

THE DONALD COOPER CORPORATION

Speaking and coaching internationally on management, marketing and profitability



Management Tool #B-30:©

The importance of developing 'Wise Investor Thinking' in your business:

Most business owners think of themselves as being in a particular industry or geographic market rather than thinking of themselves as investors who are currently invested in a particular industry or market...but who are open to other investment possibilities in order to improve ROI or to reduce or diversify risk, if and when that becomes appropriate.

I've had many clients with a ton of money tied up in businesses with a mediocre return, little or no growth, serious disruption on the horizon for which they're not prepared...and the business stopped being fun years ago. Or, the business has become their 'neat fort' where they go every day to feel safe, comfortable and in control and they no longer see the business as an investment to be optimized. By helping these clients develop 'Wise Investor Thinking', they start seeing other investment possibilities and diversified risk management strategies.

Here's an example of what this shift from 'Industry Thinking' to 'Wise Investor Thinking' looks like. When I ask a client what they do, they typically respond with what I call 'industry thinking'. They'll say something like...

- *"I'm a Ford car and truck Dealer in downtown Ottawa."*
- *"I'm a heavy-duty engine rebuilder in Edmonton, Alberta"...or,*
- *"I'm a building materials retailer in a suburb of Atlanta."*

An important shift in thinking for all business owners is to adopt what I call '**Wise Investor Thinking**'. For example, instead of saying...

"I'm a Ford car and truck Dealer in downtown Ottawa, Canada."

...a 'wise investment thinker' would describe himself (or herself) as being...

"A family investment company with 95% of our assts currently invested in a Ford car and truck Dealership in downtown Ottawa."

This way of describing your business as an 'investment' raises several important questions, such as:

Question #1: *"What is our current investment in the business?"* The answer to this question is different from what you might think. In 'wise investment thinking' your current investment in the business is what you could sell it for in the next few months. That's it. When comparing your current business with other investment possibilities, nothing else matters.

For example, if you've put a million bucks into the business and could now sell it for \$3 million, 'congrats'...you have a capital gain of \$2 mil and, potentially, you have \$3 mil to invest in some other enterprise. If you put a million into it and it's now worth just \$700,000...you've peed away \$300,000 and, if you sell the business, you have just \$700,000 to invest elsewhere.

Question #2: *"What is our current Return-On-Investment (ROI) in the business?"* Given that our current investment in the business is what we could sell it for in the next few months, what is our annual return on that investment (ROI) in our business? Is that return competitive with the return that we could make with all or some of that capital invested in something else?

Question #3: *"Is this the best industry, best brand of Dealership, best market and best location within the market in which to have so much of our capital invested?"*

What are the longer term possible risks in our industry, market, our specific location, or to our current business model? What innovations, technologies, new competitive business models, societal changes, government legislation or other disruptive factors might affect the profitability and sustainability of our business and endanger the capital we have invested in it?

Question #4: *"What are our investment options...and what prudent decisions would a 'wise investor' make?"* If what we do and where we do it has more to do with 'history' than with current realities and future possibilities, it may be time to look at other options. In the interest of risk management, should we be more diversified in our investments?

Question #5: *"What are the non-financial considerations and personal priorities that should be looked at in addition to 'return-on-investment' and 'capital preservation' factors? Is our emotional attachment to our business or our industry preventing you from making wise choices?"*

Question #6: *"Do we have the right management team to effectively lead the business through the next 3 - 5 years in a way that will maximize our ROI?"* There's a general assumption in business that, *"I own it...therefore I will manage it."* But below are the real questions that need to be asked:

- *"Am I the best person to lead the business and the team at this point in its life and at this point in my life?"*
- *"How must I grow as a person, leader and manager to get the business to be a highly profitable market leader in 3 to 5 years?"*
- *"Am I capable and passionate to become that person? If not, what will our plan be to replace me and strengthen our team? What kind of help might I need with this critical process?"*
- *"Do we have a sound Succession Plan for me as a leader and for the current management team?"*

Note: These are all tough questions, but they need to be answered.

I recently did some Biz Coaching with Bob who, at age 47, has been running his 4th generation family-owned Building Materials business near Atlanta, Georgia for 24 years. The business is running well but Bob is bored and burnt out. He has a 21-year-old son in the business who appears not to have either the 'smarts to run the business or 'the fire in his belly', a daughter in college who has absolutely no interest in the business and another daughter who's 'as sharp as a tack'...but she's only 10. In the meantime, Bob has received an offer to sell the business for a price that he fears he may never see again.

Should Bob try to hang on for 14 years to see if his 'sharp as a tack' daughter is interested and capable ...or should he end the family Building Materials dynasty at 4 generations? Bob confided to me that he was feeling 'crushing guilt' (his words) that if he sold the business, he'd be letting down the family. He called me for help.

So, knowing that Bob is a man of faith, here's how I presented the possibilities. The big question here is what's more 'sacred' to Bob to his family and to future generations? Is it the family tradition of selling building materials that's 'sacred', or is it the preservation and growth of the financial capital that the family has worked so hard to accumulate over 4 generations?

These are tough decisions. 'Wise investor thinking' can be very helpful in opening up the conversation and making prudent choices. I helped Bob realize that there's no way he could hang on for 14 more years and that, indeed, it was the preservation and growth of capital that's most important. When you have investment capital you have business options and life choices. When capital erodes, the walls start closing in.

If you're a business owner or member of a family that owns a business, how might '**wise investor thinking**' help you make more prudent decisions about your business, the preservation and growth of your investment capital and the diversification of risk?

Through Keynote speeches, interactive Workshops and 1-on-1 Biz Coaching, Donald helps business owners and managers create compelling customer value, clarity of purpose and long-term profitability. To subscribe to his free, weekly 'straight talk' **Management Blog**, visit www.donaldcooper.com.