Is Your Business Designed for Value?

What is the sole purpose of owning a business?

We've often quoted Michael Gerber's famous words that the only reason to own a business is to sell it! Of course it isn't as simple as opening a business one day and selling it for huge profits the next day. Owning a small business is a journey towards that destination, a journey of being the problem solver day in and day out, of being the worrier, and being the one ultimately responsible for all outcomes.

At **BBG**, 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:

Value Realized

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

Your first step will be blocking one to two hours to simply think about ***why you own your business***. The second step is to find somewhere you can think, without interruptions, and focus on the following questions.

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Print this out and write down your notes during this reflection time:

- What value do you want your business to provide for you:
  - Daily:
  - Weekly:
  - Monthly:
  - Yearly:

- If you were to sell your business, what number would you want written on the check?

- What value do you want your business to provide others (employees and community)
  - Daily:
  - Weekly:
  - Monthly:
  - Yearly:

- Look back at your previous answers and ensure that you've covered the following elements in how value will be realized through your business:
  - Financial Goals - Personal Growth
  - Time - including work/life balance
  - Ability to take on hobbies/interests/etc.
  - Impacting others/community

Once you've spent time defining what value means to you, continue on to discuss building a business of value and **Value Realized**.

Value Realized: How Do You Get There?

If you've followed along, you should have a clear idea of what **Value Realized** means to you. While making a list may not seem like you've achieved much, having a clear

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understanding of what you want your business to do for you is the first step in designing a business of value.

So how do you get there?

The simple answer is you design it. Alright, we all know it's simple to write that out, but every business owner fundamentally understands that designing a business of value is work. It takes time, effort, and a lot of determination to end up with a business that provides you with maximum value.

Here is the hard truth...business owners (maybe even you) are already taking the time and expending the effort to design a business that does not give them what they want. The key is to be determined about the right work - the work of designing a business that gives you more than it takes out of you!

The secret sauce is how you THINK about designing your business. If your business isn't currently giving you what you want, you need to design it differently - **the way you think today is what is giving you the business you have today**. First, THINK DIFFERENTLY. This allows you to design a business that gives you, your employees, your customers and ultimately the next owner the best possible results.

The good news is, you don't have to do it alone. You don't have to reinvent the wheel. You don't have to redesign your business from scratch. There are well-designed and proven tools and best practices that will help you design a business of value. Yes, you will have to spend time adjusting them to fit your idea of Value Realized, but getting started isn't as difficult as you would think. Your next step is to benchmark where you are today and truly understand what needs to be different. You need to know:

- What would a buyer pay for your business today?
- How close are you to having a business that gives you what you want?

So where do you start? If you're at the point where you're ready to sell your business within the next year, you're going to want to get an Opinion of Value.

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An Opinion of Value provides a detailed analysis of the market value for your business as it is today.

Remember, what you think your business is worth is often not the market value-or what a buyer would realistically pay. If you plan to stay in your business another year, or two or 25, and want to realize value day to day AND grow the value of your business, we recommend starting with a Value Builder Score.

The Value Builder Score is a tool that was made famous by John Warrillow in the best-seller, "Built to Sell". It is an assessment that is built on a set of 8 Key Drivers that studies have shown can influence the sellability of a business.

In addition, we've found that by focusing on these eight 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.

Improving these drivers will help business owners create more time, more growth, and overall more value on a day to day basis while they own their business and increase its value when they are ready to sell. 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.

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

Full disclosure: Yes, this is a service that we offer as part of our business coaching and business brokerage services, but this is not a sales pitch. This is a call to action; every business owner should understand how sellable their business is! You may not want to sell it today, but you may not have any choice but to sell it tomorrow - Life

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Happens. So prepare your business to sell today, then own a great business as long as you are willing and able!

Our passion has always been about helping business owners create a business of value and we believe whether you are our client or not, you can and should benefit from this assessment. Stay tuned, as we'll be diving into how you can begin to design a business of value once you have a baseline understanding of where you are today.

To get started:

Learn more about the Value Builder System here

or

We invite you to "Know Your Score Today"

and take the Value Builder Assessment now

The 8 Drivers that Influence Value Realized

We've discussed the importance of defining the value you want to realize from your business and how to generate a baseline of your business today. In the next section we're going to continue to look at building a business of value from two perspectives: if you're looking to sell your business soon (within two years) and if you're looking to build a business of value to sell or transition later in your life.

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. The lesson to take away is that how you design your business today will determine your experience in managing the business and your experience in selling/transitioning the business in the future.

If you haven't already, we recommend that you find out your Value Builder Score today. It's a complimentary assessment that will provide you with a baseline as we discuss the eight key drivers in building a business of value.

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Financial Performance: Estimates the future streams of profit that your business will have if your business continues at its current rate of growth.

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 managed 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 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

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Growth Potential: The likelihood that your business will continue to grow in the future.

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 buyer's may 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

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- 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

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Recurring Revenue: The amount of automatic annuity based revenue that 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 is high. It can impact when they buy a business as well as how much they will pay for that business. It can take some creative thinking, but creating 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 cash flow management.

- Identify how much of your current revenue is automatic or annuity based
- Brainstorm and look for ways to create recurring revenue

Tip: This driver 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. We challenge you to take time and really discover what could be.

Switzerland Structure: The dependency your business has on three sectors: Customer, Employees, and Vendors.

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

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employees, establish the same relationships that you have with your customers, and get the same deals that you have worked out 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 almost 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 sometimes experience. To minimize your dependency, consider:

- Systemizing your business and documenting key functions of employees
- Ensuring that your recruiting, training and on-boarding system is efficient
- Identify your revenue streams and top clients
- Ensure that your lead generation strategy will balance your revenue streams
- Continually research vendors and opportunities

Monopoly Control: There is a clear and distinct difference between your products/services and your competition.

If your business is easy to replicate then a buyer will either create it on their own, or acquire a business to gain your 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.

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To increase your Monopoly Control consider:

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

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Customer Satisfaction: How likely it is that your customers repeat business with you and refer you to others.

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 yes, your clients will repeat purchasing and that 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.

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Valuation Teeter Totter: How well cash flows through your business.

When someone purchases your business they have to write not one, but two checks. One check is the check you take home. You obviously want this check to be as big as possible. The second check the buyer writes is for working capital or the cash flow needed to keep the business operational. The second check will have a definite impact on the amount of your check. If your business has a good cash flow with solid deals established for how your customers pay and how you pay vendors, the second check can be much smaller. The new owner won't need a lot of cash to keep the business going on a day-to-day operating basis. The business will naturally generate the cash based on its structure, which means they can afford to pay you more for the business.

Obviously, having sufficient cash flow will make running the business, even if you're not ready to sell, much easier. Often in a small business, there is too much leeway on accounts receivable and not enough consideration to establishing desirable deals with vendors.

To increase your valuation teeter-totter, consider:

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

Hub & Spoke: The ability of your business to thrive without you for at least 3 months.

If your business cannot thrive without you for at least 3 months, the buyer is going to have to step in and fill your shoes, or hire someone else to do it. In some ways,

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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 grow 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.

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. 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**

This can be achieved by:

- Defining what value realized means to you
- Having a clear baseline of where your business is today
- Improving the 8 drivers that influence the value of your business

Start today.

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