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YOUR CFO FOR RENT®

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

How To Maximize The Value of Your Company

First question: **What's your company worth today?** Second question: What will it be worth when you exit and sell it to some as yet unidentified buyer? You hope, of course, that the second answer is a larger number than the first. But assuming that hope isn't enough, how do you go about ensuring that?

First off, you'll note that I'm not addressing those fortunate business owners whose children will be taking over their company. The reason: *fewer than 1 in 5 privately owned businesses will pass to family members.* In most cases those family members will either not be interested or not qualified, or both. So if you're lucky enough to have both interested and qualified children to take over your business, congratulations! You can stop reading right here.

Now back to the other 80+% of business owners who will need to sell. I'm guessing that's you.

How do you increase the value of your company between now and when you plan to hang it up? Well, first you have to identify those things that truly determine value to an informed buyer, and then you have to make those things better. Let me make the first part easy, here's the list:

1. The market in which you do business
2. The products you offer to that market
3. The gross profit margin
4. The customers you have
5. Your growth prospects
6. The organization of your company

Now, let me suggest how these areas can be improved and why it's important to your buyer (if that's not immediately obvious).

> *"The future ain't what it used to be."* — YOGI BERRA

1. ***Your market.*** Your company needs to be providing goods or services that appeal to a large enough population of current and potential customers. If the market for what you sell is so small that you would have to capture most of it to be successful, that's a problem. Of course, as Steve Jobs and Mark Zuckerberg demonstrated, the market may not yet know they need what you sell, but that's a high risk proposition for your buyer until you can demonstrate the need has been recognized. So, you should have a big market today for what you sell. And be able to reasonably demonstrate that market exists if it's not self-evident.

- *Do this:* Take a strategic look at your business. Engage an advisor/consultant to help you and your team develop a strategic path for your business that considers the market today and where it's going. An objective assessment of the marketplace can create the opportunity to shift your focus to a newer, emerging market and potentially transform the company's opportunities. An outsider can help provide that fresh look.

2. ***Your products.*** What you sell has to continue to be good enough to appeal to your market so they will continue to buy it. Apple updates its iPhone regularly so that the appeal of the product continues to draw customers. I know because I just upgraded mine. Flip phones still work but no one gets excited about buying one because it's old technology without the bells and whistles that mobile phone customers want. Similarly, if you sell the finest, highest quality buggy whip in the world, or replacement parts for machines that are nearly obsolete, you'll not be able to sell enough to make the business appealing to a buyer.

- *Do this:* Sit down with your sales team and discuss how well your products meet the needs of your customers, and how they could be improved. Survey your customers directly if the internal review is inconclusive. Find out what would make your products best-in-class, or what would make your service offerings outshine your competitors. Look at price, quality and service and see if you can disprove the old adage that you can deliver any two but not all three. Then see if you can do it and still make a good profit. You might even discover a profit improvement opportunity. Applying strong skill sets to a brand new product or service that employs similar skill sets is often much easier than it sounds.

3. ***Your gross profit margin.*** Gross profit is the money you make from sales after paying the costs of buying or making the product or service you're selling. Gross profit margin, or gross margin is the percentage

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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.

How To Maximize

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that gross profit is of your gross sales. That percentage tells buyers a great deal about the profitability of your business. It enables them to compare you with your past performance or with others in your industry regardless of sales volume. It tells how well you are managing direct costs while growing sales, and whether further growth would enhance future returns. Thus it gives buyers a clue as to the likely return from sales growth in the future, and that's a big part of what they're buying. *If your gross margins are 'marginal,' or inconsistent, or below your competitors, and it's not patently evident how they can be fixed, your company gets an instant, big, haircut in value.*

"fewer than 1 in 5 privately owned businesses *will pass to family members*"

- *Do this:* Look at your own production processes as a potential buyer might during their due diligence review.

  i. Are you buying competitively or faithfully honoring long time suppliers without regard to the price you pay?

  ii. Is your staff efficient in producing products or delivering services, or are long overdue changes being ignored?

  iii. Are some processes wasteful of resources because it's too much trouble to revise them?

- Your internal finance team should be leading this effort, because they have (or should have) the data. **If Finance is not the company's strong suit, get outside help (like us).**

…to be continued. Unfortunately that's all we have room for in this issue. I hope you can see the value in identifying how these key determinants can improve the value of your business, today and when you decide down the road to transition out of the business and into whatever comes next. Watch for our next issue in which we'll cover the remaining three keys to a high value exit.

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