

8 Ways & 30 Tips to Maximize the Value of Your Business

There are three major components that reflect the operations of your business: cash flow, assets and liabilities. Each can be improved to enhance the value of your business, but cash flow is the most critical. This is true whether you are a manufacturer, a retail store or a service business. Assets assure that a solid platform is in place for operations to continue at current levels, and liabilities indicate the level of risk the company has assumed, but cash flow is king. Buyers will expect to see at least three years of financials that show positive cash flow that is steady or growing. Buyers will also expect to see a clean balance sheet with productive assets and little to no debt.

Your objective is to increase the “economic value” of your business. This means showing the greatest productivity and profitability possible. This is at odds with the way most small business owners report the performance of their companies, which is to limit reported earnings in order to reduce taxes. Increasing the value of your business may involve a near term tax consequence, but will put the business well ahead for the purposes of a sale.

You will need to plan in advance to optimize your business. Some performance enhancements can be implemented quickly, but most will take time. If possible, start two to three years in advance of putting your business up for sale.

1. Improve Your Cash Flow

There are three levers to cash flow: increasing sales, increasing margins and reducing expenses.

Increasing the top line: Try to increase sales with methods that increase variable but not fixed cost

- Hire additional salespeople on a commission only basis
- Increase sales productivity - revise current compensation to a smaller base and larger commission incentive
- Develop special marketing promotions that are self-liquidating (i.e. pay for themselves)
- Increase Public Relations efforts vs. advertising
- Increase your hours of operation without taking on additional staff
- For cash businesses: Begin reporting all cash receipts – you can't sell what is not on your books

Increasing margins: Managing Cost of Goods Sold

- Product Mix – Review your product mix and promote higher margin products
- Develop better supply logistics and volume purchases to reduce cost of goods or services sold
- Review labor contracts – consider instituting profit sharing or other perks vs. salary increases

Trimming Expenses:

- Reduce owner perks
- Capitalize certain items you might otherwise expense
- Reduce staff positions – anyone that does not touch your product or your customers
- Cut expenses in non essential areas – in a down economy try to hold your bottom line even if your top line is off.

2. Improve Your Assets

Any investment in productive assets will be returned in a sale, but lack of a solid working platform will become a hindrance

- Replace, repair and upgrade any machinery essential to the business.
- Maintain inventory at normal working levels.
- Get rid of unproductive assets or non-sellable inventory to reduce carrying charges and write off any losses.
- Buy back at book value any assets that are primarily for personal use.
- Remove real estate from the assets included in the purchase of the business, unless the real estate is integral and a major part of the appeal of the business
- Right off non-collectable accounts receivable
- Clean up – get rid of old equipment and clutter, repair whatever is broken
- Brighten up – paint, decorate and landscape to make working and public areas more presentable

3. Reduce Potential Liabilities

Buyers will look for a clean balance sheet with low debt. While the buyer may not assume your liabilities, he will inherit certain relationships. These relationships should be healthy.

- Clear up delinquent invoices
- Pay up overdue taxes
- Reduce debt pressure
- Clear up any legal problems and IRS audits
- Check your property for environmental concerns

4. Diversify Your Accounts

Make sure that your business does not have a major concentration with one or two accounts. Your customer base should be well diversified and you should have multiple sources of supply.

5. Transfer Your Intellectual Capital

Buyers will want to feel comfortable that the business can survive without you. While some transitional training will be required, transferring your unique knowledge or relationships to key employees in your business will assure continued top performance.

6. Review Your Lease

Be sure that your lease has at least 5 to 10 years remaining and is assumable. If your lease is short, negotiate an extension. A buyer will not want to immediately face an increase in rent or the possibility of a move. If location is critical, this assurance is more important.

7. Have Your Business Professionally Valued

There are many hidden assets and intangibles that will not be obvious in financial analysis. An accredited valuation professional will know how to reflect these in valuing your business and justifying a price.

- Name recognition
- Established vendor relationships which may infer better terms based on payment history
- Long term employees that solidify relationships with customers
- Customer base/prospect databases

8. Sell During an Upswing

Timing can also be critical, so try to orchestrate the sale of your business to when the economy, your industry and your business cycle are in an upswing.

The best options for increasing value will vary by individual business situation. If you would like help in determining or implementing the methods best suited for your business or would like to have your business professionally valued, please contact us.

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