Exit Roadmap: Your Guide to the Ultimate Exit

In its simplest definition, the value of a business is measured by that business's ability to generate future cash flows, adjusted for risks and opportunities that can impact those future cash flows. The more certain those future cash flows, or the greater the opportunities to increase those cash flows, the greater the value of that business. So, how do you measure the value of your business, and what are some ways to reevaluate business operations and remodel the fundamental framework of your business to achieve high levels of consistent cash flow?

The first step is to determine the internal and external value drivers of the business and assess how they influence the business's performance. Internal value drivers are the operational performance drivers of the business that enable a business owner to achieve continual business improvement by focusing on actionable steps, discipline, and long-term commitment. External value drivers are those outside, influencing factors that affect business activity that the business owner does not have direct control over. These internal and external drivers include but are not limited to client concentration, corporate culture, management teams, business scalability, business development strategy, competitor activities, market concentration, industry life cycle, etc.

While a business owner may not have direct control over their business's external value drivers, they can work to influence their internal business drivers favorably. A buyer will ultimately value your business by assessing these value drivers.

So, how can business owners mitigate the risks to the value of their business? The best way is to look at your own business from a buyer's perspective. Put your own business under a microscope and assess the top areas where buyers look for risk. Here are the top five internal value drivers that can have a substantial impact on business value.

1. Corporate Culture:

One of the most important aspects of any business is its culture, and it can be a massive indicator of acquisition risk. It is, therefore, important for business owners to be able to articulate their culture. Every business has a culture, but some cultures are intentional, while others are accidental. Cohesive teams and a collaborative environment can indicate strong synergies within the company and idea sharing across a broad spectrum, driving long-term success. Research illustrates that a strong corporate culture leads to a healthy brand identity and employee retention. A weak culture breeds negativity and pessimistic behavior amongst employees and can drive business value downwards. If employees, clients, and other stakeholders perceive a negative company culture, it will drive business value down. How do you work within your business to create a positive culture and avoid negativity?

2. Management Teams:

Management plays a vital role in the success of any business. Creating an inclusive and open platform allows business owners to enable their employees to feel comfortable and bring their authentic selves to work every day. The management team should support employees with operations, creativity, and innovation to highlight the uniqueness of the business and appear attractive to a buyer. Often, buyers seek to grow their companies, and a buyer cannot ensure growth without a seasoned and sharp management team. How can you create a strong management team that advocates for employee creativity and innovation in the workplace?

3. Scalability:

How fast can your business grow? What would it take to double the output of your business in a year? Businesses that are capable of handling significant growth without significant additional investment are more attractive to buyers than those that lack the systems, infrastructure and capacity to grow. Industries are constantly evolving, and market volatility may significantly influence a business's revenue streams. Therefore, it is important for businesses to plan for adaptability. Are you struggling with your business growth and more importantly, are you planning for it?

4. Customer Diversity:

Businesses where a significant portion of the revenue comes from a handful of clients can appear scary to a prospective buyer as they will be concerned with the loss of any single client once it is acquired. If only one client generates most of the revenue and leaves upon acquisition, the business may cease to exist. Additionally, dealing with too many clients within the same industry niche can leave a business vulnerable and bring unwanted market exposures when buyers are looking at it. Buyers assess these risks significantly and do not want to be able to incur them. How do you diversify customer risk and remain competitive?

5. Sales & Marketing

Having strong sales and marketing strategies and processes in place, that are not reliant on the owner, is key to exciting a buyer looking to acquire a business. Prospective buyers seek to grow their organizations and value acquisitions with well-developed sales and marketing machines. If a business has to rely on the owner and/or word of mouth to develop new business, it will make a business much less attractive and valuable to any prospective buyers.

Companies that get premium valuation are the ones that have addressed these top internal and external value driver issues. Assessing and quantifying your business value drivers and adapting to creative solutions to influence growth will enable you as a business owner to reap the benefits of reliable cash flow. Using our Exit Roadmap Process^{sm}, we work with business owners to assess and quantify how these qualitative factors are impacting their company's value and develop actionable value improvement plans so that our clients can obtain premiums for the sale of their businesses and achieve their Ultimate Exit.

Let's talk!

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