



# THE BUSINESS OF ADDING VALUE

The key to business success may be asking “Would you like fries with that?” Either find the fries in your business or find an exclusive niche in the marketplace. At either end of the Value Spectrum sits profit and success. Story by Craig West.

**All businesses sit** somewhere on this spectrum (shown right) and maximising the value of your business depends upon your ability to recognise where it currently sits and how to improve its position. This article focuses on this model and how to use it to maximise the value of your business!

Let's look at the model first – a simple spectrum identifying the different types of businesses – from boutique to scale – neither end better than the other – just a different model for running a business and importantly different value drivers at each end of the spectrum. If we look at some common examples it becomes much clearer:

## Scale

This is McDonalds – a true scale business – value is based on volume. This is a highly efficient factory for churning out fast, convenient take away meals (initially hamburgers but now a wider range of meal options) – forget the ethical and health arguments for a while and just look at the business. The typical McDonalds franchise in Australia sells for about \$1 million - \$1M FOR A HAMBURGER SHOP! Why? – They make money and are easy to run. This is Michael Gerber's e-myth on steroids – highly systemised and efficient factories where volume is key – we will look at some of the specifics of the McDonalds business in the next post and you'll see some amazing factors that contribute to its unique value and explain why they sell for \$1 million.

## Volume

These are speciality businesses servicing a niche market or clientele – like Mrs Topps in Neutral Bay – a premium end offering where bookings this year are hard to come by or Rockpool – a boutique seafood restaurant in The Rocks built around a celebrity chef in Neil Perry – high end premium price, premium service. Rockpool only does seafood but very, very well – it is expensive and exclusive – a true boutique business.

## No man's land

In the middle sits no man's land – not a great place to be – simply put this is when you try to serve a hamburger in Rockpool or try to cook lobster mornay in a kitchen at McDonalds – many get caught trying to produce and serve a product that the factory is not designed for.

Due to the cash flow pressures of start-up or ignorance of real value drivers in business, many businesses get caught in this trap and end up taking on clients/

## Boutique ❖❖❖ No man's land ❖❖❖ Scale

products/markets that are not in their target group and therefore they move their business away from either end of the model and towards no man's land – where value reduces.

## Scale businesses – the McDonald's model

McDonalds is a true scale business – firstly it is large (though this is not the most important factor), it is highly systemised and structured, its value lies in volume and its owners are not tied to the business day to day. Let's look at some basic facts that highlight the scale aspect; Firstly simple size. 31,000 stores in 119 countries – that's big! They serve about 47 million customers per day and have over 1.5 million staff internationally.

Some of the more interesting details in terms of adding value to your business are that the average age of a McDonalds store manager is just 21 years old – how does this work? Because they have policy and procedures manuals for everything, they have a training program second to none and staff are constantly monitored and measured. The P&P manual includes details on every aspect of store operation. If the thick shake machine is not working there will be a page on how to fix it and if that doesn't work a page on what

of stores on main roads – simply another version of adding scale to an existing operation.

As a business owner no-one expects you to have a drive thru or employ 1.5 million people – but the lessons are obvious – if you have a scale business volume is the key – and not volume based on discounting, volume based on working out how you can ask “Do you want fries with that?”

In real estate, asking “Do you want fries with that?” is fairly simple. Providing customers with ancillary services related to property such as finance and insurance, relocation services etc can lead to increased customer satisfaction and more importantly increased revenue and ultimately additional value. We need to look at each customer and analyse what we can do to offer them fries with their burger!

I had a recent conversation with an LJ Hooker agent I have known for some time about selling one of my properties. The sale never proceeded, however, I'm just about to finalise some additional finance with his financial services referral so even though I am not actually a client of his business he will be earning revenue as a result of our conversation and his ability to identify fries even though I didn't even buy a burger.

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signs to put up explaining the issue to customers – does your business have this level of systemisation? McDonalds has done this by necessity, they have a young inexperienced workforce and they rotate staff often.

In terms of scale and adding value these guys are the best! As anyone who has ever eaten in a McDonalds store will know, they always ask you “Do you want fries with that?” This question alone makes them US\$22 million per day. Amazing number firstly – also amazing that they know that!

McCafés (actually an Australian idea) are known to add up to 60% turnover to stores they are added to. Drive thrus when added nearly doubled the turnover

## Boutique – niche niche niche

Boutique businesses are quite a different prospect to scale – they are not focused on volume – but on the opposite – typical words to describe boutique businesses are ‘premium’ and ‘exclusive’. These businesses service a niche and the very best ones drive themselves further and further into that niche, specialising their service offering and their product focus until it is boutique.

Some typical examples are Rockpool restaurant in The Rocks in Sydney – expensive, great food, premium wine list, really strong service – this restaurant is built around a celebrity chef in Neil Perry and is well known to the niche market it is targeting. Neil Perry is the chef

for Qantas – but only for business class and first class – again supporting the premium positioning this restaurant and its chef enjoys.

It is important to recognise how we add value in these businesses. Simply put, drive further into the niche – specialise, improve service and product. Become more premium and more exclusive – price is never an issue in these businesses.

## No man's land

This exactly what it says – no man wants to be there! This happens when you try to serve a burger in Rockpool or lobster mornay at McDonalds – a factory that is built for one thing is trying to produce something else. We see this a lot in professional firms – accountants, lawyers, financial planners etc. They build a factory based on either boutique (I know an accountant in country NSW that services only 100 clients total – no matter what – he gives them premium service and answers their calls from overseas or in the middle of the night) or scale (H&R Block or ITP – highly efficient factories for churning out tax returns as quickly as possible – in many cases you can get a refund transferred to your account the same day!). Both have profitable successful businesses. They shouldn't cross over, but often do. Often a financial planner who services only high net wealth individuals will get asked to do a favour for big client – “Can you look after my mother/friend/mate?” – who doesn't fit the profile and isn't a high net wealth client. They of course say yes to keep their large client happy and therefore get a client that doesn't suit their factory! Do this a few times they end up in no man's land!

What's the solution? GET OUT OF IT. Sell a parcel of clients that don't match, open a new office that handles just that type of client, refer the ‘mismatched’ product or client to another business and enter into an agreement that they refer you back only clients that are a perfect match for your business. ●

**Craig West**, M.Tax Law, M.Bus (Acct/Fin), B.Bus (Mgmt), CPA, is a strategic accountant who has built a specialist advisory practice focused on small business owners. Craig has



written three books educating SMEs on employee incentives, succession planning and asset protection and has recently been invited to undertake a PHD in Business Succession Planning.