SIMPLE STEPS TO

TRIPLE the Value of Your Business

A guide to avoiding the 7 Deadly Sins that kill business value.

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What's Killing Your Business Value?

As a business owner reading this, I'm sure you've heard it: We work too much in our business and not enough on it. "One day, I'm going to sell this thing and get a life, but I'm too busy today. I'll start working on my business *tomorrow*." The problem is, 'tomorrow' never comes, and we continue to procrastinate until it is too late.

You deserve better. Even if you manage to get the dollar value you think your business is worth, at the very minimum, you're costing yourself time with your family and sacrificing financial peace of mind by not working on the business and addressing the 7 Deadly Sins outlined in this eBook. They are killing your value! The time to start working on your business is NOW.

Consider this simple illustrative example story:

John owns a consulting company that does $3M in revenue, and his family lives comfortably on the $500,000 the business provides him annually. John hasn't taken a true vacation in the 15 years since he started the company, is routinely at kids sporting events on his phone texting, answering work-related calls, and isn't present - truly - when he's outside of business hours. He's always thinking about work. John's heard that he should be making $1M instead of the $500,000 based on other businesses like his, but he has no idea where to start because he's too busy. He's also 45 and not struggling financially. In fact, he's doing better for his family and providing more than he had growing up. At the same time, he doesn't have a lot saved for retirement. He figures he'll just sell the business when it's time.

Sound familiar? Look at what John's leaving on the table by not investing in his business NOW.

- Time with his family. What if John were to create systems and processes, and trained his people, to run the 90% of the business that truly can run without him?
- True financial freedom. Can you imagine if John invested some quality time to move the business from $500,000 to $1M? Let's say it took five years, and every year the company did a little better. John would've saved conservatively $1M in those five years from the extra cash flow generated. He also will have increased the value of the company from $1.5M - $2M on up to $5M to $6M. Can you imagine the financial security that would bring John?

Don't wait for 'tomorrow'. Make a commitment to at least start taking the journey. How do you eat an elephant? One bite at a time!

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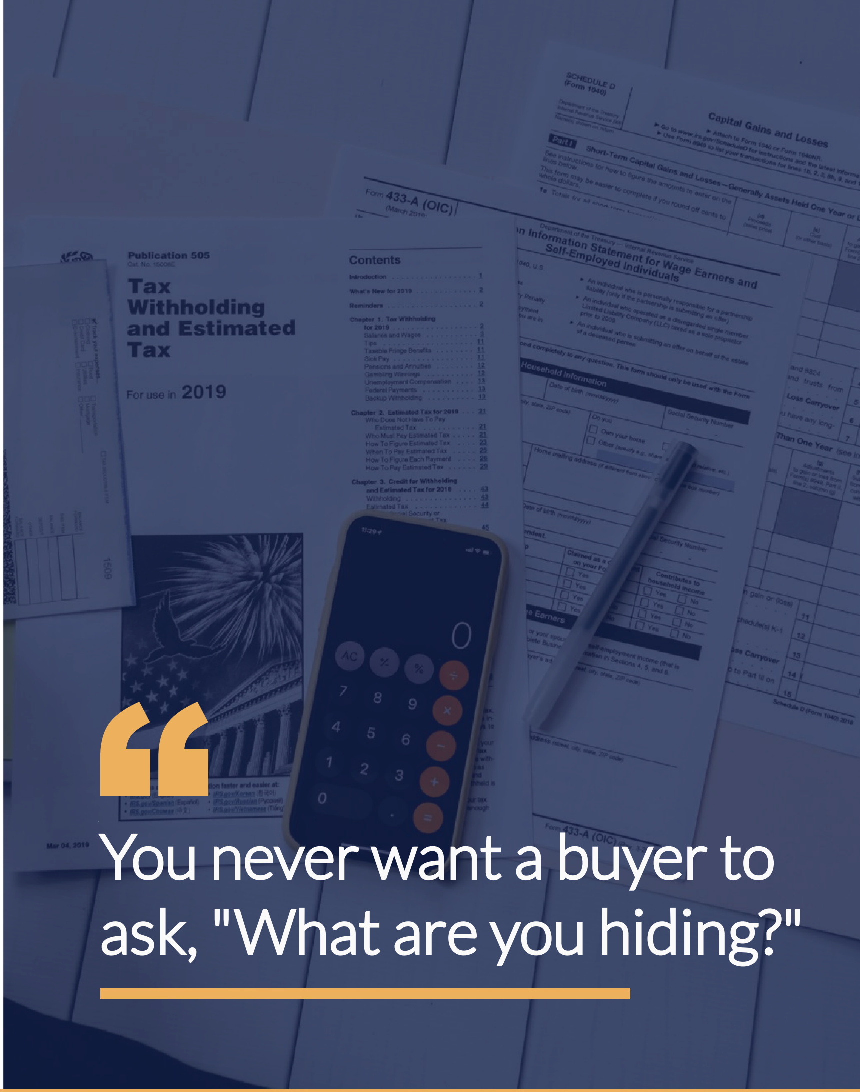
Poor or Unreliable Financial Docs

Financial documents like tax returns, income & cash flow statements, assets and liabilities value reports, and more are records of your company's past recorded transactions. They are also the only tools a potential buyer can look at to predict future transactions.

When you can prove profitable future cash flows, your valuation increases. When you can't, you kill the value of your business.



> You never want a buyer to ask, "What are you hiding?"

WHAT'S WRONG WITH YOUR RECORDS?

Underreported income (cash).

$100,000 X 35% = $35,000 of tax savings; assume company EBITDA is $500,000 - value could be $1.5m due to unreliable books; or $3m if solid books / records - so that tax savings - over 42 years - could be recovered

Poorly stated owner fringe benefits

What's the real travel necessary versus the 'you wouldn't have to do that if you owned the company, but it's still legal' travel?

Inventory values not properly maintained or counted

Slow or delayed financial reporting

Can't produce financials in month after month close

Presentation doesn't follow industry standards

e.g., deferred revenue

Too Much Dependence on the Owner

You can't do it all. In fact, you shouldn't even try.

Buyers need assurance the business can survive after you're gone. So, when you control every aspect of the company, the value naturally decreases. Strive to create an environment that thrives when you're not around.

QUESTIONS TO ASK YOURSELF

When was my last REAL vacation? Did I truly disconnect?

Do all roads lead to me?

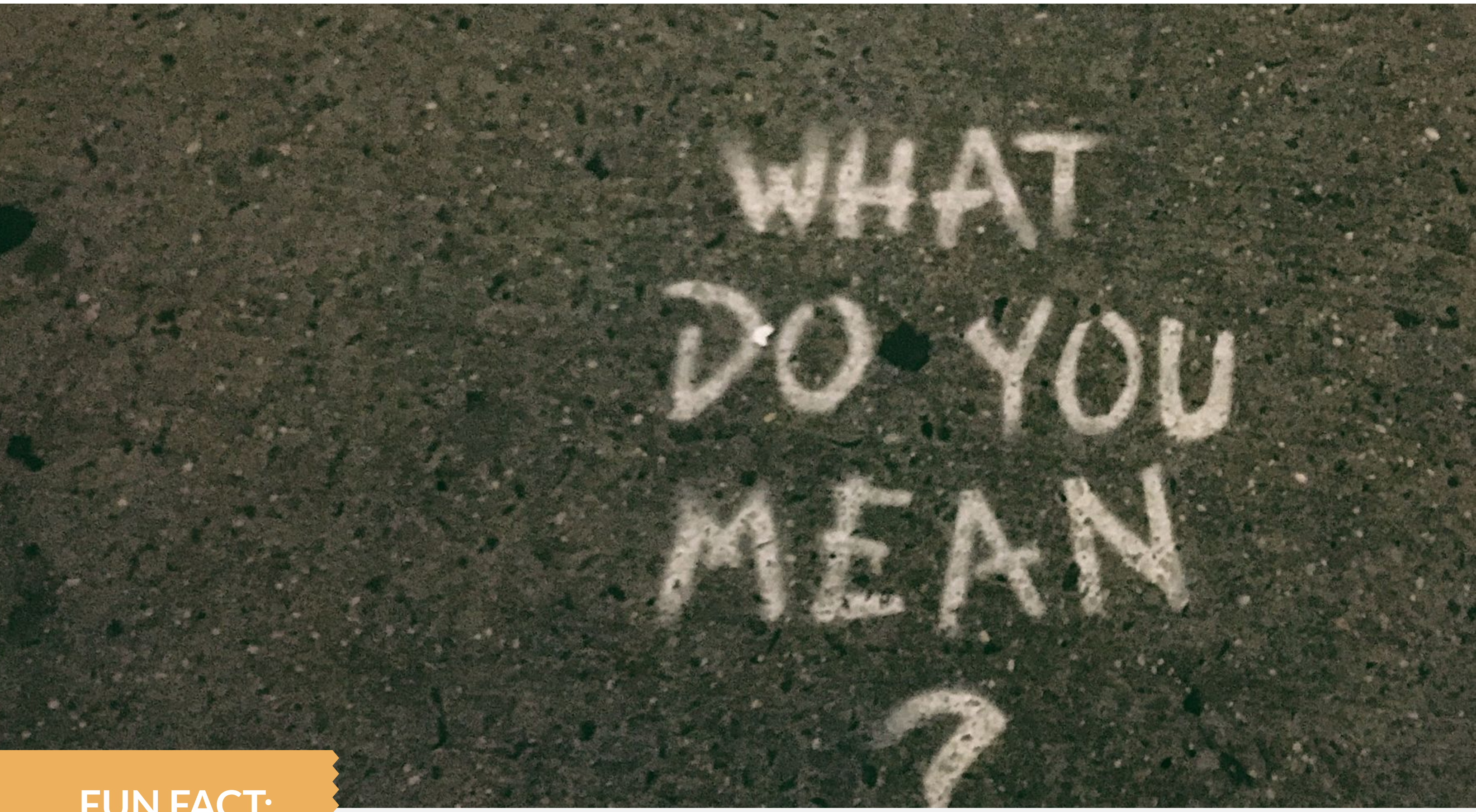
Is our client base a result of my personal relationships?

Is our supplier pricing based on my personal relationships?

Are we dependent on minority status?

Ineffective Management

Inefficiency spreads like wildfire across poorly managed companies. That's because poor management has a negative impact on employee morale and causes people to disengage, increasing turnover. And turnover is expensive. New employees are expensive to acquire and train, and without a pool of seasoned employees able to grasp big picture ideas and make quick, deliberate decisions, productivity suffers. That's a huge red flag to a potential buyer.



FUN FACT:

According to research from Gallup, 50% of employees leave their companies because of their boss.

Warning Signs of Ineffective Management:

- Not clear what would happen if you weren't there
- Unclear roles / job descriptions
- Key people not subject to non-compete or some other golden handcuff
- Pay below or significantly below market

Lack of Customer Diversification

One or two "big" customers

Primary customer accounts for more than 10 percent of revenue.

Price-driven customers

Customers see you as a commodity and would leave for a cheaper option.

Same old faces

You haven't added new customers or created diversification in some time.

Customers have cyclical cycles

If your customers have a downturn, so will you.

As the saying goes, don’t put all your eggs in one basket. Companies without a diverse customer base increase risk and experience greater financial instability. This is because they lack diversity in their marketing efforts and product lines, thereby attracting fewer clients. In addition, they leave themselves susceptible to financial ruin if one customer leaves their ranks. All of these factors negatively impact the company's overall valuation.

Poor Business Plan

Business owners often have a vision but lack real data to add weight to the proposed growth path. A potential buyer for your company needs to be able to predict the future. Any well researched and projected business plan that outlines specifically how the company plans to grow will go a long way in making the future real and increasing your value.

WARNING SIGNS

Revenue / gross profit growth has been stagnant or declining.

Your business is in a mature industry (e.g. lack of innovation).

Minimal track record of periodically evaluating SWOT (strengths, opportunities, threats), setting goals / achieving goals.

You are the 'market maker' so at market share - not much room for growth.

Need some assistance with business strategy?
Our consultancy services can help.

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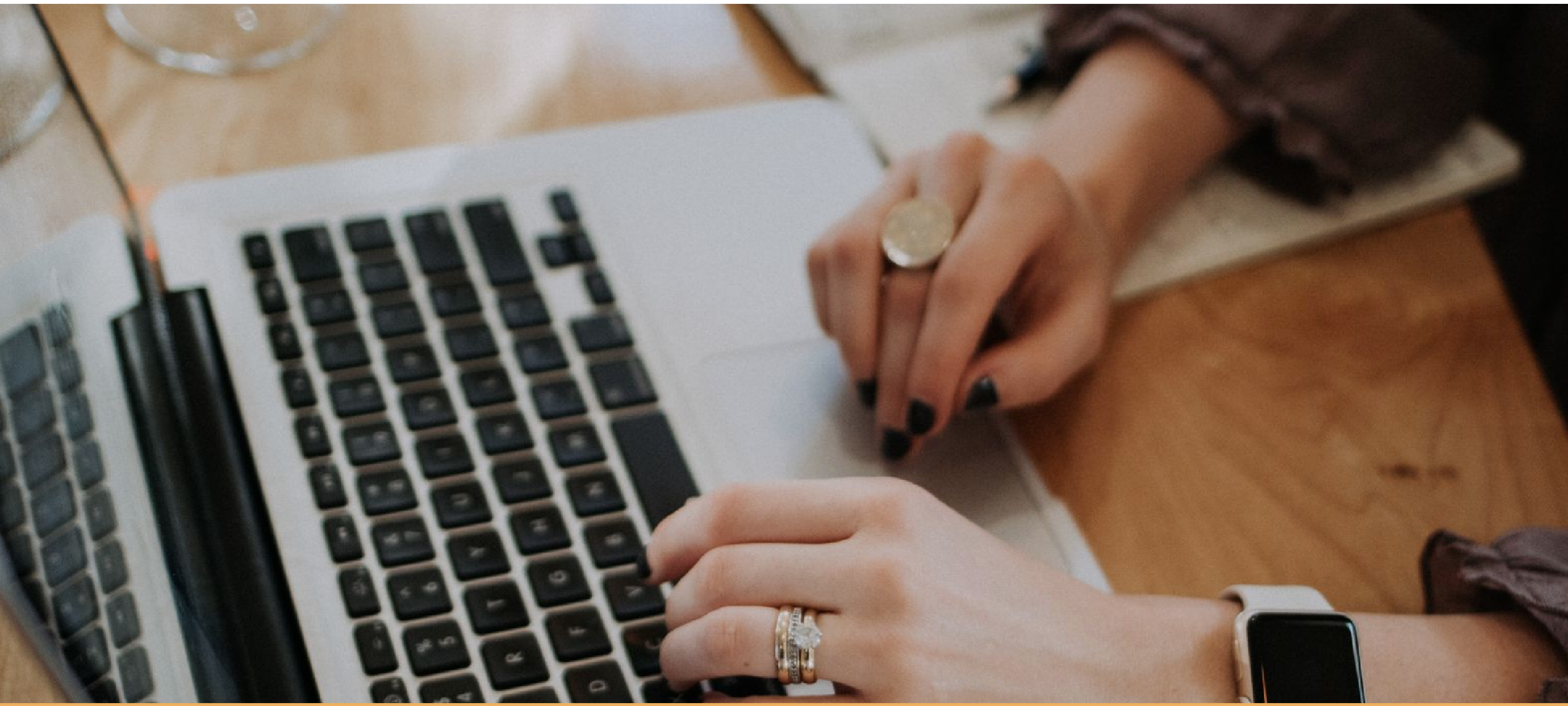
Process Not Scalable

IT'S PRETTY SIMPLE: IF YOU CAN'T PROVE YOUR POTENTIAL FOR GROWTH, NO ONE WILL FIND VALUE IN YOUR COMPANY.



Everyone does everything – no one is a specialist – everyone is a generalist.

Business processes are not documented for key areas – based on 'tribal knowledge' or length of service (Tim knows what he's doing – he's been here forever).

No clear pattern of predictable growth flowing through to demand planning / operations (e.g., salespeople to sales, operations people to sales).

IP Not Owned/Transferable

When you hold intellectual property (IP) rights, you're able to exclude others from using the concepts or ideas that make up the IP for commercial gain. Normally, the person who created the idea/concept that's the subject of IP owns it, but it's possible to release or transfer IP rights.

A good attorney is instrumental in protecting your IP, which will help increase the value of your company.

Danger Zones

Rights for distribution of products is not subject to a contract with any material length of time (e.g. longer than one year)

No trademarks

No clearly documented differentiators for strategy / position

If in products, no patented or patentable technology or process

Next Steps: Your 5-Year Plan

Year 1

Plug the Leaks

• Identify retirement goals
• Remedy risks (e.g., life, disability, emergency transition)
• Perform initial valuation and identify areas to drive more value

Year 2-3

Build the Franchise

Fix value problems associated with:
• Growth
• Concentration
• Process and legal
• Cost structure
• Employee handcuffs

Year 4

Take a Step Back

• Transition out, or mostly out, of day-to-day roles, acting like Chairman of the Board.
• Perform another valuation. What adjustments need to be made for you to transition out?
• Update life & disability insurances
• Internal succession? Map out deal structure.
• External sale? Select M&A team, investment banker, CPA, wealth advisor.
• Get a hobby! What are you retiring to?

Year 5

Go Time!

Execute on transition and transaction

Plan, Commit, Do!

Conclusion

You've worked hard to build your company. Don't take your foot off the gas when it comes to securing its (and your!) financial future. Commit to the process of maximizing your company's value by identifying which of the 7 Deadly Sins are present, remedying them, and following our 5-year plan to transition. Your future depends on it.

We'd love the opportunity to help you at any stage of the journey.

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