

The Colour of Success in Your Succession Plan: why green matters to you

Studies indicate that until 2025 there will be more people wanting to sell businesses than there will be buyers. If you are thinking about selling your business in the next 14 years, are you ready? Do you have a succession plan or exit strategy? Is it on the back of an envelope, or in your head? Or does this whole topic give you <<boomer-angst>>? Having a formal plan is a good idea. It's the basis for <<success>> in your succession plan. Here's the twist: if you have not considered the **environmental risks** or **green attributes** of your business in your succession plan, hit the refresh button. Here's why.

Save money. Today, you can save money by optimizing the productivity of your business by greening it. I am not talking about loose change. When you lower your environmental footprint, you are reducing your costs. Simple behavior changes can result in a 1% to 16% reduction in costs. You are spending this money now and it is not adding value to your product, service, or your bottom line. What does this look like in terms of dollars?

Based on costs of \$125,000, the benefit to your bottom line by going for the green could be:

| % improvement | 1% | 5% | 10% | 16% |
|--------------------|-----------|-----------|-----------|-----------|
| Dollars saved | \$1,250 | \$6,250 | \$12,500 | \$20,000 |
| Material Costs now | \$123,750 | \$118,750 | \$112,500 | \$105,000 |

Paul Rak, owner of VeriForm in Cambridge, Ontario knows the value. "Our energy saving efforts have doubled our net profit above the industry standard. These results have achieved for us far more attractive financials we can use to get a better price for when we are ready to sell our business. As well, going green has helped us create value for the company in that our products for the steel industry are more energy efficient. In fact this level of efficiency differentiates our products from our competitors and allows us to have a higher win rate than before."



Control costs. Energy costs are going up. Gas too is going to rise. This is not just an energy issue. Water costs will rise. By the way, one of the biggest costs of water—pumping it.

Carbon market opportunity or carbon tax. Regardless of whether you believe in climate change or not, there are carbon footprint implications coming down the pipe. How will these affect you? You may be in for a surprise.

Perks are out there. Enterprising leaders in many jurisdictions have access to tax incentives, grants and rebates. Laggards? Tough luck; often these financial perks are removed when the practice becomes mainstream.

Keep control of your business. The more you do for your business now, the better, if you ignore it the government will start telling you what to do. How many bureaucrats and politicians know what your business really needs?

Reduce risk. Companies that have already greened their business often find they reduce the potential for health and safety concerns as cleaner, greener, and leaner operations tend to coincide. There's more ...

So what would you do with \$1,250? What about \$20,000?



An easy read on the formal business case for <<sustainability>> , which results in optimizing your business by greening it top to bottom can be found in Bob Willard's book, *The Sustainability Advantage*, available through his website at <http://sustainabilityadvantage.com>. He shares an Excel file to let you see your own opportunity in black and white.

Location, location, location. 80% of your <<environmental>> problems are location-based. These are *productivity drains*. Experience has shown that up to half those problems, 40% of your total green productivity opportunity and related cost savings, can be addressed by good housekeeping. I don't mean the celebrated magazine.

Don't forget to look around the outside of your building and learn what's going on next door. Not all the problems you face are of your own creation. The air intakes for your office might be in the line of fire from the neighbouring business' exhaust. If they are using harsh chemicals, and you and your staff are breathing it in, going home with headaches, that reduces your productivity. That affects your bottom line.

These are just a few impacts *the environment can have on your business* when you, and those around you do not respect the implicit contract we have with Mother Nature. With a 3.85 billion year head start on R&D, she's honed her products and services. She is irreplaceable, none can beat her prices, nor outrun her wrath.



While going green can lead to cost savings and add to your bottom line, there are top line benefits. Evidence gathered by Bob Willard from small and medium-sized businesses are showing as much as a 66% increase in profit from going green. These are real, serious numbers.

Does the market today really care? Yes. Consumers – particularly women and boomers -- are buying green. Make sure your marketing is accurate.

What about B2B?

Purchasing departments in bigger companies and governments are including environmental indicators as part of their due diligence. This is still new. Even though buyers are typically not well versed in what green really means today, the interest is there and they will figure it out fast enough.

So greening your company is a good business move. But will this really impact the valuation of your business? Will a buyer really care about green when they make an offer on your company? Well, they certainly care if you haven't been environmentally responsible. No one wants to pay for your mistakes.

Don Schwerzler, a well-respected advisor on succession planning for family-based businesses in the US, drove home the downsides of ignoring this issue. **"Over the past 20 years, environmental risk and liability issues have emerged to become one of the most value-destructive factors facing family-owned businesses, and are therefore major factors in the family business valuation."** Ouch.

If you want to sell your property as part of the business, invest in a Site 1 environmental site assessment. It's a report that identifies potential or existing environmental contamination liabilities. Site 1 assessments should be a common part of any business land transfer. Unfortunately, in Canada many people still rely on a letter of reliance. According to Dianne Saxe, a well-known environmental lawyer, "both buyers and lenders may delude themselves that a **reliance letter** is some sort of guarantee as to the environmental quality of a property." Buyer beware.

What a difference a few drops of oil can make to the decimal place ...

Here's a real life example of what happened to a Canadian small business owner. Mr. [Smith] had a lumber business and the land was initially valued at \$600,000. He had fork lifts and other similar equipment, which were outside of this valuation. He was good about maintaining his equipment so he would stand to get a reasonable dollar along with his inventory.

However, rather than pay to have the oil left over from equipment maintenance recycled or disposed of offsite, he had a favourite little spot that he dumped the used oil in the back forty. The result? After the clean-up, Mr. [Smith] walked away with \$60,000, not \$600,000. That extra zero before the decimal would have made a big difference to his retirement plans.

Note that one cup of oil can permeate some soil types to contaminate an area equivalent to an Olympic-sized pool. It's not cheap to clean it up.

So where does this put you? What if your business doesn't have oil, toxic or hazardous materials? What if you didn't dump anything in the back forty or down the drain? What if you believe there are no skeletons? Have you taken steps to be sure? Think again.

If you are thinking about selling to a family member, making sure you are clean and green is very important. Why? There is enough stress associated with an intergenerational sale. The toolkits, the reports I've read, the people I've talked to, all say it's the soft considerations, the human factor, that makes passing the torch a walk into a hot zone. When 26% to 30% of small businesses are hoping to keep the business in the family, you need to be able to prove to your son or daughter and the financing entity involved there are no hidden surprises. Your kids won't appreciate the fines and in some cases jail time as part of your legacy. Black and white looks better on zebras.

Are you among the 37% to 38% business owners who plan to sell on the open market? Being green will make you stand out as a better buy. Remember there will be lots more sellers than buyers for about 10 to 15 years. Wouldn't it be advantageous to have a greened bottom line to attract buyers?

Are you part of the 26% of boomer-aged owners who don't know what they want to do? Why not focus that grey matter on greening your business to make it better?

Will greening your business be the single factor that makes you leap out in front of a buyer? *That's unlikely today.* Most buyers will still look for all the traditional valuation criteria first; the business case has to be sound, the numbers have to make sense.

If you have not readied yourself for these growing green market expectations, a maverick buyer looking at your business will cherry-pick the valuables - carve away the real assets, and leave you with the pit— your liabilities as your legacy.

Smart buyers wanting the whole package will look for green attributes. Some may use the presence of an environmental management system (an EMS) based on ISO 14001 as a tool to judge the relationship you have with Mother Nature. It's a voluntary international standard that outlines what global expectations are for good business practice. Don Schwerzler has been using it successfully to "professionalize" management in the companies he helps prepare for sale. The returns have been well worth the effort.

The name <<ISO 14001>> is not sexy or sporty, but its use and value is gaining traction with big companies and governments, enough to make it worth your while to investigate it and your market's interest in it.

Greening your business, like succession, takes planning. It is a process. You cannot morph into a frog prince overnight. There are simple things you can do right away. I've listed 5 simple steps below.



The colour of success is green

Taking action to make your company environmentally sound means it will be more productive and more profit-able now. It can also put you ahead of the pack when you want to hang the <<for sale>> sign on the front door. As Paul Rak has figured out, **the green card is his trump card.**

“When I will be ready in the next 3 years to put my manufacturing company up for sale, I will be able to ask for a higher sales figure as we will not be selling just our equipment but also our greener products that attain higher margins.”

Here are 5 simple steps.

1. Take five minutes to sketch out when you hope to retire and what you want your corporate legacy to be.
2. Determine what it is that you have or do which results in an environmental impact that costs you money today.
3. Decide the order in which you will address these impacts.
4. Do the acts of green, which will help reduce your costs and lower your footprint (i.e. your impact on the environment).
5. Track what you've done, and build this into your succession plan to let buyers understand your green value add.



Author Bio

Lynn Johansson is the CEO and Founder of www.goingforthegreen.net and GFTG TV.

She believes the next big boost to the economy is helping small business go green— in Canada alone it's at minimum a \$22 billion opportunity. That's why she started goingforthegreen.net as a member-driven organization. The site also has a parallel online HD TV platform - GFTG TV.

GFTG TV focuses on developing and sourcing video-based webinars to help small business learn about going for the green, conveniently, cost effectively and with a low carbon footprint.

Interested in having her speak to your organization or at your conference?
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