

Let's Talk Series

# Building Value

## You are growing your business but are you growing its value?

Most leaders of privately owned companies are focused on successfully growing their business but few really look at growing their business's value, unless it's in preparation for a sale or ownership transition within a family business. "Most owners think about optimizing profits but not about building value," says Michael Epstein, Partner, Private Company Services, PricewaterhouseCoopers LLP.

That's a mistake because beyond preparing a business for sale, there are several key reasons to grow value: first and foremost, the business' value will typically represent a huge percentage of an owner's personal net worth. From the company's perspective, growing value can play an influential role in attracting

new financial sponsors, strategic joint ventures with suppliers and/or customers, as well as in attracting and retaining key employees.

Unfortunately, many private company leaders, particularly those who have never gone through the experience of a business purchase and sale transaction,

likely do not have a good understanding of what the actual value of their business is. “Without that knowledge,” says Epstein, “you won’t know how to grow it.” That’s because growing value begins with an accurate assessment and understanding of your business’s current value and then setting a goal for what you want it to be within a certain time frame.

Solid business fundamentals are critical to growing value. “I often ask business owners two questions,” says Epstein. “On a scale of 1 to 10 with 10 being great, give me a ranking to the question ‘are you reaching your profit potential?’ It’s an inverse way of talking about value. When there is room for improvement, most owners immediately think top-line sales; new products; new geographic markets. My next question is ‘How would you grade the quality of your business processes?’ In order to create and crystallize business value, you have to have a solid business strategy supported by an effective operation. I believe the fundamentals of business strategy linked with performance management capabilities facilitate growing value.”

Bottom line: it is always important to create value and have a clear assessment and understanding of what that value really is. Here are a few key strategies to help you do just that.

- In many businesses, there has to be a clear distinction between business value which includes goodwill versus the personal value and goodwill associated with the owner. “You have to separate the two out because often the business is the individual,” says Epstein. “Building value is about building an excellent management team where the owner is not integral to the ongoing and future success of the business. If the success of a business is highly dependent upon the owner’s involvement, the enterprise value of the business will be reduced, this is in contrast to a situation where an

owner has built an executive team that can carry on the continuity of key relationships (customers, suppliers and people) if he wasn’t there. That is a big piece of building value.”

- Create a strategy plan or strategy map. “It’s rare that you see small and medium sized business prepare a strategic business plan but an owner should be able to speak to the primary components of a strategic plan,” says Epstein. “The strategy should address numerous key questions which include: How do you create barriers to entry for competitors? How do you create a sustained competitive advantage? How do you create proprietary processes? What is the quality and effectiveness of your business processes in order to achieve your goals ? How do you enhance business strength by way of building a management team? “It is only when you have a clear, comprehensive business strategy can you come up with goals and objectives for both the short term and long term,” says Epstein. “The link between the ability to execute on those goals is an area where entrepreneurs don’t spend enough time. This area is called performance management.”
- Almost every single business irrespective of size will have the same five functional parts or performance management drivers: sales/marketing; people/HR; finance; operations; governance, which includes communication, leadership and effectiveness of decision making. “The deeper a business owner can take me through the quality of those five functional business parts and the more interdependent they are,, this an indicator of stronger business profitability and value,” says Epstein. “It’s those performance management drivers that facilitate the achievement of goals and objectives.

- Maximizing annual profits is obviously important, but for building business value you should set longer term strategic goals and objectives in order to create a plan for long term success. “When you do, by definition you are creating long-term value,” says Epstein. Building value takes time. In fact, it will likely take between two and five years to effect the strategic and operational changes necessary to enhance value, so don’t leave until tomorrow what you need to start today.

## Contact

Michael Epstein  
Partner, Private Company Services  
416 218 1550  
michael.epstein@ca.pwc.com

Eric Andrew  
National Private Company Services  
Leader  
604 806 7500  
eric.s.andrew@ca.pwc.com