

Upcoming
Events

Private Equity Connection
December 6, 2016
12:00 PM to 5:00 PM
Milwaukee Athletic Club
Milwaukee, Wisconsin

Holiday Networking
December 13, 2016
5:00 PM to 7:00 PM
The Drake Oak Brook
Oak Brook, Illinois

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MBBI Newsletter December 2016
What's the Value of Your Business?

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SUCCESS MATTERS

Contributing Editors: John Kielich and LeAnne Foster are Consultants with Water Street Advisors, LLC. They bring knowledge in mergers & acquisition, finance, and tax and have broad industry experience. Water Street Advisors works with owners across the Midwest with a focus on companies from \$1 million to \$30 million in annual revenue. John is currently a member of the Board of Directors for MBBi's Wisconsin Chapter. They can be reached:
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The goal of a sound succession plan is to pass on what you want to whom you want. Generally, for a business owner the "what" is either passing on the proceeds from the sale of the business or the thriving business itself to the next generation. In either case, there is an incentive to pass on something valuable.

While there are many mathematical formulas to determine the value of the business, there are some subtleties that are equally, if not more importantly, considered by an acquirer of a business. Review the list below...if you answer yes to any of the questions you are potentially leaving money on the table.

1. Are 50% or more of your sales to a limited number of customers?
2. Does the business depend on one key person?
3. Do you keep doing things the same way?
4. Can your product or service be bought from others via the web?
5. Have you put off some repairs or normal maintenance of building and equipment?
6. Are most processes undocumented?

These questions are going to be asked as part of any due diligence. Test yourself before you are put to the test by potential buyers. It would be beneficial to make changes now if you answered yes to any of the above questions if you wish to maximize the value of your business.

If you are not sure how to make the changes, consider the following options. Hire an outside consultant who can give you the needed guidance and resources, it will be money well spent and get you a much higher price by creating a more valuable company. Ask your trusted and valued employees- they take pride in improving their workplace. Ask a younger worker who may have knowledge of newer processes, technology and efficiencies. Employees typically take great pride in the company they work for and when asked will give constructive advice and, with your support, will implement needed changes.

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If you are simply moving along from day to day in your business and becoming complacent, it is the same as pulling out the inside of your pockets every day and letting the change fall out. Your business is beginning to lose value. Why? You are taking out a nice paycheck, driving a company car and your insurance expenses are covered so what is possibly wrong? The advancement in technology, thought processes and efficiencies move ever faster each day. By not keeping up, by not looking at your peers and keeping abreast of the industry, you are falling behind and the value of your company is declining.

When a buyer evaluates a business, they look at all the items mentioned earlier. For every negative thought and improvement needed, the price goes down. Implementing several new things at once such as new software, equipment, and training procedures take a significant monetary investment as well as a significant time investment of the new owners and the current employees. Time spent training is time not working which is also time when money is not being made. Keeping up with things and buying a piece of software or new equipment is manageable and doesn't have such a major impact, keeps the company current and the value of the business higher. Due Diligence is taken very seriously by the buyer. There is no place to hide things as questions asked will reveal all the strengths and weaknesses of the company.

Employees are another area to try to be objective about. How will a buyer view them? Are they truly adding value to the company every day? Employees become like family to business owners, but they are not viewed that way by suitors. Help them be as good at their job as they can by mentoring, challenging, and offering them opportunities to learn. The business being sold that has a solid management team who will be around for the next few years adds tremendous value. The management team or key employees will likely be interviewed by the buyer as well, so let them have responsibilities, leadership opportunities, and a chance to make a mistake, learn, and recover.

Keep yourself accountable to someone. It can be a peer, an outside consultant, a trusted advisor. This can be hard to do and an easy thing to keep putting off. It seems to be human nature to not do something unless you must account for it. There are some amazing individuals with incredible discipline to do things without accountability, but they are far and few between.

Keep an eye on the tangible things as well as the intangibles. Both are graded by a buyer and determine the price offered for a business. It takes effort to stay abreast of everything and when you find you are losing the desire to do that, perhaps it is the right time to think about transition and giving those responsibilities to someone else. This can come in the form of a sale or a formal handing of the reins to someone else. In any circumstance, the business needs to be valued and you want that to be the highest number possible.

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