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BUSINESS COACH BRAD SUGARS

Business ownership the surest way to wealth

WHEN YOU CONSIDER the various ways to build your wealth, the three avenues are shares, property and business? But of the three, which is the best way of building wealth? For me, the answer is obvious and standout winner — business!

No matter what you read in the newspapers, business is — and has always been — the best way to build wealth. The biggest money investors on the planet are the venture capitalists (vcs). They are ‘big money’ people who have excellent reasons why they put those dollars into certain deals. Generally, they look at both a company’s management and opportunity for success. And in doing so, they don’t buy shares or property.

They buy whole businesses. Yes, they may acquire those firms through the purchase of shares. And they might get some property in the package. But overall, the world’s top VCs look for whole businesses they can buy. Some VCs look at emerging industries in markets with high growth potential. Others look at existing industries and companies that are underperforming in their market or category.

The aim? Turning those companies around.

Once a VC owns a company, a few things can happen. VC investors could split a company’s divisions up and sell them off in parts. Or they could decide to put their own management in place to help leverage growth. Or they may use a single business to buy other similar kinds of businesses to leverage cash flow and profits through acquisitions.

Whatever they may do, the point is the smartest and best money people in the world buy businesses. And if that’s what they do to make money, maybe it’s something you should do, too.

Why? Because ownership allows control of day-to-day operations, something you can’t do when you buy shares in Microsoft.

Bill Gates and Steve Ballmer have their own team to do that. You can’t do that with property either — primarily because long-term capital appreciation is based on a variety of factors — most of which are outside your control.

But you can control business operations that produce and generate cash flow. And return on investment from profits on cash flow is the key to creating long-term wealth in a business. For the majority of entrepreneurs, I recommend the VC strategy of buying an existing business and turning it around. There are a lot of reasons for this, but the ‘find, fund and fix’ model is probably the simplest way I know to get into business for yourself to take advantage of everything entrepreneurship has to offer.

All that said, I use the following seven iron-clad rules to buying a business. These are absolute, and I’ve only lost money when I’ve not followed them myself. So I’ll forewarn you: break them at your own risk. You’ll have no one to blame but yourself.

1. Find a business that is surviving despite itself

Target a business with bad service or poor presentation that still seems to be making money. Sometimes it is the only supplier in town (better for you). Sometimes, just a few changes can greatly increase sales and profits.

2. Focus on cash flow, not assets

It’s easier to get an increase in sales in a service, retail or wholesale business versus a manufacturing firm. Focus on cash flow instead of tying up your dollars in depreciating assets.

3. Find a business that requires low skills and offers a staple product or service

Focus on businesses that employ people who are easy to hire, easy to train, won’t cost a lot and are easy to keep. Also focus on businesses that are based on what I call

the ‘Shoes Principle.’ Everyone wears shoes. Don’t worry about inventing something new; just sell what people want to buy.

4. Find a business with bad sales and marketing

Poor marketing is a sign of great opportunity. This could include no real measuring of results, or having a list of past customers that has never been used as a marketing tool. Typically, a few fixes can greatly leverage efforts.

5. Hire a great jockey

If you’re blessed with cash, hiring the right person to run your business is a great way to go. Say you meet a fantastic chef or barkeeper, then you could buy a restaurant or bar. If you met a great hairdresser, you could buy a salon. The key is to find a great jockey first and then find a great horse for them to ride.

6. Find a business with high upside

If you can’t get a lot of upside improvement, you can’t make a lot of money. Focus on companies that are nowhere near running at full capacity.

7. Be patient for a great deal

Always set your price before you walk into any deal-making session. In fact, walk out of your own door with a firm price in mind. And whatever happens, never, ever pay more than that price. ●

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