FEATURE

Step by Step:

Maximizing the Value of Your Business

Be deliberate and calculating in maximizing the value of your business.

By Lance R. Tullius

I've never met a business owner that didn't want to maximize the value of their business. That owner likely doesn't exist. However, I can assure you that most business owners don't maximize the value of their company, leaving significant sums of value on the table. We all know there's a big difference between wanting and doing. So here's a step by step outline to managing your business in a way that gives you the best chance of truly maximizing its value.

Start with a valuation

It's hard to accomplish anything when you don't have benchmarks, targets or goals. At a minimum, it's impossible to know exactly how much you can achieve if you don't know where you're starting from. So, have a valuation done on your business today. There are numerous professionals that can do this for you, including a certified accountant, valuation advisor or merger and acquisition professional, to name just a few. Be transparent with whoever does this for you, providing those with not only all information they ask for, but any additional information that you think or believe might be relevant to the value of your business. Holding information back only hurts you. Get a reliable read on where your business is at today.

Get your "house" in order

Simultaneous, and really as part of the valuation exercise, get your business, particularly your reporting systems and procedures, in order. I know this is easier said than done, but it is arguably as crucial to the objective of maximizing value as anything else you will do. To accurately assess value and operate your business, you must have accurate and reliable data. Very few business owners actually take the time to fully and properly do this, however. I understand that running a business is tough, and unless we take a big picture perspective, our days are filled with simply knocking off task-oriented to do's. To maximize the value of your business, though, you must set aside the time to identify the reports that are key to your business, and then implement systems to consistently and accurately produce these reports. If you don't do this, every step beyond this will almost certainly be for naught.

Make a plan and chart your course

The good news here is that if you've simultaneously done the first two steps, you're now truly poised to build a lot of value in your business. You have the tools at least. Now it's time to set your course; in other words, construct a plan. I like to refer to this plan as a roadmap, because if done right it should get you from where you're presently at to a preferred and very pleasant destination. The core question that this plan must answer is how you're going to make the value of the business greater. There are lots of ways to enhance value, mind you, but understand that building value can sometimes seem counterintuitive. For instance, I hear a lot of business owners enthusiastically share how much revenue growth their business has generated in its recent past, thinking there should be a direct correlation to increased value. But revenue growth alone (even profitable revenue growth) doesn't necessarily make your business more valuable. When planning, start by focusing on your business internally. A strengths and weaknesses analysis is a good idea here. Make sure you understand what the key value indicators are for businesses in your industry and with respect to these indicators, what is considered above par, average, and less than stellar. Then size up your business as it stands today and in comparison to these key value indicator benchmarks. The first part of your plan should center towards shoring up any deficiencies relative to these key benchmarks.

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Now despite what I said about revenue growth, generally to build real value, you must grow the business. That means you must add revenue, and preferably the organic type (i.e., selling more to existing customers and securing new customers). You should aim for high single digit percentage growth year over year or better. If this hasn't happened for you in the past, you must address how you're going to achieve this going forward. What additional resources might it take to meet this goal and where must you deploy those resources?

You should also consider external growth as an avenue to value appreciation, perhaps acquiring another company or expanding your business into a new geographic market. Is that a viable alternative for you and your business? Acquisitions can generate a major boost in value, but not without potential peril. The pitfalls of acquisitions could serve as a topic for a whole separate discussion, but most importantly you must realize that with great potential usually comes more risk, and that certainly applies to buying another company. And don't ever lose sight of the objective of your plan; that being to grow value. To this end, any acquisition should be viewed skeptically from the perspective of how will it enhance the value of your existing business. In most cases, simply amalgamating stuff doesn't result in something better or of more value. So perform a very thoughtful and careful evaluation of the particular acquisition target and strongly consider retaining a professional and experienced advisor to assist you in this process.

Execute! Execute! Execute!

The best laid plans far too often fail to yield the expected results. Why? Mostly because they're not implemented and executed properly. Your ability to successfully execute your plan is first, and largely, a function of the viability of the plan. Simply put, the plan must be realistically attainable. Keep this in mind during the planning process. Beyond this, you must have the resources to carry out the plan. This, in and of itself, is part of being realistic. I mentioned earlier in my comments on planning, that you have to take into consideration what resources you will need to carry out the plan. While there's not a lot more to say on this subject, don't mistake the lack of commentary here as a reflection of the significance of good execution.

Consistently monitor and "check" your plan

Far too often we spend a lot of time putting plans like these together, only to stuff them in a cabinet to collect dust. Make this plan be a working, living tool for you. Set frequent intervals for "checking" it and measuring where you're at relative to the plan. And if you're not on target, do something about it. Sometimes you may have to call audibles and make a change. That's ok. Don't view that as failure; make the necessary change, move on and get back to executing. At the end of the day, this is about self-discipline and being accountable to yourself.

Be opportunistic

I'm often asked, "When is the right time to sell?" My answer is usually that only you can determine that for yourself, but I caveat that with, "… or when a buyer or buyers really want to buy your business."

Seriously, there are a lot of factors that drive the decision to sell a business, and many of these are unique to any given business owner. One factor that is pretty much universal — at least amongst most business owners — is the desire to sell their business at its peak value. To do so means that you can't necessarily forecast when will be the right time to sell. Rather, you have to act opportunistically. And to do so, you have to be prepared; in other words, you have to have your ducks in a row. So, if you've followed the steps outlined above, you'll be in a position where you can be opportunistic. If you haven't done so, however, your opportunism will most certainly be for naught, as a host of obstacles and pitfalls will stand between you and the best deal.

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