

Creating value

How to plan for growth by taking an investor's look at your company **Interviewed by Kristen Hampshire**

Whatever their long-term plans for a company may be, owners and investors are interested in increasing the value of their companies. When an owner takes the perspective of an outside, objective investor in looking at the company, he may see more clearly opportunities to grow value.

This type of analysis gives a company the ability to identify opportunities to increase long-term value and creates an important roadmap to help increase the likelihood of success. This strategic roadmap, coupled with a long-term tactical plan for increasing value, is critical for any company that wants to succeed in today's highly competitive global market.

This means looking beyond your five-year plan and considering what your business will look like and how your customer base will have changed 10 to 15 years from now and beyond.

"Companies that have the highest value are those with a track record of sustainable growth in sales and profitability, and that both understand their customers' needs and meet those needs as effectively and efficiently as possible," says Cathy Roper, director of financial advisory services at Brown Smith Wallace. "They know what they do better than the competition — whether that's speed of delivery, customer service, or low pricing — and really focus in on refining and communicating those differentiating factors."

The tried-and-true SWOT analysis is an important evaluation tool. Identifying the company's strengths, weaknesses, opportunities and threats can help an organization define a path toward success in the new economy.

"Other less time-consuming options can also provide an organization with actionable insights," says Tony Caleca, member in charge of audit services. "Tools such as competitive benchmarking can help expedite critical changes in the short term."

In addition, trade publications are often a great source of information on what best-in-class companies in your industry are doing and what important trends are occurring that may impact your business in the future.

However they get there, companies need a strategic plan for how they will address industry disruptions, changes in the work force, global competition, and the online business world and its lack of borders. There's also the question of, "What's



Cathy Roper
Director, Financial
advisory services
Brown Smith Wallace



Tony Caleca
Member in charge
Audit services
Brown Smith Wallace

next?" and figuring out how to execute a succession plan, particularly considering the aging population and its effect on future management at all companies, especially private and family-owned businesses.

"A big part of figuring out the next step is to carefully assess your key managers and your entire work force," says Bill Willbrand, member in charge of industry services. "Do you have the talent pool in place to take your business to the next level? And, more important, what does that next level look like? Who are your customers and what do you offer them? How will you get to where you want to be from where you are today?"

Accomplishing all this is admittedly a big task, but having the support and guidance of a team of professionals who can bring independent, specialized perspectives on these business issues can help position a company for accelerated growth.

"Whether the long-term plan involves selling the business, growing it through acquisitions, or any number of strategic moves, business leaders need help looking at their companies with an investor's critical eye so they can make the best decisions to reach their goals," says Ted Flom, member in charge, risk advisory services. "This means facing up to the hard questions, answering them and executing the answers. It's a challenging process, but it's essential to ensure sustainable growth."

Smart Business spoke with this team of professionals at Brown Smith Wallace about how to position your company to succeed.

What prime areas do investors focus on when looking at a business?

First, investors factor out nonrecurring income and expenses of the business to estimate its future earnings potential. Second, they look at the company's competitive position, along with anticipated changes in the market to determine the business's long-term viability, especially as it relates to the transition to new ownership. Third, investors will factor in efficiencies that they believe the current owner/operator has not fully realized. They want to identify areas where they can improve profitability to boost the business's cash flow and value.

Once owners recognize the areas that investors focus on, they can work to maximize the value of the business. For example, if a company's average receivables collection period is significantly longer than that of competitors in the industry (thus negatively affecting cash flow), the company can work to reduce the average collection period, improve cash flow and reduce interest expense associated with financing customer receivables. Of course, if the company is in very poor shape, investors will consider whether it's even possible to revive the business.

Investors will also look at risk factors such as too much concentration of business coming from one customer, or a critical production component whose price (or supply) is unstable and/or is controlled by a few key industry suppliers. If certain intellectual property is critical to the success of your business, the investor will want to see that it is protected by the appropriate patents, copyrights and trademarks. For example, an investor looking at a drug company is going to pay a lot more for a company with relatively new patents than he or she would for one where the patents are close to expiration with no new patents on the horizon.

Investors will also look at potential liabilities such as environmental and other regulatory compliance issues that could result in legal actions and/or fines. They will evaluate the loyalty of the existing customer base and will look for any obsolescence that must be addressed, such as equipment that needs to be replaced or upgraded, or technology that must be updated.

Continued on page 15

Insights Accounting is brought to you by Brown Smith Wallace LLC

What are the key drivers that contribute to growth and sustainability?

Sustainability relies on maintaining relevance in the marketplace. In this global economy, and with fast-changing technology, that encompasses many things. You need to be nimble, stay close to your customers, have an intimate understanding of your competition, constantly evaluate your work force, raising the level of talent, and keep an eye on the long-term business plan rather than just focusing on year-end and other shorter-term goals.

But the key driver contributing to growth and sustainability is planning, and planning requires strategic analysis — a serious look inside and outside of your business. It means asking global questions such as what is your internal capacity and how does that match the opportunities available in the market today and in the future? Then it means breaking down the hard numbers that lead to the answers.

It also means understanding what need you fill for your customers and other ways in which that need may be met. For example, had railroad executives in the 1940s and 1950s defined their business more broadly as ‘transportation,’ they might have identified the growing interstate highway system and jet planes as competitive threats much earlier than they did.

How does a company assess its management team?

First, determine who holds key leadership roles in your business. Analyze whether your business requires oversight in a particular area where it is currently lacking. For instance, a manufacturing operation with plans to expand its product offering by starting a new division might require a leader with different skill sets not currently available in the company. Or, perhaps there are areas of the business that are not competitive and could possibly be phased out in the future, but they have underutilized leaders.

Do the managers in these uncompetitive areas have talents that can be applied elsewhere in the business? If so, what additional training may be required for them to successfully make the transition? In short, assess management strengths and weaknesses with an eye to the changes required in the future.

Next, be sure that the business is



Bill Willbrand
Member in charge
Industry services
Brown Smith Wallace



Ted Flom
Member in charge
Risk advisory services
Brown Smith Wallace

successful because of what it does, not because of who does it. The business should be sustainable with any good team at the helm. An organization should continue to drive success based on properly trained employees and the right management team. If this is not the case, it's time to do some serious succession planning and focus on raising talent that can take the business into the future.

What key aspects of the work force should be evaluated?

Start by getting a business evaluation so you have a real measuring stick to use as you work toward goals. Then begin matching the talent you currently have with the organization's goals. Are all needs met? Where are the gaps?

You'll want to focus on gaining the expertise required, whether that means training existing employees or hiring new talent. This can be an especially delicate issue in a family business.

Have conversations about who is accountable at the business and where you will recruit your work force of the future. How will you replace employees, if necessary?

When should a business evaluate its strategic opportunities, and what does this process entail?

There's no better time than now. In the short run, you'll identify costs you can drive out of the business and, in

the long run, you'll be well positioned when things turn around. Evaluate the economic environment and the changes taking place in the organization and the industry on all fronts: legal, technology, market share, customers, competitors, work force, etc. The key is to map out how you will do business in the future, and what resources you need to succeed down the road. For example, those companies in the health care industry that anticipated and strategically planned for the aging baby boomer demographic are now on track to tap into a significant and growing customer base.

Of course, the global economy is a major factor. What role does your company play in this world market? Look at how the Internet, technological advances and online businesses have truly removed borders, even in industries where we never expected to see changes driven by global competition.

For instance, hospitals have typically never worried about global competition because health care used to require health care professionals to be physically present, but intense cost pressures, coupled with technological progress, are working to change that. Today, a surgeon halfway across the world may be performing surgery through the use of a robot whose movements are controlled by the remotely located surgeon. Even the location of the patient is no longer a given. Several insurance companies have started to give patients the option of flying to India to have their surgery and recuperate in an Indian hospital in exchange for reducing the patient's out-of-pocket expense.

Start by analyzing risks and opportunities your company faces today. What could put you out of business? What other alternatives are available to your customers? Think outside of your comfort zone. What opportunities exist for you in the future?

We're not saying this is easy to do. That's why working with a team of professionals with expertise in key areas such as tax planning, process improvement, valuation and turnaround consulting, and who possess extensive experience providing integrated solutions for private companies, can help you build a sustainable platform for growth. <<

CATHY ROPER is director of financial advisory services at Brown Smith Wallace LLC. Reach her at (314) 983-1283 or croper@bswllc.com.

TED FLOM is member in charge, risk services at Brown Smith Wallace LLC. Reach him at (314) 983-1294 or tflo@bswllc.com.

BILL WILLBRAND is member in charge, industry services at Brown Smith Wallace LLC. Reach him at (636) 754-0200 or bwllbrand@bswllc.com.

TONY CALECA is member in charge, audit services at Brown Smith Wallace LLC. Reach him at (314) 983-1267 or tcaleca@bswllc.com.