## Value Drivers that Maximize Business Value

Far too often, sellers liken the sale of a business to the sale of real estate. Granted, in Florida, a real estate license is required for both business and real estate sale transactions, but to an entrepreneur wishing to maximize the business value, that's where the similarities stop.

Smaller businesses are priced differently from larger middle market businesses. For businesses valued less than $1 million, "multiples generally fall in the 1 - 3 times SDCF (sellers discretionary cash flow) range. Larger companies can obtain multiples of 4 – 10 times EBITDA (earnings before Interest, Taxes, Depreciation and Amortization.) A major factor of the ultimate price is financing. When banks tighten their credit requirements, financing becomes difficult and values are negatively affected. Other price and valuation factors are based on each company's unique attributes. A company's Risk and Cash Flow profiles are key determinants in business valuations.

What differentiates the "lower multiple" company from the "higher multiple" company? VALUE DRIVERS! Value drivers lower the risk associates with the business and increase the predictability of future cash flow. Buyers look for value drivers which can include:

- Depth of Management – If the owner can't take an extended vacation without fears of returning to a well operated business, maybe a buyer will consider that buying your business is like buying a job with heavy overtime. Separate the "job" and "investment in a business" components by having properly trained and trustworthy management.

- Well developed and <u>documented</u> business systems – The faster a potential buyer can learn the business, the faster they will make a decision to move forward. Buyers look for reasons to "just say no." Eliminate the "no sale" objections by documenting the systems.

- A diversified customer base – If one customer accounts for a large percentage of sales, there is increased risk that the business could fail, especially if the customer relationship is with the owner. Owners should examing customer turnover. They should document how many new customers are added each year.

- Revenue growth – Steady past growth can be a predictor of future growth. Steady growth increases financing opportunities and indicates lower risk.

- Backlogs and regularly replenished sales funnels – Does the company have a well developed customer pipeline? How are potential customers identified? How are they "screened" and determined to be an excellent prospect?

- Excellent community relations – Being recognized in the community and press for being a valued community leader or contributor adds value.

- Favorable comparisons to industry performance standards – Buyers often evaluate acquisition candidates by comparing financial performance of targets with industry norms.

- Fully developed strategies for growth – Value growth starts with the company's vision. The vision leads to the mission which is supported by the business plan. In building the business plan, strategies for growth and application of tools to measure the effectiveness of the strategies can dramatically affect a business's value.

- Business Plans – Plans can get stale. Continual market changes, new competitors entering the market, new products and services becoming available and technological innovations are all reasons to revisit and revise the business plan.

- Employee manuals with policies and procedures – Business value is based on two primary factors – cash flow and risk. Reducing the chances of employment law violations reduces risk. Also, having properly trained and motivated employees not only reduces risk but also contributes to cost reductions and improved productivity.

- Mix of products and services – When businesses have several "niches", value is enhanced since the company lessens the risk of obsolescence. Businesses should become "niche-aholics."

- Excellent industry reputation – This goes without saying. Acquirers will research the company's industry reputation as a key component of their due diligence investigation. A poor reputation is a deal and value killer.

- Competitive advantage – Owners should perform a SWOT analysis (Strengths, Weaknesses, Opportunities and Threats.) The strengths and opportunities underscore and highlight the competitive advantages of the business. These are the selling points to be included in the "elevator speech." Any identified weaknesses and threats should rise to the top of the "to-do" list for elimination or minimization as quickly as possible.