Gene Siciliano

Winter 2016 • Volume 13 / Issue 1

YOUR CFO FOR RENT®

For a few weeks, a few months, or a few years

The Keys To Maximizing Value At Exit — Part 2

Last issue we raised the idea that there are six key determinants of the value of a business, and offered some thought starters on the first three, the market, your products, and your gross profit margins. If you no longer have that first article handy, let us know and we'll send you out a duplicate copy. That said, here is the balance of that article, our thoughts and suggestions for the final three determinants of value: your customers, growth prospects, and organization.

4. **Your customers.** This category gets evaluated primarily by Contribution Margin and concentration. Contribution Margin is the direct impact on your bottom line from the sales you make to a customer, and smart companies know that number for all their largest customers. If it costs you so much to sell to a customer that the effect is to dilute your profit margins, and you can't increase your price or lower your cost to service them (yes, that's a real cost too), you may be better off dropping them as a customer. Concentration is having too much of your business coming from too few customers, a chronic problem with smaller aerospace companies and suppliers to recognized discount buying giants like Walmart. In the first case you're working too hard for too little return, and in the second case you're at risk of that large customer going away. Either way, you could lose big time, and a smart prospective buyer knows that.

- *Do This:* You know if concentration is an issue. It's always easiest to simply accept orders from your largest customer rather than seek out orders from new customers, but that raises your risk, and creates even greater risk for a buyer who doesn't have the relationship with that customer. Focus your sales and marketing effort on capturing new customers, and make your incentive plan say that clearly. Then calculate your *contribution profit margin (not your gross profit margin)* on your 10 largest customers and take action if any of them is below your company-wide average contribution profit margin.

5. **Your growth prospects.** Nobody is going to buy the success that you've already achieved and taken home with you. They want to buy the success they can add onto what you've built, using the mechanisms that you've put in place. And unless you have the ability to significantly raise prices to existing customers, that means selling more stuff to more customers. Growth in top line that will produce growth in bottom line. Does your recent history show an increasingly higher growth curve? Alternatively, can you demonstrate that an infusion of capital is all that is needed to produce that growth? If so, you have something to talk about. If not, you may be talking to yourself.

- *Do This:* Go back and look at the results from your market and your products. Analyze what they tell you about possible growth opportunities. Based on your gross margins, how might you refocus your new account sales efforts to attract customers with a larger appetite for your offerings? Does your sales incentive program encourage profitable growth or account maintenance? Do smaller customers *always* take a back seat in your priorities to your larger ones? Are any of your customer relationships at risk because of turnover or retirement of key contacts at the customer's business – *and/or* because you never bothered to develop additional relationships as backup?

6. **Your organization.** The good news: you have people who work well with you, watch your back, and help you make your company run smoothly. It feels like your family in many respects. That's also the bad news. You are the hub around which everyone functions. When you leave the hub will be gone. How will the company run then? Are the systems and processes firmly in place even if you're not there to supply the missing structure? I recently helped bring to a close a sale transaction in which the company got about half the price they could have gotten a few years earlier, due to degrading operating performance caused mostly by a weak management team.

- *Do This:* If you can honestly say every critical job will get done without you, then build an organization chart that demonstrates that, to yourself first, and then to your business advisors. And before it's time to exit – maybe next month – put those people into those jobs and give them the responsibility and

(continued on next page)

Gene Siciliano is the founder and president of Western Management Associates, source of *Your CFO for Rent®* services for over 25 years. The firm provides interim and part-time CFO/Controller services, executive coaching and assistance in operational finance and exit strategy. Gene and his team of seasoned CFOs and controllers have a clear mission in their work with CEOs and owner/operators of privately owned companies. Their value proposition:

- Increase the company's net worth and profitability by improving the management team's financial proficiency and bottom line results, and
- Develop and execute strategies that will make your company more appealing to a buyer or investor, if and when the time comes for an ownership transition.

Maximizing — Part 2

(continued from previous page)

authority. If you hesitate to do that while you're still there, you're kidding yourself and your prospective buyers will know that. Besides, it may give you an opportunity to explore what you'll do next – travel, golf, more time with family, starting a new business or a family office. So many opportunities if you do it right.

So there you have it. Underperform in one of those areas and your business *will almost certainly be worth less than it could be.* Make all those six items better and you have raised the value of your business, probably significantly. Further, if you consider the buyer's market that will exist for private company M&A over the next decade, this could not only make your retirement fund much bigger, it could determine if you will even have a retirement fund.

"…achieve a successful exit"

One of our main areas of focus today is helping business owners plan for the highest value transition, including guiding them in due diligence and overcoming financial roadblocks. We help clients formulate their goals, structure a planning process to get there, identify gaps in organization or financial awareness and make sure critical gaps are identified in time to fix them. But that doesn't make us experts in all the areas covered in this article. Instead, we have developed relationships with some of the best firms in each area (investment bankers, M&A attorneys, etc.), and with some of the best people in those firms. Since we generally don't take referral fees, we feel free to refer to our clients the very best people to help them achieve their long-term goals.

We are experts in internal financial strategy and financial improvement programs. We are also a resource for all the other skill sets you will need to achieve a successful exit. As long as you don't wait too long to get started. That was a hint. Call Gene to discuss your plans in a no-obligation meeting. The number is 888-788-6534.