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Preparing Businesses for Tomorrow

# IS THAT *ALL* MY COMPANY IS WORTH?

## Eight Steps to Take Now for a Higher Valuation

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INTRODUCTION:

# THE FUTURE IS ALMOST HERE

Chances are good that you're reading this eBook because you're concerned.

Perhaps you're a business owner who wants to make the transition to retirement, or wants to sell your business—now or in a few years. You could be a member of that owner's family. Maybe you are a trusted advisor who has one or more clients in this situation. Or you could be involved in a business—as a family member or employee—that you want to own someday.

In all of these cases, if you are interested in what can be done to make the company more valuable and saleable, then you've come to the right place.

## A Big Problem for Small Businesses

Never in the history of our country have so many small business owners been ready to retire—and been so ill prepared to do this.

A 2012 survey performed by Laird Norton Tyee indicated that approximately ***60% of all business owners are over age 55 and nearly one-third are over 65.*** About 10,000 Baby Boomers turn 65 each day. Many of them own businesses and want to transition these to the next owner.

The simple law of supply and demand means that this can be a buyer's market. Not only are today's business owners competing with all of the other operations for sale in their market, but operations in other markets as well. Companies for sale will need to make themselves as attractive as possible to stand out in this crowded field—and attract the right buyer.

Too few are ready to meet that challenge:

- A 2016 nationwide survey, by the Pepperdine Private Capital Markets Project, indicated that approximately ***63% of business owners plan to transfer their ownership in the next 10 years.*** For those with closely held and family-owned businesses, the company usually represented their largest asset—and not a liquid one.
- A 2013 survey (performed by the Exit Planning Institute, PNC Bank and Kent State University) indicated ***over 80% of business owners have no transition plan, or have not documented or communicated a plan.***
- Several studies and resources indicate that a ***significant number of business owners overall have given no or little thought to planning for the transition to the stage in life they have worked so hard for***—life after their business. It is important to note that the same is true for the families of these business owners.

While business owners and their families may have done estate planning, they have ignored the transition and value enhancement plan for their business. Here's an important distinction. An estate plan is an event, and the business transition plan is a process—one that often takes years to develop and implement.

In addition, many business owners often overlook an unplanned transition. The Exit Planning Institute/Kent State study discovered that ***40% did not have a plan that covers their forced exit: by death, disability, divorce or extended illness.*** Since almost half of business transitions are involuntary, this puts companies and owners at great risk. It also has the potential to cause great distress for their families and other stakeholders.

## Don't Let this Happen to You

I grew up working in my family's electrical supply and lighting company. When I see that most business owners don't have a transition plan, I know the havoc this means for the business and family.

As a CPA, I've advised small businesses for most of my career. It helps that I've done my own business transition, by merging my successful accounting firm with another, so I know the challenges that owners face. For more than a decade after this, as a partner in a mid-sized accounting firm, I continued to work with firms in many industries. This gave me insights into a business's strengths and challenges, so I could identify what could hold it back or push it to the next level. And I've watched the owners make good and poor transition choices.

That's why I decided to focus on this field. In addition to my hands-on experience with clients, I invested in gaining the knowledge to become a true advisor to the business owners in transition. Today, I am a Certified Exit Planning Advisor (CEPA), a Certified Merger and Acquisition Advisor (CMAA), and a Certified Value Growth Advisor (CVGA). To continue my education, I am an active member in the Exit Planning Institute, the Family Firm Institute, and the Alliance of Merger and Acquisition Advisors.

So I started Birkdale Transition Partners. We distinguish ourselves by being an Advocate for the Outcome ™ going way beyond the work done by ordinary value growth advisors. This involves assessing a business and then designing and implementing risk reduction strategies to maximize the company's value. We also ensure that the owners' personal and business goals are aligned with the profitability and value of the business.

This is how I know the most important step owners can take to avoid the disappointment of having an undervalued business—or the chaos of an unexpected transition—is to develop a plan.

## Creating a Meaningful Transition Plan

***Wherever you are in the business transition process—looming or years away—it's time to create your plan.***

There are three key elements in this. Each one intersects with the other two and is interdependent. It doesn't matter if business owners are considering selling to a third party or the management team, or transferring ownership to the next generation. There are many best practices to consider in advance. Some relate to the business finances and operations, while others are interpersonal family issues. All are critical for the owners to preserve the legacy they have worked so hard to create.


1. ***Consider the current state of the owner's personal financial and legal plans.***
   Do a comprehensive analysis to determine what each owner (and his or her family) has, and what these people need and want, as they transition from business management to being a steward of wealth. This analysis will reveal the "gap" in their investment earning assets that the money they receive from transferring the business must fill.

   In the EPI/PNC/Kent State Study, over 70% of the respondents don't know if, or don't think that the transition will affect their lifestyle. This is significant, because the business generally represents over 85% of the owner's net worth, and values that owners place on them are often unrealistic. It’s vital that a thoughtful estate plan be developed to meet the family’s the goals and objectives—because this process not only affects the owner but the family (whether or not they are involved in the business).

*2. The transferable after-tax enterprise value of company is a starting point.*

This is influenced by how the company rates on the value drivers typical in every business. The process starts with analyzing past and projected financial results. Next, we have a detailed discussion with the owner and management team about the quality of the organization. That allows us to assess the risk profile of the business and examine eight main value categories of how the organization functions in these areas:

| | | | |
|---|---|---|---|
| Planning | People | Marketing | Finance |
| Leadership | Sales | Operations | Legal |

Based on what this reveals, we create a roadmap to maximizing value. This gives us a basis for prioritizing and planning improvements to increase the company’s value. In other words, understand what you have, and then enhance it to fill the gap.

*3. Answer this: “What will the owners and their families do after (in the case of a sale) they sign the contract, receive a check and watch the name be changed from a lifetime of work?”*

The question changes slightly if there is an intergenerational transition. Either way this is a very emotional experience and must be dealt with as early in the process as possible. There are many counselors and tools available to determine the owner’s and families’ readiness for this life-changing event.

Many owners say they will visit the grandchildren, play more golf and go fishing. The question they need to answer is this: after about three to six months, what will provide meaning in their life to get up in the morning and enjoy the day. Some will start another business, while others get involved in philanthropy or public service. Whatever the answer, help is often required to settle this important issue.

## How this eBook Can Help

It's easy to feel overwhelmed by this process. The goal of this eBook is to give you a place to start.

Most business owners are interested in increasing the transferable after-tax enterprise value of their companies: That's our focus here.

You'll meet John, an owner whose business does not have a high enough value to enable him to retire. He is frustrated, because his competitor—Tom—has just sold a similar company for much more than John was told his operation was worth. Tom's secret? He worked with Barry Goodman from Birkdale Transition Partners.

When John decides to do the same, you'll meet his advisor, Barry, who takes John through the eight value-adding steps. You'll go on this journey with them and come away with valuable insights, such as:

- Learn some important distinctions, such as between sales and marketing, leaders and managers, and CFOs and controllers
- Discover best practices, including ways to increase employee engagement
- Look at familiar ideas in a different way, such as the different types of sales and which have more value
- Encounter useful definitions, including the differences among compiled, reviewed and audited financial statements
- Find out how to unlock value in your current business, such as noticing where you have intangible property assets

This eBook will allow you to begin making good choices about your succession plan. The best decision you can make is to work with an experienced advisor. If you like the approach you see here, I welcome you to contact us at Birkdale Transition Partners *(www.birkdaletransition.com, 847-626-1820, barry@birkdaletransition.com)*. We are happy to have a complimentary business planning consultation to see if we're the right partner for you.

# A $6 MILLION DIFFERENCE

John had just finished a round of golf at the country club and was sitting in the lounge when Tom walked in.

For the last 20 years, they had been cordial competitors. Both men owned distribution businesses in a competitive but expanding market, with plenty of room for growth, innovation and higher value.

John invited Tom over for a drink. He learned that Tom had just joined the club after successfully selling his business. John was curious about this, because he also wanted to sell his company and retire.

Tom relaxed back into his chair and told John he would be happy to talk about his experience. Tom volunteered that he had received $10 million for his company.

John was shocked!

Tom's company was an ordinary but steadily profitable operation. Its product line, historical sales and earnings were identical to John's. However, John had just discovered that the business enterprise value for his company was only $4 million. After some preliminary conversations with his wealth management advisor, John knew this wouldn't be able to support his lifestyle throughout retirement. Just last week, he had come to the difficult decision that he would have to work at least five more years to meet his financial goals.

John swallowed hard. Then he asked what Tom had done to prepare his company for sale.

Tom explained that he and his management team had started working with an advisor long before he was ready to transition the company to its next owner. They developed a comprehensive written strategy for how the company would capitalize on growth and value enhancement opportunities during this time.

John realized this was the difference. Not only had he failed to create a plan, but he also was relying too much on his existing customers for growth.

Tom also explained that his advisor worked with him and his family to make sure all the elements of his transition plan were in place and he was prepared for what's next.

After seeing how visibly shaken John was, Tom said, "Not too long ago, I was in the same spot you're in. Let me give you the name of the advisor I worked with so you can see if he can help you, too."

## Most Owners Are Ill Prepared for a Business Transition

Most other business owners are in the same situation as John. According to the Ownership Readiness Survey™ (performed by the Exit Planning Institute, PNC Bank and Kent State University) 83% of business owners either do not have a transition plan, only have one in their heads, or haven't communicated their plan to stakeholders.

The negative impact of not having a written transition plan is staggering—not only for business owners, but their families, employees, customers and suppliers. That is compounded by the number of owners between the ages of 50 and 75, who expect to transition their business in the next five to 15 years. This will put significant pressure on the ability to move their businesses to the next owner—and get the value they need to retire.

John had an exploratory meeting with the advisor Tom had mentioned—Barry at Birkdale Transition Partners.

After listening to John's 10,000-foot view of his situation, Barry said, "If you're thinking about selling or transitioning your business, you need to develop a well thought-out and documented transition plan. It should include the transferrable enterprise value assessment you just completed. This tells you what the company is worth today, what it can be worth tomorrow, and how to be better prepared for future growth. It also should include a comprehensive personal financial plan, and a plan for your life after the sale."

John learned that a transition plan considers different ways to transfer the business: to other family members, to people within the company, or selling to a third party. It's designed to help owners to move away from a business on their own terms—not those dictated by someone else—while maximizing the after-tax dollars that remain in their pocket.

"Transition planning is not an event but a process," Barry explained. "The most successful ones follow very specific steps and reach milestones in a specific order." Then he outlined the approach Birkdale Transition Partners uses to help increase a company's value while creating a better business transition and preparing for tomorrow.

## The Three Steps to a Successful Transition

This process has three steps.

1. ***Discovery Phase*** involves digging deep to understand the business's strengths, weaknesses, opportunities and threats (SWOT), and the alignment of the family, ownership and management of the business.
2. ***Assessment Phase***, which involves performing an enterprise valuation assessment of the business and how legally and financially prepared the owner and family are.
3. ***Implementation Phase***, Barry works with the family, ownership and management team to enhance value and execute the recommendations from the Assessment Phase.

John asked for more detail on what happens in each of these phases. Here's what Barry shared.

### The Discovery Phase

Barry said that this phase explores two key elements of the process. First, it uncovers how aligned the stakeholders are when it comes to considering critical elements of the business. It's very difficult to transition a business if these people can't reach an accord. To assess where they stand, Barry interviews the owners, key management, and often members of the owners' families

The second element is John's personal legal and financial goals. Like many owners, he had been so busy with his company that John didn't think about the goals he wanted to reach and what he would do after the transition. Now they would establish a framework to capture those personal goals—which would be refined in the next phases.

### The Assessment Phase

In this phase, Barry would bring in John's wealth management advisor, Marilyn. The three of them would determine the "gap" between what the business could generate for John now, and what he would need to meet his personal financial goals after a transition. They would consider all of these areas (in addition to many others):

Rewarding loyal employees
Enjoying more leisure time
Reducing stress
Funding retirement lifestyle
Staying involved in the business
Maintaining a community presence
Clarifying philanthropic interests
Creating a family legacy

Now that the gap is known, determining the transferrable enterprise value of the company is only the starting point. Just as important, John and Barry would explore how the company is performing on the areas that drive value in every business. This process starts with analyzing past and projected financial results. Next, there's a detailed discussion with the John and his management team about the quality of the organization. This allows all of them to examine eight main value categories of how the organization functions:


"Based on what this reveals, we create a roadmap to maximizing value," Barry said. "This gives us a basis for prioritizing and planning improvements to increase your company's value. In other words, understand what you have, and then enhance it."

When John asked how long this would take, Barry explained the Assessment Phase usually takes three or four months. Then the two of them would meet to review the results of this work, discuss recommendations, and plan for implementation.

## The Implementation Phase

The third phase includes a regular review of goals, implementing recommendations, and other aspects of the transition.

"We do this in monthly or quarterly review sessions," said Barry. "Action plans from the previous period are reviewed for progress, and new action plans are established for the coming one. We work with you, your management team, and third party service providers to complete action plans. Every year—when financial statements are done, projections are updated and recommendations are accomplished—we use this information to update the enterprise value assessment. Then we analyze the value improvements in the business and how ready it is for the desired transition."

During this phase, John also would regularly revisit his personal financial goals, how the transition will look, and life after it happens. Before meeting with Barry, John just wanted to accelerate the sales process and get to the end. However, to make "life after" happen according to his vision, he realized it's important to have a solid foundation and framework in place first.

"There will come a time when we have gone as far as we can with enhancing value, accomplishing your personal goals, and having the foundation in place for your life after business ownership," said Barry. "Then we will be ready to execute the transition. The good news is that now your goals are clear, and you have everything you need to make an educated decision on how this should look."

John was glad to know that Barry would be there work with him through the entire execution process. He also appreciated an important by-product of the Implementation Phase. It creates everything he would need for due diligence documentation to transition the business to its next owner, generally making this easier and faster. Barry also could make recommendations on third parties that could oversee this transaction and help to achieve a successful closing.

## Taking Action

Barry suggested that John take some time to think about this process. He should talk it over with his wife Judith and his management team. And if this made sense, they could begin the Discovery Phase whenever John was ready.

After having these conversations, and speaking again with Tom about his experience with Barry, John decided to move forward. He was ready to do the planning and the work that would strengthen his business and, ultimately, make it more attractive to the next owner.

STEP 1:

# CREATING A PLAN FOR THE BUSINESS TRANSITION

John felt he needed to make up for lost time, so was eager to get to work with Barry. He knew the first step was to create a comprehensive, written plan. This would outline the strategy to capitalize on the growth and value enhancement opportunities already inside his company. These would lead to a higher valuation for the business when he was ready to make the transition into retirement.

John's advisor—Barry—explained the best place to begin was by understanding the eight different "value drivers." Then they would be able to include all of these in John's plan. This is what John learned.

## Business Value Enhancement 101

Owners need to understand what drives the value of their companies. These affect either the earnings or the transferrable worth of an operation. While each business has its own unique characteristics, the main value drivers are similar between companies—even in different industries.

Being in business is not about survival: it's about making a profit and creating sustainable value.  Value isn't always about the numbers. Environmental and qualitative value drivers have a dramatic effect on a company and its ability to grow. Knowing which elements can create value—and which can destroy it—helps owners and managers make better day-to-day decisions. It also allows them to build increasing value into the culture and DNA of a company.

The place to begin is a detailed discussion about the quality of the organization. John included his management team in this meeting with Barry. This initial conversation broadly examined the eight main value drivers:

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|---|---|---|---|
| Planning | People | Marketing | Finance |
| Leadership | Sales | Operations | Legal |

The group started with an in-depth look at planning.

### Planning: One of the Most Profitable Actions You Can Take

There are a number of parts to this, including the following:

1. Defining the target market
2. Determining the barriers of entry into a company's market
3. Analyzing the competition
4. Reviewing the plan for product and market development

The information on all of these is included in the strategic business plan, which also features a discussion of the eight value drivers.

"Having a strategic business plan alone can have a major positive impact on value," Barry said. "A recent study by Cranfield University indicates companies with a business plan increase their growth potential by 30%! This happens because a plan forms the foundation upon which other improvement initiatives can build. It's great that your management team is integrally involved in the process. Their knowledge of the business will drive the plan, and they will ultimately be responsible for implementing it.  They also will be engaged and own the process."

Barry explained that there has been a lot of debate about what should go into a business plan.  There are two ends of the continuum: 1) a very concise, rigid plan where the future is predicted, or 2) watching the direction of a business and making changes as you go. The best plans use both. "This combination is easier with an existing business," he said. "You already have done your research and can predict the future with greater reliability. Then you can adapt the plan and include ways to tap the target market opportunity you have identified."

He added that plans without a direct correlation between revenues and costs indicate that management really doesn't understand the financial ramifications of the business. Financial projections must reflect not only the wording in the business plan, but the specific assumptions that support the plan and the projections.

"Successful ventures are extremely agile and let their strategy evolve," he continued. "They will go in one direction and then, suddenly, discover there is a new market demand or a variation of the market that will produce the results they seek. This means you shouldn't put all your resources on the first iteration of the plan—hold some back for the unexpected."

John and his management team also discovered they needed to "phase in" their business plan, as they analyzed opportunities and removed some of the risks to growth in their company.

"Most business plans contain five-year projections," Barry explained. "It's very hard to project the fifth year. However, this is an important exercise. By reducing risk and being agile, you can make year-five estimates more reliable."

## A Clear View of Customers

The group began this process by creating well-defined target customers that used the company's distribution products and services. They sorted these by different qualities:

their locale, demographics, values, lifestyles, product/service preferences, and behavior, among others. Now they could determine the marketing strategy that allows them to reach and penetrate a market. Their strategic business plan would include a discussion about their target markets and how these affect value.

### Knowing the Barriers to Entry

This has a very significant effect on value.

“The key is knowing what the company does that makes it very difficult for a competitor to enter the market and compete,” Barry told them. “This may include governmental regulations, economics, availability of capital, legal considerations, marketing, or other competitive advantages. Every business goes through a period when its products or services become a commodity. When that happens—or before then—you must be clear about what differentiates your company from the rest of the field. To generate real value, this difference must be unique and meaningful enough to create a barrier that makes others less competitive.”

John and his team realized how important the strategic business planning process was to the success of the company—now and for any future transition. He and his management team would use it to establish the foundation and road map for profitable growth and sustainable value.

STEP 2:

# UNDERSTANDING AND CREATING LEADERSHIP

After John and his team saw the importance of creating a business plan, they were ready to move to the next step in creating value: leadership.

## Leaders Drive the Vision, Mission and Culture of a Business

Many businesses revolve around the owner or founder. These people started or bought the business and, when times were tough, they did everything. As the founder, that was true for John. Now his company had grown and become more complex. His "jack of all trades" approach to leadership no longer allowed the company to have sustainable growth.

Barry told John that an important way to begin changing this was to develop vision and mission statements. When John asked what the practical difference was between the two, here's what Barry told him:

- The ***Vision Statement*** describes how the world views the organization and why it exists. This helps attract customers, vendors and employees who believe in what the organization aspires to do.
- The ***Mission Statement*** identifies the company's core purpose and focus, which usually remain unchanged over time. It helps employees get on the same page, and focuses tactical planning and short-term decision-making.

"Both statements should be shared with the entire organization, customers and other stakeholders," Barry added. "They also should be reflected in the culture of how the company does business."

## Knowing the Difference between Leaders and Managers

John and Barry took a deeper look into leadership.

As a company grows and becomes more sophisticated, it needs to operate without its founder. That makes it necessary to attract two different types of people: those who can lead and others who can manage different functions. In addition, both groups must be able to work together.

These functional areas require a leader: the chief executive officer, chief financial officer, chief technology officer, chief operating officer, etc. They are responsible for driving the mission, vision and culture of the organization within their area.

"Good and successful leaders are made—not born—through development, education, training and a history of experience," Barry added. "They have a talent and mindset to influence others to accomplish an objective in a direct, cohesive manner. They inspire trust, influence people, have a long-range view, and communicate often with managers and other employees."

Leadership's main function is to produce movement and constructive or adaptive change. Leaders do this through processes, such as establishing direction through visioning, aligning and engaging people, motivating, inspiring and challenging the status quo. They look at the horizon and what is ahead.

The main function of management is to focus on systems and structure, have a short-term view, be bottom-line oriented, plan, organize and coordinate. Managers implement rather than create the strategy. They do this through processes such as planning, budgeting, organizing, staffing and problem solving.

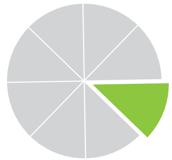
John now understood one reason his company's valuation was lower than Tom's competing business. He hadn't cultivated other leaders, and didn't have enough time to personally direct all of his managers.

## Leadership in Communication

Barry and John talked about how to change this. They agreed that communication was the place to start. Clear, concise communication is one of the most important keys to becoming a great leader. Leaders use communication to motivate, promote discipline, accountability and strategic alignment.

"When leaders' values are clear, how they communicate these can have a profound effect on their organizations," Barry said. "The way values are shared is important, and the digital age gives us many options. This also means leaders must carefully choose how they reach out. For example, serious conversations should not be done by email or phone but in person. Often the stakes are high when communicating. When done properly, the culture and morale of your company and employees can be significantly enhanced."

John saw how his attempt to keep everyone on track by micromanaging left him little time to think about what—and how—he was communicating. One result was that he lost a good manager last year because he hadn't told her how much he valued what she did. He decided that would never happen again.



STEP 3:

# FINDING OPPORTUNITIES IN SALES

Sales is the engine that runs the business. It also can add significant value—or harm it. John just learned the distinct difference between marketing and sales.

## Using Sales to Close the Business

John saw that sales is a process of interpersonal interactions. These usually involve cold calls, networking, one-on-one meetings, and proposals/estimates. In other words, sales is anything that engages the prospect or customer on a personal level rather than at a distance. This focuses on the customer: the needs that will make these people buy or continue buying. Sales is tactical; marketing is strategic.

Good marketing adds value to the sales process. A good sales process adds information to marketing: through customer feedback and a better understanding of the marketplace. When both work hand in hand, growth happens.

A diversified customer base, types of sales, and recurring revenue can significantly affect value.

## Diversified Customers: More than One Basket

John's business was like many. It started around meeting the needs of a particular customer and grew from there. His company had a customer that represented more than 10% of its revenue, and his five largest customers generated more than 25%. He had a high customer concentration, which made the risk of losing these relationships—or owning this kind of company—significant. In addition, his business focused on a particular industry, which also can present a tremendous risk.

Like other business owners, John didn't realize that customer concentration is an issue for the current viability of the business. It can cause pricing pressures, because a few strong customers may have leverage in negotiations.

Barry and John talked about how serving different customer segments presents an opportunity to increase revenue—and affect his business's growth potential. Buyers are interested in companies that not only have a strong present value but also have the chance to expand, so the future value will be greater.

They discussed ways of diversifying John's sales. This included finding other customers and channels, and possibly phasing out large low-margin customers. "In these situations, it's easy to get distracted by catering to every need of the few large customers at the expense of finding other higher margin ones," Barry said. "By focusing on several higher margin customers, a company often will be more profitable and have less risk, resulting in a higher valuation."

## Recurring Revenue: Having Better Eggs

John had thought, "A dollar of sales is a dollar of sales." However, Barry explained that not all revenue is created equal. The more predictable sales are, and the more certain it is that the company will receive sales from those customers, the more valuable the company becomes.  When you can begin multiplying the sales by adding new customers and developing an annuity cash flow, you begin reaping the benefits of a recurring revenue stream.

Barry offered an example. "A business has $10 million in sales, 85% of which is recurring. The company can reasonably count on sales of $8.5 million as a new fiscal year kicks off, and then find another $1.5 million. Compare this to a company with no recurring revenue—beginning the year with zero sales. If they both have the same costs and expenses, their valuation will be quite different."

Then he explained some common examples of recurring revenue:

- ***Repeat Customers*** – While having them is far better than not, the revenue stream is still risky because companies can't count upon their return. Businesses in this category can build loyalty programs—frequent flyer or diner cards and other discount programs—to create a stronger brand preference and make their offers "stickier."
- ***The Upgrade Revenue Model*** – This encourages customers to consistently upgrade. It's supported by offering a low-cost or free service as a way to attract customers, and then work with them to upgrade.
- ***Good Until Cancelled*** – These instances involve automatically billing a credit card or bank account until customers "opt-out" to terminate, such as subscription-based services.
- ***Contractual*** – Revenue with a contract is the best kind. This is an extremely valuable model, because the dollar amount of recurring short- and long-term revenues can be predicted with more reliability.
- ***Consumables*** – These are items such as toothpaste, toilet paper, soap, etc., with a strong identity. When companies make their brands popular, they sell more consumable products.
- ***Sunk Money Consumables*** – This is the "Xerox effect."  When customers buy the copy machine or printer, they need to purchase ink cartridges forever.

John took a deep breath. It was clear there were many ways his company hadn't actively worked to build value in its sales activities. Barry reminded him that these were all opportunities.  Now John could focus on increasing sales, making them more predictable and reducing the risk of his investment—which would increase his company's value over the long run.

STEP 4:

# ACTIVELY DIRECTING MARKETING

John understood that marketing is the strategy that drives sales. When it's designed right—and supported by the sales and finance value drivers—marketing adds significant value to a company. Because his business had been focusing mainly on keeping existing customers happy, he was interested in learning more about attracting additional ones.

## Marketing versus Sales: The Ongoing Debate

John learned a useful distinction:

- ***Marketing*** is everything that you do to reach and persuade prospects
- ***Sales*** is everything that you do to close the business

A company generally can't be successful—and create value—without both, or when they don't work well together.

Almost every company has an ongoing conflict between marketing and sales. Some say that without marketing, you wouldn't have prospects or leads to follow. But without good sales techniques and a plan, there's a poor closing rate. Marketing and sales departments must work together. However, they often don't speak to each other.

John recognized it's the message that prepares the prospect for the sale. His marketing efforts should include strategies designed to persuade prospects that his company is the right one for them. He saw that he has many choices for marketing strategies. These include advertising, public relations, social media, relationship marketing, brand marketing, email and direct mail, among others. It's also important that he put a system in place to measure their effectiveness.

Sales is a process of interpersonal interactions. These usually involve cold calls, networking, one-on-one meetings, and proposals/estimates. In other words, sales is anything that engages the prospect or customer on a personal level rather than at a distance. This focuses on the customer: the needs that will make these people buy or continue buying.  Sales is tactical; marketing is strategic.

Good marketing adds value to the sales process. A good sales process adds information to marketing: through customer feedback and a better understanding of the marketplace. When both work hand in hand, growth happens.

A well-written and developed marketing plan, a marketing mix that supports a competitive and profit-driven enterprise and drives income, and a mentality of customer profitability can create value.

## What a Marketing Plan Does

A marketing plan is a road map of how to share information on a business, its products, and/or services. It must reflect the overall business plan (discussed in an earlier chapter) sales, financial, operational, legal and other business value drivers.

The plan also should include everything from information about a target market, to the step-by-step processes for coordinating and building marketing strategies and tactics. Developing the marketing plan requires a clear vision of how the company will attract customers that can create and build value, and match what the company does best with the customers' needs.

John's company didn't have a formal marketing plan. Working with Barry, he realized that his business was doing what many others do. It was good at attracting an audience, but many of these were unprofitable customers—so his marketing efforts weren't creating value.

Now John understood how a properly written and developed marketing plan would change this:

1. Ensure that marketing activities are properly focused and integrated, not only in the Marketing Department but in other areas of the business
2. Enable the organization to communicate exactly what will happen and when
3. Allow the business to take advantage of market opportunities and changes
4. Guide the business to prepare for unknown problems and unexpected events
5. Identify the right marketing mix: generally defined as price, product, promotion and place
6. Define the company's customers
7. Contain a competitive analysis to enable better messaging and differentiation

As with any other plan, this one would be worthless without a clear vision of how to execute the strategies and tactics. It's imperative that all stakeholders be involved in creating and using the plan, so their efforts are in sync.

## The Elements of Marketing Mix

Marketing mix is used to make major decisions that lead to executing and seeing the measurable results of a marketing plan.

These are the major ingredients:

- ***Product*** is an item that will satisfy customer demands by providing a tangible item or service.
- ***Price*** is the amount the customer pays for the product or service, which provides profits to the company. Pricing is a strategic decision, since it affects demand, the amount of sales, gross and ultimately net profits, and a host of other aspects of the business.
- ***Promotion*** is all activities that present information about the company's products and services.
- ***Place*** is the ability to provide the customer with the goods and services at a place or in a way that's convenient for them and profitable for the company.

## The Value of a Customer

"A customer's value is often overlooked when making decisions about a particular client or product line," Barry explained. "The effect of customer profitability can be dramatic, considering the role of marketing investments a company will make."

John had never analyzed the lifetime value of a customer, determined its present value, and compared that with the cost to get and keep a new one.

Knowing this allows the management team to allocate resources based on how profitable it is to get and keep a particular customer. Another benefit is seeing the link between customer profitability and the company's enterprise value. The value of the customer base is an intangible asset. This usually doesn't appear on the balance sheet (unless the company is acquired). The concept sounds easy, but it can get very complicated when all the components and variations are considered.

Customer satisfaction may also affect the value of a customer. Companies commit capital and resources based feedback from customers. The American Customer Satisfaction Index has a standardized system to measure this, which seeks to link it to financial performance.  Barry warned John to be careful. Businesses get into trouble when they spent too much time and money on customer satisfaction at the expense of the business' profitability.

"Tracking the value of a customer may seem like a daunting task—and often it is," Barry admitted. "However, it's important to realize that, when managing a company, each action requires strategic thinking, financial measurement, and an understanding of how this creates value."

STEP 5:

# WORKING WITH YOUR PEOPLE TO WORK BETTER

John believed the line that "people are your most important asset," even though they don't appear on his balance sheet. John asked Barry about the best practices a company can use to strengthen employee engagement. Here's what Barry told him.

## Increasing Employee Engagement

Employee engagement and attitudes toward their employer affect how they approach their jobs and treat their colleagues, customers, vendors and others. Research reveals that a high level of employee engagement increases a business's profitability, growth and value. Companies that invest in a better-trained and service-minded workforce will be more innovative and competitive—whether delivering a service or manufacturing a product.

There is a direct connection between employee engagement and business results:

- ***Employee Satisfaction*** – employees who are dissatisfied or have lost their enthusiasm for day-to-day activities have greater absenteeism and the quality of their work suffers
- ***Employee Identification*** – employees who don't identify with the organization won't represent its culture and values, which results in a dearth of innovation and new ideas
- ***Employee Loyalty*** – employees who aren't loyal to the organization often reveal trade secrets or treat customers unfairly

John asked how he could assess and implement improvements to increase employee engagement at his company.

Barry mentioned an article in the MIT Sloan Management Review. This identified five dimensions of employee engagement: satisfaction, identification, commitment, loyalty and performance. For a company to get the most out of employee engagement, it must develop a strategy that aligns these components with the mission, vision and overall strategy.

John and Barry agreed that the logical place to start was with a survey, combined with a scorecard, to assess and track employee engagement. This also would tell John where to allocate the business's resources to enhance engagement.

Employee engagement starts at the top, with the senior management team. John could see that, without this, any program to assess, implement and improve engagement would fail. He and his senior leaders needed to have open, honest and transparent communication with employees at all levels. It was clear that with the coming shortage of qualified employees to fill the senior management positions, having an employee engagement effort would give his business an edge.

## Creating an Organizational Strategy

Next, John and Barry discussed how an organization's structure defines the relationship and interaction between parts of the company and among levels. A company has two choices: a functional or divisional structure.

Most businesses use a functional structure. Various functions go into separate departments, and employees report to department managers who then report to someone above them. The advantages include a clear line of authority, and each employee focuses on a particular mission or job.

In a divisional structure, functions are spread across various branches. In other words, if there are different product lines, the division for each product line will have its own accounting, marketing, sales and other departments. The advantage of this structure is that each division has the personnel to carry out all necessary functions. The disadvantage is that employees in one division perform the same activities as employees in others. This results in significant inefficiency.

To visualize the structure, it helps to use an organizational chart. John admitted that he'd never done one. He hadn't seen the need—because he thought all his people knew where they fit in the functional structure.

Barry told John that the first chart was developed in 1855 by Daniel McCallum, the general superintendent of the New York and Erie Railroad. The railroad didn't have a good sense of who was in charge of managing data to prevent train wrecks and delays on its complex system. The chart also allowed McCallum and his central office to receive information to calculate key metrics—such as cost per ton-mile and average load per car—to improve the operational efficiency of the railroad.

An organizational chart also shows lines of authority and control between departments and levels of management. In addition, it clarifies who makes decisions, reports to whom, and how the organization divides operating functions. John could see the value in this.

Now he understood that the organizational structure must fit into his overall strategy or business plan. This would make it clear which departments were responsible for the actions the company intends to take to execute its mission and vision and achieve its long-term goals. John committed to mapping out the organizational structure and communicating it throughout the business.

## Developing Effective Job Descriptions

Barry explained it was important that John's company understand the experience and skill base required for each position. This also would help all employees clearly see how they fit into the business and what is expected of them. In addition, well-prepared job descriptions help identify the necessary skills, training and education required for a particular job.

Then Barry mentioned some other benefits of a job description:

- Assists in setting measurable performance goals based on specific requirements
- Helps employees to know the job description for the next level up, incenting them to pursue lifetime learning initiatives and other career development activities to get there
- Facilitates standardized compensation programs
- Establishes a baseline of performance to encourage going the extra mile
- Makes it clear when an employee is not adequately performing a job
- Avoids the many negative legal ramifications when an organization doesn't have them
- Shows how the position promotes the company's mission, vision and strategic initiatives

John knew that there were a number of gaps at his business—and that he didn't have a current job description! It was time to have his human resources person review what the company had in place, update any that were out-of-date, and begin creating those that were missing. Barry recommended that these should focus on expectations, results and accountability.

## Promoting Cross Training

When Barry mentioned implementing a cross-training program, John was skeptical. Barry explained this involves training employees hired to perform one job on the skills required for others. "Companies that cross train employees set up a systematic job rotation plan to train workers so they become proficient in a variety of functions," he explained. In addition to enhancing the value of a business, he said there are many benefits for doing this:

- Lower costs
- Higher employee morale
- Lower employee turnover
- Greater productivity
- Higher job satisfaction
- Greater opportunities for career growth
- Reduced hiring and training costs, because employees can fill in during absences, vacations and peak demand periods

Implementing a cross-training program must be carefully planned and organized rather than an all-of-a-sudden decision during a crisis.

If he decided to pursue this, John understood he needed to make several strategic and cultural decisions first. This includes 1) who will be eligible, 2) if the program will be voluntary or mandatory, 3) if it will be companywide or limited to certain departments or particular job functions, and 4) how to administer it. Management and the affected employees must be involved in the planning and implementation phase. This would create "buy-in," prevent overload of job functions, and support all of those involved. In addition, the program could be directed toward specific job tasks or functions.

## Using 360-Degree Employee Appraisals

The approach to performance appraisals had been relatively informal at John's company. Barry recommended considering 360-degree feedback. The basic idea is that all the members of an employee's work circle provide comments on a person's performance. For example, a supervisor will receive information from subordinates, colleagues, customers, suppliers and other stakeholders.

Employees may use the feedback to assess their strengths and weaknesses, and to plan specific paths for their professional development. Employers may use the results to make decisions on compensation and promotions. In addition, this process provides insight to support the skills and behaviors the organization needs to accomplish the mission, vision, values and what's required to exceed customer expectations.

Barry cautioned that integrating a 360-degree employee feedback initiative requires careful planning and discussion. This includes training, developing the methodology used to perform the assessment, creating action steps to administer and follow up—including what should be considered to achieve the goals and objectives. He recommended working with an expert on this.

John took a deep breath. It was clear there were many ways his company had not actively worked to build employee engagement. Barry reminded him that these represented opportunities not only to make his company a better place to work in the near term, but to increase its value over the long run.

STEP 6:

# GETTING THE MOST FROM YOUR OPERATIONS

Barry explained to John that the purpose of operations is to manage the resources needed to create the company's products and services. Then he gave a few of the key areas it includes: 1) the location, size and type of facilities required and available; 2) worker skills and talent; 3) technology, special processes and equipment; and 4) quality control.

## What Is an Operations Strategy?

The operations strategy does more than ensure these resources work together. It must also align with the marketing and finance strategies. In addition, it has to support the business strategy, which is the company's long-range plan.

John and Barry completed an assessment of his entire business, including its operations. This revealed John had no written operations plan. So it wasn't surprising that some aspects of his operations weren't being used properly.

Barry told John there were many best practices at his disposal. Once he understood his options, and decided which ones to pursue, John should do some analyzing and planning before implementing any actions.

## The Value of a Chief Operating Officer

John's company—typical of many small businesses—didn't have a COO. As an owner, he had been involved in running all aspects of the company, including operations.

He learned that COOs are responsible for day-to-day operations and continual improvement of the firm's efficiency. They must know what's going on in every area, including marketing and sales, manufacturing and finance. COOs report directly to the CEO and oversee various department heads and mid-level executives. A strong COO reduces the company's risk, which increases its value.

In a properly designed and executed role, a COO adds tremendous value to a leadership team in two ways:

- As a visible leader and follower of the CEO
- As a critical part of the company's operational success and overall performance

This role is not ubiquitous—unlike other C-level positions—either across companies or over time at one company. In part, this is because it's often hard for boards and CEOs to understand when and how to use the position. This includes sorting out how it may affect governance in the organization. It also takes tremendous discipline on the CEO's part to make this position work.

John recognized that if he wished to make a successful transition out of the company, he needed to give up some operating responsibilities now. It was time to create a COO position and fill it with a good leader.

## A Quality Product/Service Can Increase Profitability and Value

"Many companies embark on quality initiatives without any idea of the likely bottom-line impact," Barry explained. "As a result, they have no way to determine which actions are most important, or to predict if their efforts will actually bring a benefit."

Like other owners, John had been disappointed by a lack of quantifiable results from quality efforts. The financial benefits of quality—which have been assumed by many companies—are now are being seriously questioned by cost-cutting executives. In a results-oriented environment, managers must justify the financial benefit of their quality improvement efforts.

Barry told John what quality improvement in services means. "This implies spending money on quality to improve revenues rather than reduce costs. How to make profitable decisions about quality expenditures is a key managerial problem. This involves justifying the cost of all quality improvement efforts, knowing where to spend and not to spend, and knowing when to reduce spending."

John learned that there are two types of benefits from improving quality:

- **The company is better able to attract new customers**, due to word of mouth and its ability to advertise the quality of its offerings. This is similar to product repositioning and is part of "offensive marketing"— actions taken to attract new customers.
- **Current customers are more satisfied with the products**, so they become repeat buyers. Small increases in retention rates can dramatically affect profits for several reasons: 1) existing customers tend to purchase more than new ones, 2) they are more efficient to deal with, and 3) the selling costs are much lower when compared with those for winning new customers.

The notion that quality is an investment is a conscious attempt to place this kind of spending on an equal basis with other investment decisions. "This can be hard, because there often is no solid basis for measuring the financial impact of quality expenditures," Barry said. "And it's also possible to spend too much on quality, because not all quality expenditures are created equal.

"The alternative is to make these investments because they are consistent with the quality culture at a company," Barry added, "or because eventual returns are taken on faith."

John and Barry agreed to take a harder look at his current quality improvement programs and any future spending in this area.

## What Are the Benefits of ISO Certification?

ISO Certified means that a company has proven it follows the standards developed by the International Organization of Standardization. These include product quality, safety, reliability, environmental friendliness, and economics.

John's operations weren't ISO Certified. He could see significant value by taking this step:

- Attracting new customers that only do business with ISO Certified vendors
- Increasing sales from existing customers, new customers and new markets
- Improving value by strengthening product quality
- Increasing customer satisfaction and seeing fewer complaints by exceeding customer expectations
- Identifying better processes and using metrics to manage control
- Empowering employees by providing clear standards and expectations
- Giving employees the tools to do their work and prompting actionable feedback on job performance
- Improving the consistency of products being delivered to customers
- Keeping the company and employees focused on what's important
- Having standards that are administrated by an international organization and used all over the world

John realized that being an ISO Certified company is a big deal. It sends a clear message to customers and other companies that the products being sold are worth buying. Products made by these companies are usually more expensive, yet they usually have no problem competing with cheaper versions. This happens because non-ISO Certified companies often take shortcuts in production or quality control and don't earn the same level of trust.

John took a deep breath. It was clear there were many ways his company hadn't actively worked to build value in its operations. Barry reminded him that this, too, was another opportunity to make operations more effective, to reduce the risk of his investment, and to increase company value over time.

## STEP 7:

# KNOWING HOW YOUR FINANCE DEPARTMENT CAN ASSIST WITH GROWTH

John thought he was using best practices in finance. His Finance Department included a competent controller, accounts payable and accounts receivable clerks, and a general accountant who would step into the controller position when necessary. He received information on a regular and consistent basis and reviewed it in detail. However, John didn't quite understand how he could use this information to improve how he ran his business and enhance its financial performance.

In addition, he was implementing a strategic value enhancement initiative. This required him to look at the business differently than he had in the past. That led John and Barry to discuss if now was the time to add a full- or part-time chief financial officer (CFO).

## What Is the Difference Between a CFO and Controller?

The two of them spelled out what John would want from someone in this position:

- Be the primary fiduciary overseeing every financial and operating function
- Be able to identify and deal with business risks
- Lead financial planning, including capital, debt, equity, cash flow and other requirements
- Evaluate possible mergers, acquisitions and a sale of the business
- Support strategic initiatives from John (as the CEO) and the board of directors
- Identify and retain outside independent accountants and legal advisors

John recognized that he couldn't expect a controller to do these things. Instead, his controller (a Certified Public Accountant and Certified Management Accountant) would be responsible for these activities:

- Implement fundamental accounting policies and procedures
- Manage the day-to-day accounting and cash flow, including accounts receivable, payroll, accounts payable and cost accounting
- Update various financial models, budgets, financial statements and other reports
- Handle basic human resources functions, such as maintaining files, handling benefit questions, processing 401K activities, and writing offer letters (among other matters)
- Manage the annual financial statement and tax preparation by the accounting firm

Now the difference between the two positions became clear to John. The CFO is a strategist, key member of the management team, and "right hand" of the CEO. This person has primary fiduciary and financial responsibility for the company.

The controller—a position required by John's board of directors—is a tactician and responsible for the day-to-day activities. This person has limited decision-making abilities and would report to the CFO.

John's company was in a dynamic situation: ready for growth and, ultimately, a transition. A CFO's leadership could be a significant benefit. To control costs, John decided to begin interviewing candidates for an interim CFO.

## Financial Statements: Audit, Review and Compilation

John and his other business advisors received annual compiled financial statements from his accounting firm. Barry suggested they change to a review or audit. John asked what this meant.

He learned that ***compiled financial statements*** are the lowest level of service. The CPA helps management put information into financial statements. However, this person doesn't do anything to ensure there are no material modifications needed in how the numbers are collected or reported. He or she only needs to understand the industry, and if the statements are formatted correctly and free from obvious errors.

Compiled financial statements are appropriate for smaller companies, where an outside party requires financial statements that were at least read by a CPA.

***Reviewed financial statements*** are analyzed by a CPA. This person then notes that he or she isn't aware of any material modifications necessary for them to conform to general accepted accounting principles (GAAP). The CPA must perform procedures that provide a reasonable basis for this limited assurance. That includes analytical procedures, inquiries and other tests as appropriate, based on the CPA's understanding of the industry, knowledge of the company, and awareness that information in the financial statements is not materially misstated.

A review doesn't include getting an understanding of internal controls, assessing fraud risks, testing accounting records, or other procedures normally performed in an audit. This approach works for privately held companies, because outside third parties only want to know that there are no material issues with the financial statements.

***Audited financial statements*** are the highest level of service a CPA can render. These provide companies with an auditor's opinion that the financial statements are presented fairly, in all material respects, in conformity with GAAP. The CPA is required to understand the company's internal control system and assess the risk for fraud. In addition, to provide an auditor's opinion, the CPA corroborates the amounts and disclosures in the statements through inquiry, physical inspection, observation, third-party confirmations, examination, analytical and other procedures. Audits are appropriate when outside third parties—such as banks, creditors, current or potential investors and purchasers—need to rely on financial statements.

The level of assurance—and cost—varies significantly among these alternatives. This means John must consider what is required to achieve his goals. If he plans to transition the company to a third party, he should consider at least a review. When he's ready to make a transition, he now knows that most third parties require a review or audit for three or more years.

## Financial Stability

John was getting more interested in the financial performance and stability of his company. The growing complexities, changing markets and desire to eventually transition out of his company made him realize he needed to pay particular attention to financial performance and stability.

The company was making money. But John and Barry realized changes were needed for it to be sustainable into the future. They focused on developing financial and nonfinancial benchmarks, more closely measuring gross margins, and taking an overall approach to shore up financial stability.

***Benchmarking*** measures performance to track current results and improvements made to the business. In addition, trends are created when benchmarks are compared against different accounting periods. This information is used to develop strategies to respond and take action.

Industry and trade associations provide standards against which benchmarks can be measured. The idea is to track benchmarks in all key areas of the business, to monitor company progress and success. This also is an excellent way to engage employees in the improvement process. They get to see objective measurements that show how they can make a clear impact on improving performance, which can engage them and lead to cultural change.

***Gross profit*** is commonly used to evaluate a company's financial health. It measures the amount of money left over from revenues after subtracting what it cost to create the product (called cost of goods sold). Gross profit margin is the source for paying all other expenses and savings. While a simple concept, many accounting principles and other issues enter into the calculations:

- ***Cost of goods sold*** is determined by considering inventory, which can be calculated using different methods, most often lower of cost or market, weighted average, last in first out (LIFO) or first in first out (FIFO). Each has its own calculation methodology but a significant effect on cost of sales.

- ***Cost of holding inventory (overhead)*** has a direct bearing on gross profit and is calculated differently depending upon the specific situation. These costs include taxes, employee costs, depreciation, insurance, storage or rent, insurance, freight, and many others.

- ***Product mix*** and ***pricing of goods and services*** have an effect. Products may have different pricing structures, based on scarcity, competition, demand, and other economic factors. Companies must make sure their accounting systems can determine and track gross profit margins on each product or product line and customer.

John realized all of this only scratched the surface of what he needs to reach and maintain a sustainable company. Corporate financial stability comes from the interaction of long- and short-term goals, cash and liquid assets, and managing risk.

LEGAL

STEP 8:

# UNDERSTANDING YOUR LEGAL SITUATION

Over the years, John and his people developed many products, marketing ideas, unique product and service names, and other intangible assets. All of these were used consistently in the normal course of business. However, none of this intangible property (IP) was reflected on the balance sheet and little had been done to protect it. John and Barry determined there might be some value to these assets, so this was worth a closer look.

## Understanding Intangible Property

Patents, trademarks and copyrights are the usual focus of most companies. However, other intangibles can have a very real impact on a company's success and value. These include slogans, specially designed characters, packaging designs, trade secrets and formulas, proprietary sales methods, a well-trained staff, customer lists, and training programs.

In addition, John had never considered if any of his business activities could be capitalized on to generate additional recurring revenue: through licensing or commercialization. This would increase profit margins and the company's ultimate value.

John now understood that he needed to become more aware of the value of his IP. Only then could he ensure it was 1) protected and 2) leveraged to add the most value to his business and enhance its competitive advantage. That's when Barry suggested doing IP and technology audits.

Intangible property audits are typically conducted by an attorney, or a firm with knowledge of IP and valuation matters. They offer these benefits:

- ***Determine what IP is owned***. Often business owners don't know what they have, so the first step is to uncover this.
- ***Preserve and enhance the value of existing IP***. Federal and state laws govern protection for trademarks, trade secrets and copyrightable materials. Companies can unknowingly make mistakes and jeopardize this. An audit spells out actions to avoid these problems.
- ***Identify new opportunities to profit from IP***. A clear picture of their IP allows business owners, innovators and marketing departments to develop, license and capitalize on it.
- ***Identify roadblocks and prevent costly disputes***. An audit can highlight possible problems—with others infringing on a business's IP or vice versa—and create plans to resolve or avoid these issues.
- ***Facilitate and optimize business transactions***. Once owners understand the estimated value of their IP assets, they are better prepared to make smarter decisions on opportunities such as a sale, financing, expansion, and new revenue sources through licensing.

John was now aware of how IP could increase the value of his company. He asked Barry to help him prepare for an audit. This would allow his company to develop a system to manage and maintain its IP, which could lead to significant returns on the investment of time and money.

## How Employee Handbooks Add Value

Like many business owners, John viewed employee handbooks as a necessary evil: something with little value that possibly even encourages bad behaviors.

A discussion with Barry revealed handbooks can be used as a tool to make the organization more successful:

- Fewer employee complaints, because people are treated consistently across the company
- Higher morale, because supportive language promotes respect
- Clear boundaries that reduce micromanagement and increase productivity
- Employee behaviors are aligned with company goals

To achieve this, the handbook must be written clearly, making the company's policies and procedures easy to understand. It should focus on the desired outcomes and give examples of how to achieve these. In addition, it needs to provide standards and expectations, and explain who will judge the outcomes.

"The mere existence of a handbook isn't enough," Barry explained. "The way it's used will determine its success. This means management has to support the policies and decisions across the organization. They must hold employees accountable for their conduct. If the handbook is consistently applied and enforced, it also can help to defend an employer from potential liability."

John and Barry decided to hire a human resources specialist or organizational psychologist to write the handbook, as well as an implementation plan. Then they would have a legal specialist review it, to make sure the handbook complied with federal and state laws.

## Board of Directors versus Board of Advisors

For many years, John relied on the advice of his accountants, attorney, insurance agent and others to help run his company. He and Barry discussed if it made sense to establish a board of directors or board of advisors.

John saw the value of an independent viewpoint, in addition to the perspective he received from Barry. He wanted counsel from others who were at a higher level, to help him with the process of enhancing the value of his business. John expected a board to provide insight into business and marketplace trends, make strategic introductions, suggest alliances, and hold him and his management accountable.

With this in mind, Barry explained the differences between the two types of boards.

*Board of Directors:*

1. Manage the CEO and formally approve all key company decisions
2. Support the vision and protect the interests of the organization and shareholders
3. Are often an odd number (five to seven people) with no business ties to the company
4. Bring real value, such as experience in the industry, a special skill set or expertise and provide usable deliverables
5. If members have a financial interest in the company, their voting rights match their ownership, as set by the by-laws
6. Are typically paid to attend meetings and reimbursed for travel expenses
7. Have a legal duty to the company and can be found liable if mistakes are made, so require directors and officers insurance

*Board of Advisors:*

1. Less formal and usually comprised of mentors with specific industry knowledge
2. The priority is to advise and assist the CEO and top managers
3. Size doesn't matter, so there can be as many as necessary to help grow the business and achieve results
4. Possess specific skills that are missing in the organization and there to adjust the thinking of the CEO and executive management
5. Typically receive lower compensation for attending meetings and sometimes forego meeting attendance fees and expenses for a small equity stake
6. With limited exceptions, can't be found liable for mistakes and insurance is unnecessary

John decided that the less formal board of advisors met his current needs. He and Barry would start the process by looking at the gaps in his management team's knowledge and experience, and begin identifying the types of mentors that could benefit his company. This legal discussion was very instructive for John. He now had a plan to start making the most of his IP, clarifying the expectations for employees, and benefiting from mentors to help build his business. All of these actions would help to meet the overall objective to achieve long- and short-term goals, and reduce company-specific risk.

# NOW WHAT?

If you've gotten this far, chances are good that you see the worth in creating a value enhancement and transition plan for your business—or suggesting this to the business owners you know. Just as you wouldn't do your company's accounting (if you aren't a CPA) or represent it in court (if you aren't a lawyer), then don't try to do this on your own. The primary reason is that most people will always find another matter more urgent and pressing than creating a plan for "sometime in the future," so it probably will never happen.

## Pick the Right Advisor

Once again, a business transition is a process not an event. Most owners and their families will do this only once. It makes sense to work with someone who understands what's needed and can guide them through the process. You have a choice between two main types of advisors.

***Value growth advisors*** take a short- and long-term approach to enhancing the worth and stability of a closely held business. They prepare a business for a transition, "clean up" the company in the short term or design a plan to maximize the transferable intrinsic value in the longer term. This is an integral part of the overall planning process. However, these advisors do not get involved in aligning the goals of the business and owner with the profitability and value of the business.

As an ***Advocate for the Outcome™*** Birkdale Transition Partners will assess the business. Then we design and implement risk reduction strategies to maximize the company's value, to ensure that personal and business goals are aligned with the profitability and value of the business.

To deliver excellent services, we work with several professionals in various disciplines. These include the CPA, attorney, business broker or investment banker, insurance professional and family psychologists, among others. Most business owners have relationships with many of these professional categories. We do not replace, but will supplement them as required. It's important to note that our sole business is working with family and closely held businesses on transactions and transitions, advocating for the outcome they desire.

We believe that you didn't get where you are by leaving the future of your business to chance. As an Advocate for the Outcome™, we work with you to pass on your business in the way you want. We also help you focus on what you can do today to increase its value when that tomorrow comes. And we allow you to determine which options make the most sense: for you—personally and financially, the company, and its other stakeholders. This is one of the greatest gifts you can give to yourself and everyone involved in your business.

# ABOUT THE AUTHOR AND BIRKDALE TRANSITION PARTNERS, LLC.

***H. Barry Goodman*** is a Certified Public Accountant and Founder, Managing Director and Chief Strategist at Birkdale Transition Partners LLC. He helps owners of closely held businesses move through critical transitions and transactions. Whether it's a transition plan that starts during year two of a start-up, or a third-generation family transition, Barry is committed to helping increase the value of the outcome.

His goal is to make sure that no business owner is forced to accept a transaction he or she is not pleased about because 1) suddenly the owner can't run the business, 2) the next generation of leadership is not in place, or 3) not enough business value was created before the transaction.

Barry has 35 years of proven experience in business advisory services to entrepreneurs, owners of closely held privately owned firms, and families in businesses. He developed a process for analyzing and then securing a business plan trajectory. Small to mid-sized clients benefit financially and emotionally from his proven methodology.

***Birkdale Transition Partners LLC*** is the objective source for those considering any business transition or seeking a path to higher valuation. As an Advocate for the Outcome™, our goal is to maximize the value of an enterprise—whether or not it is facing a transition. Business owners without a transition plan often are unable to sell or transfer their company at its highest value. We help them to balance a company transition with the owner's personal goals. Then we work with them to avoid problems caused by the lack of planning, or not recognizing what needs to be added, corrected or modified before then.

Birkdale is unique because it only offers an unbiased assessment and solutions for the company owner. We don't sell any other products or services, so are a fee-only firm. We work in partnership with the company's current professional advisors and staff. Because we help companies increase their monetary value and return on investment, owners view our assistance as an investment—with payback and payout occurring during and at the conclusion of an engagement.

For a no-obligation, confidential discussion of your situation, please contact Barry Goodman at ***312-626-1820 or barry@birkdalestransition.com***.

For more information, visit ***www.birkdaletransition.com***.