THE CHICAGO CORPORATION

135 South LaSalle Street
Suite 2130
Chicago, IL 60603
312.283.0825
312.283.0836 (fax)

Five Ways to Increase the Value of Your Business

Business owners frequently ask how they can increase the value of their business.

Clearly you have to be operating your business at or above industry comparables in order to expect to receive a valuation proposal, along with terms and conditions, that is above the benchmarks.

But you already know that. If the operations aren't above the benchmarks in growth and profitability, then your value will reflect that. Consider bringing in an industry consultant to give you a "read" on the operations.

However, operating at an attractive pace isn't enough to close the deal. It is certainly a starter, but the serious buyers will probe deeply into the business. This is where you can achieve your premium value.

Today's buyers are very sophisticated and they know the drill much better than the typical seller. You need to get on the same page as the buyers to have a fair chance of getting your price.

A couple of specific suggestions if the business is operating well and you are thinking about going to market at some point in the near or distant future:

1. Do an ongoing SWOT analysis:

    - What is your market share in your industry?
    - What are your competitive advantages? Disadvantages?
    - Do you have a successor management team?
    - Do you have customer concentration?
    - Do you have a critical vendor relationship?
    - Is your business pipeline visible? For how long?
    - Is your technology—both to operate the business and to report on its operations—state of the art?
    - What is your history of innovation? What are your prospects?
    - Be honest about the threats to the business—whatever they may be.
    - Consider bringing in an industry consultant to look at the operations and opine on their competitiveness.

2. Measure everything operationally:

    - Just in time, quality, productivity, etc.
    - How has it been improving?
    - What is left for the buyer to accomplish?
    - Do it in a quantitative way--not just anecdotally.
    - Buyers want to see real data.

3. Identify the profitability of every product, service, channel and customer.

    - Buyers want to know where you make your money and, more importantly, where you lose money.
    - What are your key performance indicators?
    - You may have a "feel" for it, but it needs to show up in the numbers.
    - What are the trends in growth and profitability?
    - Is there going to be a channel conflict with a certain category of potential buyers?

4. Bring in another accounting firm to go over the books and task your lawyer to do a legal review.

    - Do a quality of earnings report.
    - Get a handle on the "add-backs".
    - Audits are not enough. Buyers are concerned about cash flow.
    - Are the financial statements prepared according to GAAP and do they reflect industry standards?
    - Test the reporting system—How long does it take to close the month? The year?
    - What do your annual reviews disclose in terms of shortcomings?
    - Have your lawyers do a legal check-up.
    - Are your stock records up to date?
    - How about your intellectual property?
    - If you have trade secrets, have they been identified and how are they being protected?
    - Are you qualified to do business in those states where you do business?
    - How about state sales tax?

5. Have a plan for the future—where are you going, how are you going to get there?

    - Why have you identified that opportunity?
    - Will you have to change your business model to get there?
    - What are the alternative growth paths?
    - Have you analyzed the historical working capital needs of the business?
    - How do you plan to fund capital expansions?