

Business Transition Series: Key Drivers of Business Value

Understanding and measuring what drives value in your business is critically important in helping deliver maximum shareholder value. Value drivers are important because their successful application may provide the opportunity for both growth and risk management. The ability to grow your business and manage risk will likely improve the chance you will successfully transition your business, whether your transition goal is a third-party sale, intra-family transfer, insider transaction, or combination strategy.

The identification of your key drivers provides an important foundation for highlighting the real intrinsic value of your company and maximizing shareholder returns. Further, proper focus on the key drivers which may impact your business may also positively impact cash flow and increase efficiencies. Monitoring identified key drivers should be addressed throughout the entire life of your business, from inception to desired transition.

The following list identifies the most impactful value drivers and associated questions based upon five key elements: 1) your company's people, 2) sustainability of cash flow, 3) your company's client base, 4) financial controls, and 5) technology.

Your Company's People:

- **Management Team** – Does the company have a strong management team in place? Is the team experienced in the business and have they demonstrated a successful track record of results?
- **Employees** – Is there an adequate supply of a qualified workforce? Are existing employees well trained, motivated with low turnover? Are salaries and benefits competitive in the geographic area?
- **Sales Team** – Is there a strong sales team in place with a record of new accounts and sales growth? If using sales representatives, is the company's business a significant and profitable part of their business?
- **Business Plan** – Does the company have a documented, current business plan covering the next 3-5 years? Is it comprehensive with specific and measurable objectives? Does the plan have the necessary action steps, project owners, costs and time frame to implement the plan?
- **Succession Plan** – Does the company have a written plan for leadership succession? Have individuals been identified for key organization roles? Is there a development plan in place for each key employee?

Sustainability of Cash Flow:

- **Growth Potential** – What are the company's plans for new growth? Have opportunities been identified and studied? Have steps been taken to implement these plans?
- **Market Position** – Does the company have a strong market share in the industry? How well known is the brand name? What is the reputation of the brand?
- **Operating Margins** – Are the company's operating margins equal to or better than industry averages? Have margins been stable or improving over the last several years?
- **Leases & Contracts** – Are company leases and contracts assignable to new owners? Does the business own or rent the facilities? If rented, are the rates reasonable for the local market? Are other facilities available in the local market?

Your Company's Client Base:

- **Customer Base** – Is there a concentration risk with any customer accounting for more than 10% of revenue? Is there a long relationship history with major customers? Are new customers in diverse markets being added on an ongoing basis?
- **Vendor Concentration** – Is there a concentration with a single or a group of vendors? Are additional sources being added? Are the needed raw materials readily available from multiple sources?
- **Owner Dependency** – Are key relationships (customers and/or suppliers) dependent on the owner remaining with the company?

Financial Controls:

- **Fixed Assets & Equipment** – Is all equipment up-to-date and well maintained? Will any purchases / upgrades be required in the next 3-5 years?
- **Facilities** – Are the land and buildings clean, well maintained and in compliance with building codes and regulations? Is the layout efficient and suitable for expansion? If owned, would the seller retain the property or be open to a sale to the buyer?
- **Location** – Is the company location convenient to both vendors and customers? Does the location have access to transportation hubs?
- **Consolidation Stage** – Is the company's industry in a consolidation phase of smaller competitors being rolled up into larger companies to eliminate cost and build scale?
- **Industry Outlook** – What is the outlook for the industry in terms of future growth potential?

Technology:

- **Sales & Marketing Materials** – Are the company's materials current, attractive and informative? Are they easily accessible to buyers, print and online?
- **Company Website** – Does the company have an online presence? Is it attractive, user friendly and up-to-date? Is it part of an integrated online strategy?
- **Computer Systems** – Are the company's systems up-to-date and fully integrated? Are the systems capable of meeting the company's needs over the next 3-5 years? Will upgrades or replacements be necessary to maintain and grow the business?

Conclusion:

There are multiple benefits for a company focus on key value drivers. Enhancing drivers of value can increase profitability today, price tomorrow, and position you for your desired transition strategy.

