



***A C-Suite Advisors White Paper***

Maximize the Value of Your Business:  
See Your Business Through a Buyer's Eyes

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# Maximize the Value of Your Business: See Your Business Through a Buyer's Eyes

## Introduction

Do you have an exit strategy for your business? Do you know its value? Most business owners wait until they want to sell, or until they are forced to sell, before addressing exit strategy and business valuation. Waiting means leaving money on the table.

We've all heard of owners who intended to run their businesses for many years only to encounter an unexpected event, such as serious illness, divorce, or death. Or those who someday plan to sell their business, or transition ownership to family or key employees, and will think about how when "someday" comes.

To maximize the value of your business begin planning today. The best way to do this is by looking at your business through a buyer's eyes. Understanding a buyer's perspective is the key to maximizing value, whether you plan to sell your business or use an alternative exit strategy. Start by subjecting your business to the due diligence discovery process buyers demand.

Most owners find due diligence intimidating, even unfair. Yet when you buy a house, you get a professional inspection. In fact, mortgage lenders require this as a closing condition. Why would we expect business purchases to be exempt from this process? Savvy business buyers consult due diligence experts just as homebuyers consult inspectors. As Julius Caesar said, "People worry more about what they can't see than about what they can."

So what can you do to prepare your business to "get top dollar?" First, discover what buyers want and determine if your business delivers it. Then, identify and address value gaps, just as you would fix a leaky roof before selling your house.

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## What Buyers Want

### § Strategic Fit

Why would a buyer be interested in MY business? Would your business give them access to a key product, a new distribution channel or proprietary technology? Would it increase their market share, improve their margins or increase economies of scale? To maximize value, make sure prospective buyers can confirm the soundness of their desired strategic objectives.

### § Positive Cash Flow

Cash flow is the foundation for most business valuations. Buyers look for consistent positive cash flow for the previous three to five years. Do you have documentation to support this? Many businesses have inadequate financial records to demonstrate their results. Would your financial statements, tax returns, and bank statements all present a consistent message? How stable and consistent are your receivable and payable accounts? How about documentation to support owner compensation? Buyers will not “take your word for it,” they want proof.

### § Positive Trends

Review your business for the last five years. Are revenues and margins improving? How about key customer profitability, inventory aging, and other key financial ratios? Look at employment records to confirm trends in employee turnover, compensation levels and total payroll.

### § Continuity

Can your business run without you, or other key employees? Are you dependent on a few customers for your revenue? Do you have alternative suppliers? How about the age and condition of key assets? Are contracts and commitments current and transferable? Buyers want smooth transitions so make sure your documentation supports continuity.

### § Systems and Infrastructure

Are your business plans, policies and practices documented? Do you have an employee manual? Is it current? If you have proprietary technology or other intellectual property, review your documentation to make sure a buyer will see its value. And don't forget house-keeping. Is your office clean and reasonably clutter-free? Piles of paper on the floor, dusty boxes, and work surfaces with no visible space make buyers wonder if the rest of the business is poorly kept.

## Risk Management

Buyers understand that risk cannot be eliminated, but they want to minimize and manage risk. “A danger foreseen is half avoided.” Do you have any pending litigation? Will a buyer perceive litigation risk? Changes in insurance rates, claims activity, benefits and personnel are areas a buyer might want to investigate. Are you in compliance with environmental and safety regulations? With state and federal tax regulations for income, sales and employment taxes? Are your corporate records current and your loan documents accessible?

## Conclusion

As you look at your business through a buyer’s eyes, identify value gaps. Some can be addressed with revising or developing documentation or simply “cleaning house.” Others may take years to address. For areas you cannot effectively address, consider offering representations and warranties or escrow holdback when you sell to avoid value reductions.

Is your business ready to attract “top dollar?” Remember, “Doing nothing is doing something.”

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