes down to one of the fundamental fears that we have in humanity, and that is the fear of rejection. And I think that it's easier to say, but I'm cheaper, than actually to say, I am super passionate about you as a customer, I'm super passionate about solving this problem, about giving you the best food on the plate that is organic, that gives you an amazing experience when you come to my restaurant. And that is why we are more expensive. And so it gives us the opportunity to have the best chefs, the best kitchens, the best equipment, the best raw ingredients to make sure that you have the best experience when you come here for your special occasion. It gives us the opportunity to have great tablecloths and polished cutlery and make sure our food hygiene standards are very high. When we're the cheapest, then we're leaving things out of the product or service.

And I think that fear of rejection is certainly one of the most common things I come across with small business owners when I'm teaching them sales and how to sell. Because we're all scared of selling or being accused of being a salesperson, because there's a bunch of salespeople out there that have given sales a bad reputation, that it's creepy, that it's a scam, that it's slimy. But a genuine salesperson who is a professional will pull away from a potential customer very quickly if they don't believe they can absolutely service the client’s desires or the benefits that they're looking for. And it's only the people that really are clutching for revenue, or grasping for revenue, that give sales a bad name. And I think that that combination of - I don't want to be accused of being a salesperson and I hate selling, and actually I'm quietly, when I'm by myself in my office or sitting at my desk, I'm scared of being rejected. And we're putting ourselves out there and being vulnerable when we're coming up with a product or service and creating this beautiful little business and we're being vulnerable. Business is a full-contact sport and customers can be harsh, and so we don't want to get that negative feedback. And in a lot of cases, that's why small businesses stay small.

Cec Busby [00:12:25]:

Now, I'd like to take a detour into your book. You've recently penned a new book. It's called *How To Build A Business Others Want To Buy*. So why was it time for you to write that book?

Kobi Simmat [00:12:42]:

It's actually a project that we've been working on for a number of years. It took about five years to come to fruition. And I guess first and foremost was I actually had the time after doing a successful exit. I really wanted to have a handbook, that I had been working on for a number of years, but I wanted to have a handbook that I could give managers and team leaders that were working in my businesses something to work with, that were all the concepts and principles that we talk about in meetings and training internally. And then one of my friends actually said to me, I'd love to get a copy of that. And I said, Well, I can knock something out for you and we kind of started. And then I met a beautiful lady by the name of Bernadette Schwerdt who wrote *The Secrets of Online Entrepreneurs*, and she actually has had quite a lot of success with that book. And she said, Look, Kobi, I think I better help you with this project because they're great principles and they're absolutely fantastic concepts, but I can actually put the words together so that it's really easy for somebody to consume. And so we've worked together over the last 18 months on the project and brought it to fruition. I think, A, having the time and B, starting to do some investing, and it's certainly going to be what is a requirement for the businesses that I have invested in so far, that their leadership teams actually embrace some of the principles in the book. It's like a manual, if you like, and I absolutely want people to take this great book - I think it's about 360 pages or 365 pages that ended up - and it's a textbook. Well, it's not a text as such, it reads very well. But it becomes the manual that you can write all over and fold the corners of the pages and put post-it notes in and be going back to those recipes, formulas, procedures, policies, if you like, from time to time when challenges come up, when you're trying to manage and run and grow and scale your business.

And it's got this underlying element, which is I'm concerned that there's a bunch of businesses that are in the process of closing over the next twelve to 24 months because the baby boomer that started the business hasn't got anyone to hand it over to and doesn't actually either know that they can sell that business or B, that it's got any value or worth, and they're just kind of selling up their equipment, finishing up their lease, and closing their doors. And I'd like to inspire people to kind of start with the end in mind, which is maybe you could actually sell this business down the track. You don't have to, by any means. This is how to build a business. But if you build a business with the principles of potentially selling it down the track, it actually makes it quite healthy. And a business that's in a saleable condition is also not one that's stopping you from going on holidays, or going to the book parade at the primary school, or spending time with your family, or taking three months off to look after your parent that's ailing. So I think those common complaints of small business, which are ‘I'm tied to it, I can't take leave, I don't get any revenue or money when I'm away’. If we build in those principles and we focus on a business that potentially becomes a saleable condition, it's got value, looks after itself, potentially gets to the point where it grows itself, and you can have that lifestyle that you dreamed of having when you started your business.

Cec Busby [00:16:09]:

Let's dive into that a little more then. So what is it you think makes a business worth buying? Are there particular metrics that I should be looking for if I'm going, ‘oh, hey, I woke up this morning and I want to buy a business’. What should potential buyers be commonly looking for from a business?

Kobi Simmat [00:16:29]:

Yeah, look, I think we can look at that from two sides. So we can say, ‘hey, I've got a business, I'm running a business, I'm a small business owner, and I'm not quite sure what I need to focus on’. Or I can say, ‘hey, I'm interested in buying a business’. Maybe I don't want to start a business from scratch, I want to buy one, or I want to be an investor. So I think the best way - I can say there's a bunch of metrics, and we've included 21 metrics in the book - but I want to start with this kind of framework. If I give you a million dollars to invest, I want you to go and find somewhere to put it that gives a fair return each year. And you've got a bunch of options. You can obviously go and buy, for example, go and buy some real estate, like a residential real estate, which is a house or an apartment or whatever, and somebody could rent it and you'll get rental income each week. You could go and buy some blue chip shares and you'll get pretty poor dividends every six months from that company because it's listed on the stock exchange. You could potentially go to a private equity firm and they'll take your money and go and find things to invest it in and pay you some interest each year. Sorry, each month, I apologise. And so when we are looking at what we're looking for in businesses, then you're saying, well, hang on a minute, okay, let me have a look at this business. If I buy this business for a million dollars, how much profit is it going to give me at the end of each month, and without actually having to work in it? Because remember, you've got the million dollars, you're not looking for it. We didn't say we want a job. We want to go and buy a business. We don't want to go and buy a job. There's plenty of jobs out there. We can just go and get one. We don't have to actually pay for it. So, it needs to have - and let me give you a really round, simple number - it needs to have at least a 10% return per annum. So that business needs to make 10% at least net profit per annum. And there's special terms like EBITDA that go with that. But it needs to throw off about $100,000 a year of net profit in exchange for no effort, because remember, the money was the effort. And so if you're also going to work in that business, then you need to think about what the wage or salary is that you would be asking for. Is it $100,000, is it $200,000, is it $50,000? So the business needs to also, in the absence of the previous owner or the previous operator, throw off that money as well. And then you're starting to say, well, where does the work come from? All the clients come from. Where do the customers come, where do the sales come from? So businesses that have customers that buy on a regular basis, or even better, they're contracted to buy on a regular basis over say, a three-year period. If they've got, say, recurring revenue is the term we use, then they're more attractive. And some of those businesses can attract higher multiples of profit. And so we can start looking at those businesses and saying, okay, well that's interesting. For example, businesses that I see buy and sell a lot lately are pool cleaning businesses, landscape gardening maintenance, lawn mowing run businesses - not super sexy kind of businesses, but they've got customers that they just go and see every week, every two weeks in summertime or once a month in winter. And they've just got this recurring revenue. And you can add more customers and scale the business or you can just service the existing customers you've got, and as they turn over, replace - you lose a customer, they sell their house and move or whatever - and you get the next customer. And so those kinds of examples - we're looking for things like that. The business has to be profitable in the absence of the money for the owner/operator. And ideally we're looking for businesses or coaching people to add in elements to their business of recurring revenue or subscriptions, if you like.

Cec Busby [00:20:23]:

So that sales pipeline should be scalable in a way.

Kobi Simmat [00:20:28]:

Yeah, in a way. I was recently involved in a business that was just purely projects, and it was like project after project after project and through COVID, it did quite well because it was doing local manufacturing and we couldn't get anything out of China. And so it did quite well working on projects through the COVID period because international trade was very difficult. But as soon as the international borders opened back up and we could get things out of China, that business collapsed. And it didn't have any form of repetitive, repeat business. So a low value, in fact - no one was interested in buying it because there was, all right, what are we pricing? And it was project-based manufacturing. What are we pricing? When are we pricing it, and where does the work come from? And it fell apart because it didn't have a repeat product or service that a customer consumes or buys regularly or frequently. And as a consequence, that's the negative end of the situation, is when these businesses fail and close. So, yeah, those are the kinds of things that we're looking for.

Cec Busby [00:21:40]:

So, on the flip side, if I'm the business owner, are there particular pitfalls or are there common mistakes that business owners might make when they're trying to sell their business? I don't know. Like, maybe they've undervalued their business or they haven't taken into account their own role in the business. I'm sure you have a much better idea than I do.

Kobi Simmat [00:22:00]:

Yeah, this is the very first one. This is by far the most common mistake, and a very easy one to make - is we're all frustrated, scared, angry about having to pay tax. And so small business owners often do things in their business to avoid paying tax. Like, I was just on the phone to somebody and they told me that the local hardware store that's near where I live right now is having a huge sale today. It's just before the end of the financial year, to try to get all the local tradespeople to come in and buy lots of new tools so that they can write them off on tax before the end of the financial year. Now, I would be advising all of those tradespeople to not buy those tools today. I would be advising them to buy them in the first week of the financial year, not the last week of the financial year. And the reason for that is I want them to have the most profitable business as possible. Pay the tax that you need to pay. What's happening is a lot of small business owners will they just maybe occasionally go to Woolworths and buy a trolley load of groceries and put it through the business, or go on holidays and put the petrol through, all the diesel for their vehicle, they're going on a driving holiday through the business. Or they might be a tradie and they might say, you know what? I've got a few remote work sites. I'm going to buy a caravan and I'm going to put that through the business.

Cec Busby:

Look out, the ATO will be after you.

Kobi Simmat:

100%. And it's not so much that the ATO is going to be after you, because you can come up with very legitimate excuses to do this. But what it does is it causes the business to be less profitable and it causes cash flows to be - cash is spent on things that are not there, that actually help earn an income, they're ancillary. They're extra tools that yeah, okay, it's great to have that extra tool that's handy, but it's not used every single day. And the caravan is used for holidays. And so the business suffers a couple of things. The first is it suffers unnecessary expenses which are legitimately unnecessary. It's all done with the intention of minimising tax. Not avoiding tax, because avoiding tax is illegal, but minimising tax, and a lot of it's very legitimate expenses. But as a consequence, the business is not profitable.

Now businesses, by and large, investors who buy people that buy businesses are looking for future profit. Either future profit from the profits by buying the profits that you're making or they can kind of add their business to your business and have one plus one equals three and have something different that they can offer the market that customers really love. And so the number one mistake is putting personal expenses that, while they can be justified through the business, they make the business less profitable. We should absolutely be focusing on profitability and trying to make our small businesses as profitable as possible. And that brings up this concept of mindset, which is it's kind of bragging to talk about how profitable your business is at a dinner party or a barbecue. It's okay as an entrepreneur to talk about revenue, but there's this kind of unwritten rule that says no one talks about profitability, because that's actually fully exposing yourself to how successful you actually are. And revenue is vanity. So you hear people talk about great revenue and all the revenue that they're doing - that's vanity. Profit is sanity. And so that is the number one mistake. Try to avoid putting any ancillary expenses through your business. Pay your tax at the right rate. Get some advice on how to help make your business as profitable as possible. Don't instantly write off equipment. Put it on the balance sheet and depreciate it. And it'll let you do things like borrow more money for mortgages to invest in real estate, and borrow money for plant and equipment to grow the business and scale the business. And makes the business a lot more healthy.

Cec Busby [00:26:02]:

If I was looking to sell my business, what would be some effective ways to market the business so that I could attract the best potential buyers?

Kobi Simmat [00:26:12]:

You're looking for … a sale to a competitor will always probably be the lower end of the pricing spectrum. Looking for somebody who can sell their products to your customers - they will often pay more for a business than just a straight competitor. So a straight competitor is looking for market share and they're going to try and get that as cheap as possible. But if you've got a great customer list or a great set of contacts and you know that somebody can easily make a bunch of money by selling their product or service easily to your customers, same contact person. If it's business to business or business to consumer, it's complementary to what you do. Those are the kinds of people that will always pay more because they're looking for this cross-sell opportunity. If you can also explore the concept, and we have got a huge amount of time to talk about it, but explore the concept of being cash positive in your business instead of cash negative. So collect your money from your customer at exactly the time you provide the product or service, or even a little bit before. It's definitely not a good idea to be collecting money from your customer a month after you've provided the product or service, or seven days or 14 days terms or 30 day terms. You've got to fund your customer for those 30 days before they hand over their money. So if you can be looking for products or services that are really complementary to yours, that you can see that there's an amazing opportunity. Like your customers just haven't bought that thing and you know they're going to buy that thing, they'll be the people to market towards. And then once you identify that group of potential buyers, then we can kind of talk about exactly how we would market to them. Would we just ring them up and say, hey, I've got this great business, I can see that your product or service would be sold to a bunch of my customers. I think bringing the two things together, having a conversation, would be a really great thing because you guys can make a bunch of money.

Cec Busby [00:28:12]:

Earlier you mentioned landscape businesses, the gardeners, that sort of thing. Quite a boom in those at the moment. So are there any other specific industries or types of businesses that tend to be more attractive to potential buyers?

Kobi Simmat [00:28:26]:

Yes. I've got a poodle and everybody through COVID bought a Cavoodle or a Poodle or allergy-free dog. And there is an incredible opportunity right now to have a national brand of poodle parlors / cavoodle parlours. These cute little fluffy things - and I've got one sitting on the floor of my office right now, little black and white poodle - I went to the groomer yesterday and got all fluffed up and zsuzshed and very soft and fluffy and smells lovely and came home with a bandana around his neck. That dog needs to have the $100 makeover once a month for his life, and having a great, timely service where the dog's dropped off and the dog's not hanging around for more than about two minutes. Gets its wash and clip and nails done and blow dry and baby powder and bandana and out the door, because you've got an anxious mother of pet or parent of pet hanging around waiting for their cute little cutie pie. And they don't want their little cutie pie to be anxious. That is a massive opportunity right now. That's a business area that we're looking at investing in and I think it's under serviced. And I think there is an incredible amount of these cute little animals running around in the community that with a great product or service on a subscription where someone just pays every month, has the rolling booking, it's a no-brainer. And so there's a few kind of like that. There's obviously, of course, some really incredible industries that present really well on things like Instagram - fashion and all the aspects of fashion and sunglasses and clothes and holidays and fancy cars and fancy houses and all that kind of stuff. But there's some service-based industries that I think that have got a real opportunity to be really done well. And I think dental hygiene and just cleaning - I don't know whether you need and I don't know much about dentistry, but I don't know if you need the full on dentist to just go in and get a clean and a look over. But again, that's a service-based, recurring revenue kind of business. So it's not just about dogs and landscaping and swimming pools. It could be a particular food, the Who Gives A Crap people are doing really well with their toilet paper subscription. Amazon - having a look at Amazon and seeing what you can buy as a subscription on Amazon is a really good indicator of the things that people are buying, because Amazon offers it as - you can just get a box of toilet paper delivered by Amazon every month, you place the order and you never have to touch it, it just shows up. So those kinds of things that we're using every day are really great opportunities.

Obviously with COVID it was a significant step forward for the community to be confident in buying online. A little bit of objection to it, but even my mother-in-law is buying things online now. And so I think that that significant change is helping for some of these subscription opportunities to come up.

Cec Busby [00:31:43]:

So, say everything's gone to plan and I have found someone to buy my business. How do I make sure that I'm negotiating the right price, that it's going to be a fair outcome for both me and the person I'm selling the business to?

Kobi Simmat [00:32:01]:

The first thing is to reverse engineer a year or two years after you've sold the business. How much money did you get on say, for example, day one was there at risk component or an earn out component for six or twelve or 18 or 36 months after the transaction, and think about what you're going to do with that money. Is it I just want to get out of it. I'm sick and tired of it. I'm done with this. I've been doing it a long time and I just want to get out and I'm just trying to get a little bit of fair renumeration for that, or do I genuinely have something that's worth money? Because what I see in terms of a price, you will have an absolutely price and you'll have a no price. And if they offer you a number that's a low price and you're like, no way, I'm not selling it for that. So I think it's important to, in your own mind before you - of course you can go and get external advice, there's plenty of people out there that will help you get a rough value for your business and compare it to other businesses that have been sold - but it does come down to how will you be using that money? Because you're essentially selling, let's call them shares if you like, and you'll be paid. And so really you've got to be happy with your financial situation post-transaction and exit. There's other things too. People are like, oh, you don't sell your baby and how will you feel if you sell your baby? Forget that. What are you going to do with the money? Are you going to make more money with the money or are you going to be happy with a lower rate? And often people that sell businesses, they then invest in things that don't make as much money as their business made. And they have this realisation. I had that realisation with one of the exits that we did - that we're like, right, let's get out of this. And we've done it and moved on but we couldn't find anything to invest in that gave us the same return. So it's something to - it was a really interesting lesson that we learned. So in terms of the price and kind of how we then start negotiating, have your absolutely yes if it's that price, I'll sell. But have your absolutely no - and have your kind of upper and lower numbers if you like. Then as far as a negotiation is concerned, you can get people to be involved in your negotiation process. And I would strongly suggest using a commercial lawyer, like a proper commercial lawyer that deals in business law. And I always have a lawyer on the team when we're just running businesses but also or involved in the team running businesses or doing transactions. A guy that I've been working with for a number of years and we work really well together, he's not expensive, by any means. In fact, very reasonably priced and very productive. So I think a lot of people are scared to talk to lawyers because they're going to cost them a lot of money. But basically it could cost you your business and you could get no money for it. And the buyer is looking for the absolute best price, like most people looking for the cheapest price, and you're looking for the best price. And so then you can start getting into the nitty gritty of a contractual document and that could be a one pager. I've seen a business recently transact on one A4 page of dot, dot, dot and a set of keys for the factory unit, sticky taped to that one page and never unsigned it and that was it. But I've also seen contracts that are a full ream of paper and 50 versions of that ream of paper and taking six months to kind of negotiate where the full stops go.

Cec Busby [00:35:43]:

Imagine reading that.

Kobi Simmat [00:35:46]:

It’s hard. Look, in those moments of due diligence and contractual negotiations become quite stressful. I don't want to go through it too often, but you get better and better at it each time. But, yeah, I think in terms of negotiating, make sure you've got somebody who's got experience in transacting on your team, so that someone can show you the footsteps, the stepping stones to step on. Although they might not have been exactly the industry, but somebody on your side who you pay, that helps you with it. And then only take advice from people that have experience. And I think that's generally across business, something that we can do and fall into the trap of, but if someone's actually done it, then they're going to be more likely to give you the right advice than somebody who hasn't done it. And there's plenty of people out there, advisors and consultants, who have got absolutely no experience doing it themselves, plenty doing it for other people. But I think that's a good formula. I'll only use people on my team that have done the thing that I need them to do before, and done it well and can show me a positive result.

Cec Busby [00:36:57]:

Now, can I also ask you about timing? Because you mentioned earlier in this chat all the baby boomers who are getting towards that retirement age and going to be shutting up their shops and their businesses and probably without the thought that they could sell the business. So firstly, how important is timing in that? Can you have got to the point where now it's too late, you can't sell it now? And the other thing is something you also brought up, which was exit strategy. Should we be starting our business with an exit strategy in mind?

Kobi Simmat [00:37:34]:

Yeah, I think a couple of things. Definitely right now, and it will change, but if you were to sell your business right now, you're not going to get a price that you might have got for it two or three years ago. So when the stock exchange is down, stock exchanges are down, or share prices are down, that is actually a signal that institutional investors are looking to go back into that market. And so when share prices are going high, then the institutional investors are looking to sell those shares and move out to other areas where the pricing is low. So, of course, there's still people looking to buy businesses at the moment because business valuations have cooled off a bit, as has real estate, as has stocks, because investors are saying, hang on a minute, I made a bunch of money, I'm looking for low pricing. And Warren Buffett's the best person, I think, to follow in terms of buying and selling businesses. He's like, I look for businesses that are cheap. So your business will be cheaper right now. So I think timing.

There's one other aspect of timing which is very important, and this is a question for your accountant. So anyone listening to this, go and get some advice from your accountant about when would be the best time for you to sell your business, based on your age. And the reason why I say that is there are, in different jurisdictions, both in Australia, New Zealand and in the US, the UK - in different jurisdictions, the tax rate can be different based on your age. And the older you get, the better the situation gets. And so you might find yourself in your 60s, looking to sell your business and you won't pay any tax on that transaction. You will get an enormous capital gains tax discount. And so you may find that the accountant says, you know what, if you just hold on for two more years, then you'll be able to sell your business and you won't pay any tax on the proceeds of the sale. So most businesses will sell with a 50% capital gains tax discount, depending on how the transaction happens. So if the top tax rate for you while you're running your business is 46%, it means that you'll be selling your business and the proceeds will be taxed at, say, 22 and a half percent. So it's something that's really important to consider in terms of timing. So while, yes, it may be too late and you might not get a high price, waiting a year, the price might drop, but you won't pay any tax, so the net amount of money you get will actually be more.

So it's a really interesting conversation to look at timing. And so I think that that is something that's worth considering and definitely getting some advice from your accountant. If your accountant just has a blank look on their face, then maybe have a bit of a look around for a business transaction accountant or one of the larger suburban accountancy firms rather than your local above the chicken shop accountant, if that makes sense.

Now, the next question was around exit; starting business with exit strategy. Absolutely, yes. I think that even if the exit strategy is sell on my stock, finish my lease, get rid of all my furniture, stop talking to my customers, finish my mobile phone contract, close up and retire and go and move to sunny Queensland. That's an exit strategy. Or sell the business, or hand the business over to a son or a daughter or a nephew or a niece or a brother or a sister, or the management. Or sell it out to the management team. Or step back and let the manager step up and do a management buy-out. I think that we should always be having that conversation and in the day to day reactivity of running a business, it's hard to kind of stop and think about that and work on the business. But yes, we should be thinking about our exit strategy. And most importantly, something I said to my wife about four years ago with the bigger business that we built, I said, well look, if something happens to me, we've got this non-executive advisory board, Andrew and Greg. All you got to do is go to Andrew and Greg and say, please run this thing for me and sell it. And they would have been able to run the business for kind of six or twelve months in my absence if something significant, like if I died, for example. And so I think that having somebody - if you've got, you know, a young family and and you're kind of the breadwinner, I think having somebody who can step in. You know, if you're a plumber or an electrician, having another plumber or electrician that can kind of come in and take over and help run your business so that your spouse or your partner still gets the income in the short term. And so the exit strategy, an intended exit strategy, but also the ‘oh my God, something significant has happened’ exit strategy or management strategy or business continuity plan, let's call it that.

Cec Busby [00:42:44]:

It's very shaky economic times at the moment. There's a lot of pressure on businesses. It's getting harder and harder to raise capital. So are there any kind of insights or creative approaches that you might have to securing funding while the person is still actively in the business and maintaining control over the business?

Kobi Simmat [00:43:05]:

Yeah, look, these are my rules and this is my opinion. Rule number one - never raise capital. And rule number two is never raise capital. And the reason for that is that the issue is that in raising capital, there's obviously a number of different ways to do it. The first is the traditional way, which is like I'm going to raise some capital and essentially I'm going to get an investor to come in and then that investor is basically going to essentially own part of my business. So the first question is, is that person going to own part of your business or is that person going to be lending money to your business? And so if it's a loan, what's the rate, what is the expected payback if that person is going to be investing in your business? Say, for example, it's a million dollars, they're going to be wanting a return, and they're going to push you pretty hard on, all right, I want my $100,000 a year of interest back or returns on my investment. And by the way, I'm going to want my million dollars back in three years or four years or five years. Actually, I want my million dollars to be $20 million in three or four or five years because I want you to be a unicorn. And that for an entrepreneur, is very distracting when you're trying to ultimately focus on customers or growing a business or building a product or service. And so I often ask the question, I'm not saying necessarily don't raise capital, but really challenge why you want to raise capital. And most people that come to me and say, hey, I want you to invest in the business, I'll say, what for? They say, well, you know, I've got rent due, and my wife wants to go on a holiday, and I want to take some equity off the table. And I'm like, okay, great. I'll lend you a million dollars. Or sorry, I'll invest a million dollars. I'm going to want $10,000 a month. And they're like, what? I'm like, Well, I want $10,000 a month - as an investor, I'm looking for cash flow. And they're like, I'm not going to be able to give you $10,000 a month. I might be able to sell the business in five years time and give you $2 million. I'm like, you're not getting my money.

So when you say it's shaky, that's why. Because guys like me that are investing are saying, well, I want return on my investment. And so it's very distracting for an entrepreneur. And so my response is, well, why can't you just go and get some money from customers? You should always, if you're thinking about raising customers sorry. If you're thinking about raising capital, ask yourself the question, how could I get money from customers? Could I do a pre-launch? Can I do a rapid launch? Can I do a presale, can I do some kind of pre buy? Can I do a deposit? The best way to grow a business and to liquify a business, if you like, get capital injection into a business, is to get the money from customers. It holds you accountable for getting your product or service finished. It holds you accountable for getting your product or service out to the market. It stops you being lazy and complacent. You've got millions of dollars worth of capital in the bank, I guarantee you'll be complacent. And the only reason you're not complacent is your investors will be driving you to get your product or service out there. But at the end of the day, you have to end up servicing your customer. You have to end up getting revenue in from customers, so why not start now? And that's always for small businesses. Focus on the customer. Let's just at least get part of the benefit to the customer or part of the problem solved for the customer, so that we can generate revenue as quickly and as early as possible. Then we can start working on making that profitable. Then we actually have a real business. Otherwise, we're just kind of playing in the sand pit, building sandcastles with someone else's sand.

Cec Busby [00:46:42]:

Great advice. Kobi, thank you very much. Thank you for joining me on the show today. I'm really excited to have had you on, and I would love to know how listeners can get a hold of your book. Where can they find it?

Kobi Simmat [00:46:59]:

Yeah, so *How To Build A Business Others Want To Buy*. My name is Kobi Simmat. It's available right now on Booktopia for presale. You get a lovely little discount if you get it, if you jump onto Booktopia now. It'll be available on Amazon. Absolutely be available in most of the bricks and mortar bookstores around the country, and then we'll see how it goes. If it goes really well, then some of the other countries will start picking it up if you've got international listeners listening. But you can definitely get it on Booktopia right now. All of my handles are Kobi Simmat on Instagram, Facebook, LinkedIn, et cetera, and the link to Booktopia is in my profiles.

Cec Busby [00:47:38]:

Awesome. Thank you so much, Kobi. Thank you for joining me.

Kobi Simmat [00:47:41]:

Thanks for having me. It's been amazing, and I hope everybody goes really well and builds amazing businesses.

Cec Busby [00:47:48]:

Me too. Bye.