

## Value Drivers in Action Part 3

### Meet Ike

*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 Importance of Having a Stable and Diverse Customer Base (Value Driver #3)

Future revenue should not be concentrated among just a few customers. As a general rule, no one customer should account for more than 10% of revenues. For potential buyers, having only a few customers raises the risk factor. What if those customers leave? The potential financial impact could be devastating.

If the bulk of future cash flow is dependent on one or two customers, a future potential buyer will either 1) make the purchase price contingent on retention of those key customers, or 2) pass on purchasing the business altogether.

When we met with him, Ike had a relatively small customer base. He realized that to broaden his customer base, he needed to branch out beyond the heavy truck market, which was dominated by a just a few manufacturers. Doing so would give him the potential to not only increase revenue but also reduce cyclical economic risk.

Ike tasked his sales force to open new markets in farm and construction equipment. He also tasked his engineering department to design the product

line, to extend into medium and light duty trucks as well as both diesel and gasoline engines. Engineering also designed, and the Company launched, new products for use in passenger vehicles.

In addition to expanding the customer base through new products and new industries, Ike also expanded outside of the U.S. He hired a sales resource in Europe and expanded into international markets.

Ike knew one of keys to obtaining a premium value for his business was broadening his product offering to expand his customer base. And his initiatives created the desired result of giving his company a broad, stable customer base.

In our next newsletter we will describe Ike's approach to value driver #4 - a realistic growth strategy.

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



Phone 952.944.3303

[tom.siders@lharrispartners.com](mailto:tom.siders@lharrispartners.com)

[www.lharrispartners.com](http://www.lharrispartners.com)