

How Can I Maximize the Value of My Business?

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Business owners often ask me: Brian, how can I increase the value of my business? Even if you're not planning on selling your business in the near future, there are several strategies that every business owner should employ to build a better company and create more value. As part of this effort, it is important to understand that overall value is typically determined both as a function of your earnings and financial position and the inherent strength of your business (off-balance sheet items). It is not uncommon to see two businesses with similar financial profiles sell for wildly different valuations due to these off-balance sheet items. While it is easy to measure the value of your financial position, understanding and improving the off-balance sheet items that create and drive value are critical to positioning your company for long-term success.

Following these steps will put you on the path to creating maximum value for your business:

1. **Build a deep management team:** One of the most difficult challenges for an entrepreneur, and one of the critical differences between a good company and a great company, is the depth and quality of the senior managerial team. Too many entrepreneurs make the mistake of trying to run and grow their businesses with only one or two people capable of making critical decisions. As a result, most businesses will plateau in their growth. If your company can't function efficiently without your direct daily involvement, then you need to immediately begin to hire and develop talent or the future of your business is in jeopardy. Jack Welch, the former CEO of General Electric, considered talent development and succession planning one of his greatest accomplishments in his tenure. Treat this issue with the same importance.
2. **Diversify your customer base:** Your largest customer should ideally be no more than 20% of your revenues and/or profitability. While it's often efficient and easy to allow a major customer to develop into a substantial portion of your sales, nothing could be more dangerous to the future health and value of a business. Once a customer becomes a critical portion of your revenues and/or profits, then they own you. They can begin to dictate the financial terms of the relationship and any change in their business, be it financial, personnel or otherwise, has a direct effect on the health and value of your business. While it might require extra effort and possibly some short-term sacrifices to your bottom line as you build other accounts, the long-term benefit of a diversified customer base is a significant reduction in your financial risk profile.

3. **Develop Contractually Recurring Revenue:** All revenue dollars are not created equal. Revenue dollars from a contract for annual maintenance, annual licensing fees, a recurring retainer fee, technology license, etc. are much more powerful drivers than projected sales revenue, time and materials revenue, or other non-recurring revenue streams.
4. **Maintain quality financial information:** A consistent area of weakness with many mid-sized companies is the lack of strong financial documentation. Most business owners don't want to spend the extra money to obtain an audit, believing a review or a compilation is just as good—it's not. Audited financials provide credibility with bankers, commercial financing sources, and most importantly, potential buyers. The extra money spent will be recovered in a higher premium when the business is eventually sold.
5. **Develop a proprietary product or service:** To truly thrive as a company, you must distinguish yourself in the marketplace by offering a unique product or service that can't easily be replicated by competitors. While this seems obvious, very few companies are dedicated to creating this distinction. Ask yourself if your customers, employees and competitors can all quickly describe what differentiates your company. A superior product or service will create the opportunity for a pricing advantage in good times and customer loyalty in difficult periods.
6. **Prepare and execute a business plan:** Establish operational and financial plans and goals for your business in one, three and five-year increments and share them with your employees. The plans should take into account various economic, industry and company specific scenarios and how management would react to each. In addition to creating a roadmap for your future growth, this will focus your business and your employees around quantifiable goals and will allow you to make better business decisions as you grow your business.
7. **Seek the help of outside professional advisors:** Seek the assistance of outside professionals, i.e. legal and accounting professionals. Not only can they provide objective counsel as you grow your business, they can help you avoid disastrous legal, financial and operational mistakes that may have significant financial consequences down the road. Similarly, if you plan on selling your business or are approached by a buyer, an advisor like **Gryphon Equity Group** can ensure that you obtain the best possible transaction by re-stating your financials, preparing a memorandum that highlights the intrinsic value of your business (including off-balance sheet items) and quietly approaching other buyers to ensure a competitive process.

Conclusion

Ultimately, a business is worth what the "market" will pay at any time. When you sell stock in a public company like Nike or Microsoft, there is no room for interpretation about the market price. However, the market for privately held businesses like yours is imprecise and illiquid. When it comes to unlocking the market value of your privately held company, it is not limited to the bottom line. While profitability is important the factors above can result in significant premiums over traditional valuation approaches. There is plenty of room for interpretation and the result for the best interpretation by the marketplace is a big pay off when you decide to sell.

Gryphon Growth Group understands the selling process from the perspective of both the buyer and seller. Because buyers and sellers begin negotiations from opposite ends of the spectrum, Gryphon is called upon by business owners to help them articulate the solid opportunities and advantages of their

company in a way buyers can appreciate. In this way, we can substantiate the value of a business for a purchaser and maximize the value you receive as seller.

Many organizations face financial challenges from time to time, or need financial leadership during periods of transition: early stage, rapid growth, acquisitions, company sale, restructuring or refinancing. With *hands-on* management and expert guidance from **Gryphon Growth Group** you can get control of your situation. We can step in at any time, identify and solve financial problems, and help you guide you & your company to higher levels of success.

Our approach is simple - we apply our experience with good, old-fashioned *hustle* to help our clients achieve their goals.

To learn more, we invite you to contact us today:

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