Building Business Value: Where to Start

The meetings, the decisions, the sleepless nights, and the hectic days. They all stem from the passion for your business; for its mission or its value or both. When it comes to value, some owners build value to make their companies more profitable. Others build value with an eye toward growth while still others want to use systems (that build value) to get more organized.

Any way you look at it, value is a key factor in the long term view of a business. Some think that building value is the same as exit planning. It's not, but building value is a necessary and critical component of every exit plan.

Exit planning provides the context for building value. In other words, building value serves many masters. One (and we'd argue the primary one) is to enable owners to reach their ultimate goal of converting their life's work into the post-business lives they desire.

The value-related questions that will help build the foundation of the exit plan are:

- What is the company's current value?
- What value must the company achieve to enable its owner to reach his or her lifetime income and other exit objectives?
- What tactics will you employ to close any gap between today's business value and the value you need upon exit?
- How can you transfer business value most efficiently (tax and otherwise)?

Exit planning involves closing the gap between what an owner needs and what his or her business is currently worth.

Exit planning's value-building tools can close the often significant gap between a company's current and desired values. We can help you figure out if you are facing such a gap, and if so, to quantify it, and help you close it.

Let's take a closer look at the questions that lay the foundation for creating an plan to identify and close the value gap.

1. What is the company's current value?
Guesses and assumptions about the company's current value don't work because in exit planning, the company's current value is a fundamental cornerstone of the work to follow. Owners must engage valuation experts to establish (at least) a thumbnail valuation and consider factors both inside and outside the business. Do you know what your company is really worth?

2. What value must the company achieve to enable its owner(s) to reach his or her lifetime income and other exit objectives?
In creating an exit plan, owners quantify the amount they will need to support the post-exit lifestyle they want. Usually, they work with a financial planning professional to establish "working assumptions" (life expectancy, the future value of non-business assets, and rates of return on investments). Owners must also ask and answer hard questions about how lavishly or simply their post-exit lifestyles will be. Without an accurate and realistic assessment of where you are and where you want to be, it is difficult to develop and implement any plan.

3. What tactics will can be employed to close the gap between today's business value and the value you need upon exit?
Using the gap analysis as its foundation, owners can then identify and implement specific actions that will increase the value of their companies. While there are a myriad of value-building actions from which owners can choose, the most critical are those that enable a business to operate successfully without its owner's involvement. These include the creation of a stable and highly-skilled management team, understanding and using current financial information to track and alter company performance, and the installation of sustainable, organization-wide systems. (Click here to read our Understanding Value Drivers White Paper.)

An exit plan should also include collecting, interpreting, and using the data necessary to track progress toward your goal. Tracking may include monthly, quarterly, and annual cash flow projections, as well as the creation of an annual business plan.

Creating a timeframe in which to close the gap is critical to success.

4. How can business value be transfer most efficiently (tax and otherwise)?

Good exit plans view value-building and all other activities through an income tax lens. Owners use every legal strategy and tactic to minimize taxes while they earn money, grow value, and transfer that value. Because taxes simply skim off the value it takes decades to create, it is far more effective to act with a grasp of current and future tax consequences. Use knowledgeable advisors years in advance of the eventual transfer of your company in a way that limits (as far as legally possible) the tax burden on both the owner/seller and the buyer.

Conclusion

Exit planning's value-building tools can close the often significant gap between a company's current and desired values.

If you'd like more information about how to increase the value of your business in the context of planning your business exit, we can help. Call or email us or visit our web site.

For more information or to learn how L. Harris Partners can help you grow your business:

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