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MIKE PHIPPS FINANCE ACL (364 314)

fresh ideas...



Times are Changing

Bob Was Right

The Stones said time is on our side. Prince said it was a sign of the times. The Foo Fighters said times like these. Bob said it best

Come gather 'round people
Wherever you roam
And admit that the waters
Around you have grown
And accept it that soon
You'll be drenched to the bone.
If your time to you
Is worth savin'
Then you better start swimmin'
Or you'll sink like a stone
For the times they are a-changin'!

Bob Dylan, The Times They Are A Changin', 1964

Life moves pretty fast and, as Ferris Bueller wisely noted, if you don't stop and look around, you could miss it. Too young to remember Ferris? May I suggest a run down to your local Blockbuster for an overnight hire, maybe the movie and popcorn package. You could take a cab and if you can't find the nearest Blockbuster you could search for it on AltaVista. Maybe you could even watch this classic while on holiday. Grab the Yellow Pages, go to Hotels and Resorts and start ringing around. Only a matter of time before you find a great place to stay at a good price.

Or, you could always stream Ferris on Netflix, get Uber to bring you some takeaway, use Google to find an OTA and book online.

Things change and, as Mr Bueller noted in 1986, pretty fast. Of course, he had no idea just how fast! If you had invested in taxi licences, dotcom boom search engines, print media advertising and video rental stores back in the day you would now be officially broke. Which, in my usual round about way, leads me to management rights.

Like the parent who tries to stay cool by quoting Eminem, the wedding guest who reminisces about the bride and not in a tasteful way, the RN columnist who still uses a 10 year old photo, the socially awkward uncle with the comb over, we need to talk about one of our most out of touch and dated friends. Yes, we still love you P and L, but you're just so 80s.

And now, the serious (boring) stuff.

The tried and true sales process for rights has been around for more than 25 years and I would have to say has served us well. However, in recent times I can't help noticing that in nearly every transaction one part of the process is proving problematic. No prizes for guessing that verification of net profit is causing more headaches than ever before. I think it's time to take a much closer look at how our industry treats this part of the process and I think we need to start making changes to protect the credibility of our industry.

Times are Changing

Too often we are seeing P and Ls being presented by vendors that reflect what they would like to be making, not what they are actually making. There's always a reason and rarely does that reason hold water. Labour costs are the big one. The vendor will say that some labour costs are discretionary, and the business can really be operated by fewer staff. I say if it costs a particular amount to operate a business successfully then that's the number that should be used. If the vendor says otherwise then surely it is the responsibility of that party to present an independent assessment of reasonable labour allowances to support adjustments.

Of course, vendors will argue that the current industry standard of a one year adjusted P and L is how they bought the business, so they need to sell it that way. Tell that the previously mentioned taxi licence holders and Blockbuster franchisees. Unlike these unfortunate business people, we have an opportunity to pre-emptively review our profit verification process and bring it in line with common practices for commercial transactions. When the banks start knocking 20% off the verified net profit when assessing debt service capacity (yes, some are already doing this) you know the clock is ticking.

My suggestion is that we need to start working on a new verification model. It needs to take into account the impact on existing operators balanced with the brave new world we are entering post banking royal commission. We need to look at other going concern based industries and review our own standards in the context of the broader commercial transaction framework. Most importantly I think we need to move to restore banking industry faith in the verification process. Trust me, they may not admit it openly, but the banks started losing faith some time ago. Overlay our unique standards for profit verification with increasing prudential pressure on lenders and there seems little doubt that bank credit policies will become more conservative if things don't change. Support from lenders is a key driver of value in any industry and if we start to see gearing levels drop and credit conditions become more onerous then we will see values impacted. If you want proof look no further than the tightening home lending credit environment and the corresponding signs of a significant property value cool off. It's happening right now.

On the flip side I believe that implementing a more commercially realistic set of verification standards will renew confidence in the process and help in supporting continued strong values in the industry.

I will leave you with this question. If I am a vendor with 3 years figures and I have an opportunity to present those numbers to a buyer to support strong buyer confidence and potentially a higher price, why would I resist doing so?

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