

Value Drivers in Action Part 5

Meet Ike

Ike was the owner of a small, Midwest company; a Tier 1 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.



Do Your Current Financial Controls Add or Subtract from the Value of Your Business? (Value Driver #5)

Financial controls are a critical element of business management. They safeguard assets while you own them and help support your claims regarding profitability. Businesses that start small and grow often develop controls that work for them in the short term, but they often fail to change those controls as the business grows. When it comes to demonstrating business value, having controls in place that are both effective and accurate is critical. If your financial records are incorrect, unsupportable, or incomplete, buyers will be skeptical or just move on. Wouldn't you?

When Ike started his business, he used an accounting firm for monthly bookkeeping and managed his inventory using spreadsheets and other informal methods that made sense to him at the time. However, as his business grew, time spent on inventory management and financials was eating up more and more of his time because no one else understood his methods. Accuracy also became an issue. The larger and more complex the business, the less the owner can be the "internal control system."

.Although Ike was "old school" and often quipped, "liars figure and figures lie," he recognized the need for clean, accurate data on business results. His CPA firm conducted an assessment of his company's financial processes and related controls and recommend changes to strengthen them. Ike wanted assurance that he could rely on the key performance metrics he and his team used to monitor and manage the business. One of the recommendations was to hire an accomplished CFO who could implement an Enterprise Resource Planning (ERP) system. An ERP system provides management with more accurate control of inventory, cash flow, and forecasting. Ike also engaged his CPA firm to conduct and report on the reviewed financial statements, which added credibility to outsiders who could use the statements for credit granting and help implementing changes and enhancements.

In Ike's situation, when the time arrived to market the company, the reliability of the company's financial statements and strength of internal controls not only made the business attractive to more prospects but also had a positive impact on the final price offered for the business.

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



Phone 952.944.3303
tom.siders@lharrispartners.com
www.lharrispartners.com