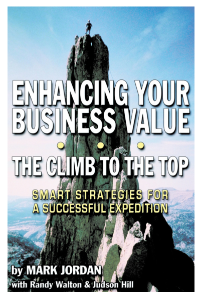
Enhancing Your Business Value

The Climb to the Top – Smart Strategies for a Successful Expedition



Author: Mark Jordan with Randy Walton & Judson Hill
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About the Authors

Mark Jordan has a unique, multi-disciplined background comprised of advanced tax strategies, estate, and financial markets knowledge. He also holds a MBA, BS in Business Administration and various professional designations. He has been involved in numerous business transactions both personally and as an advisor. He is currently the President of Capital Strategies, Inc. and managing partner of VERCOR. Both firms provide middle market mergers and acquisitions services.

Randy Walton is President of Strategenesis, Inc., a consulting firm providing strategic planning, executive coaching, decision support, and Virtual CIO services. In addition to co-founding a wireless applications firm, he has experience as the CIO of an Inc. 500 technologycompany. He has also consulted with numerous technology clients and has been the judging chairman for the Georgia CIO of the Year Awards.

Judson Hill is Managing Director of Capital Strategies, Inc. Judson has extensive experience practicing law with a background in business succession planning and advanced estate strategies. He has been a small business owner and holds a Juris Doctorate. In addition, he has degrees in Economics and Political Science from Emory University along with several professional licenses.

■ The Big Idea

Growth is an ongoing process that occurs in many facets of our lives. There are so many individual factors that go into creating, increasing, and sustaining business value it is virtually impossible to list them all. Determining how to prioritize your business efforts is an even greater challenge.

This book encourages you to take a top-down view in your strategic planning as you strive to gain maximum benefit from the internal factors. There are three primary, internal Value Pillars that affect business growth:

- Offering – what product or service does your organization provide?

- Competency – who are the people involved? What infrastructure and information systems are needed for management to make productive decisions?

- Financial – what is the revenue and profit potential? Can shareholder value goals be met?

■ Why You Need This Book

This book is designed for the small to medium-sized business owners, to give an overview of many different strategies that one can commit action to and not just to be convinced that it can be implemented.

■ PLANNING THE CLIMB

Making a Grand Exit

Envisioning your exit plan requires a long-term focus. You may be successful generating profits year by year, but if your company is not positioned to accomplish your long-term objective, will it really be a success? There are many different combinations of exit strategies, but typically they fall into one of three broad categories:

- The Business is Passed to the Heirs During Lifetime or at Death
- The Business is Sold or Merged During Lifetime
- The Business is Sold or Merged at Death

Make a decision today to begin your exit planning. Since none of us are capable of predicting the future, tomorrow may be too late. As you begin the process of introspection and planning for your future exit from the business, make decisions based on current facts and the most probable scenarios. Let's take a brief look at exit planning for the owner who wants to pass his business to the next generation. Some of the key questions that need to be processed are as follows:

- Are there children currently active in the business?
- If so, do they show signs of effectiveness?
- If they are not in the business, have they expressed an interest but are too young?
- Do you have a strong desire to see your children carry on your business legacy?

If the answer to any of these questions is yes, perhaps you should give considerable thought to implementing a plan creating the option for them to enter the business or continue in the business by establishing a business succession plan.

Water or Diamonds

Determine a range of values your company is worth. Utilize different assumptions and evaluation methods.

Strategic value is certainly the goal, but when determining the range of values your company is worth today, focus on the financial value of your company, not the strategic value. This will enable you to plan, based on a realistic approach rather than the top end value. Some of the more common methods for determining financial value are:

- Capitalization of weighted earnings
- Capitalization of dividend capacity
- Discounted future earnings
- Discounted future cash flow
- Price to adjusted net worth
- Price to average revenue
- Liquidation value

Running the Obstacle Course

The best way to identify obstacles is to have an independent review done on your company.

Commit to assembling an evaluation and review team. Take the time to find the right professional for the task. You do not need to expend the costs for a Fortune 100 advisor. Find an advisor who focuses on businesses of a similar size as yours and who has an interest in establishing a long-term relationship.

■ MAY THE BEST TEAM WIN

Motivated Management Teams: A Cornerstone of Business Value

Recruiting and training first-class management is a cornerstone for maximizing business value. A good manager will get the most out of his team. Top managers understand the talents of their employees and find ways to match those talents with the right roles. They truly understand you cannot fit a square peg into a round hole!

One of the strongest influencing factors on performance is ability. Your management team must have the skills, know-how, and resources to accomplish their task. Assess your current management team to uncover the current deficiencies and recruit to bridge the gap.

Communication is another key characteristic of effective managers. Employees watch what managers do more than what they say. Your management team must be able to make the business mission come to life through their words and deeds.

Implement a systematic and thorough interview process for all employees – especially managers. Once you have selected the right managers, you must then commit to supplying the needed resources. Too many business owners expect managers to provide superior results without appropriate resources.

As a business owner, it is your responsibility to motivate your management team. While they must have a certain degree of self-drive, management will obviously be more productive given the right motivation. People are motivated by many different factors but generally speaking, they fall into one of three categories:

- Financial
- Recognition
- Potential

Selling the Vision by Getting SMART

Goals are the second most misunderstood component of the strategic planning process. They are a close second to strategy. It has been said that most people set short-term goals too high and long-term goals too low. Effective goals, and their subsequent achievements, pave the way for future successes.

The goal setting process is similar to development of the mission statement. The key difference is that you will be listing possible goals for the organization. Effective goal development requires some specific criterion that must be followed. All goals should fit the SMART criteria. While there are multiple versions of SMART criteria, the following is generally accepted:

- **S** – Specific
- **M** – Measurable
- **A** – Achievable
- **R** – Realistic
- **T** – Time bound

Keep the Environment Friendly

The 5 S's, first coined by Hiroyuki Hirano in his book 5 Pillars of the Visual Workplace, describes a system for improving quality, minimizing the chance for mistakes, and enhancing the business environment. His system encompasses a five-step process which is implemented in a logical order. It can take anywhere from a few months to two years to fully implement. After implementation, it provides a framework for continuous improvement.

The first S is seiri, which is translated to mean sorting or structure. It drives organization within your company and encourages removing all unnecessary items from the immediate workplace.

The second S is seiton, which is translated to mean set in order or systematize. This drives the neatness and retrieval of stored items. It is driven by such questions as:

- What items and materials do I need to perform my task?
- How many others within the organization need this same item?
- How quickly do I need it?
- Where should it be stored for maximum accessibility?

The third S represents seiso, which means shine or cleanliness. It is critical that all work areas be thoroughly cleaned on a regular basis. Employees really do take pride in their work area. Create a work environment where cleanliness is emphasized and you will undoubtedly experience an improvement in quality. Employees will begin to take greater ownership in the maintenance of their corresponding equipment and service responsibilities.

The fourth S is seiketsu or standardize. Here the emphasis is on the daily application of the first three S's. Best practices are implemented and employees are expected to adhere to the ongoing implementation of an orderly environment.

The final S is shitsuke, which translates to sustain or discipline. Naturally, the tendency will be to regress into old habits once the newness of any system is implemented.

The benefits from enacting the 5 S's are better efficiency, greater organization, and higher employee morale. While a plan such as this is difficult to implement, your probability for success will increase by adhering to the following three steps:

- Gain buy-in from top management
- Promote the new program
- Train all employees

The Benefits of Peer Pressure

Assemble an outside board of advisors and commit to regular meetings. Be authentic and allow them a view of your company as an insider.

Look for individuals who add value to the company by, among other things:

- Providing wisdom from years of experience
- Offering a successful track record leading growing and healthy companies - you cannot take someone where you have never been
- Offer access to new relationships in areas you want exposure
- Enhancing the credibility to the company
- Demonstrating strategic, objective thinking, and good communication

■ YOUR PATH TO THE TOP

Remember the Map

In addition to saving yourself from wasting time and resources, there are at least four main purposes in developing a business plan:

1. You need additional funding.

Naturally, the plan needs to communicate significant opportunity for potential investors or lenders. Keep in mind investors and lenders are inundated by requests for funding. At the minimum, the reader needs the answers to the following issues:

- What is the long-term potential of the market?
- What can the lender/investor expect in return?
- What is your previous experience and success?

2. You need to make strategic decisions regarding starting, buying, or growing a business.

Even if you are the only one who reads the plan, your chance for success will be greatly improved.
Consider these critical questions:

- What is my motivation?
- Do you have the necessary background?
- What impact will success or failure have on you?
- What is the potential?

3. You want to improve the operations and organization of your company.
The purpose of the plan in this circumstance is more internally driven. Key thoughts are:

- What are your strengths and weaknesses?
- How can you increase revenue and margins and reduce costs?
- How do you stack up against the competition?

4. You are considering selling your business.
Buyers will be more interested in learning about untapped opportunities and past financial performance. They will want to know:

- What are the areas yet to be capitalized on?
- What is keeping the current business from growing faster?
- What expense savings could occur under new ownership?

Expanding Your Horizons

Test market your new offering or new target market to determine viability. As you consider your strategy, keep in mind the following three keys before you take action:

- Research and plan
- Test market
- You must be able to move quickly

It is imperative you approach this decision-making process just as you would in starting a new business. Research must be done and a plan prepared in at least three areas:

- **Product/Service Analysis** – evaluate other products and services to assess their corresponding strengths and weaknesses
- **Consumer Analysis** – demographic, social, economic, and geographic influences
- **Competitor Analysis** – strengths, weaknesses, market share, and pricing

Assessing the Competition

Implement a business intelligence program and find out where you really stand in the marketplace.

Evaluating your competitors, especially privately owned companies, is challenging at best. The process can be as simple as securing a Dun & Bradstreet report or as complex as engaging a full-time firm to conduct ongoing research.

In light of cost considerations, most firms elect to manage the process themselves. There are a plethora of resources available for intelligence gathering.

■ GETTING ORGANIZED

Standard Operating Procedures

The SOP provides documentation enabling someone else with similar training to complete the process or function with minimal supervision. Some of the benefits received from a formal SOP include:

- Enhanced communications
- Greater productivity
- Shortened training time
- Clear statement of culture

***There are three elements to implementing effective SOPs: develop, document, and prepare.**

Keeping Your Finances in Check

Implement internal audits before you suffer a financial loss.
More specifically, you need to ensure:

- You have a system for uncovering inaccurate information
- Your financial information is correct and complete
- Your financial information is secure on the inside and safe from the outside
- You have a strong system for reporting

Connecting Technology with Value

There are nine key issues to insure success in leveraging your technology:

- Solve the right problem
- Obtain structured employee feedback
- Tie your technology initiatives to a goal
- Start with a plan
- Measure, measure, measure
- Solve first without technology
- Get the infrastructure right
- Define your need and outsource smart
- Count the costs

Utilize technology to solve problems not symptoms. Take the time to uncover the real problem to be addressed as opposed to throwing money and time at the symptoms.

It is vital that your technology initiatives be tied to a goal. For a technology investment to really drive significant value, it must accomplish one or more of the following (in order of priority):

- Provide a sustainable competitive advantage
- Enable an increase in measurable functionality, capability, or responsiveness
- Manage risk (failure risk, employee risk, or success risk)
- Increase employee satisfaction

■ INTANGIBLE ASSETS

Intangible assets as a value driver are here to stay. Utilize them and your value will be positively impacted at an ever-increasing rate – neglect them and undoubtedly you will experience a commensurate rate of decline. The path to successfully utilizing intangibles begins by setting progress goals and modeling successful companies.

Once you develop a process for leveraging your intangible assets, your last step is protection. Intangibles require protection and "insurance" on par with tangible assets. For your tangible assets, you utilize such tools as property insurance, maintenance agreements, and facility security.

Let's take a look at some potential security measures as they relate to the four broad categories of intangible assets:

- **Corporate identity** – protect this area with such items as patents, trademarks, and copyrights.

- **External relationships** - implement non-solicitation and confidentiality agreements with your employees.

While you cannot prohibit an employee from working in your industry, you can minimize their ability to "steal" your clients. Confidentiality agreements will reduce the opportunity for proprietary information falling into the wrong hands.

- **Internal systems and processes** – begin with the obvious but often overlooked area of data backup.

- **Are you backing up mission critical files daily?** Are the backups stored offsite? Do you have sensitive files password protected? Utilize safes to protect important documents.

- **Knowledge capital** – consider key man life insurance on critical employees. Require all employees to sign an employment agreement that clearly states all innovations, patents, etc. discovered while under your employment are owned by the company.

■ PLAY TO YOUR STRENGTHS

Focusing On Your Strengths

Establish what you do the best, and then look for ways to outsource the rest. Planning is, as always, the most important step. You need to define the goals, purpose, and scope of services needed. Performance, reporting, and quality control benchmarks need to be established. Assess where you will need to re-align your current personnel and facility resources. Set a target implementation schedule.

You must also determine and evaluate the key ingredients of the required contracts. Regardless of the type of contract, ensure the following elements are present:

- Goals
- Outline of services provided
- Type and amount of compensation
- Length of agreement and termination provisions
- Confidentiality acknowledgments
- Minimum acceptable standards
- Representations and warranties
- Insurance and other liability requirements
- Strategy for resolving problems

Create a Diversified Customer Base

Evaluate your customer base and commit to diversification. Everyone understands the foolishness of putting all your eggs into one basket. There is another well-known principle we know as the 80-20 rule that says 80% of your revenue is derived from the top 20% of your clients.

The rule, of course, is a generalization and can frequently be applied to many other areas. On closer examination it seems to contradict the "eggs in one basket" rule. While we should focus on the key customers who generate the bulk of our revenue, it all too often leads us into greater dependency on a few clients.

■ THE VIEW FROM THE MOUNTAIN TOP

Walk With the Wise

As you reflect on your next steps toward implementation, remember relationships are the glue that holds everything together.

These key relationships that need to be managed to sustain business growth have become increasingly complex over the years. As you continue your journey to greater business growth, ask yourself how your organization can enhance the viability of the following four key relationships:

- Employees
- Customers
- Suppliers
- Community

Evaluate your personal motives

Are you purely interested in personal gain or do you strive to create relationships where everyone wins?

During your climb toward increased business value, commit to bringing others along. Avoid making the journey by yourself. As you seek to serve the interests of your employees, customers, suppliers, and community, you will undoubtedly experience greater growth in value in your own company.

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