



Building Business Equity

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Equity... What Is That?

Technically, a business' EQUITY is a Balance Sheet term which describes what the business' assets are minus any liabilities it has.

Huh.

Yeah, so what is it really?

Another way of looking at it:

How VALUABLE is your business?

Funny thing, it has very little to do with profits!



Equity = Exit Strategy

As backwards as it may seem, **before you begin, take a guess at how you will end.**

When you started your flower business, did you ever think about how you would get out of the business?

Rare is the entrepreneur that does. But those that do are the ones that get to retire or move on to another successful venture!



Equity = Security

When you have your exit strategy in mind...
And you build your equity towards that end goal...

You can take bigger leaps of faith.

It's no longer just about making a sale.
It's about making an investment.

And with each new notch of equity, you have a greater chance of weathering the bad seasons.
And we all know there are bad seasons...



Ask Yourself...

In this moment...

Is my business my job?

Or is it an investment plan?

It's a job if your main focus is on creating an income for yourself. You're working for a pay check.

It's an investment if your main focus is creating tangible value in your business. You're working at creating an enterprise (not a product!) that can be sold or leveraged.



Ask Yourself...

Who will own my business after me?

And how will I attract that person/buyer?

Build your equity accordingly:

If you're planning to pass the farm on to your kids, maybe build a second house on the property. If you're planning on selling the business to an outside buyer, maybe build/buy a retail shop.

Fun fact: Only 1/3 of family businesses successfully transition to another family member. Don't bank on your kids!



I Had No Exit Strategy

In 2016, I hit a wall.

Love 'n Fresh Flowers was hugely profitable.

But I was burnt out. And I wanted out.

I started trying to write an ad for my business.

“Highly-esteemed sustainable wedding floral business with annual sales in excess of \$250,000. Two acre flower farm on rented land with two hoop houses, walk-in cooler, and harvest shed. Separate rented floral studio and storage space. Owner-operated since 2008 with seasonal support crew for farming and design.”

See the problem here?



I Had No Equity

To a buyer, my sales pitch read:

“Business with a good reputation focused on high-end customers who pay lots of money. That’s intriguing. But wedding customers are rarely repeat customers, so there are no long-term accounts up for sale. All spaces used to operate the business are rented and therefore vulnerable and would need to be renegotiated when ownership transfers. Moving those hoop houses, cooler, and shed would be a pain if the leases didn’t come through. And perhaps most troublesome, the business is a one-woman show. She’s the driving force. If she leaves, the odds are slim the business will continue to sustain the same sales. All that’s really for sale here is a business NAME and that’s probably not worth more than few thousand bucks.”



Equity = Game Changer

If I had built equity into my business equation, I would have had tangible transferable value to sell.

So what can a business do to build equity???

First, get yourself a really good accountant!

Then start funneling as much of your profits as possible back into buying big ticket items like LAND, buildings for business use, buildings for renting out (i.e., employee housing or AirBnB), large equipment, a new well, delivery vehicles, breeding livestock (if you want that), etc.

Anything you currently rent, aim to own it!





Equity Beyond Big Tickets

Maybe you're not at a place where you can buy land or other big ticket items. You can still build equity! Transferrable value in a business can also be created by **establishing sales outlets/systems that don't rely on YOU!**

Structure your business to include at least one **long-term management role** and find the right employee to fill it. This employee may even want to buy the business from you some day!

Repeat, long-term customers/accounts are a decided asset! A long-standing, many-member CSA or other subscription service is decidedly transferable. So is a list of wholesale customers.

Equity Is A Long Game

The thing about building equity is that it makes your P&L look like crap. To make a big purchase like building a heated greenhouse, you may temporarily drain all the profits away from your business.

Buyers are interested in your profits too. The price a business can garner is often a “multiplier” of the average profit over the last few years. That multiplier goes up if you have more equity in the business. But if you have little profit to show in recent years, it doesn't matter if you've built up to a hefty multiplier of x4 if you're barely in the black.

4x\$100 is only \$400. 4X\$100,000 is \$400,000!

So if you try to build equity right before you are ready to sell your business, you'll shoot yourself in the foot.



Equity = Relief

Your business is your baby and you'd never sell it!!

So equity doesn't really matter, right?

Wrong!

Building equity is also the way to find some tax relief when you've had a really profitable year. You can either give Uncle Sam that \$10K or you can build a yurt on the back acre to rent out on AirBnB.

And it's the best way to find relief when you've had a really bad season. Banks will look at your equity if you're asking for a line of credit to get you back on your feet after a flood, fire, tornado, etc.

No equity; no loan.



My Exit Strategy Now

A lot has changed in two years.

- ✓ Bought four acres of very valuable land
- ✓ Drilling a well and putting in a septic system
- ✓ Building a barn for studio and storage
- ✓ Adding coolers
- ✓ Establishing new sales outlets for loyal repeat customers
- ✓ Establishing two acres of shade perennials
- ✓ Installing solar panels
- ✓ Etc., etc., etc.

And got a really good farm accountant!



The Fine Print

I'm not going to lie. Building equity is hard. And scary.

At least it has been for my business because it's meant re-thinking everything ten years into it and changing directions in many ways while still juggling all the daily demands of my established path.

Do yourself a favor. Start early in the Equity Game and take it one small piece at a time!

Take a minute now to think about one equity purchase you could make during the 2019 season.



Need Help With Your Business?

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