10 Business Value Multipliers

Chuck Boyce

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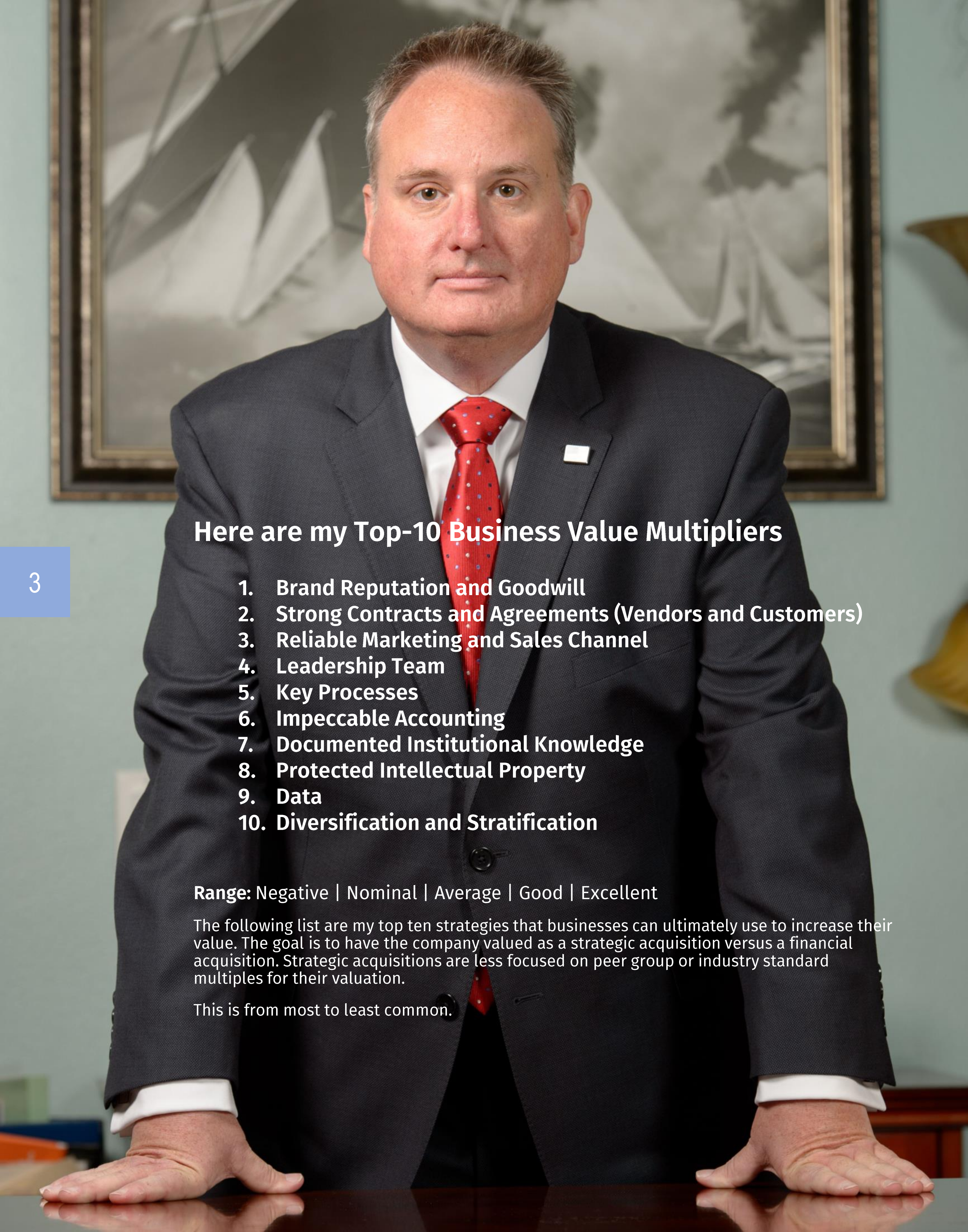

Here are my Top-10 Business Value Multipliers

1. **Brand Reputation and Goodwill**
2. **Strong Contracts and Agreements (Vendors and Customers)**
3. **Reliable Marketing and Sales Channel**
4. **Leadership Team**
5. **Key Processes**
6. **Impeccable Accounting**
7. **Documented Institutional Knowledge**
8. **Protected Intellectual Property**
9. **Data**
10. **Diversification and Stratification**

Range: Negative | Nominal | Average | Good | Excellent

The following list are my top ten strategies that businesses can ultimately use to increase their value. The goal is to have the company valued as a strategic acquisition versus a financial acquisition. Strategic acquisitions are less focused on peer group or industry standard multiples for their valuation.

This is from most to least common.

1. Brand Reputation and Goodwill

Financial Impact: Nominal
Strategic Impact: Average to Good

When starting a business many entrepreneurs will spend a lot of money and time perfecting their brand identity. From the logo, website and social media strategy, while spending less time on actually finding customers, developing relationships, and a product or service that their target market wants to buy. Frequently this is a way of delaying the business of getting down to work.

In the end, unless you've built a massive worldwide brand to the like of Apple, Amazon, Facebook, Porsche, Piaget, or the like, the branding and goodwill generated by your brand will have a comparatively small impact on the value the market assigns to your business.

2. Strong Contracts and Agreements

Financial Impact: Potentially negative to None
Strategic Impact: Nominal to Good

The ability of your company to protect itself and its relationships with partners, vendors, customers and key stakeholders is important. However, many early stage companies spend so much time on this task instead of getting customers and feedback to improve their offerings.

At the time of sale, this will be important to a potential buyer, however they will expect these to be in place. The value is more likely to take a deduction for not having these in place, rather than increasing the value if these key relationships are well secured.

Bonus, if you can create exclusivity and lock out competitors from using key suppliers, or you negotiate unique terms that are uncommon in your industry these agreements could then have a net positive impact on the strategic value of the company.

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3. Impeccable Accounting

Financial Impact: **Potentially negative to Average**
Strategic Impact: **Nominal to Good**

At the timeEvery company has to make a determination of how its financial data will be captured, stored, organized and reported. While many entrepreneurs usually view this as a chore, and quickly delegate it to a junior team member or outsource it completely.

At the time of sale this is where financial buyers are going to spend most of their time. All buyers are going to want to feel comfortable that your financial data is in good order, and most importantly reliable. The larger the buyer and the larger the transaction to more time will be spent pouring over financial data and answering questions. The ability to respond quickly and confidently will improve the odds of holding onto your valuation.

Financial data and accounting practice doesn't usually increase the valuation absent some unique cash management, collection or other strategy. However, in most transactions it will cause the valuation to go down if it is not pristine.

4. Reliable Marketing and Sales Channel

Financial Impact: **Potentially negative to Good**
Strategic Impact: **Average to Good**

The ability to attract and convert a steady stream of new customers is critical to business survival. A well documented process for deploying, testing and evaluating marketing campaigns and channels will increase the value of the business. Conversely, a business that is heavily dependent on the owner or key figures to attract new customers will suffer in its valuation.

In marketing and sales, the data will be key. A deep archive of historical campaign data shows the buyer that the business has the ability to carry on. A deep database of marketing, sales and customer data becomes increasingly valuable to a strategic acquirer that can offer additional products and services to the database of proven buyers allowing them a faster return on their investment. The more detailed the customer data is, including demographic and psychographic data, the more it is valued.

5. Leadership Team

Financial Impact: **Potentially negative to Good**
Strategic Impact: **Average to Good**

The ability of a business to continue operations uninterrupted after a sale might be the top concern of any buyer. Newer business, bootstrapped business will often push off this until conditions improve. By the time a business owner is considering a sale, there must be a solid foundation of leadership to step up, especially if the owner will not be staying with the business past a short transitional period.

A seasoned leadership team with a proven track record will help to comfort any acquirer that the business should continue to operate as expected under new ownership. Industry leaders and rockstars on your leadership team can help bring a premium valuation to a strategic buyer.

6. Key Processes

Financial Impact: **Potentially Negative to None**
Strategic Impact: **Nominal to Good**

Savvy buyers understand that in some businesses, the most valuable asset is the seller. If you don't want to be able to maximize the value of the business and not have to continue on with the new owner it is imperative that all of the key processes are documented. It is equally important that there are specific accountabilities for each process, and it can not be you.

Company's with a unique or novel approach to their business can achieve a higher valuation. Make sure that your company's "secret sauce" is documented and well protected *(see Protect Intellectual Property).*

7. Documented Institutional Knowledge

Financial Impact: **Potentially Negative to None**
Strategic Impact: **Nominal to Good**

Much like Key Process above, a regular method of capturing institutional knowledge about the systems, setup, customers, vendors is critical to the success of the future owner. Relying too heavily on someone that has been doing it the same way for a long time opens up the business to a potential disruption if that person become incapacitated and unable to complete the work.

No one person should hold so much information on how stuff gets done or how a particular vendor or customer wants to be treated. Having a tool that is universally used by all members of the organization to contribute these precious nuggets of information will improve the value of the company.

8. Protected Intellectual Property

Financial Impact: **Average to Good**
Strategic Impact: **Good to Excellent**

Don't underestimate the value that a buyer will place on the company when the key intellectual property assets have been properly registered and produced through copyright, trademark and patent, as appropriate. This shows the buyer that you are serious about your intellectual property and have taken the necessary steps to ensure that it is unique in the marketplace. This will increase the value of those intellectual assets.

Many of these protections can be put in place cost effectively. However, be prepared to mount a vigorous defence if someone is found infringing on your protected property.

9. Data

Financial Impact: Average to Good
Strategic Impact: Excellent

Data is the new currency. There is so much data that flows into and out of a business it is imperative to capture this digital exhaust. Many data can have secondary benefits to the business when used to evaluate buying patterns, customer cohorts and product flow. These data can also have benefits as a resource to other companies as lists or customers and prospects in the form of market reports and whitepapers.

Ultimately, the data in the business that is captured, stored and available for analysis can in some cases be more valuable than the underlying business that generated it.

10. Diversification and Stratification

Financial Impact: Good to Excellent
Strategic Impact: Excellent

Moving beyond the core product or services, businesses can add value by integrating up and down their supply chain. The products and services that support the core business and the delivery of its wares, can be brought in house or potentially by acquiring businesses in the supply chain. The more links that a business owns in the supply chain, the more valuable it becomes.

Additionally, looking at expertise that the company has developed to fulfil its own core purpose might present an opportunity for diversification by making those services available to others. If a company has developed the ability to capture and store massive amounts of data in real time, there may be an opportunity to offer those services to businesses with similar needs.

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