Establishing Realistic Growth Strategies

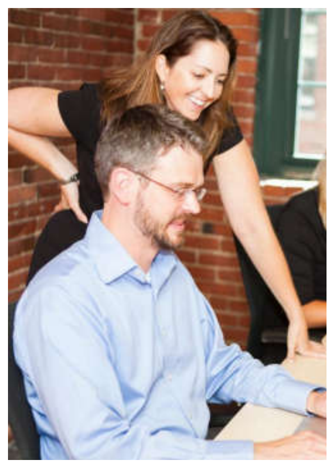
Buyers tend to pay premium prices for companies that have developed realistic strategies for growth. This growth strategy must be communicated to a potential buyer so that the buyer can see specific reasons why cash flow (and the business itself) should grow after it is acquired. The growth strategy is illustrated in pro forma statements that are used by buyers (and their investment bankers) to create a discounted future cash flow valuation of your company. Since future cash flow is based on estimates of future growth, having a realistic growth strategy can be vital to reaping top dollar for your business. This strategy can be based upon:

- Industry dynamics;
- Historical growth;
- Increased demand for the company's products (due to population growth or other factors);
- New products and new product lines; and
- Expansion through augmenting territory, product lines, manufacturing capacity, etc.

Don't expect buyers to appreciate the growth opportunities your company offers unless you can speak convincingly about it. First, a buyer will not understand your business as well as you do, and will not likely see its hidden opportunities. Also, if a buyer does discover an opportunity that it believes you have ignored, the buyer will likely attempt to take advantage of that knowledge during purchase price negotiations. It is a good idea to demonstrate that you are aware of the opportunity.

Even if you plan to sell tomorrow, you should have a written plan describing future growth potential and how that growth can be achieved based on the areas listed above, as well as any other catalysts for future growth unique to your business. It is that growth plan, properly communicated, that will help attract buyers. If you're not a short-timer; meaning that you and your business have a few years or more before an expected sale, it is worthwhile to create more than a growth plan: consider creating a strategic business plan. For an example, let's look at this hypothetical case study.

Case Study



When business owner Mary Ford first met with her advisor to discuss increasing value drivers to prepare for the sale of her business in three to five years, she was unsure how to develop a business growth plan that was comprehensive, actionable and supported her overall exit goals. Mary's advisor started the process by first discussing how growth plans come from strategic plans, which form the foundation of a solid business. Mary's advisor suggested that she create a strategic plan that was based on data gleaned from Mary's customers, vendors, trade journals, and other miscellaneous data the company had collected.

With the direction of her experienced advisor, Mary was able to create a strategic business plan that not only aligned with her company's vision (her future direction), mission (the reason her business exists), values (her guiding principles), and goals (wishes and deadlines), but the plan also presented strategies and action steps that her company needed to take to achieve the stated goals. These strategies and action steps were tied to the company's budget. They also supported Mary's (and the company's) overall direction for building value and setting the foundation for Mary's eventual successful exit.

Key Action Items of a Strategic Plan

Similar to Mary Ford's story, most business owners have difficulty developing comprehensive strategic plans by themselves that really drive business and align the essential elements. If you are like many owners, you may confuse strategic plans with marketing plans. Or, if you take the time to write a great plan, you struggle getting it off the paper and into action. That is why it is important to elicit the help of an experienced advisor to guide you through key actions to develop a strategic plan. These key action items include:

1. Collecting data: including industry projections, financial performance, customer data, employee satisfaction, sociological, technological, and economic development data.
2. Developing a vision.
3. Affirming the mission.
4. Articulating corporate values.
5. Developing goals and objectives.
6. Drafting an inventory of strategies.
7. Prioritizing the strategies.
8. Developing action plans for each strategy naming an "task owner" for each action and tying each plan to resource allocations and budgets.
9. Developing a set of measures to monitor progress.

Any opportunity you have to include your management team and employees in developing any part of this written plan helps to keep them involved as stakeholders. After you have worked with your management team and an experienced advisor to help you create and document your growth strategy, the next step to creating a company with strong value drivers is to establish reliable financial controls to manage your business.

For more information or to learn how L. Harris Partners can help you create a growth plan:

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