

The 8 Drivers of Company Value

At Benchmark Business Group, we believe that the reason you own a business is very personal. It's a bit different for each business owner but it can be summarized in two impactful words:



The sole purpose of owning a business is to realize value. What value means to you could be different, but for the most part, business owners consistently want three things:

- More Time
- More Profit
- More Freedom

And of course, when the time comes to transition out of your business it's:

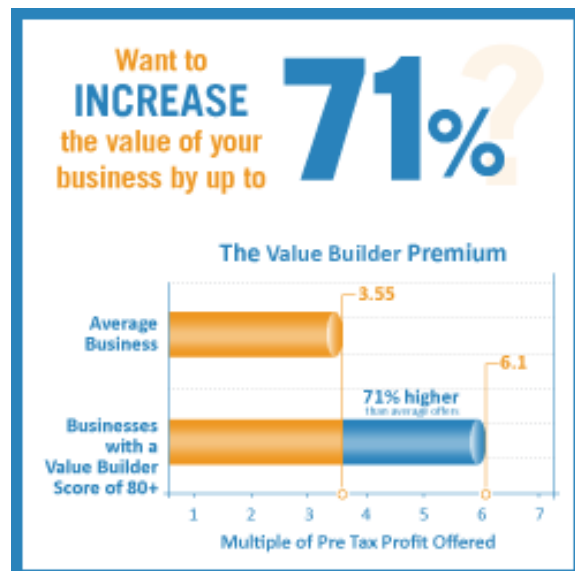
- More Options
- More Offers
- More Profit

So how do you get there?

To design a business of value, you first need to baseline where your business scores in each of the **8 Drivers of Business Value**.

Created by John Wrrilow author of the best-selling book, "Built to Sell", the Value Builder Score focuses on 8 Key Drivers, which studies have shown to influence the value of a business when it goes to sell.

In a study of 30,000+ businesses, those that score, or improve their score, to 80 or higher go on to sell their business at a 71% premium compared to average-scoring businesses.



Knowing your score is essential - it only takes 15 minutes and you can do it for no financial cost.



Get Your Score

The good news is that the action steps needed to build a business that attracts more offers and eventually sells for a higher price are the same ones that you'll want to implement to build a business that is easier to manage and provides you **with more money, more time, and more freedom**.

8 Drivers of Company Value



Financial Performance

Your history of producing revenue and profit combined with the professionalism of your record keeping.



Growth Potential

Your likelihood to grow your business in the future and at what rate.



Switzerland Structure

How dependent your business is on any one employee, customer or supplier.



Valuation Teeter Totter

Whether your business is a cash suck or a cash spigot.



Recurring Revenue

The proportion and quality of automatic, annuity-based revenue you collect each month.



Monopoly Control

How well differentiated your business is from competitors in your industry.



Customer Satisfaction

The likelihood that your customers will re-purchase and also refer you.



Hub & Spoke

How your business would perform if you were unexpectedly unable to work for a period of three months.

The ValueBuilder System™

Financial Performance



Your history of producing revenue and profit combined with the professionalism of your record keeping.

Many business owners have trouble accepting this, but the hard truth is when someone buys your business they do not consider the hours, the sweat equity, or hard times that you've navigated to get to where you are today. Instead, their focus is all on the future profit that your business is expected to create. Those future profit streams are exactly what they are expecting to buy, not your history.

Whether you want to sell soon or if you're looking to capitalize on managing the business for a while, the business's streams of profits are important.

One thing to remember is that when you go to sell your business there will be "add-backs" or items you are expensing today that are added back to the profit as they may not be expenses that the new owner would choose to have such as: charity donations, cars, cell phones, etc.

To increase your Financial Performance Score:

- Understand your books/financial statements
- Consider outside help in auditing your books
- Focus on increasing revenues - the time to sell is when your business is planning to grow, not when you're in a rut, or worse, decreasing

Growth Potential



Your likelihood to grow your business in the future and at what rate.

As a business owner, having the majority of the market share is a great achievement. After all, it means more revenue, more profit, and typically shows you are on top of the game. But buyers have a different outlook. They are not going to pay top dollar for a business that has little room to grow.

Buyers look for businesses that will give them a good return on their initial investment and will pay top-dollar to buy a company that has a solid growth plan.

To increase your growth potential, consider:

- Cutting down on customization of your products/services to make your business scalable
- Train your team on cross-selling opportunities
- Ensure that your "delivery" systems for your product or services is easy to scale and could keep up with growth
- Always have a 12-month growth strategy in place which can be shared with potential buyers

Switzerland Structure



How dependent your business is on any one employee, customer or supplier.

Being too dependent on another person or entity is a big risk for anyone who is looking to buy your business. A buyer must consider if they will be able to keep key employees, establish the same relationships with your customers, and get the same deals with your vendors. If a buyer feels that any of these three sectors are at risk, then they will be less willing to invest in your business.

If you're not looking to sell your business soon, working on improving your Switzerland Structure is key to protecting yourself against unpleasant surprises.

Many times, a business owner can feel as if they are being held hostage by a key employee, a big client, or even a vendor. It can lead to making decisions that are not in line with your vision as you try to meet demands and it adds to the overwhelm a small business owner can experience.

To minimize your dependency, consider these tips:

- Systemizing your business and documenting key functions of employees
- Ensure that your recruiting, training and on-boarding system is efficient
- Avoid any one customer being more than 15% of your overall revenue
- Ensure that your lead generation strategy will balance your revenue streams
- Continually research vendors and suppliers to reduce dependency on any one

Valuation Teeter Totter



How well cash flows through your business.

When someone purchases your business they have to write not one, but two checks. The first check is the check you take home. You obviously want this check to be as big as possible.

The second check the buyer writes will be for the working capital or the cash flow needed to keep the business operational. The amount of the second check will have a definite impact on the amount of the first check.

If your business has a good, even flow of cash, with solid deals established for how your customers pay and how you pay vendors, the second check the buyer writes can be much smaller. If the new owner won't need a lot of cash to keep the business going on a day-to-day operating basis they can afford to pay you more for the business.

Obviously, having sufficient cash flow will make running the business easier for you while you own the business and make your business more desirable for a buyer.

To improve your valuation teeter-totter, consider:

- Restructuring your payment plans with your clients to generate cash flow up front
- Reducing the gap between providing a product/service and receiving full payment
- Working with your vendors to pay bills in a manner that is more friendly to your cash flow

Recurring Revenue



The proportion and quality of automatic, annuity-based revenue you collect each month.

A business that has more locked-in, guaranteed income, on a month-to-month basis is more valuable than a business that starts their sales at \$0 each month.

From the buyer's perspective, if sales start from \$0 each month, the risk they are taking is higher than if there is a steady stream of income they can count on receiving. Naturally, those businesses with recurring revenue are more valuable to buyers.

It can take some creative thinking, but developing a recurring revenue business model can drastically help the number and quality of offers you receive for your business. Not to mention, running a business with consistent automatic revenue takes away stress on the sales department and allows for easier operations and cash flow management.

Identify how much of your current revenue is automatic or annuity based:

- Get curious about your customers and explore their purchase habits and frequency of purchases.
- Discover what else your customers are buying that they could be buying from you.
- Find out what related products your customers are buying directly before, or directly after they purchase from you.
- Brainstorm and look for ways to create recurring revenue

Monopoly Control



How well differentiated your business is from competitors in your industry.

If your business is easy to replicate then a buyer will either create it on their own, or acquire a business like yours to gain their customer list or reputation. They will not pay premium prices if the business is easy to copy. The more that you can create a business that has a clear and distinct difference that is preferable to your customers, the more someone will be willing to pay for the business. On a day-to-day basis, running a business that has a monopoly control is preferable. You're able to compete using a brand strategy which allows you to avoid competing on price alone. This increases your financial performance, cash flow, and, of course, your growth potential.

To increase your Monopoly Control consider these strategies:

- Clearly define your niche in the marketplace
- Understand why customers come to you instead of your competition
- Identify the attributes and qualities of your business that give you a defensible market position
- Create marketing messages that differentiate your business from the competition

TIP

Recurring Revenue can cause some frustration. It's important to remember that it's not the ONLY driver. You can build a business of value that doesn't have recurring revenue, but it's just as important to remember that just because the answer isn't obvious right now doesn't mean it doesn't exist.

Customer Satisfaction



The likelihood that your customers will re-purchase and also refer you.

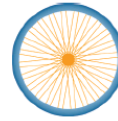
If you can show a strong indicator that your customers will not only repeat business with your company, but will also bring in new customers, the value of your business rises. Think about it from the buyer's perspective. It reassures them that the future predictions you've made about growth are more likely to be accurate, but it also means that the lead generation is cheaper as your customers bring in leads.

The Net Promoter Score is a well-known indicator that measures your clients likeliness to be repeat purchasers and if they're likely to recommend your business to others. If you're going to sell your business, having the Net Promoter Score survey allows you to put a tangible indicator in front of a buyer. If you're not looking to sell your business now, having clients take the Net Promoter Score survey is a great way to get feedback.

To grow your Customer Satisfaction Score, consider:

- Establishing a schedule for sending out Net Promoter surveys. This can be done at certain times of the year or even with certain milestones in the life-cycle of the customer.
- Schedule time to sort through the feedback by focusing on the lowest scores to figure out what changes need to be made in your business to increase these scores and increase repeat business and referrals.

Hub & Spoke



How your business would perform if you were unexpectedly unable to work for a period of three months.

If your business cannot thrive without you for at least three months, the buyer is going to have to step in and fill your shoes, or hire someone else to do it. In some ways, the buyer will be purchasing a job on top of the business, or using profits to hire your replacement. If the business can thrive without you, the buyer will see the purchase as a better investment. On a day-to-day basis, the ability of your business to thrive without you is key to you, or a new owner, having more time and more flexibility.

To improve your Hub & Spoke score consider:

- Increasing your days out of the office to test how the business does without you
- Create a list of items that relies on you to be completed. This is now your Stop Doing list.
- Begin to train employees and document systems for each item on your Stop Doing list.
- Look for ways to introduce your clients to your team to ensure that they are ready to work with them.

Start Increasing the Value of Your Business TODAY.



We've found that by focusing on these **8 key drivers** an owner can create a business that not only has more value when they go to sell it, but also gives them more value while they own it.

Value Realized isn't just a saying at **Benchmark Business Group**. It's a reality that we help small business owners achieve every day, both in our business coaching and our business brokerage services. Every business owner should understand these **8 key drivers** and know how they can leverage them to design a business that gives them more value.

Get Your Value Builder Score



Get Your Score

Contact us to discuss how you can Realize Value from your business.

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Benchmark Business Group is a company founded with the passionate belief that owning a business shouldn't be a day-to-day struggle filled with frustrations, but rather an opportunity to better yourself, your employees, and your community.

From the beginning, BBG has recognized that your business is a machine, that should provide you with more money, more time, more freedom, and more satisfaction. We call this "Value Realized."

BBG's services for the owner-operated business spans the entire business life cycle. We can help the business owner design it, build it, grow it, re-design or re-invent it, systemize it, plan for its succession, exit from it, find a buyer for it, or transition it to the kids or treasured employees.

Providing a diverse set of business services and solutions takes a diverse set of talents, skills, and experience. Providing those services and solutions on a consistent basis in changing times requires a culture that is designed for continuous innovation and improvement.

BBG is blessed with a team that has deep experience, talent, and skills in all of the essential business disciplines, from leadership to marketing, finance to management, organizational design to systems structure, personnel management to client care, business valuation, and business acquisition and sales. That experience and those talents and skills are cradled in a culture of fun, passion and learning, the three standards against which all BBG activity is measured.