MAXIMIZING BUSINESS VALUE - THE NEXT GENERATION

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As an increasing percentage of the U.S. population reaches retirement age, so does an increasing percentage of business owners. Owners wanting to maximize their return as they position their businesses for sale or transition to the next generation should carefully consider what translates to increased value. Here are 10 items that you should consider:

Intellectual Property Protection - If an acquirer believes an industry or profession has significant barriers to entry that your business possesses, taking steps to protect (patent, trademark, copyright and license) the related intellectual property increases the value. Company history, innovation, name or brand recognition, relationships, trade secrets, business processes, etc. should all be considered for their value to an acquirer.

Customer Base Diversity - Concentration of revenue from few customers generally increases risk which decreases value to potential buyers. Largest customers comprising less than 5% of total revenue reduces risk which translates to higher valuation. If you find yourself with a customer concentration issue, focus on a program to diversify the customer base in order to increase the value to the potential buyer.

Recurring Revenue Stream - All revenue is not the same. One-time or infrequent customers tend to indicate high competition/price sensitivity, weak relationships, poor product/service performance, or a combination of all of these. A history of repeat business customers over a significant period shows top line strength for which buyers are willing to pay more.

Pipeline - Whether you think first about your sales of existing products/services or the introduction of new products/services to the market, having the pipeline is essential to a healthy company–after the sale. Buyers are willing to pay for relatively certain future revenue.

Management Strength and Commitment - A business where an owner can be removed with little or no impact on operating results and workflow translates to high worth to a potential buyer. Further, a good management team that has incentive to stay and to continue to perform well in the event of an ownership change tends to increase value to a buyer. Employment contracts, non-competes, and some form of equity participation to keep these stars involved through the transition work well in this regard.

Product Diversity and Differentiation - The more diverse a product, the larger the potential market. Where a business has a narrow product set, there is also high risk that the market may narrow or evaporate.

Penetrate Barriers to Entry - Acquiring and holding hard to get permits, zoning, licenses, or regulatory approvals can be worth a great deal to the right buyer. The government market is extremely difficult to penetrate. If you can break through entry barriers, you make yourself a more attractive acquisition candidate.

Independent Professional Involvement - Some business owners take the approach that they can do it themselves just as well. While that may be true, acquirers tend to put more credence in a business where reputable independent professionals have seen and provided advice on the business' operations, financial statements, legal issues, etc. Using these professionals provides assurance and decreased risk to the buyer, which generally translates to greater acquisition value and a more efficient transaction process.

Growth Plan Document - A document that shows a business is positioned to grow and has a plan for targeting new markets and ideas goes a long way to increase value. Identification of the best margins in the current customer base and application to untapped or lesser served markets can add to the purchase price.

Become Famous - Encourage your staff to publish articles and to speak at industry events. Encourage local and industry reporters to use you as the voice of authority for industry issues. Your company is viewed in a more positive light, gets more business referrals, and an industry buyer will remember you favorably as an acquisition candidate.

Realizing the market value of your privately held company is not limited to the bottom line. Profitability is critical, but other factors help to result in significant premium over routine valuation. The valuation of privately held business is imprecise. There is plenty of room for interpretation and the result for preparing your business to obtain the best interpretation by the marketplace is a big pay day when you sell.