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10 WAYS
TO INCREASE COMPANY VALUE BEFORE SELLING

By Richard Strautman

While solidifying your business exit strategy, have you done all you can to maximise the value of your company and improve the attractiveness of your business to a potential buyer?

When a potential buyer estimates the likely return on investment from purchasing a company, they typically use a minimum rate of return to calculate the value of their investment. This rate of return is calculated based on a variety of factors, including the buyer's borrowing rate, the size of the company being considered for purchase, and adjusted for the higher risks of being a private company, for minority discounts and marketability. The potential buyer must also include any additional risk factors for the specific company being considered for purchase.

This minimum rate of return is determined by the amount of total risk that the buyer estimates for each potential purchase. What the seller should do in advance of a sale is conduct a risk analysis and develop a plan to reduce each of those risk factors that the seller can control. Some of the categories of risks that can be managed by the seller are:

1. Customer or supplier concentration

Does any customer represent more than 15% of total company revenue? Is any part of your supply chain single-sourced or does any source of supply have issues regarding reliability of supply? Actions that can be taken include aggressively pursuing the addition of new customers and adding second or third source suppliers. Your company could also consider vertically integrating your supply chain by either developing capabilities internally or purchasing a key supply chain component.

2. Owner dependency

Does the ongoing success of your company rely heavily on you – the owner? Are the relationships with your customers primarily with you? Actions that can be taken include building a stronger management team, hiring and training a potential replacement to run your company, and transferring primary customer relationships to other employees in your company.

3. Customer loyalty

How loyal are your company's customers? Does your company regularly measure this loyalty? One action that can be taken is to conduct customer satisfaction surveys to determine and address unknown customer satisfaction issues.

4. Market position

Has your company created a dominant market position that makes it attractive to prospective customers and helps maintain the loyalty of its current customers? Your company should review your current marketing strategy and strengthen its unique value proposition. A second action could be to consider purchasing a competitor to reduce competitive threats.

5. Amount of recurring revenue

How much of your company's revenue is recurring, or covered by agreements and contracts that increase the probability of revenue continuance after the sale? Actions that could be taken include developing new products or service offerings that generate recurring revenue, and securing longer and better customer contracts.

6. Documented procedures

Are marketing and sales procedures well defined and can they be implemented consistently after your company sale? Sales and marketing procedures should be reviewed to ensure that leads are generated in a consistent and effective manner and followed up to secure new customers. If nurture or drip marketing campaigns do not exist, then these should be implemented to stay in touch with both prospects and customers. Are operating procedures well documented and followed by employees? Production, distribution, and accounting procedures should be reviewed to ensure best practices are being followed consistently.

7. Loss of key employees

Are there key employees whose departure after your company sale could have significant negative impact on the success of the company? A review of key employees should be conducted, and an action plan created to maintain and improve employee loyalty and to develop a succession plan.

8. Company systems

Does your company have a state-of-the-art information management system that creates a competitive edge? Upgrading information management systems can be expensive but should be considered. Back-up and recovery capabilities should be evaluated. Is your company's accounting system capable of supporting GAAP accounting reporting? Do your company financials comply with GAAP accounting principles? It is important to transition to GAAP accounting. This will be expected by most buyers. Does your company have a set of financial and operating metrics that it uses to manage your company? If not, these metrics should be developed.

9. Strategic and tactical planning

Does your company have a Business Management System, such as EOS or Scaling Up, that defines how your company implements strategic and tactical planning? If your company has such a system, is your company consistent and thorough in its implementation? Having a strategic and tactical planning system is an important indication to the buyer that your company has an effective way to deal with any changing business environments.

10. Legal, compliance or intellectual property risks

Are there outstanding legal or compliance issues that need to be resolved before offering your company for sale? Is there intellectual property that needs to be protected? Any open legal or compliance issues should be addressed. Company systems and records should be reviewed to determine if there are any risks to loss of intellectual property. A physical or digital data bank should be started to store important corporate and legal documents.

Summary

Addressing these 10 areas can easily increase a company's multiple significantly. Many of these factors have been evaluated and correlated to actual private company sales by John Warrillow. His Value Builder System™ is a methodology proven to increase the value of a business. After analysing more than 40,000 businesses, the average Value Builder Score was 59 out of a possible 100. Of these companies receiving purchase offers, their offers averaged 3.5 times pre-tax profit. The Value Builder System™ users who improved their score to 90 or greater by following his value enhancement system, received offers of 7.1 times pretax profit on average – more than twice the average of the companies assessed!

This data is a clear indication that focusing on value enhancement activities in advance of offering a business for sale can have a significant impact on the final sale price of a business. The business owner should also reach out to professional exit planners, growth specialists, accounting, and legal firms to help them determine the best way to implement these value enhancement factors. The sooner a business owner begins these activities, the longer they have to positively impact their overall business value.

Richard Strautman, the owner of Picus Enterprises LLC, is a seasoned corporate executive, board member, business growth specialist, certified exit planning advisor, certified value builder, and facilitator of peer-to-peer advisory boards. He has advised business owners on a variety of management consulting areas, including growing companies, preparing owners to exit, transitioning business ownership and management from one generation to the next, and working with business owners to purchase and sell companies. He has published two books on business acceleration and exit planning entitled Growth Fuel and Exit Velocity. He is active in a variety of merger & acquisition networks.

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