

Value Drivers in Action: Ike's Story, Part One

Ike was the owner of a small, Midwest company; a Tier I supplier of proprietary parts to several U.S. heavy truck manufacturers. Ike decided he wanted to significantly ramp up the value of his business before his eventual exit. Ike wanted us to help him devise and execute a plan to grow the value of his company and then help find a buyer. This multi-part article is his actual story.

The Starting Point: Evaluating the Management Team

We started with a review of the management team; an often overlooked component of the value of a business. The review didn't take long. Why? Ike was the management team. All significant management functions relied on his involvement. His background was in business-to-business sales, and so he was also the primary growth engine of the company.

One of the first questions a buyer will ask is, "Who runs the business, and are they willing to stay on?" If the answer is, "the owner runs the business, and he intends to leave soon after the sale," the purchase price plummets or the buyer disappears. Since Ike planned to exit the business in a few years, he had to eventually remove himself as the essential driver of the business and its performance.

So, we worked with Ike to create a "future state" organization chart. It was based on what the management structure might look like if the business was three times its current size. The chart was obviously created without names, but it included clearly defined management roles. Most importantly, Ike wasn't allowed to place his own name in any of the "future state" boxes.

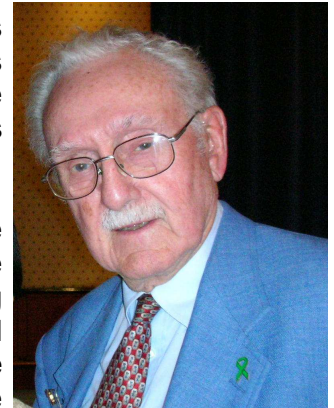
Since Ike was the company's primary sales engine, his untimely death or disability would likely cause the death or disability of the entire company. So, the first addition to the management team was an accomplished salesperson with sales management

experience. Adding this person created more sales resources and allowed the company to accelerate its growth rate.

We asked Ike to list the management functions he enjoyed the most along with the ones he enjoyed the least and then estimate the amount of time he spent on each. Not surprisingly, the functions he enjoyed the least were somewhat neglected. Ike used this as a roadmap for additions to the management team over the next few years.

As the company grew, so, too, did revenue and profit. This allowed Ike to add management in areas he least enjoyed or was least qualified, including engineering, quality, human resources, and accounting. His final management hire was a chief operating officer who eventually transitioned into Ike's role as president and CEO.

Through his highly effective management team, Ike grew the value of business dramatically. Having management responsibilities off his shoulders also allowed Ike plenty of time to develop interests outside the business which, in the long run, made it easier for him to let go of the business.



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



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