THE NEXT M

JOHN RUFFOLO
There's more to running a business than the exit

CHILDCARE CHAMPION
How one entrepreneur turned a daycare idea into a multimillion-dollar business

SPECIAL ISSUE

The turnaround CEO
In our business transition issue, BlackBerry's John Chen tells *The Next Million* what it takes to turn around a company

10 STEPS TO SELLING A BUSINESS
Ready to move on from running a company? Here's how to make a smooth sale

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THE TURNAROUND CEO. JOHN CHEN HASN'T BEEN BLACKBERRY'S TOP EXEC FOR LONG, BUT PEOPLE ARE ALREADY EXCITED ABOUT THE COMPANY'S FUTURE. FIND OUT WHY. GO TO PAGE 18

COVER STORY *Reading time: 10 mins*

DAYCARE DOMINATION

In 2002, Victoria Sopik set out to create more flexible daycare options for families. Now, she's the owner of a multimillion-dollar childcare business

HOW I DID IT PAGE 05 *Reading time: 5 mins*

PROVIDING A PENSION?

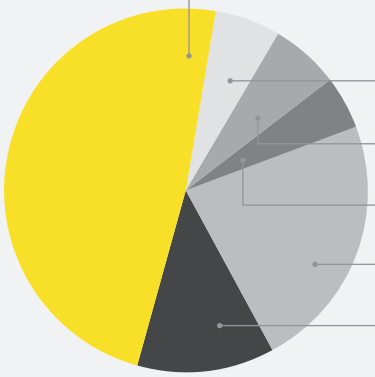
Creating an employee pension plan could help retain staff, but what's the right option for small to medium-sized companies? We asked the experts

ASK A PRO PAGE 10 *Reading time: 5 mins*

10 STEPS TO SELLING A BUSINESS

Our business transition issue looks at what might be the most important transaction in an entrepreneur's life: the company sale

FEATURE PAGE 24 *Reading time: 12 mins*



THIS ISSUE AT A GLANCE

Here's what we're talking about inside

DENNIS FORTNUM

Adapting to change

Most businesses go through a transition at some point, and that's not a bad thing

One of the best things you can do for your business is be prepared for change.

In business, much like in life, we often have to adjust our course due to an unexpected event or new piece of information. This event or new-found insight can signal that the current path may no longer be the best. In the crucial moments following this revelation – which can last between one day and multiple years – entrepreneurs and private company owners need to ask themselves: "Is it time for a change?"

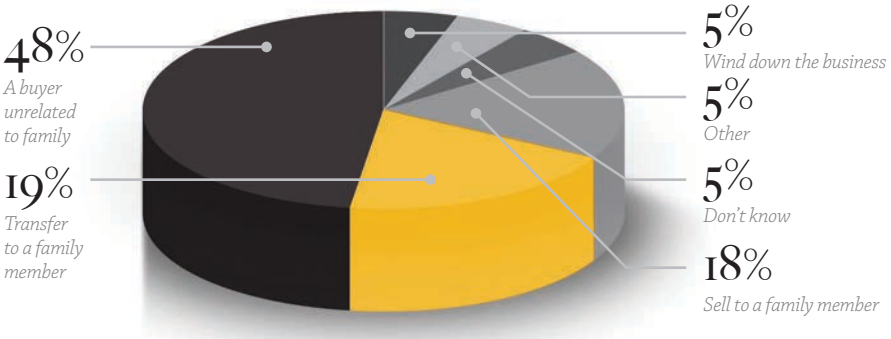
In its simplest form, a "business in transition" is a business going through change. You could argue that all businesses fall into this category and you'd probably be right. This issue of *The Next Million* features insights from Canadian entrepreneurs on some of the more prevalent transition types: a founder's exit, sale of a business, rebranding and a change in product offering. You will read success stories from those who simply had an "a-ha!" moment after hearing feedback from a customer and others who have built succession plans years in advance.

I am of the belief that change, while often difficult, is good as it typically signals growth. It's critical to remember that while the elements of each transition differ, all require a solid plan for moving forward.

At KPMG Enterprise, we advise clients to begin planning as early as possible – whether changes are two or 10 years down the road. Expected changes like rebranding and the sale of a business are easier to grasp, but it's just as important to have contingency plans in place for unpredictable events like cyber security breaches or the death of a shareholder. With proper foresight and the right people around the table (and – let's face it – a little bit of luck), when the time for change comes, you can proceed with confidence and help ensure sustained growth for your business.

HOW WILL YOU EXIT?

At some point in an entrepreneur's life, it comes time to sell the company. The Canadian Federation of Independent Business asked business owners who they plan on selling their company to, and here are their responses.



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ABOUT THE NEXT MILLION

M is the Roman numeral for one thousand. There was once a time where no single letter held greater value. It wasn't until centuries later that M appeared. M means one million. But as impressive as that sounds, we see it as the basis for something bigger still – your business.

You've made it through the hurdles, pushed past the naysayers and proven your ideas can work. You already know what it takes to be an entrepreneur. It takes a special boldness, creativity and drive. You've made it. Now it's time to grow it. In *The Next Million*, we highlight the success stories of entrepreneurs like you. Stories that will inspire you from the first million to the next – and each one after that.

You're the entrepreneur. We're KPMG Enterprise.

ILLUSTRATION BY CHELSEA ROBINSON, PHOTO (ON COVER) BY REUTERS/MARK BLINCH

LIVE OUT THERE

#helpnepal

HELP NEPAL 2015

LiveOutThere.com/Help-Nepal

LiveOutThere.com was born in the Himalayas during my last expedition to Mount Everest. Much of what shapes the DNA of our company was influenced by my time on numerous expeditions to Nepal and Tibet. The devastating earthquakes in Nepal will require years of international support to rebuild the country and to bring health, shelter and comfort to its people.

If you are considering a gesture of help, we would like you to partner with us to help the Khumbu region, a place which holds special meaning for the Live Out There team.

We invite you to join our fundraising efforts for the Kunde Hospital—a place on the front lines of helping those in need around Namche Bazaar, near the epicentre of the most recent devastating 'quake. I have personally witnessed the good work done in this remote care facility. Money raised for Nepal through Live Out There will go directly to the Kunde Hospital to further their efforts.

The LiveOutThere.com community has already generously donated over $50,000 to help our friends in the Khumbu Valley--let's raise another $50K!

Onward!

Jamie Clarke,

Founder & CEO, Live Out There

START

Expert tips, inspiration and ideas for growing your business

MADE IN MANITOBAH
Sean McCormick's aboriginal-made Mukluks

PRINTING FOR ALL
3DPhacktory wants to get noticed

REBRAND YOUR BUSINESS
Give your company a refresh

PROVIDING A PENSION
Help your staff save

Victoria Sopik started her company after seeing a need for more flexible childcare options.

DAYCARE DOMINATION

How did a mother of eight create a multimillion-dollar childcare business? By listening closely to her clients

BY CLAIRE GAGNÉ

Kids have always been a big part of Victoria Sopik's life. Not only is she a mother of eight, but she's also spent years in the childcare business. As a result of all of that childcare experience, she came to the realization that there weren't enough daycare options for families. So she and chartered accountant Jennifer Nashmi – they worked together at a previous daycare – brought the concept of flexible childcare to Canada and launched their business with one location in Toronto 13 years ago. Today, Kids & Company has 70 centres across Canada and the United States, and more than 40,000 families a year use their services.

PHOTOGRAPH BY MICHAEL WATIER

VITALS

KIDS & COMPANY
Toronto

Founded in
2002

1,500
full-time employees

Between
$50-$100
million in revenues

VICTORIA'S TIPS

* Customer service is key. We provide monthly haircuts at our centre, so parents don't need to worry about that.
* You won't do everything right the first time. We learned what parents wanted through trial and error.
* You'll need tenacity and resiliency every single day to be a successful entrepreneur.

"WE DISCOVERED THAT WHAT PEOPLE REALLY NEEDED WAS FULL-TIME CHILDCARE, SO OUR MODEL CHANGED."

Before I started Kids & Company I was involved in a childcare centre, and Jennifer was our accountant. We both thought there was a need for more flexible childcare for families. We read about a large U.S. company that pioneered the idea of backup childcare – if a nanny or babysitter couldn't do the job that day, then you could bring your kids to the centre. We wanted to create a Canadian model based on that philosophy.

Our first location was in a large office complex in a suburb of Toronto. Our idea was that we would partner with corporate clients and offer backup childcare to their employees. That meant if you needed someone to watch your children, you could drop them off at our centre for a few hours or a full day.

We discovered that what people really needed was full-time childcare, so our model changed. Now, we offer full-time guaranteed childcare to employees of our corporate clients. Companies pay us $5,000 a year, or $10,000 if they have offices in more than one city, to offer this benefit to their employees. (Employees are responsible for the annual daycare cost.) Parents who work for our client companies don't need to be on waiting lists for years to get into our centres, and if someone is coming back from maternity leave, and they know they'll need space in a few months, we'll hold their spot for them.

We try to do everything we can to meet the needs of our families. We offer part-time care, emergency care, and we don't charge late fees if you're not able to pick up your child on time. This is unusual in the business. You can also drop your child off at another one of our centres if, for example, you're on vacation or travelling for work.

Our company grew quickly. We started the business in 2002 with one centre, and now we have 70, with 30 more in development. We started in Toronto where many companies have their head offices and they were constantly getting feedback from their regional offices saying they wanted childcare, too. We were getting pressure from our corporate clients to open in other cities, so they could offer the same benefits to all their employees. We quickly made the leap, which was a pretty big leap, to expand into places like Ottawa and Calgary. Now we're in pretty much every bigger Canadian city – Red Deer, Kamloops, Hamilton and Bedford, N.S.

We felt comfortable with the growth, though. Most of our clients were national companies, so we knew we had clients waiting for us in each of the cities. We have a good relationship with our bank, and we have a really patient group of private investors who knew we would need to sacrifice the idea of being really profitable in order to offer the highest quality of service for our families.

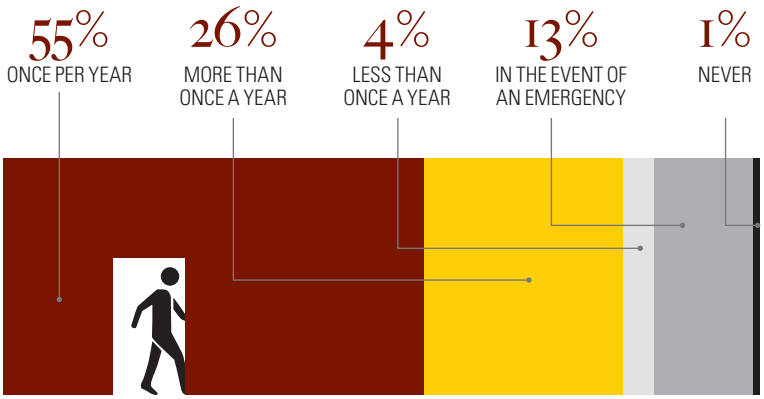
We now have a handful of locations in the U.S. and are continuing to open more. Again, it was our corporate clients who pushed us to grow, because they had offices in cities like Chicago, Boston, New York and Washington. But it's going well. We've gained a few local clients in the American cities, but our goal is not to get new clients, necessarily, but to support the clients we already have.

My co-founder, Jennifer, is the CFO. We created the business together and we run it together. Luckily, we have a great partnership and we never, ever fight or argue. We have defined areas of responsibility and we always defer to, and do not interfere with, each other's decisions and our areas of expertise. We're very lucky that we've been able to figure that out.

BY THE NUMBERS

Succession Stats

Does your company have a succession plan? It should and it must be reviewed often. After all, the transfer of a company from one CEO to the next could be your operation's biggest business transition. According to the Institute of Executive Development (IED), most companies do review their plans, but not all. IED asked executives from 20 companies: "How often is the CEO succession plan reviewed." Here's what they said.



MADE IN MANITOBAH

It's always nice to have celebrities endorse your product, but for Sean McCormick it's his community that he cares about most

BY KIM SHIFFMAN

Sean McCormick doesn't keep up with celebrity culture – he probably couldn't tell you who Leonardo DiCaprio is dating, or the name of Blake Lively's new baby. But he does know which A-listers wear his company's products. "Megan Fox orders from us quite regularly," says the entrepreneur behind Winnipeg-based footwear manufacturer Manitobah Mukluks. Beyoncé and Kate Moss are buyers, too.

His celebrity shoppers aren't buying his mukluks – soft boots made from animal hide – because it's the trendy thing to do. Rather, it's McCormick's story, his company's branding and his high-quality wares that keep stars and regular folks coming back.

An aboriginal creation, mukluks have been around for centuries, and McCormick is a proud Métis who grew up in moccasins. He got his start running a trading post where he swapped tanned hides for handmade moccasins, which he then sold. When he couldn't keep up with demand, McCormick went into business manufacturing his own shoes.

Today, Manitobah makes about 160,000 pairs of footwear per year and boasts 75 employees in Canada. Revenue is growing consistently, having jumped almost 300 per cent from 2008 to 2013, and landing the firm a spot on the PROFIT 500 list of Canada's fastest-growing companies.

While McCormick didn't invent mukluks, and he isn't the only one making them today, his commitment to quality and authenticity is what makes his footwear stand out among the competition. "If you look at consumer feedback, we consistently rank at the top of the world as far as comfort, warmth and quality," he says.

Part of its appeal is that the company works with local artisans to recreate thousand-year-old shoe and boot designs, but with modern shoe technology. The company partnered with Vibram, the world leader in high-performance rubber soles, to design a foundation that could withstand the effects of urban environments. The company also hired an aboriginal artist to create a beautiful tread based on aboriginal symbolism.

Manitobah Mukluks could almost be mistaken for a social enterprise, but the private company isn't one yet. However, it does support aboriginal people and culture in myriad ways, such as employing aboriginal staff, supporting aboriginal artists, teaching local kids to make mukluks and offering educational bursaries to aboriginal students.

Most importantly, though, the company is inspiring aboriginal entrepreneurs, says McCormick. "We're kind of like rock stars in our community because we've taken something so tangibly aboriginal and created a global brand."

Despite the impact that Manitobah Mukluks is having on the aboriginal community, McCormick dreams of taking things a step further. Some day, he says, he wants the company to be owned by the aboriginal community itself. "I want it to become an official social enterprise," he explains. "Our community needs more economic opportunity, and I want us to be part of that solution. We already are now, but we can do more."

PHOTOGRAPH BY THOMAS FRICKE

Printing for All

Most Canadians don't realize that 3-D printing is cheaper and more accessible then ever before. One company is hoping people figure that out

BY DIANE JERMYN

To many, 3-D printing still seems like something from the future, but it's surprisingly accessible. Toronto's 3DPhacktory, for instance, offers high-resolution, multiple-material, 3-D printing to everyone from tech-savvy engineers with ready-to-print projects and art directors needing 3-D models to the guy on the street who has a sketch on a napkin. The company has been around since 2012 and business is good – it's forecasting nearly $700,000 in revenues for this year – but it could be better.

Printing costs aren't as expensive as people think, says 3DPhacktory's founder and director, Laurie Mirsky. Prices start at $20 for something small, but can increase substantially for more complicated items. So far, it's been mostly inventors who are using his services, though Energizer did enlist him to create a battery-operated toy designed by a child who won a contest. The general public, though, still has no idea they can get something made.

Most of the company's outreach so far has been through Internet marketing. "It's a matter of taking the companies that we do work for and publicizing what they do, then linking them to our website, which increases our traffic and presence on Google Search," says Mirsky. The company budgets about $1,000 a month on marketing, mostly focused on Google AdWords, but that mainly reaches those who are already searching for what they do.

Mirsky faces two challenges he'd like solved: How can 3DPhacktory get more people to see the value in 3-D printing and how can it let those people know it exists?

SUNIL MISTRY, PARTNER

KPMG LLP (CANADA); KPMG ENTERPRISE

3DPhacktory is underinvesting in its marketing budget. The company's current spending and focus on Google AdWords amounts to only 2.7 per cent of its projected annual revenue. Reaching new audiences requires the company to invest in more than just search.

While the company has a good website and its organic search does well, it can do better. To drive more volume, I'd recommend providing a broader narrative on the entire design process and segment. Since the price barrier to entry for the design process is so low, the messaging needs to emphasize the additional value the employees and services bring to the product development process – from ideation through commercialization. That would help differentiate what 3DPhacktory offers to potential customers.

BRIAN G. MISKE

CHIEF MARKETING OFFICER, KPMG LLP (CANADA)

Engineering companies have umbrella organizations that 3DPhacktory could connect with to find out if they hold events or professional development courses. If 3DPhacktory can sponsor an event, it would put its brand name and what it does out there, helping reach their market penetration deeper and quicker. It would also get 3DPhacktory in front of a bunch of professionals in a room, instead of doing one-offs when people drop in.

The company could put some of its marketing budget toward an arts exhibition or science show to give people an idea of what can be created with 3-D printing. That would reach more of the general public – people who aren't necessarily engineers or inventors, but may be artists or just have creative ideas. The company could also contact students at universities who would likely find uses for 3-D printing.

DISCLAIMER (MISTRY, MISKE) SEE PAGE 2; PHOTOGRAPHY BY MARGARET MULLIGAN; ILLUSTRATIONS BY CHELSEA ROBINSON

Most companies go through a rebrand at some point in their history. It may be a logo refresh or a complete name change, but whatever you're doing, the process shouldn't be taken lightly. After all, you want to make sure your customers still know where to find you. **PETER GEORGE** has been through two name-changes with his Winnipeg advertising and consulting firm. It became McKim Communications Group last year after it was previously McKim Cringan George, among other names, during its century-long history. Given his experience, George, the company's CEO, consults with brands on minor refreshes and total image overhauls. Here, he shares his advice on rebranding *BY DIANE PETERS*

IS IT TIME?

"The decision starts with a feeling from the owner that what we're doing doesn't feel quite right for where we are today," says George. It could be that something has shifted or the brand identity is limiting things like global expansion or recruiting talent. This shift could trigger a change in some or all of the following: name, logo, branding message, tag line, website and even products and services. "Personally, I think every 10 years, most businesses will need to rebrand in some way," he says.

CALCULATE THE COST

George warns against pursuing a rebrand to satisfy the ego. "Everything you do in this regard has to make you more money or maintain the market share you have," he explains. Consultants, designers and printing will run you anywhere from a few thousand dollars up to $40,000. If the cost can be recouped, then go for it.

ASK AROUND

To figure out what needs to change and why, assess what's "off" with the way you're interacting with the market. Consider hiring an outside research firm that can lead focus groups or just talk to your stakeholders and clients on your own. You might find out that your customer service approach is dated or that, say, your green messaging conflicts with your excessive packaging. For instance, McKim's rebranding process revealed that clients wanted to see youthful faces, not boomer partners, so the company uploaded a photo collage on the McKim website so they could showcase everyone on the team.

EXECUTE PROFESSIONALLY

With your market research in hand, seek out graphic designers, marketers and the like to help you put together new materials. Can you do-it-yourself at this stage? No, says George. "Many small businesses think this is something they can do on their own, but this is like representing yourself in a complex legal matter." Experts will help you decide what you need to change and what can remain, but most companies end up making smaller tweaks – only about 5 per cent of the time do companies change their name or overhaul their product line, he says. What experts do most is to ensure that the new logo, website design or slogan comes with the right message and a killer look. $

ILLUSTRATION BY MARLENE SILVEIRA

Providing a pension

Q: I'd like to start offering a pension plan to my employees. We compete with bigger players that have plans and I want to use it as a recruitment and retention tool. But I'm a small business owner. What can I do?

A: When deciding on a plan, employers need to consider the cost associated with the different types of plans, figure out what they can afford, and then factor that into the total compensation package for their employees.

A defined contribution (DC) pension plan is the most popular option these days and an employer can establish it for a group of employees. With this plan, individual employees essentially assume the risk of the return realized by the assets in the pension. Depending on the plan, both you and the employees would contribute a certain percentage into it. Unfortunately, these plans can be onerous and costly to manage.

A group RRSP plan may be the answer for smaller organizations. Part of the individual employee's compensation goes into the RRSP – you might put in a certain amount of money, too. Whatever the plan earns is what the individual will draw when he or she retires. Financial institutions are good at helping small business owners set up group RRSP plans, which are much more economical for the employer because the cost involved in setting them up are lower.

Another idea is a deferred profit sharing plan, where a certain percentage of the company's profits are contributed to the plan for the employee. Such a plan may be possible, but is more complex than a group RRSP. A stock option plan may also be an alternative to attract and retain recruits and offer the added benefit of aligning key employees with the objective of growing the organization.

– ***TONY ITALIANO,*** *PARTNER, KPMG LLP (CANADA); KPMG ENTERPRISE, TAX*

Q: Summer is around the corner, and I've been thinking of letting my hard-working employees work from their cottages or their homes. What's the best way to go about doing this? I don't want to sacrifice output, but I also want to become a more flexible boss.

A: Intuitively, you think you're going to be more flexible – and you are – but you need more structure around flexibility for it to really work. You've still got to keep people engaged and your eye on the output.

First, be clear about the results you want and what the process will be like. Second, make sure your people have the technology in place to access their files, do their work and communicate with each other. For example, people in cottage country may not have wireless Internet set up, so you might have to give them equipment, finance their Internet access from their cottages or subsidize it from their homes. The key is making sure people can connect.

Then, you need to establish the way that you are going to communicate. Besides using e-mail, they may need to talk to each other. Skype or GoToMeeting are good options for holding meetings when people are in different places.

Once you do all that, ask yourself: "What's going to be produced and by when?" "What's the process to get there?" Are you going to check in along the way or just see it at the end? How do you want to connect and communicate? That's all part of the structure.

Also, don't make the assumption that everyone wants to do this. Maybe an employee has two small kids and prefers to go to the office because he wouldn't get anything done at home. You need to make sure this benefit meets everybody's needs.

– ***LAURA CROUCHER****, PARTNER, KPMG LLP (CANADA)*

ECONOMIC OUTLOOK

Every quarter, the Bank of Canada releases its Business Outlook Survey. *Here are some of its findings in its most recent report, published in April.*

40% of companies expect sales volume to increase over the next 12 months.

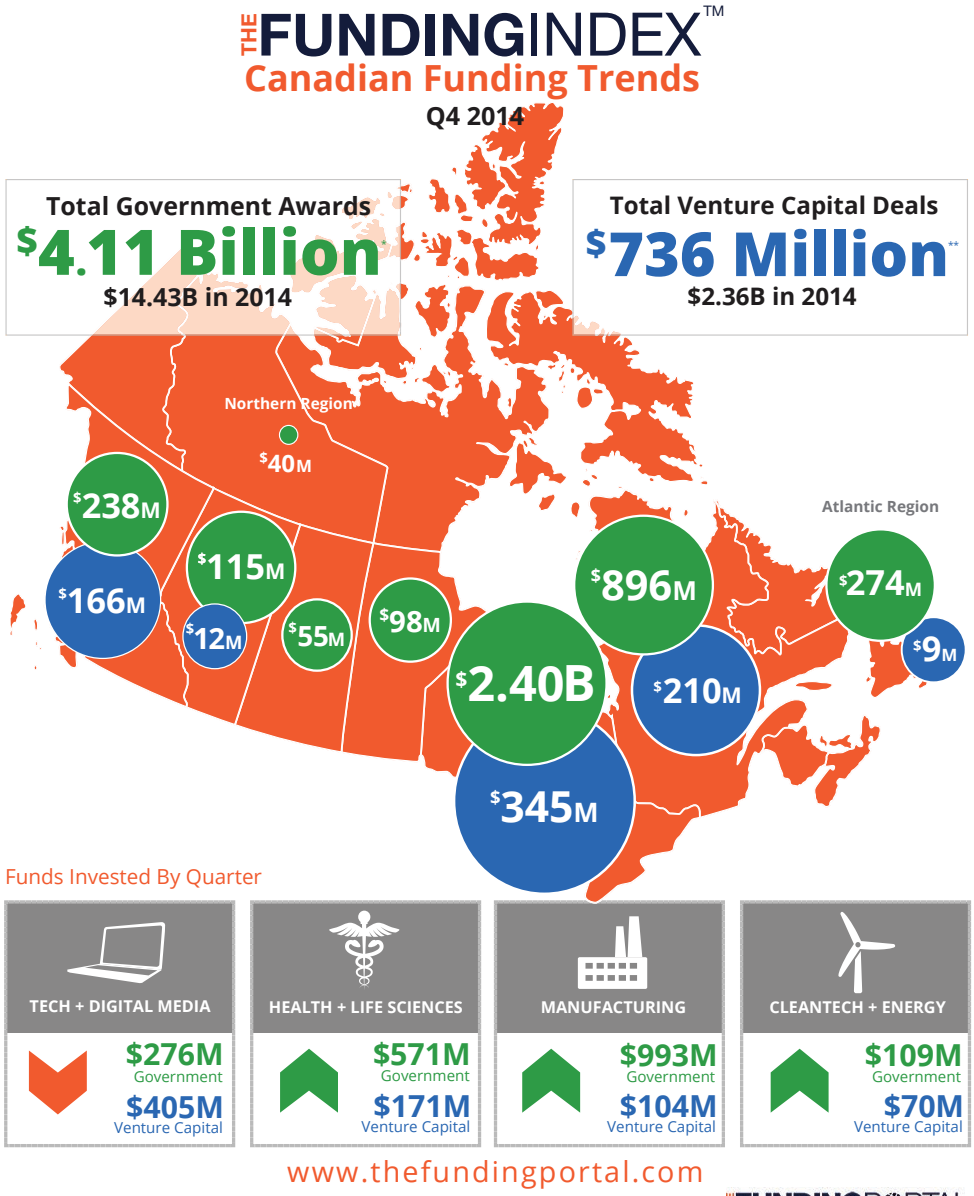
36% of firms expect to spend more on machinery and equipment over the next year.

40% of businesses expect employment to increase over the next 12 months.

DISCLAIMER (ITALIANO, CROUCHER) SEE PAGE 2; ILLUSTRATION BY DREW BARDANA

Get Funded

Canadian businesses secured $14.4B under government funding programs in 2014. **The Funding Index** assists companies to understand and participate in this large and dynamic capital pool. Here are the Q4 outcomes for September to December 2014.



The Funding Index Quick FAQs

- **Manufacturers** ranked 1st, securing $3.14B from governments in 2014
- **Healthtech**, **ICT** and **Cleantech** ranked 2nd, 3rd and 4th, receiving $1.8B, $1.3B and $407M, respectively
- **ICT** ranked 1st for VC investment—raising $1.45B in 2014
- Canada has **4,500** government funding programs disbursing **$27B/year** to support business
- **Innovation and exporting** are the top priorities for government funders right now

Check out how your industry and region did using the Funding Index online interactive infographic at thefundingportal.com/fundingindex.

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PLANNING YOUR PIVOT

Five entrepreneurs share their business transition tales

ILLUSTRATIONS BY REMIE GEOFFROI

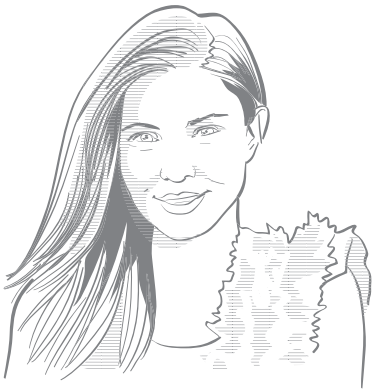
Did you know that chewing gum company Wrigley started off selling soap door to door? The gum was given out to people who let the company's sales staff into their homes. The gum, called Juicy Fruit, was the real hit – people couldn't get enough of it. So, in 1893 founder William Wrigley Jr. gave up soap and started selling gum.

Many other companies, including Starbucks, HP and Twitter, started off doing one thing, only to realize that there was more money to be had doing something else. It's called pivoting – shifting direction after a previous idea fails to take off. Flickr.com, for instance, started off as an online role-playing game. The game included a photo-sharing tool that became incredibly popular with players. The founders quickly realized photo sharing was the big opportunity, not the online game they had made.

Over the next few pages you'll read about five Canadian entrepreneurs who've gone through their own pivots. They'll outline some of the challenges, successes and motivations behind their change of focus. If you're thinking about making a change yourself, then read on.

FASHION-FORWARD

When Ana Caracaleanu's crowdfunding creation struggled, she added a new line of business to get her company – and her Kickstarter-like platform – moving.



CROWDFUNDING companies have helped aspiring entrepreneurs raise hundreds of thousands of dollars, but the businesses themselves are cash cows, too. Kickstarter, for example, has taken 5 per cent of the US$1.39-billion its users have raised since its launch in 2009. This was not lost on Toronto's Ana Caracaleanu, who started Luevo, a crowdfunding platform aimed specifically at the fashion industry.

She noticed that a lot of the fashion projects on these sites weren't as successful as other campaigns, in part because of the rewards-based model on which fundraising initiatives are built. The reward model, where funders receive items such as a T-shirt or a signed thank-you card, takes fashion designers away from their core product for too long. Managing a crowdfunding campaign "can take six months out of your business," she says. Instead, Caracaleanu wanted users of her site to give the actual product once it was made to those who funded the project.

In 2012, Caracaleanu, along with co-founder Mihnea Stoian, built the Luevo platform, created a blog and spread the word. In just a couple months, they received about 300 applications from designers, mostly from the U.S., who wanted to try it out. Luevo hand-picked 50 designers to launch. The company helped them retouch their images, write website copy and "make sure everything was perfect," says Caracaleanu.

Despite their efforts, the fundraising campaigns weren't particularly successful. Only about 20 per cent got fully funded – a figure far lower than Caracaleanu had predicted and nowhere near enough to put Luevo in the black. "We spent a lot of money, and our assumptions didn't work out," Caracaleanu recalls. "We were not profitable at all."

However, she had an idea as to why things went so poorly. "No matter how much effort we put into our platform and our content, if project owners don't do their own marketing and PR, they won't be successful." Designers are creative people focused on fashion and fashion events, but many lack the business skills necessary to promote their fundraising campaigns. "Fashion designers need money, but they also need help with their business," she says. "That's what became obvious."

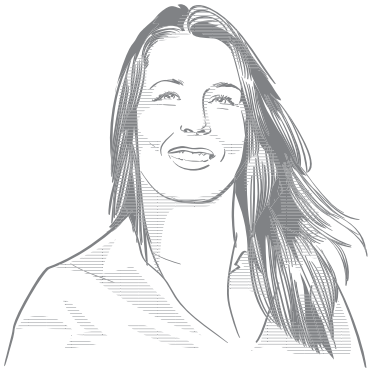
That realization was the catalyst for Luevo's change. In the last quarter of 2014, Caracaleanu altered her company's core offerings. While it still has a crowdfunding platform, Luevo is now focusing more on selling PR, web and social media marketing services to fashion designers. "They know they can't get [these things] done, so they hire us," she says.

It's early days, but there are signs that the pivot was the right decision. Luevo has several new clients using its services, the company's web traffic has tripled and subscriptions to the firm's e-newsletter have risen dramatically. While companies can still use her crowdfunding site without her marketing services, she does say the ones who have used her new offerings have had more success raising money on her site. Caracaleanu characterizes this as a small change, not a wholesale reimagining of her business. But it's a pivot nonetheless. "We haven't changed 180 degrees," she says. "Our pivot was adding a new source of income."

There won't be any further changes for the company, at least not this year. As Caracaleanu works toward acquiring new customers and increasing revenue to pay for all its previous years' expenses, she's confident the company is going in the right direction. "We're happy where we are now," she says. **KIM SHIFFMAN**

BABY'S BIG IDEA

Louise Miner was bored of her drapery business and wanted a change. She never imaged that it would be her newborn who would birth her new business



SOME PIVOTS are borne out of necessity, others out of boredom and sleep deprivation. Such is the case with Ottawa entrepreneur Louise Miner.

For 10 years, Miner ran a custom drapery business and – while it was doing well – her enthusiasm was waning. "I'd just had a second baby, and I was 42, and I was finding the work too taxing on my body," recalls Miner. "I wanted something new."

Wanting a new business is one thing. Coming up with a new idea is something else, and when your day includes diapers, there isn't much time for brainstorming a business plan. Amidst the chaos, Miner found herself especially frustrated with changing her baby's mattress sheet, so she designed one with a Velcro-held, removable top that's easy to change and doesn't require lifting the mattress.

"I made one or two, and then friends were asking for one, and suddenly there was this demand," says Miner, now 44. Without realizing it, she had started her new business. Working with her husband and business partner, Adrian, Miner fine-tuned the design, secured the patent and began marketing the new company: Rip n Go.

"When we started to pivot, there were about eight months where money was really tight," says Miner. "In the first year, we made nothing, and just went to baby shows to talk to parents. In the second year, we probably made about $12,000."

To keep the cash flowing, she kept up her old company, slowly paring back on marketing and generating new business purely through referrals. "We wanted to shut down the old business much faster, but it wasn't realistic, and now we're looking at another year or so."

That said, things may move much faster for Miner. As word of Rip n Go spreads, so does the number of product lines and potential customers. This year, Rip n Go is set to bring in about $150,000, a massive jump that Miner attributes to the product's far-reaching appeal. It's not just parents who can use this, but it's also for seniors and those living with limited mobility. Make it easy for occupational therapists and nurses to change beds, and now you're looking at the lucrative world of institutions and home health-care chains.

"We're saving people time, we're making it easier for nurses and helping alleviate mobility problems," says Miner, who now holds five patents on Rip n Go's expanding product line. But the biggest appeal? "It doesn't look like something from a hospital. It has style, and that's so key." **JAY SOMERSET**

> "WE WANTED TO SHUT DOWN THE OLD BUSINESS MUCH FASTER, BUT IT WASN'T REALISTIC, AND NOW WE'RE LOOKING AT ANOTHER YEAR OR SO."

4 PIVOT PERFECTING TIPS

Has your seemingly brilliant idea fallen flat? Then it may be time to look at another part of the business for growth. Many well-known companies have "pivoted" into other products and services when an initial idea didn't work out, only to then make a mint off plan B. Pivoting doesn't happen over night, though. Here are four tips to make it work.

MOVE SLOWLY

You don't want your pivot to break the bank. If possible, use current cash flow to fund the transition. Also make a detailed and realistic pivot plan so you can have something to work toward.

MARKET RESEARCH

You may have done this with your first idea, but do it again. Is your pivot product already out there? Can you migrate your customers, or will you be going after a new market?

BUILD OFF WHAT YOU ALREADY HAVE

Pivoting is not the same thing as starting a brand-new business. It's more of a re-alignment. Figure out what your customer needs and then deliver it.

BELIEVE IN CHANGE

Not everyone will be happy with your shift in direction. There will be shareholders and customers who think you're being reactionary or scatterbrained. Walk people through what you're doing and, most importantly, be persistent.

SOLAR SUCCESS

Nick Blitterswyk made a big bet on wind power, but soon noticed that his industry was shrinking. That's when he started selling solar

SUCCESSFUL entrepreneurs are skilled at spotting an opportunity and seizing it – even if that means risking it all to make a big change. Nick Blitterswyk did this twice: first in 2008, when he ditched his career as an actuary and launched New York-based Urban Green Energy, and again in 2012, when he pivoted his company and adopted a new business model for his clean tech firm.

In 2008, Blitterswyk, a Canadian who grew up on Vancouver Island, investigated business opportunities in solar energy and wind turbines and decided to focus his firm on the latter. Why? Because he felt he could build a better wind company. "I was speaking with other wind companies and I'd find holes in their business strategies," he says.

Urban Green Energy (UGE) began life as a manufacturer of vertical axis wind turbines – environmentally friendly energy producers that, thanks to their egg-beater shape, are nearly silent and don't need to be pointed at the wind. The company soon attracted BMW and Hilton as clients, who put the turbines on their buildings, and by 2012, UGE was boasting more than $4-million in annual sales. "We were the world leader in vertical axis wind turbines," Blitterswyk says.

While the company was expanding, Blitterswyk noticed that the price of solar panels was declining, though the cost to produce wind energy wasn't. What's more, his industry stopped growing, and it even looked like it might shrink. "So we asked ourselves, 'What are we good at?'" recalls Blitterswyk. He knew he could work well with international commercial clients, and he had already dipped his toe into the solar business when clients had asked for it. "We could have stayed the same," he says, "but we knew we had the right people and the right expertise to successfully restructure."

In 2013, the company made its big move. The once-straightforward manufacturer pivoted to become a full-service renewable energy provider. Although it is still the world leader in vertical axis wind turbines, Urban Green Energy now provides both solar and wind energy solutions, and it also offers services such as remote monitoring, and control and power electronics, as well as site assessment and planning.

The transition wasn't without its challenges. There were naysayers, including some employees and investors, who wondered if the change was reactionary rather than strategic. And UGE's distributors weren't initially keen on the idea of purchasing solar components from the company rather than directly from manufacturers. "We had to sell them on our value, on our systems and change our pricing strategy to make it work," admits Blitterswyk.

But it is working. Thanks to the change, he predicts sales will jump to $10-million this year. What's more, he says, "I'm now confident we can become a $100-million company."

KIM SHIFFMAN

DIVING INTO DATA

Michael Litt was running a successful video production company when he decided to change course and take advantage of the growing analytics trend

A SUCCESSFUL PIVOT means taking what you've learned in your initial business and directly applying it to something new. It's not about starting over. Or at least that's what Michael Litt, CEO of Kitchener, Ont.-based video analytics company Vidyard, believes. "If your clients keep asking you the same question, then you figure out the answer and deliver on it," says Litt, 28.

In 2009, while still an undergraduate at the University of Waterloo, Litt started Redwoods Media, a video production business that ended up taking in more than $50,000 in annual revenue, alongside fellow engineering student and friend, Devon Galloway. The company made videos for businesses that needed to explain complicated software or processes. They would then put the videos on YouTube, which allowed them to easily see how many people tuned in. There was one problem, recalls Litt. "Every client wanted to know the same thing: 'How do we justify the money

we're spending on the video? How do we know it's working?'"

Redwoods created a solution that would allow it to track how people watched its videos. The company then guaranteed that 60 per cent of viewers would watch its video until the end. If not, Redwoods would fix the problem or refund the cost. "It became much easier to spend money with us now," he says.

By spring 2011, the demand for analytics was exploding, while the video production space was getting crowded. Litt started thinking about what business would scale better over time: one that required a large volume of sales, or one that provided a solution that no one else was really offering and could turn their competition (video creators) into clients.

The company chose the latter and presented its new business idea to a group of venture capitalists in Silicon Valley, who ended up investing about $18-million into the business. "We got the funding because we'd built a tech solution based on the needs of our existing customers," he says. "That's pretty rare."

The transition took about five months, but by spring 2012, Redwoods Media had transformed into Vidyard. Today, Litt helps companies manage existing video content by collecting data related to viewership, such as who watched the video and for how long. This allows his clients – mostly companies using video for sales and marketing – to track the effectiveness of a particular video and, in turn, evaluate its return on investment.

So far, the new approach is paying off. Vidyard's revenues grew 1,000 per cent between 2012 and 2014, and it has raised nearly $30-million. The company also has 60 full-time employees, up from 30 last year. Litt's even thinking IPO, which could happen in three to five years. The key takeaway: Listen to your customers and don't be afraid to try something new. "We wouldn't be here if we were just making videos," he says. **JAY SOMERSET**

MAKING MORTGAGES EASIER

Dave Sims's original cloud-based business never took off, so he took the same technology and transitioned it into something that could help people like himself

THREE YEARS AGO, software developer Dave Sims came up with a brilliant plan. He'd take his existing IT file management company, Flux, which was worth north of US$1-million after 12 years, and modernize it by taking it "into the cloud." He even had a name: Floify.

"This was 2012, and cloud-based software was already hot," says Sims, 48. Rather than have his clients use his software on their own internal networks, he could now monitor and manage everything in real time from his offices in Boulder, Colo.

The only problem: nobody noticed.

While technically sound, Floify failed to gain traction, and Sims quickly realized that you can't simply take an existing business, change its delivery and expect people to flock to it. "There were no sales, no leads, nothing was happening," Sims recalls. "Something needed to change."

Around that time, Sims was refinancing his home. It was a frustrating experience, and he was surprised at the antiquated way his mortgage broker was working. "He had a full-time assistant whose only job was to collect bank statements from borrowers," Sims says. Endless e-mail. Faxes. Massive paper-filing systems. "It's a laborious process. Things move very slowly." Then it hit him. What if there were a software program that could take care of these details – something that expedites the process for borrowers, while easing the tedious, daily workload for mortgage loan originators? After all, there are thousands, if not millions, of buyers every year and they all want the same thing: a fast, pain-free closing.

"I talked about it with my original loan officer, but he wasn't that interested," says Sims. "It was just easier for him to keep going in the way he'd always worked."

Still, he saw the potential and built the program, and last year he relaunched Floify, this time as an online service specifically for mortgage brokers. His service allows brokers to easily collect and store customer bank statements, tax return information, mortgage documents and more. The company is currently growing its customer base by about 14 per cent a month, but he still needs more people to try it. That's the challenge Sims faces right now. "People are used to doing things one way," he laments, "the slow, expensive, tedious way it's always been done."

To attract more clients, Sims got his mortgage loan officer licence. He hopes that by thinking like a broker, he'll understand his customers' needs better. "There's a saying in the software world: 'Eat your own dog food.'" A developer, he explains, is always writing software for other people, but he must also create something that others truly understand and can use. "That's why I got my licence, so I can understand what my clients go through. And so I can use it myself." **JAY SOMERSET**

BLACKBERRY'S BIG TURNAROUND

John Chen's already turned around one large tech firm and it looks as if the CEO of Canada's most celebrated wireless company is set to do it again

BY SARAH BARMAK

PHOTOGRAPH BY MARK BLINCH

When Prem Watsa, CEO of Fairfax Financial, a major BlackBerry shareholder, started thinking about who should lead the venerable tech company, one name stood above the rest: John Chen.

In October 2013, Watsa met Chen, who was living in San Francisco, to see if Chen would be interested in revitalizing BlackBerry. At the time, Chen was famous for having steered one of the tech world's most significant turnarounds. In 1998, he took the top job at Sybase Inc., a popular database software company that was in deep financial trouble. In 2012, after he returned Sybase to the top of its game, he sold it to the German multinational SAP for US$5.8-billion.

Clearly, Chen was the CEO that BlackBerry needed. However, after years at Sybase, Chen wasn't angling for a job. Eventually, though, he accepted the offer. "How many businesspeople get a chance to turn around a company as iconic as BlackBerry?" he explains today. "That's an opportunity that's not going to come around every day." Besides, he adds, "I'm a businessman and I like a challenge."

Chen was officially announced as BlackBerry's new CEO on November 4, 2013. Investors were so thrilled that by the end of the year, its stock had climbed by nearly 15 per cent. Today, the 59-year-old is orchestrating an all-hands-on-deck push to save the Canadian smartphone maker. It's a tough process that he predicts will take at least two years. In fact, the typical corporate turnaround requires two or three years to complete.

Things are moving in the right direction. In late-April, Chen announced that BlackBerry's initial rescue phase was done and that the company's revenue will begin growing in a year. "I wouldn't have taken the job if I [hadn't thought] there was a lot of value in the company that could be unlocked," Chen explains. "There isn't any point to putting in this much effort if you don't truly believe the company has enough potential to justify it."

SHIFTING MARKETS

BlackBerry's rise and fall – and perhaps rise again – shows just how quickly markets change. The Waterloo, Ont. tech icon, once known as Research In Motion, popularized the smartphone, and in 2009 it owned more than half of the U.S. market. However, the iPhone's rise and the market's shift to touchscreen eroded BlackBerry's dominance. In 2008, the company's share price was $149.90. Today, it hovers around $13.

For years, conventional wisdom said that the only option for BlackBerry was a sale. But last winter, the company turned down a number of takeover offers, choosing to go full steam ahead with a comeback strategy that aimed at refocusing its business on software. Observers in the tech community are now watching carefully. Transitioning its focus from hardware to software won't be easy, but an about-face never is. If BlackBerry's plan bears fruit, it will be one of the most dramatic turnaround stories in Canadian – if not global – business history.

A lot of businesses go through ups and downs. New products may not work out, and markets can change. When a company finds itself truly on the decline, the chances it will successfully change course and get back on its feet are not good. Authors Richard Foster and Sarah Kaplan wrote in their 2001 book *Creative Destruction* that the probability that a failing business will grow appreciably or become profitable again within three years is less than 35 per cent.

With those odds, can this former mobile giant succeed? BlackBerry has plenty on its side. Its on-device encryption still makes it the acknowledged market leader in security. Its e-mail system is still rated higher than its competitors. And it's in good financial shape, sitting on $3.27-billion in cash and equivalents, the highest in the history of the company. Still, it's going to take time before the public sees a new, refreshed BlackBerry. "Having done this before, I know first-hand that a turnaround is a marathon, not a sprint," says Chen.

So far, things are going according to plan. Phase 1 was about stabilizing the business and making it cash-flow positive, which Chen notes happened in the fourth quarter. He also built up cash reserves to ensure that the company had the resources to make "smart investments" in BlackBerry's future growth.

Phase 2 will aim for growth. "I expect we'll make progress on stabilizing revenues over the next three quarters," he says, "and move toward growing revenues by the next fiscal year."

TURNAROUND TUTORIAL

If all this sounds too good to be true, it isn't. Chen knows what he's doing. The Hong Kong-born executive is credited for saving Sybase from bankruptcy. He took the top job when the firm was in the throes of its fourth straight year of losses. After straightening out its finances, Chen decided to lead it into the new field of mobile technology, which was still untested at the time. By August 2006, Sybase was the

largest enterprise software provider in wireless technology and ultimately generated hundreds of millions of dollars in revenue from the shift in direction.

Chen brought his Sybase experience to BlackBerry, starting with one key lesson: listening to criticism. "Your customers will tell you what their pain points are, how you can better serve them. If you are smart, you'll listen to them."

It's also important to inspire your staff, he says. "Knowing where the opportunities lie isn't enough," Chen explains. "You've got to build a culture that can execute quickly, creating a culture of 'we're in this together,' of co-operation and collaboration within the company." Every employee and decision, he says, must be focused on finding the most effective way to solve customer challenges.

While Chen has plenty of executive experience, he had no involvement with BlackBerry prior to becoming CEO. That may play a factor in why this turnaround will work. Peter McCann, author of *Turnarounds: Brains, Guts & Stamina,* says that it's often better to bring in a leader from the outside. "They don't have legacy loyalty and mindsets.They're not going to say, 'But we've always done it this way.' If they hadn't brought in Chen, it's hard to imagine the radical transformation would have happened."

SMALL SUCCESSES

Two or three years can be a long time to see the fruits of your labour, which is why Chen makes a point of celebrating the small victories, even when shareholders are looking for a home run. For instance, in Q4 2015 (posted March 27), the company showed a surprise profit of four cents per share, turning analysts' estimates of a four-cent loss upside down. Chen is also not afraid to spend some of that cash he's saved. In April 2015, he bought WatchDox, an Israeli-American mobile security firm, for an undisclosed amount.

These are all important moments, he says, not only for the company, but also for the people working at BlackBerry."In the beginning of a turnaround, the most difficult part is keeping the company energized in the face of a lot of immediate challenges in the business," notes Chen. "The only way to counter that is by focusing on turning out a steady cadence of small successes – and you've got to celebrate all of them."

Of course, the turnaround still has a ways to go. Despite software revenue rising 20 per cent, total revenue in Q4 fell to $660-million, which was below analyst estimates of $786-million. There will likely be more ups and downs before the transformation is complete, but Som Seif, president and CEO of Toronto-based Purpose Investments, is encouraged by the profit increase. It speaks to long-term viability.

"The good thing about profits is, when you make money, you buy yourself time," he says. "Ultimately, management is recognizing it's a two-way street. It's both on the top line and the bottom line where you build a good business." You can't focus purely on revenue only, he warns. "Revenue could stay flat and they could still be a healthier business if they moved over to software in a better way."

CHEN BROUGHT HIS SYBASE EXPERIENCE TO BLACKBERRY, STARTING WITH ONE KEY LESSON: LISTENING TO CRITICISM.

BLACKBERRY'S BOLD MOVES

One of Chen's big moves has been to focus the brand on the business customer, which has always been their bread and butter. On September 24, he launched the BlackBerry Passport, which boasts a large screen and ample keyboard. It's clearly geared toward executives and employees. He's also partnering with Samsung Electronics on mobile security – something that would have been unheard of years ago – and that's helped BlackBerrry win over an increasing number of enterprise clients.

During his last earnings call, Chen announced that BlackBerry landed 2,200 enterprise customers, many of which were already using a competing company's services. At the same time, BlackBerry's software sales grew by 24 per cent quarter-over-quarter. Seif thinks the company's move toward software is smart, largely because it's a recurring annuity business. This ensures revenues will be more certain year-to-year. Plus, the longer customers stay, the more services they'll likely use.

He's also thinks that Blackberry will ultimately deliver its promise to investors, in large part because the company has been consistent with its communications. "They've put a plan in place, one that they've shared, and they're executing on that plan," says Seif. "Whether or not it works out is still to be determined, but they're not just telling us, 'Hey, trust us.' As an investor, this is one where you probably feel more confident in the turnaround."

There's another reason to be optimistic: The company is backed by a lot of experienced investors, such as Fairfax Financial. "These are shareholders who've been involved in turnarounds before," says Seif. "When you've got people not just [owning] 1 per cent of a company's stock, but holding major equity in the hundreds of millions of dollars, it means something because they don't want to lose money, either."

Chen knows that there will still be a lot of challenging and stressful days ahead. Former turnaround executive Steve Miller, who helped save Chrysler from bankruptcy in 1980s, wrote about the toll turnarounds have taken on his health. It means 12-hour days and constant pressure. It can be "a struggle between work and stress and health," admits Chen, but with the company officially out of crisis mode, he is finally breathing a little easier.

Nearly two years after that fateful meeting with Watsa, Chen has no regrets. He's even having fun. "You have to enjoy the challenge, the puzzle of figuring out how to unlock the value that you know is in the business," he reflects. It takes a lot of time and pressures, but he finds turnarounds "a really fascinating puzzle to solve. There is a lot of satisfaction as you watch the pieces fall into place." ■

WHAT YOU NEED TO KNOW ABOUT A TURNAROUND

Setting a faltering company back on the right course takes immense dedication, commitment and work. But it can be done. Turnaround expert Peter McCann explains how

BY SARAH BARMAK

PHOTOGRAPH BY MARGARET MULLIGAN

Businesses go through all sorts of transitions, but one of the most difficult to deal with is a turnaround. There are many examples of companies that, for one reason or another, were on the brink of extinction but revamped their business and came back stronger than ever. It's hard to believe now, but Apple, Starbucks and IBM have all gone through the turnaround experience.

If anyone knows a thing or two about corporate transformations, it's Peter McCann, a Toronto-based management consultant and author of *Turnarounds: Brains, Guts & Stamina*. Over his career he has served as either a turnaround consultant or turnaround CEO for about 40 companies. He's made a living out of rescuing struggling firms, and has gathered experiential knowledge of the tough steps needed to put a faltering company on the right path.

Turnarounds, says McCann, are challenging. It's hard to stop that downward momentum and regain lost market share. A study by Yale University's Richard Foster and the Rotman School of Management's Sarah Kaplan found that the probability that a failing business will grow appreciably or become profitable again within three years is less than 35 per cent. Anyway, a return to profitability isn't the only goal, says McCann. A turnaround is complete only if it restores the business to sustainable, long-term profitability and solvency. You don't want just a brief comeback.

Why are turnarounds so difficult? Because the business world is more unpredictable than ever before. Thanks to rapid technological advances, markets can change nearly instantly. That's made it harder for companies to stay on top of trends, remain relevant and be viable long term. According to Yale's Foster, the average lifespan of a company on the Standard & Poor's 500 Index of leading U.S. companies has plummeted from 67 years in the 1920s to just 15 years today.

Since it's become increasingly harder for businesses to last, mastering the art of the turnaround is that much more important and, fortunately, it can be done. However, many companies don't start this transition early enough, says McCann. "They do too little, too late." Naturally, an executive will halt financial losses, pay down debt and reduce costs. While that helps, it's often not enough to restore a company to competitive strength.

SINCE IT'S BECOME INCREASINGLY HARDER FOR BUSINESSES TO LAST, MASTERING THE ART OF THE TURNAROUND IS THAT MUCH MORE IMPORTANT AND, FORTUNATELY, IT CAN BE DONE.

SEE SIGNS OF TROUBLE

One of the early warning signs that a company is in trouble occurs when banks start asking tough questions. "The banker's test," as McCann calls it, involves banks asking probing and often uncomfortable questions about company management, spending decisions, the ability to pay back debt and more. These types of questions should raise a red flag for the company, because it's a signal that the bank thinks the business may be heading to bankruptcy. There are other, more obvious signs, too: The company may have high losses, low working capital, trouble making payroll and wary suppliers.

Even if an executive sees some of these signs, it's usually an alarming event that alerts the CEO and the board of directors to problems. For instance, the bank may refuse to advance more capital, a public firm may get its credit rating lowered or a company may have to cut dividends. Unfortunately, by then it could be too late to save the business, says McCann.

Before taking drastic measures, make sure your firm truly is in a turnaround position. Many companies aren't failing, but, rather, they're just treading water, suffering from stale marketing, low cash flow or disappointing productivity. They may need a tune-up, warns McCann, but not turnaround measures. "Rapid action to drop product lines or close positions, firing and replacing one-third or half of your senior management team – that's highly disruptive," he says. "You don't want to do those things unless there's a compelling reason."

BE IN IT FOR THE LONG TERM

Turnarounds tend to work best if your company is in a growing industry, notes McCann. Businesses in dying industries

may experience sector headwinds, such as pricing pressures or overall margin compression, which will make internal problems harder to manage.

However, no matter what sector you're in, it could take two to three years for a turnaround to be completed, and it's not going to be a smooth ride. "Decisive, violent, determined, focused action is required," says McCann. In nearly every turnaround, staff will have to be let go and it's often in the senior management ranks. "Who ran the company right into the swamp?" he asks.

McCann recalls a conversation he had with a vice-president of a small, but well-known Canadian company that one Monday morning fired about 30 per cent of its staff, including a number of executives. "One of the surviving vice-presidents said to me, 'Better that some of us go now than all of us go later,'" he says.

BRING ON A NEW CEO

In many cases the CEO is also let go and someone new – often a person who has had experience turning around companies – is brought in. Typically, a turnaround CEO is an experienced businessperson who has seen many kinds of business problems, can generalize and is trained to make quick decisions, says McCann.

The turnaround CEO should also be mentally tough and even be in good physical health as a turnaround can take a significant toll on management. The top executive will often work six days a week at 12 hours a day for years with no holidays. "The turnaround CEO is appointed to catch a falling knife," says McCann. "This isn't for the faint of heart. You're in a high-stress environment and you've just got to respond. If you have to agonize over everything, you're going to give yourself a heart attack in the first three weeks."

STUDY THE COMPANY'S NUMBERS

After the new CEO is in place or a new management team is brought in, the leadership has to focus on the company's accounting. Turnaround businesses often have financial statements that look fine on the surface, but executives need to dig into the numbers to see where things went wrong.

For instance, most companies will need to revamp their pricing. Firms tend to charge too little in many segments, but that's often hidden by too-high prices in other areas. Accounting will need to break down revenues and costs per product, revenue per customer and, crucially, revenues per customer-product combinations, of which there may be hundreds or thousands.

Consider an Ontario-based B2B company with six products and 300 customers. Every customer could buy that product in a different way. If a customer lives in North Bay, for example, the cost of shipping an item may be substantially more than if they reside in Orillia, Ont. Is everyone getting the same shipping price, no matter where they live? Should that be priced differently? In other words, prices at every touch point need to be evaluated. There may be push-back from marketing if costs need to be raised, but it often has to be done, says McCann.

The executive team will need to tackle several other issues, as well. For instance, the company will need to get co-operation from creditors, so there's enough cash to fund the transition. They'll need the board to buy into the vision and back up any tough choices that must be made. Also, the leadership will have to be transparent with staff – if employees think the company will go under, they'll start looking for new jobs. The company may need to refresh and reboot its marketing materials, too.

If McCann could give only one piece of advice it would be this: Be patient. No firm is going to do a U-turn in 60 days. In fact, the decline will likely worsen as the company absorbs severance costs and spends money on legal fees. Keep reminding staff, customers and yourself that you're in the early innings and then get to work.

"THE TURNAROUND CEO IS APPOINTED TO CATCH A FALLING KNIFE," SAYS MCCANN. "THIS ISN'T FOR THE FAINT OF HEART. YOU'RE IN A HIGH-STRESS ENVIRONMENT AND YOU'VE JUST GOT TO RESPOND."

THE 10 THINGS YOU NEED TO KNOW ABOUT SELLING YOUR BUSINESS

Business transitions can mean a lot of things, but many entrepreneurs only make one transformation in their lives: from business owner to former business owner. Here's how to make sure the sale of your business goes smoothly

BY MATT O'GRADY

There are many reasons for selling your business: it's time to retire, maybe a new opportunity has come along or maybe you're just burned out. With record-low interest rates, financing for a purchase has never been easier, which is good news for both buyers and sellers. According to a quarterly report from the International Business Brokers Association (IBBA), of the 197 brokers and advisers surveyed in Q4 2014, 89 per cent expected merger and acquisition activity to increase in 2015, with more than two-thirds of them describing it as a seller's market. If you're ready to hang the For Sale sign in your front window, then consider these 10 things to ensure a smooth journey from start to close.

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Clearly identify the reasons and goals for the sale

Sometimes there is a natural inheritor for your business, such as a child or a trusted member of your senior management team. Often, though, business owners aren't clear who they want to sell to – or exactly what they want out of the process other than to get out. "Sometimes I'll get a call and I'll work with business owners who don't have any idea how the process works," says Jason Kwiatkowski, president of Valuation Support Partners in Markham, Ont.

Kwiatkowski will talk to them about where they see themselves, and their business in, say, five years and he'll ask the business owners about their goals and what they'd like to accomplish from a sale. "Do they want to someday sell the business for maximum net proceeds, so that will help them in their retirement?" he asks. "Or do they have somebody in mind who would be interested in taking over the business one day?" It's hard to get the sale right if these questions aren't answered.

PHOTO ILLUSTRATIONS BY ERIK MOHR

2

Have a time frame in mind and understand how your environment will affect it

Some business owners, like homeowners, make the mistake of putting their asset on the market before they're ready to sell, but it's best to commit to a sales process and get through the close quickly. If you tell people that you're for sale and then plan on waiting for the biggest cheque, then you could hurt the sale price.

To Judy Brooks, a Vancouver entrepreneur who has sold three businesses, including her Blo Blow Dry Bar franchise, timing is critical. "For me, doing something quickly has always been worth money," she explains. "People say, 'Oh, you leave all this money on the table.' But you know what? If things drag out, sometimes the cost to you and your business is detrimental." Some things to consider when deciding on a sales time frame: Is the business still growing? You don't want to sell at the top when there's no more growth ahead. Are the market conditions right? If you're an exporter and a low Canadian dollar helps you, maybe now is a good time to sell.

3

Start the planning process early – and involve professionals

Business people often wait until the last minute to call their advisers, accountants or lawyers to broach the topic, not realizing that it can take up to a year to complete a sale. "People often come to us when it's too late, when they've already negotiated some of the terms," says Dana Gordon, owner and senior counsel for Vancouver-based Benchmark Law Corporation, which exclusively services the small business sector. "They think that they're saving money, but something might show up in the due diligence that ends the whole deal – and then they've wasted a lot of time and effort and money."

Most experts recommend mapping out a sale three to five years in advance, because that allows for proper tax and estate planning. "A lot of times I see business owners wanting to sell the shares of their business, knowing that there's this capital gains exemption that can help them save a lot of tax on the sales of their business," says Kwiatkowski. "But they don't realize that there are rules and criteria that the business has to meet in order to take advantage of that exemption." For instance, if a business owner has kept a lot of cash in the business, or has marketable securities that are not active assets in their business, then they may be offside and won't qualify for that exemption.

4

Get your affairs in order

When you're getting ready to sell, make sure everything is running as it should be. That includes ensuring that business licences and permits are active, that the building lease is in good standing and that the company is in good standing if it's incorporated. Buyers should perform several searches of the seller's background, Gordon advises. "Are there liens on anything? Have there been any lawsuits? Are taxes being paid? Is everything up-to-date? As a seller, you need to be prepared for all that."

While problems will inevitably pop up in the sales process, many hurdles can be overcome with a bit of early planning, so build a presale binder that includes all the documents and records that a purchaser is going to request. "Prepare that in advance, be ready and be open," Kwiatkowski warns. "Then you have a better chance of having a smoother due diligence process and not killing a deal."

5

Find out what you're worth

The single most important thing an entrepreneur can do to secure a quick and fair sale is to get a proper valuation from a trained business valuator. Most companies are priced at some sort of multiple of annual cash flows. If the initial valuation is not what you're expecting, Kwiatkowski suggests looking for value-enhancement initiatives. One enhancement would be to increase the number of recurring customers or increase recurring revenues, he says.

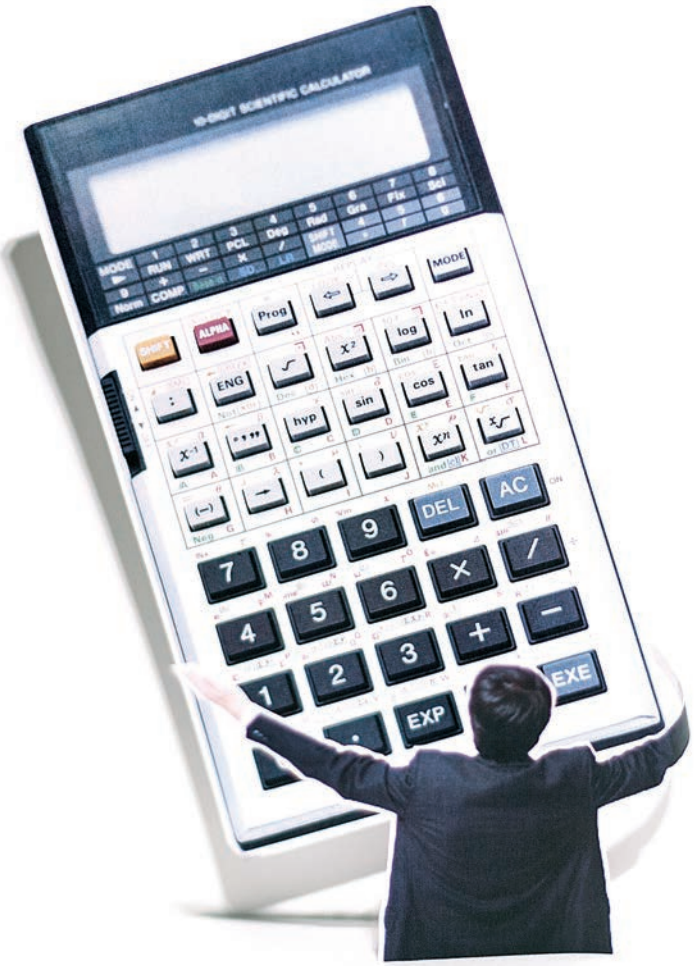
It also helps if the business can run without you. "In a lot of smaller companies," says Kwiatkowski, "the owner is heavily involved in the business in almost every aspect and the customer relationships are with that owner." He encourages owners to build a strong management team – especially a strong second-in-command – who can start to develop a rapport with customers to ensure that existing relationships stay with the company after the owner has left.

6

Identify your ideal buyer

Identify a buyer by going through your list of competitors, suppliers or customers who may want to be more vertically integrated or who may want to take out a competitor. Private equity buyers are also an option, so look at any investment group that has a particular interest in your industry or sector. The advantage of going the private equity route is that it allows you to test the waters without alerting your competitors that you're for sale. Be warned that you may get a lower bid than what your competitors or suppliers – who see personal advantage in incorporating you into their fold – might offer.

Look outside your city limits, too. Bigger businesses tend to sell to non-local buyers, according to a survey by the IBBA. It found that 51 per cent of people who bought a business valued between $500,000 and $1-million lived within an 80-kilometre radius of that company. For operations valued at $5-million and up, 77 per cent were sold to somebody more than 160 kilometres away. Larger companies also attract more private equity interest. According to the IBBA, 60 per cent of buyers of businesses valued at $5-million or more were owned in part by private equity groups.



7

Prepare the sales package

One of the first things you'll need to do when you're ready to approach a buyer is prepare a confidential information memorandum (CIM). A CIM typically includes a detailed description of the business and its operations, information about the industry, historical and projected financials and details about how the sale will be conducted.

Your adviser will also help you prepare a "teaser" document based on the CIM. That's a one- or two-pager that lists highlights of the business without giving away the name of the company. If a potential buyer shows interest, the adviser will send them a non-disclosure agreement and a confidentiality agreement in order to furnish the potential buyer with additional company information.

8

Evaluate offers and narrow the field

At this point you'll find buyers will come forward, say they're interested and may tell you approximately what they'll pay. Sometimes it's a dollar figure, sometimes it's some sort of multiple – but typically it's not that precise. And it's non-binding.

Business owners will then exclude certain buyers, though share additional information with more serious purchasers; you're trying to take them from an Expression of Interest to a Letter of Intent. Eventually you'll start negotiating exclusively with one buyer, though more sensitive information will need to be shared. At this stage, the key is to be honest about where things stand at the company. "A lot of sellers are afraid to be open," notes Gordon. They may not want to provide detailed information about their financials, contracts or permits, or there may be issues with equipment and the premises that they don't wish to disclose. "But it bites them in the end," she warns. "It's better to disclose that up front, because it's usually something that can be negotiated. When it comes out too late, it can end the deal."

9

Carefully consider the buyer and prepare to say no (or negotiate a better deal)

No matter what the seller's objective, it's important to take time to also evaluate the buyer. Has the buyer gone through deals before? Is it the buyer's first deal? You often won't meet the buyer until the Letter of Intent. That's a good time to personally evaluate the buyer's trustworthiness as a negotiating partner.

That personal connection is critical, says Boris Wertz, who sold his online book-selling business, AbeBooks, to distribution partner Amazon.com in 2008. "The buyer wants to feel secure that they're buying a great business with a great team," says Wertz. "From the seller's point of view, if this is a business that you've been building for the last 20 or 25 years, you want to feel like you can trust this person."

As for arriving at the desired price, part of that can be determined via negotiation, but your best bet for gaining leverage is through a good sales process, where you create competitive tension among a bunch of buyers. Just like with a house, the first offer is rarely the best.

10

Above all else, be realistic about the outcome – and keep your eye on the ball

Whether it's an external sale or an internal transfer, you need to manage your value expectations. Kwiatkowski has seen owners who have placed an unrealistically high value on their business. "They think all the sweat equity that they've put into the business – all the time, all the struggle –has to be worth a lot. They ascribe a lot of value to that and that's not necessarily the case."

Brooks says if there's a "holdback" as part of the deal – money that's held back until certain targets are met, typically postsale – make sure you're satisfied with the upfront amount of cash. "It's got to be good enough, so that you can sit back and go, 'If this is all I got, I'm still satisfied.'"

Whatever happens – whether you sell or don't, or you get the price you wanted or not – run your business like there will be no transaction. "Too many people make short-term decisions to optimize the business, thinking that it's going to be sold," says Wertz. "Sometimes they think because it's squeezing out a little more profit now, it'll get a higher valuation. And then the transaction falls apart, and suddenly you've lost half a year of not executing on business strategy." $

Exit this way

Selling a company shouldn't be the goal. Instead, help people solve a problem, then the sale will come

Whether you founded a high- tech company – or you lead a third-generation, family-owned, metal-bashing firm – you will invariably come up against similar business transition questions. I'm referring here to questions that involve an "exit" of some kind in terms of changing products or succession planning and divestiture. I'm going to use this column to share some ideas about exit issues.

Let me begin by addressing a common question: Can you build a company *specifically* for a profitable exit?

In my current role, I've taken part in thousands of pitches from smart entrepreneurs. I feel a little wary when I hear a company's founders describe the promising idea that their start-up will focus on and then add, "We'll build this company up and then sell it in five years."

This is not a realistic goal. Why? Because, as I've noted before, truly great entrepreneurs never take this approach. They are never solely in business to hopefully cash in on what amounts to a lucky lottery ticket.

Successful start-ups (and successful family-owned businesses, for that matter) share a culture in which the key leaders demonstrate a passion for solving a particular problem. This focus on creating a solution, in turn, creates value for customers and brings in orders. In fact, it's the passion for problem-solving that is key – *not* the passion for a lucrative exit.

(This reminds me of some advice that someone shared with me not long after I accepted my current role at OMERS Ventures: "Remember, you're not in the investment business – you're in the returns business." The two are also *not* the same.)

So when you're building your start-up, always keep front and centre the key problem that motivated you to go into business in the first place. As you scale up the company, there's later-stage capital available to you. This will hopefully mean you don't need to exit too early, putting you in range of an IPO, buyout or merger and acquisition.

OMERS Ventures is looking to maximize its returns on the investments we've made in start-ups. As the CEO of OMERS Ventures, I believe that whether it's an IPO or M&A, a profitable exit is a win. Speaking from the point of view of a Canadian who wants our country to prosper, I forecast that we'll see enough major IPOs (versus M&As alone) involving Canadian start-ups that will generate a major pool of domestic capital to fuel the growth of our next generation of high-tech firms.

This leads me to a final comment about that family-owned, metal-bashing company I mentioned at the outset. In terms of exit issues, what is the outlook for it and for those other privately held businesses operating in more mature sectors of the Canadian economy, where the next generation of owners may wish to seek divestiture?

We already know that Canada is on the cusp of a massive transfer of wealth, as the current generation of owners of such businesses, including franchisees, begins to hand over the reins to their successors. Not all of those successors will necessarily want to continue business as usual and may wish to redeploy the proceeds of an exit from the current company into new fields.

My prediction is that market upstarts, such as the Aequitas NEO Exchange – a new online private capital market – will create platforms to help private companies connect with investors and give buyers and sellers entirely new ways to connect. (Note: OMERS is an investor in Aequitas.) $

JOHN RUFFOLO *HAS DEDICATED HIS 25-YEAR CAREER TO FOSTERING INNOVATION AND GROWING CANADA'S KNOWLEDGE ECONOMY. HE IS THE CHIEF EXECUTIVE OFFICER OF OMERS VENTURES, THE VENTURE CAPITAL INVESTMENT ARM OF THE OMERS PENSION PLAN.*

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YPO: The World's Most Powerful Network.

Uniting 22,000 peers from more than 128 countries, for 65 years
Young Presidents' Organization
has been the network that matters most to business leaders.

"If I wanted to do business in China, because of the international network I've built up and the folks that I've met through YPO, I could easily pick up the phone and call a member in China and say, 'Hey, I'm thinking about visiting, could you introduce me to a couple of people?' And it would literally be that simple."

Corey Miller
CEO of Miller Tirecraft
Nova Scotia
YPO member since 2008

YPO IN CANADA

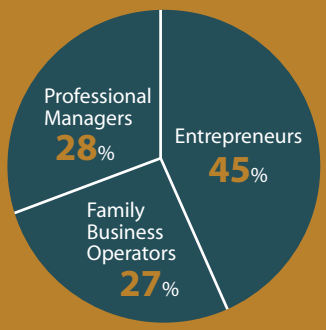
1,504 members

18 chapters

US$191 billion total revenue and

257,600 total employees

MEMBER TYPE:



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