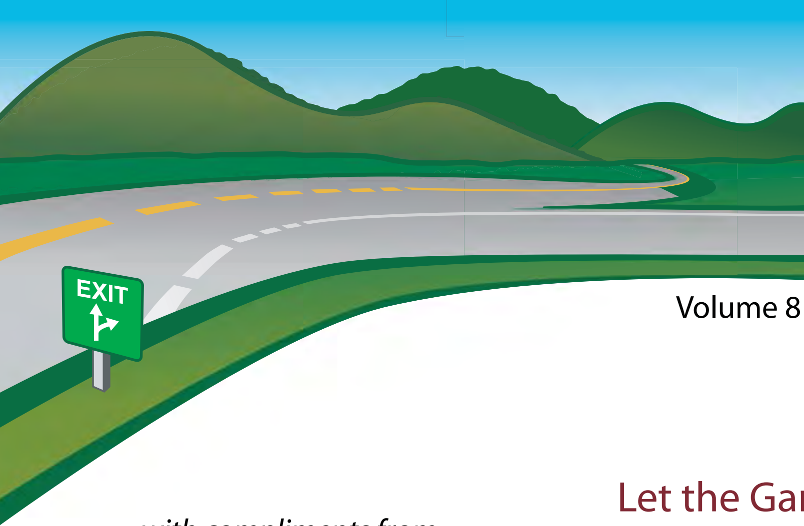

Changing Lanes

Transition planning for entrepreneurs and family businesses

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with compliments from

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Guiding Family Business, from Now to Next

Inside....

Let the Games Begin

The Olympic Games attract participants and audiences from all over the world. In just two weeks, hundreds of athletes strive to be the best in their class.

Yet behind those few days of action are many years of preparation — years of a strict regime that incorporates everything from the right diet to endless hours of practice and strength conditioning. To make the cut, these athletes know they must not only be determined, but also extremely disciplined both physically and mentally. They have demanding training schedules and are frequently separated from their families to train or compete in national and international events. They are guided by the experts — the coaches, the trainers, the nutritionists, the physiotherapists and even sports psychologists. But they know they cannot get the result they desire unless they have the foresight and are personally committed. They know that the key to their success is focus and consistency.

When the rest of us tune in to watch the best in action, we see only the end results, not the demanding years of training and deprivation. But we, along with the rest of the world, can recognize and appreciate the determination and fortitude that helped these athletes realize their vision.

We can draw a parallel between the preparation for such an athletic event and preparing for the sale of your business. Maximizing the saleability of your business takes years of focus and consistent effort. Just as these athletes require focus and consistency to get the result they desire, you too need to have a plan of action and be disciplined in the implementation of that plan.

This issue of Changing Lanes looks at how focus and consistent effort can enhance the saleable value of your business.

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Beat the Clock

This edition of Changing Lanes is the fourth in a series outlining the steps to ensuring you are able to sell your business under your terms.

Our objective is to prepare you and your business for both an internal sale to your family or management team, and an external sale to a strategic or financial buyer. As you go through the process, it will eventually become clearer which is the right option for you.

If you want maximum choice around how and when you will sell, don't wait until the eleventh hour to plan. Start by tackling the steps that require the most time to complete. Begin with the tactics outlined for **Hour One** and then work your way around the clock.

Hour Four

Purpose

To maximize the saleable value of your business.

Process

Identify the key drivers for creating sustainable value well before it is time to sell your business so you have enough time to implement the changes that will provide the greatest impact on its future value.

Payoff

You will have a more profitable business that can support its asking price and attract more of the right type of buyer.

Laying the Groundwork

You know you will sell your business one day.

Just like an Olympic hopeful, you need to begin preparations years ahead of the big event. The more time and focus you put into "training" the more likely you will "win the race". Don't make the same mistake as the business owners who, when they decide it's time to sell, have to scramble for the next year or two to prove their business has sustainable value. Potential buyers are often suspicious when they see significantly higher results in just the year leading up to the decision to sell.

Instead, be proactive and adopt the entrepreneurial mind-set that believes: "I should always run my business as if I want to sell it tomorrow." With such a clear focus and consistent effort, you can not only enhance the value of your business but easily demonstrate that value to prospective buyers. And it's the buyer's perception of value that is the driving force behind the sale.

The price prospective buyers are willing to pay is generally based on their perception of risk in relation to their return on the investment. This relationship is assessed by examining the key **value drivers** — those elements of your business that can reduce risk for the buyer and/or enhance the likelihood that the business will grow in the future. Note that these are the same drivers that can give you a competitive advantage over other companies in your marketplace!

So if your goal is to increase the value before you announce your business is for sale, you should begin with identification of these **value drivers** and then develop an action plan to enhance their significance.

This is when your Olympic training really begins. From a couple of dozen potential **value drivers**, you will likely identify around 6 or 7 that are capable of creating more value in your company. You will need discipline and resilience to consistently boost performance in these areas and prove to prospects that the current value of your company is sustainable. But the payoff is well worth it!

Key Value Drivers

Examining value drivers is not so much about understanding what your company is worth today as it is about enhancing the transferable value. So identifying your key value drivers is the first step in determining what needs to be done to ensure the business has the ability to attract the right buyer.

Value drivers are essentially business variables that drive your results. While many such variables can impact the bottom line, we recommend you focus on those that can add most to the overall company value. Below is an overview of those most likely to enhance the saleable value of your business.

1. A steady or increasing **Cash Flow** is fundamental to the perception of value. Outside of a growth period, a buyer will want to see that your business has a positive and predictable cash flow - the result of your ability to increase revenues while at the same time controlling costs. Many factors that drive profitability result in a steady cash flow, so this is a good indicator of the sustainability of the business. A steady cash flow over the previous three to five years is not only proof of your ability to generate a significant revenue and profit, but also an indicator that those revenues and profits will continue. So during the years prior to your sale, you should look for ways to increase your cash flow through greater productivity, more systemization, reduction of costs, better management of discretionary spending, etc.

2. **Financial Integrity** is extremely important to reducing the buyer's perception of risk. While financial controls are in place primarily to safeguard a company's assets, they also provide evidence of good business management and historical proof of the company's consistent growth and profitability. Independently verified information in the form of audited financial statements provides the highest level of protection and, when conducted before the business is formally offered for sale, affords the opportunity to address any deficiencies or irregularities that might deter a buyer.

3. **Human Capital** is a key value driver on many fronts. First, many buyers want to see you have a leadership team that will remain in place beyond the sale and can sustain the business without you. They will be looking for people with complimentary skills and a proven ability to make sound business decisions. Secondly, potential buyers look for a base of highly-skilled or experienced employees that have longevity with the firm. A high level of employee turnover

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Identifying Your Value Drivers

Next to a healthy balance sheet, value drivers are critical factors in preparing your business for sale. When managed well, they result in growth for the company. If ignored or poorly managed, they can lead to stagnation or decline. So it follows that they can greatly impact the price someone will ultimately pay for your business.

If you want the choice to sell internally or externally, it is important to understand how others would value your business and then use this knowledge to grow your business thoughtfully.

We recommend you engage an accredited business valuator to provide a valuation report that identifies not only those practices that positively impact the firm's value, but also the ones that can elevate the risk to the buyer.

To arrive at a synopsis of what's driving your current performance and what's holding it back, a business valuator will consider many items such as the historical and forecasted financial results, industry benchmarks and both the economic and industry outlook. The process is not only very specific to your industry, but also to your geographic marketplace.

Depending on the depth of the analysis you require, the valuator may need to examine the presenting problems further to determine the underlying causes or suggest specific improvements in areas where there is capacity to increase value. This may necessitate additional activities such as one-on-one discussions with key members of your team or physical examination of current systems and processes.

This report will also include an estimate of the FMV (fair market value) of your company. Comparing this estimate to a new calculation (after improvements have been made to operations) will give you an idea of how much the FMV has increased.

As there are many variations to the process it is very important that you engage a qualified professional who will invest the time to clarify your objectives prior to determining the scope of the project.

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Key Value Drivers continued

and/or the loss of a key manager could negatively impact the selling price so be proactive in finding ways to increase morale and sustain the culture of the firm. Employment contracts, enhanced recognition or rewards, flex time opportunities, company-sponsored education, promotions, more challenging work, and soliciting staff input are just some ways to increase employee engagement and loyalty.

4. Ensuring **Diversification of Customers** is another area that can positively impact the saleable value of your business. If your revenues are hugely dependent upon just a few key customers, a specific industry sector, or even a particular geographic region, the potential loss of one or more of these client groups is a huge risk for a buyer and can drive down the price. Buyers also prefer to see a majority of A-level customers who pay their bills and are advocates for your firm. By assessing this area early in the countdown, you have more time to establish a broader customer base.

5. Like many of the aforementioned value drivers, **Growth Opportunities** also predict a continued cash flow and raise the confidence of the prospective buyer. Whether it's your niche market, a positive outlook in your industry, new products or services, new technology, a possible acquisition, or a planned expansion, you need to project reasonable growth and have a written strategic plan that also explains how that growth will be achieved.

6. To support the claim that the business can thrive beyond your reign, evidence of current **Systems and Processes** is key to raising the buyer's confidence and ultimately the value of your business. In addition to the previously mentioned financial controls, be sure to improve and then document all other standard business procedures that contribute to greater efficiencies in areas such as HR, quality control, inventory control, manufacturing processes, sales and marketing procedures, customer relationship management, or vendor selection.

7. And finally, securing and enhancing the **Goodwill and Intangible Assets** that comprise your unique point of difference or competitive advantage can also help you maximize the saleable value of your business. Consider how you might secure, extend, perpetuate or capitalize on the value you currently garner from:

- Your brand or name recognition
- Your history or longevity
- Your reputation for reliability, service or customer satisfaction
- Intellectual property such as patents, trademarks, copyrights, technologies, or designs
- Proprietary systems or trade secrets like family recipes or closely-guarded formulae
- Current permits, licences, grants or regulatory approvals
- Your industry niche and related expertise
- Contracts with suppliers, customers or other partners

Remember, maximizing the value of your business takes focus and consistent effort. But you can't do it alone. Just like the Olympic athletes, you will need assistance. We strongly recommend you put together an advisory team of people who understand this area and can not only offer good advice, but also help keep you focused and on track. Structuring this team is the topic for Hour 5 of the countdown.

In the meantime, give us a call if you need help to identify your value drivers or develop your plan of action.

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