

8 Ways to Drive Value in Your Business

Many business owners find themselves beyond busy every day, yet they may not see the business results they are looking for. It's especially frustrating when these results are inconsistent with industry trends.

Successful people often rely on a variety of managerial frameworks to help them make sure they are on track with both strategic plans and implementation. With consistent use and time, the framework summarized in this graphic and explained below can help business owners focus on the right activities to increase the value of their businesses.

Here are some considerations for each value driver.



Financial Performance

Business owners are accustomed to watching revenues, but that's only one piece of financial performance and frankly, not the most important. Understanding the power of increasing your margins and profits will provide a much larger payback.

First, lay your company's last five year-end income statements side by side. Doing this in an Excel spreadsheet, or even on a piece of paper, will make it easier to compare and understand the historical trends in your revenues and expenses. We're going to be looking at historical trends related to Revenues, Gross Profits and Operating Expenses, since trends are a strong indication of future performance.

We'll offer some questions for you to consider below, but read our blog post on [Driving Value Through Financial Performance](#) for even more guidance.

8 Ways to Drive Value in Your Business

- What do the historical trends for my Revenues, Gross Profits and Operating Expenses indicate in my last five year-end income statements?
 - Are revenues decreasing, holding steady or increasing? Buyers like to see steady, gradual growth, not a lot of peaks and valleys.
 - Are your company's gross profits (revenues less cost of goods sold) increasing as a percentage of sales? Even a 1% improvement in gross profit can have a significant impact on value.
 - Compare the past five years of Operating Expenses to identify any trends that do not seem reasonable.

Growth Trajectory

This value driver helps you identify the likelihood you can grow your business in the future, and at what rate. Here are a few questions you can use to assess growth potential:

- What is your business's industry outlook for growth—can your company meet or beat these expectations?
- If your industry is stagnant or in decline, are there adjacent services you could offer your customers, or is there a way to package your products and/or services for a new group of customers in a similar industry?
- Do your culture and processes support a growth mindset?
- Can you grow by increasing prices? Will your customers remain interested in your products or services at that price point?
- Would investing in your staff with sales training be beneficial to increasing sales? It can be worthwhile to provide sales training to all staff who “touch” the customer, not just the sales staff.

Diverse Relationships

This value driver covers dependency issues relating to any one employee, customer or supplier. If any relationship(s) ended within these categories of people, would your company encounter significant hardship? Some considerations to make sure your relationships are all in balance:

8 Ways to Drive Value in Your Business

- o Avoid customer dependency: While strong, long-term relationships are certainly a good thing, if any one customer represents more than 10% of your total revenues, or more than 30% of your total revenues are generated from your top five customers, this represents risk to you as a business owner and also raises a red flag to any buyer. While no one wants to work towards decreasing revenues from any one customer, it will drive value if you can dilute this dependency by increasing revenues to other customers or adding new customers.
- o Avoid supplier dependency: Identify back-up suppliers or complementary vendors so you are purchasing from more than one key vendor.
- o Avoid employee dependency: Cross train employees and document processes to avoid becoming overly reliant on any one person.

Cash Is King

Within this value driver we consider if your business is generating sufficient cash. There may be different answers for different parts of your business, and it's useful to identify the answer for various segments, as well as the whole, so you understand how your product or service mix contributes to the whole picture.

- o Do you know your company's cash flows from operations? Do you know your company's cash flows from operations after reinvesting in necessary capital expenditures? If not, include this analysis as part of your regular financial statements. It is true...cash ISking.
- o Can you structure payments differently from your clients to get cash more quickly? Can you collect a deposit at the beginning of the project that is applied to the final invoice?
- o Develop a relationship with a bank BEFORE you need them. Community banks tend to focus on you and the story of your business in order to develop long-term relationships. Lowest interest rate isn't always the best choice. Will your banker stick by you in the downturns as well as the upturns? Are they interested in learning about your business and developing a long-term relationship?

8 Ways to Drive Value in Your Business

- o Can you increase the length of time you have to pay your vendors? Would entering a contract to define a longer relationship benefit you with better payment terms?
- o Nothing says you must bill monthly. Bill weekly. Offer a small discount for payments received within 7 or 10 days instead of having to wait 30+ days for payment.

Recurring Revenue

Here we are interested in the proportion and quality of automatic, annuity based revenue you collect every month. Buyers like to see that you have a steady stream of income from reliable sources.

- o Even if your business is bid or contract based, can you provide warranty or maintenance services that allow you to continue to “touch” the customer more regularly throughout the year?
- o How can your firm be a resource for customers beyond traditional project-by-project engagements?
- o Are there ways to make any part of your business a “subscription” or retainer-type of business. In other words, can you structure sales, say for maintenance work, where the annual cost is invoiced on a regular monthly payment arrangement instead of only charging when a service occurs?
- o If you provide a service, can you generate a troubleshooting relationship whereby you are paid an amount each month to have your company cover the problems as they arise? Obviously, this requires managing to be efficient and defining up front how much is too much is necessary.
- o Is there a consumable product or supply you can create or resell that requires repurchase (think vacuum bags for the vacuum or coffee pods for the Keurig).
- o Is there some sort of analysis, reporting or other feedback you could offer to add value to your clients? Can this be an automated service each month?

8 Ways to Drive Value in Your Business

Market Control

It's understood you want to have the majority of market share within your geographical location or industry niche, so it's important to be able to answer the following questions:

- o WHY does your company exist?
- o HOW can you deliver on your customer needs better than your competitors? Do your customers know this?
- o Do your employees clearly understand the WHY and HOW so they can consistently deliver on these fundamental messages both in communications and through client deliverables?

Customer Satisfaction

Customer satisfaction may sound like a given, but not all businesses have processes and procedures in place to capture customer feedback. This is important so you can either do more of what is working well, or fix issues to avoid repeating the same mistakes in the future. Here are a few questions that can help put those procedures in place:

- o Do you have a consistent and measurable way to get feedback from your clients? An important question to ask all clients is "how likely are you to hire our firm again, or refer us to another contact?" Provide two choices: 1 = likely or 2 = not likely and provide space for additional information and feedback if they choose to share more. When customers won't provide feedback, it is typically because the survey format takes too long or it is too much of a distraction from their day-to-day business. Keep it quick and simple.
- o Do you, or your team, promptly, professionally and completely address any customer issues?
- o Do your employees know your philosophies on how to handle situations that are not going as the client expected or hoped?
- o How do you take undesirable situations and make them positive learning opportunities?
- o Are you able to turn satisfied clients into referral sources for your business?

8 Ways to Drive Value in Your Business

Delegation

A business that is too reliant on the owner to personally run the company is less valuable to a buyer. While the owner often plays a critical leadership role, in order to be transferable, a business must be able to continue operations without the owner for an extended period of time. How do you rate on these factors?

- o If you were unable to work for a month or more, would your business be able to continue without you?
- o Do you have the technical and business expertise within your staff to continue serving existing clients while also continuing business development efforts in your absence?
- o If a customer calls for you and you are not available, are there others in your office the customer knows and trusts?
- o Have you identified a succession plan and do you have the right players on your current team to deliver on that plan today, if needed?
- o Delegate, delegate, delegate. Do you have the right team in place that allows you to delegate without major concern?
- o Document systems, procedures and history.

Whether you plan to sell in the near future or want to build value for your continued ownership, these questions are helpful tools to review yourself or with your leadership team on a quarterly basis, and in-depth on an annual basis. It is important to set goals and KPIs, or key performance indicators, for each driver so you and your team know what success will look like when you get there.



Cathy is the President of Capital Valuation Group, Inc., headquartered in Madison, WI. Capital Valuation Group has been helping business owners across the country understand, increase and unlock the value of their businesses for over 40 years through keynote speaking, valuation analysis, determining damages and providing expert witness testimony. To learn more about Capital Valuation group visit www.CapValGroup.com or reach out to Cathy via [LinkedIn](#).