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Preparing For The Recovery With A Focus On Your End-In-Mind Objective

By Terence J. Shepherd

When is the last time you reflected on why you started your business? Was it for a stream of income to provide for your family? Or was it also about building a business that created a value that you'd cash out on one day?

To be able to do that and to maximize the value you'll receive, you'll need a sustainable business model to pass along. So my advice to business owners that are planning recovery strategies is; make your end-in-mind business transition goal an integral part of it by including those strategies and actions that will also build business value.

At the beginning of each year, I step back and look at my business from a third party perspective and ask the following question: if I was a new CEO coming in to take over my Company, what are the first things I would do to change it? It's amazing the clarity you can get when you step back from daily operations and look at things from this advantage point.

So, step back and take a look at your business from a potential buyer's perspective. What values do you think they would be looking for? If you were looking to buy, what values would you look to obtain? Once you have your list, identify how your business is currently aligned with them, as that will identify any gaps and will help you set baseline improvement strategies.

Here are some of the values buyers look for:

- Can this business operate independently of the owner?
- Does the business have a unique differentiator that sets it apart from all others in the industry?
- Is the business generating sustainable profits?
- Is the customer base diversified and capable of further business development?
- Is there an untapped market for the products or services?
- Are the systems and processes considered first rate for the industry?
- Is the right team in place for growing the business?
- What is the strength of the management team?

September, 2009

- Are there proprietary assets that have future value?
- Does the business have contracts with key stakeholders-customers, suppliers, employees, other owners?
- Are there potential liabilities that could damage the future value of the business?
- Is there a business plan in effect that demonstrates the potential growth in business value?
- What is the strategic outlook of the business?

By matching up how your business stacks up against the questions on this list, you should be able to readily see a good few areas that you can immediately begin to work on.

The other key concept to keep in mind in building business value is to understand the drivers of value. The first driver is the history of the normalized earnings and cash flow from the business. For the most part, this is what buyers are buying, unless you are fortunate enough to have some unique product or other offering or there is a strategic buyer around that is just interested in your sales volume or sales territory footprint.

The second driver, is the earnings multiple. This is determined by the buyer's assessment of risk. So the key here is to work on those things that reduce that; as the lower the risk, the higher the multiplier, which results in a higher business value.

How do you reduce this risk? Make sure your business has few, if any, dependencies; dependencies on a single customer, supplier, employee or on you, the business owner. Buyer's risk can also be lowered by referring to the questions above and having as many 'built-ins' as you can; a strong management team to take over, a motivated and fully engaged team, strong culture, lean and efficient processes and systems, etc.

You can readily see that the strategy and actions necessary to building long-term business value, also makes sense in improving current operations and bottom line improvement. Make sure your strategies keep this end-in-mind objective front and center as you move ahead into 2010. You'll be glad you did both tomorrow and in the years to come.

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