

# HIGH POINTS

For Business Owners: What You Need To Know... Now.

## Give Yourself Time to Work on Value Drivers!

*"The creation of a thousand forests is in one acorn." – Ralph Waldo Emerson*

Maximizing and protecting value is always vital in the business world, but even more so when we face a challenging economy. Value Drivers are the various characteristics of a business that *professional buy-out experts believe drive business value upward and for which they are willing to pay top dollar*. It is vital for business owners to know what these value drivers are if they want to successfully exit their business.

### CASE STUDY

*Dawn and Preston Slater, owners of a machine shop with \$7 million in annual revenue, sat down and announced, "We have decided to leave the business as soon as possible. We've got our management team in place and want to execute a transfer of the entire business in the next six to 24 months. It has been a great run but we are burned out. What do we do next?"*

*To answer their question, I asked a few of my own. "Burned out? When was the last time the two of you left the business for at least two weeks, or better yet, a month?" As I expected, Dawn told me that they had never left the company for more than two weeks and that was over 10 years ago.*

*The reason for their burn-out was crystal clear but how valid was their belief that they'd installed a management team? If they truly had one in place, why did they feel compelled to go to work every day?*

*Again, Dawn explained, "When we left, things didn't go so smoothly. Preston is the only one who knows how to maintain the machinery. When one of the machines went on the blink, he spent hours on the phone walking the plant manager through the repair process."*

*As Dawn talked, she revealed that Preston was also the only one who knew how to set up and program the company's manufacturing process to efficiently produce the customers' orders. In addition, he was the only one who knew how to design the products their customers demanded. In short, there was a treasure trove of knowledge firmly lodged between Preston's two ears.*

*Preston and Dawn did indeed have key employees in charge of marketing and sales, personnel and the plant but they did not have a management team. There were three very important functions: product design, set up and programming of the manufacturing equipment and equipment maintenance, which only Preston could perform. Without converting these functions to systems, however, Preston and Dawn did not have a key **Value Driver** in place — one that would make their company more valuable to a buyer and more readily saleable.*

**Value Drivers:** The intrinsic characteristics of a company that buyers look for when deciding what company to buy and how much to pay. Value Drivers are an important aspect in a successful sale of a business and consequently it is the work of the owner (not employees) to create and to nurture them. Value drivers include:

- A stable and motivated management team
- Operating systems that improve sustainability of cash flows
- A solid, diversified customer base
- A realistic growth strategy
- Effective financial controls
- Stable and improving cash flow



In a strong Merger & Acquisition (M&A) market, buyers compare the relative strength of your company's value drivers to those of your competitors. In today's M&A market, however, buyers want companies that possess *all* of the characteristics of a well-run business. Additionally, tighter credit forces buyers to use more of their own capital to buy businesses so they look for acquisitions that carry minimal business risk. Companies with strong value drivers in place carry less risk. Companies lacking one or more value driver(s) simply will not attract interested buyers. This harsh reality means most owners have a lot of work ahead.

Luckily, the economic forecast – at least for the foreseeable future – gives owners exactly that: time to install and energize the value drivers in their companies. It also gives them time to demonstrate, over several years, the sustainability of the value drivers they create. Buyers want to know that the success or growth charted in one year can be sustained over a number of years. They bank on (and pay for) your company's potential to grow under their ownership so they look very carefully at how long your company's value drivers have yielded positive results.

Experienced owners know that change takes time. Really experienced owners know that positive results from those changes take even longer — likely longer than even they expect.

Whether interested in selling in the near future, or not, it makes eminent good sense for owners to concentrate on those elements of their businesses that create more cash flow, more sustainability, and more future value (aka value drivers). After all, isn't this why you are in business?

Working on value drivers also has the benefit of increasing an owner's flexibility. With value drivers in place, an owner can respond quickly if "things" change. "Things" include the health of the M&A market or the health of the owner, the sudden appearance of a deep-pocketed buyer, or underlying conditions in an owner's marketplace.

Increasing flexibility also applies to Exit Planning. With a more valuable company, owners increase their "successor" options. More valuable companies are attractive to third party buyers such as Private Equity Groups and can often attract recapitalization funds.

Finally, when owners concentrate on improving their companies' value drivers (in order to increase company value), they often explore and pursue strategies that they may have ignored in the past. For example, many owners who thought acquiring another company involved too much effort take a new look at growth through acquisition when their future financial well-being is at stake.

Installing value drivers in your company is the best thing you can do to increase both the salability of your company and its price tag, but doing so takes time. Today's economic downturn gives you the time you need to prepare your company to sell when the M&A market recovers. When it does, will you and your company be ready?

*The thought and actions that go into answering these questions constitutes your unique Exit Plan.  
Contact us for a more in-depth White Paper or discussion on this topic.*

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## CONTACT US

The Universal Truth is that every owner will exit their business.

The Question is on whose terms: Circumstance, Others,... or *Yours*?

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- Investment in People

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