

## Get Strategic or Get Out

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We interrupt our Wealth Management series for this message from our friend, Rob Slee. We think Rob's message is important for every business owner to consider. Please call with comments or questions.

#### **Get Strategic or Get Out!**

By Rob Slee, [www.midasmanagers.com](http://www.midasmanagers.com), January 2008

If you haven't noticed, just about everything has changed in business this decade. We have entered the Conceptual Age, which requires businesses to own and leverage their intellectual capital to compete globally and create value. Frankly, most Main Street business owners are not stepping-up to this new challenge. Owners are currently faced with an adult decision: to either get strategic about their businesses or to get out as soon as possible.

The Conceptual Age began soon after 9/11. The combination of the terrible tragedy of the Towers, which brought the US fully into global politics, and China entering the World Trade Organization, ushered in the global economy. These two events occurred in a technology-enabled environment, with the Internet and logistics providing the speed. We now work in an Age where operating excellence is the ante and strategic thinking is a value-added requirement.

One by-product of the Conceptual Age is that change is now exponential. Geometric change can either be an enemy or a friend. For instance, it's an enemy of those who refuse to adapt to the new rules of business (see Airbus -which still employs a command- n-control culture); whereas, it's a friend to those who change (see Boeing, which moved to a collaborative business model several years ago). Tremendous business wealth is now being created in short periods of time by those who adapt.

A further challenge to owners is the uncertain US economy. Actually the economy tipped to the dark side toward the end of 2007. The sub-prime meltdown was mainly the result of too much money chasing too few quality borrowers. Therefore, risk was not fully considered and returns must now suffer during a reset period. All valuation is an attempt to balance risk and return, so when risk finally bears its fangs, returns must fall to re-establish equilibrium (think of it as a risk/return teeter totter). And we are only just beginning to get the teeter totter balanced for that asset class.

A number of other asset classes are also out of balance. For instance, credit card portfolios, private equity and hedge funds also have had too much money for their own good. These classes, which represent trillions of dollars, will be reset over the next 3-4 years, making the sub-prime thing seem like a drop in the bucket.

#### **So what's an owner to do?**

First of all, consider the 10 year transfer cycle that keeps repeating in the US. Basically, the first few years of every decade (think 1980-83, 1990-93, and 2000-2003) are down years for the private capital markets (i.e., recessionary). The 4th year of every decade is a transition year to profitability. Years 5 into year 8 are the go-go years; the private markets are open for

business. During these years we feel the need to over- build, over-leverage, and over-just about everything else. Apparently our business memories extend only a few years. The economic house-of-cards starts falling in the 8th year (see 2008), and finally totally flattens by the end of the decade. The article concludes by saying that business owners have until the 2nd quarter of 2008 to sell out, or they will need to hold their companies until 2015 or so before they can maximize a sale. Yikes!

Business owners need to implement a conceptual business model -now. This means that all process steps based on intellectual capital (IC) are owned, and all other steps are outsourced. The typical business has 12-15 process steps, of which only 3-4 usually represent intellectual capital. So get busy outsourcing. Once the process chain has been "rationalized," owners need to identify strategies that leverage their know- how. A good goal is to leverage intellectual capital by at least a 5:1 ratio. For example, a 1:1 leverage means that you earn a living, say \$100,000 per year. A 5:1 leverage increases this five-fold, and so on. Top-performing companies around the world leverage their IC by more than 50:1. You've got work to do.

What strategies can possibly generate such results? Midas strategies. These are the strategies used by super-successful business owners (Midas Managers). Let's consider just one such strategy here. As the economy continues to sink into the muck, many competitors will weaken, to the point of almost giving their businesses away. You want to be on the other side of the table and consolidate their businesses into your own. Midas Managers call this playing the Consolidation Math game. The more you play, the more you can win.

So the choice is easy: either change the way you do business immediately (rationalize your process chain - implement leveraging strategies) or sell out. Because the Conceptual Age and global economy aren't going away, lifestyle businesses are going the way of the Dodo, and the transfer cycle beckons. You still have a few months to sell- out before the nasty economic front settles in. This really is capitalism at its coldest.

With warm regards,

## **Stage 2 Planning Partners**

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