
CREATING A TRANSFERABLE BUSINESS REVIEW AND ACT UPON YOUR COMPANY'S RELATIVE PERFORMANCE



Business owners who are thinking about the future of their companies will often ask the question “who will own my business after me?” On the path to answering this question, these owners need to consider another very important question, namely – “Is My Company Transferable to another owner?”

In a series of newsletters that we have written, we discussed developing an exit mindset as well as getting an initial assessment of a company's dependence upon the owner. We also addressed management teams and industry transfer statistics. As a final component of the Creating a Transferable Business™ process, we encourage privately-held business owners to review and act upon

your company's relative performance. Today's newsletter addresses this important issue by providing guidance on what may drive the value of your business so in the event that you need to increase your value prior to your exit and in the process of Creating a Transferable Business™.

Recent Studies Show that 80% of Owners are ‘Stay and Grow’

In a recent, national, survey conducted by The International Exit Planning Association, approximately 82% of business owner respondents indicated that they are not ready to leave / exit their businesses. Further, the study showed that the majority of these owners also cannot afford to exit their business.

In short, business owners across America are primarily categorized as ‘Stay and Grow’ owners – which means that they want to stay with the business (i.e. not exit) and they are pre-disposed towards growing the value of the business because their retirement is dependent upon the proceeds from the sale of the business.

The logical conclusion that can be drawn from these leading survey results is that business owners have an immediate need to increase the value of their businesses. Therefore, the question becomes, ‘how much value increase do I need?’

Measuring a Personal Value Gap to Determine the Amount of Value Increase Required

There is a logical answer to the question 'how much value increase do I need?' The short answer is that you need enough of an increase in the value so that, upon transfer of the business to someone else, you are able to have enough after-tax money to meet your personal financial goals.

This 'Value Gap' calculation is an important part of the exit planning process as well as adopting an exit mindset. Once you know this number you can increase the value of your business both through increased profitability as well as through a reduction in the riskiness of your business.

The Risk / Return Formula

Once you know the Value Gap that you need to fill, you want to consider how you will go about increasing the value of your business. To get started with this challenging process, it is helpful to understand that increasing your company's value can be more complex than simply increasing revenue and new customers. In fact, there may be more value increase in your business if you reduce the risks that are in your business.

Two (2) of the risks that were discussed in earlier newsletters were Owner Dependence (where your company has a high degree of dependence upon your personal involvement) as well as the strengthening of your management team so that more of your business can run without you.

If you can reduce owner dependence and bolster your management team, you will have taken two (2) importance steps in Creating a Transferable Business™.

Translating Lower Risk into Higher Valuations

Beyond the Owner Dependence issue and bolstering the management team, there are also a number of other items that owners can address in order to reduce risk and increase the value of their businesses. Some of those items include:

- Reducing customer concentration
- Improving systems, procedures and operations.
- Focusing on profitable products and services while reducing / eliminating others
- Improving the quality of financial statements and reporting

There are many more areas where you can focus on improving the value of your business through risk reduction and these are just a few. However if you are not thinking about these items on a regular basis then you likely have not adopted an exit mindset and the risk in your business is going unchecked. The concern with this oversight is not only that

the value of your company may stay reduced, but it may be the fact that there may not be a buyer for your business.

What Buyers In Your Industry Are Looking For in an Acquisition

Beyond reducing risk in your business, it is also important to know what buyers in your industry are looking for when they seek an acquisition. If you have an opportunity to speak with a buyer in your business, it can be very helpful towards having you better understand specific, industry-related, drivers of value that will assist you in knowing the priorities that you want to set in making the changes that will make your company more profitable and, possibly, a more attractive acquisition candidate for someone else in your industry.

Once you have an understanding of these critical items, you can tailor the growth of your business around the specific attributes that buyers are looking for. By doing so you are Creating a Transferable Business™ because you are making your company more attractive to a future, industry, owner.

Concluding Thoughts

The process of Creating a Transferable Business™ has many steps. Before you focus on increasing the value of your business, it is recommended that you first adopt an exit mindset and understand your personal Value Gap. After that,

you can reduce risks in your business by lowering owner dependence and strengthening your management team. Once all of this is done, you can look at the transfer of similar companies in your industry to see what drives value for your business and then you can focus on increasing that value. When these steps are followed you will be well on your way towards Creating a Transferable Business™.

We hope that this newsletter has helped you think through these issues as well as pointing you in the direction of taking action towards Creating a Transferable Business™.



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