Creating Value. We Know How.

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

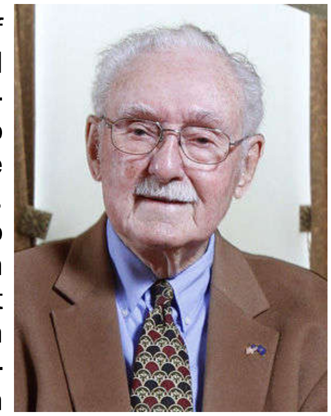
Ike was the owner of a small, Midwest company; a Tier I supplier of proprietary parts to several U.S. heavy truck manufacturers. Ike decided he wanted to significantly ramp up the value of his business before his eventual exit. Ike wanted us to help him devise and execute a plan to grow the value of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

The Significance of Scalability

When it comes to buying a business, a reasonable buyer will only pay a premium for a business that has exponential growth opportunities. Sometimes, those opportunities come from market conditions (demand, technology, etc.). But too often, growth opportunities can be stunted due, in large part, to internal constraints. Simply put, premium value cannot be captured if the business cannot absorb growth due to constrains from internal systems and process. Fortunately, in Ike's case, he had scalability "baked" into his business model.

Investopedia defines scalability as "a characteristic of a system, model or function that describes its capability to cope and perform under an increased or expanding workload. A system that scales well will be able to maintain or even increase its level of performance or efficiency when tested by larger operational demands. In the corporate environment, a scalable company is one that can maintain or improve profit margins while sales volume increases."

We often hear scalability applied to IT systems. But scalability involves more than just a company's IT infrastructure. While Ike's new ERP system and network had plenty of technology runway, the "constraint factor" to exponential growth was his production capacity and flexibility in meeting uneven demand. He couldn't meet the demand for products with just one production line and a single production shift. He was already exceeding capacity. But he was a step ahead of the curve.



Ike set up a second line of production and a second shift and made arrangements with an HR firm to supply a flexible work force of temporary employees. He negotiated access to rental space, allowing him to expand and contract production as needed at an alternative location. He acquired duplicate production and testing equipment to duplicate manufacturing in the flexible space. He also acquired duplicate tooling to provide his business with the ability to dual source parts produced for him within his supply chain.

With all of this, Ike's business could expand and contract and handle the seasonal demands. His use of outsourced production workers allowed him to cherry-pick the best production workers from shift 2 to be advanced to shift 1, and all systems met the quality standards required by customers under ISO standards.

We helped Ike get on the road to building in scalability by asking questions like:

- Are you able to recruit, train, and retain additional employees when necessary?
- Does your current management team have the talent and capacity to double or triple the business?
- Do you have the necessary production capacity and know how much advance notice you need to get the extended capacity operational?
- Do you know if your current business processes can withstand a doubling or tripling of volume without adverse quality or on time delivery standards required by customers?
- Are you confident your current suppliers can accommodate your intended growth?

- Do you have the necessary capital to finance the rapid growth and have modeled out the impact of accelerated growth on business cash flow?
- Can your current bank accommodate the growth and their lending limit is sufficient meet your needs?

These are just some of the questions that will help you be ready for rapid growth and infuse additional value into your business.

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

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