



Value Drivers for a Small Business

Hire more sales people. Spend more on marketing and advertising. Downsize operations and service. Sell more to existing customers. Fire middle management.

As a small business owner, you have heard, considered, or even taken some of the above measures in an attempt to make your business more profitable. While these measures can have a positive impact on the bottom line, can they really have a positive impact on your company's business valuation? Will they maximize your company's purchase price when you decide to sell your business? Let's take a look at some of the key value drivers that can influence a business valuation, above and beyond financials.

Product Differentiation

Does your company have a unique recipe, one-of-a-kind formula, proprietary process, or other brand characteristics that differentiate your products from its competition, thus differentiating your company? How do you stand out from the noise in your industry to differentiate from the competition? A competitive small business that is highly marketable to business buyers should have at least one of the following characteristics when compared to its competitors: faster, cheaper, better quality. These traits are value drivers and when properly positioned, can positively impact a business valuation and perceived value from a prospective buyer.

Market Defensibility

Have you secured customers or partnerships that are loyal to you, regardless of competitive threats? Such scenarios can significantly drive the value of a business because you all but eliminate the competition and maintain a stable, predictive presence. A defensible position is something that is very difficult to replicate. This could be a product or service you have developed that is beyond the reach of your competitors due to the costs, time, and resources required to 'catch up'.

Proprietary Technology

Has your company developed a unique application, tool or technology as part of its ongoing operations? Does it give you a competitive advantage? If so, this proprietary innovation or intellectual property can be positioned as a key value driver for your business. Technologies or processes do not have to be patented to carry value but privacy and confidentiality must be maintained. It is critical that non-compete and confidentiality agreements be strictly adhered to and enforced by the company, before and after a transfer of ownership. The benefits, application and purpose of your proprietary technology should be explained to a business valuation consultant.

Strong Market Share

Is your company head-and-shoulders ahead of its immediate competition? Has your company executed a roll-up strategy to buyout the competition? If your company has been and continues to be a high-profile leader in its market, a major value driver in a business valuation is dominant market share. In addition, you may not be the leader in your space, but if your brand recognition, service/product reliability and customer satisfaction are very high, this can be very attractive to a strategic buyer. This driver of goodwill should be adequately presented to an expert when conducting a business valuation.

Repeat Customers

Is your business successful due to repeat business, year after year? Do you have long-term contracts that exceed 12-months? A value driver in contract or service-based operations is loyal customers who continually require the company's offerings due to their levels of satisfaction and consequent brand loyalty. It is important that your business not be too reliant on a handful of major clients where if they left, your business would be significantly damaged. A good rule of thumb is 25% of your revenues should not be from less than 5-10% of your clients. Should the majority of your company's revenues come from a few customers, a discount will be applied to a business valuation due lack of uncertainty and stability.

Loyal Employees

What is the average length of employment amongst your staff? A responsible business buyer will be looking for opportunities where the current staff, especially management, will remain in place, following the current owner's exit from the business. Having key employee contracts, non-competes, but more importantly a loyal, dedicated staff that is committed to the companies success regardless of ownership change will be highly valuable to a prospective buyer and thus reflected in a business valuation.

Production Advantages

Has your company found a way to be a low-cost producer of its products or services? Businesses that can effectively bring their product to market below the market average do have a cost advantage value driver. This can be achieved through key production partnerships, lean operations and financial commitments, unique employee contracts, etc.

There are many value drivers that can be found within any small business and influence business valuation; these should be investigated on a case-by-case basis, ideally with the assistance of a professional consultant. Take a closer look at your operations to uncover some of the hidden gems and unique benefits your business has to offer future buyers. While primary drivers will be reflected in your company's past and future financial performance, some of these intangible value drivers can enhance a buyer's perceived value of your business leading to a higher purchase price. You cannot reap rewards overnight, but systematic emphasis on how to increase your value through day-to-day operations will set you on the right path for higher financial rewards.

Contact Fair Market Valuations today to learn more about our business valuation services and to schedule an in-person, no obligation meeting with one of our nationwide professional experts.

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