ENTREPRENEURSHIP LAW FIRM, P.L.
Advising Business Owners

## Maximizing the Value of Your Business

Maximizing the value of your business requires that you know:

- The two – and only two - types of business buyers;
- Which buyers will pay the most for your business and why; and
- How to tailor your business so it meets the needs of those buyers.

There are two types of business buyers: investment buyers and strategic buyers.

Investment buyers purchase businesses based on cash flow. They'll buy a company to get an income and for an opportunity to grow and improve the business for more cash flow.

The value of a business to an investment buyer is a function of how much cash flow the business produces and the risk of how likely that cash flow is to continue or grow in the future.

Strategic buyers, on the other hand, purchase businesses based on something more than just cash flow. They'll buy a company to get access to a component of the company that can be used to improve the buyer's existing business and for the cash flow it produces. These components can include a customer base, special technology or employee capabilities.

The key for you as a business seller is that, because of the added benefit to the strategic buyer, they'll pay more for your business than an investment buyer.

Consider a technology company (we'll call it BuyerCo) that wants to sell its product into a new market. It could try to sell directly to that market. But its sales would be limited by the experience and credibility of BuyerCo's sales team in the new market, and by its understanding of the new market's needs and terminology.

If, on the other hand, BuyerCo bought another technology company (we'll call this one SellerCo) that already served the new market, BuyerCo would acquire SellerCo's customer base and products or services, as well as an experienced sales force with a reputation and staff experienced in the new market.

SellerCo is worth more to BuyerCo because, in addition to the cash flow coming from SellerCo's existing operations, BuyerCo can grow its original business by selling more of its current products through SellerCo's sales channels, as well as cut

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The Entrepreneurship Law Firm advises business owners about starting, purchasing, improving, protecting and cashing out of their businesses. For more information about the firm and its services go to **EntrepreneurshipLawFirm.com**. We can be reached at 407-649-7777 or by e-mail at Ed@EntrepreneurshipLawFirm.com, 930 Woodcock Road, Ste. 223, Orlando, FL 32803.

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costs from duplicated back office operations.

Now BuyerCo can make a business case based on the return from the added sales plus SellerCo's cash flow and can, therefore, pay a premium over a straight cash-flow-ROI analysis.

Unfortunately, most small businesses are purchased by investment buyers because the owner hasn't planned the exit in advance, considered who could be a strategic buyer or tailored the business for those strategic buyers.

Creating a strategic buyer market for your business requires forethought and planning.

Consider what companies would likely be strategic buyers for your business. Do you have a particular niche (market, geographic or other) that another industry could exploit with current services or products? Does your business have one or two large direct competitors? What other businesses could benefit from access to your customers, your systems or your technologies?

Once you've identified possible strategic buyers, you must put in place the structure that will maximize the value of your business to those buyers.

First, build a good quality customer base in a well defined niche. Compete only on service or technological expertise. Determine your company's value proposition (which, for a small business should never be lowest price) based on your customer's needs and make sure you create a long lasting relationship so they buy from you again and again.

Next, watch your profitability constantly. Analyze every decision based on profitability. If you invest in the business, make sure you know when you'll receive cash flow from that investment. Be sure profit will grow.

Then, systematize the business, hire the best employees and pay and incentivize them to view the business as owners, even if they're not. If the business requires you to run it, it will be much less valuable to all buyers. Your key employees are part of your business' value proposition and you should have 'golden handcuffs' keeping them in place.

Of course there are particular things to do for your company, depending on its size, market position and product or service.

While planning your exit with an experienced business advisor professional likely increase the wealth you realize will from your business, taking even just a few of these steps will put you above most other businesses owners.

If you have any questions about this article or how it affects your business, please feel free to call us at **407-649-7777**.