



Climbing the Business Value Mountain

If you want to create transferable value in your company, focus on moving your business up the mountain of value creation. As a business moves from one level to the next, risk is reduced and value increases significantly to a prospective buyer which can include any of the following: existing partners, management, family, strategic buyer or financial buyer.

Moving from the base of the mountain to the mountain top of value creation can be viewed as follows:

Level One: An Owner Driven Business

Because this level of business is highly reliant upon its owner, the risk of the business losing its profitability following a change in ownership is at its highest. This is why small businesses like this typically sell for only 2-3x earnings.

Level Two: A People Driven Business

Key people other than the owner make the business happen. At this level, succession related failure is reduced, but it still plays a role due to the fact that key people may leave and take valuable information or customers with them.

Level Three: A Process Driven Business

The business is run by systems, which greatly reduce the risk of failure after a change in ownership. At this level, systems are in place to ensure that operations continue according to the plan, with or without the owner or key employees. The business is set up to run itself.

Level Four: A Culture Driven Business

In this environment, the culture (driven both by systems and key people) makes the business happen. The culture indoctrinates new hires into an environment of continuous improvement based upon management and information systems already in place. These are the type of businesses that sell for a premium earnings multiple since company specific risk is lower.

Working with an advisor to independently and objectively assess your business and provide recommendations to move your business up the mountain will help create the value you need from your business for long-term financial security.

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