

## Increasing the value of your business

It is common in business today to hear people talk of adding value to a business. The term seems to be worn out by politicians and big business but how does it really affect you? While it can be easy to spend the work day focusing on making decisions, these seemingly minor decisions can have a huge impact on the value of your business and its long-term prospects.

### What is value?

Value is subjective – it means different things to different people.

For many, value in a business sense simply means what they think something is worth, ie the amount someone is willing to pay.

Adding value means increasing the overall worth of your business to yourself and if you decide to sell your business to potential purchasers.

### Why is value important?

In business, it can be very easy to focus on the short term, thinking that the long term will sort itself out. This is especially true if you have adopted a survival approach – just making sure you survive from week to week.

While survival is clearly essential when a business is just starting out, long term it can prevent you from maximising the value in your business.

### Why add value?

Adding value to your business and having a long-term focus means looking beyond how the business can simply provide an income to those who work in it.

It means seeing how the business could:

- Provide a better return to you;
- Be developed into an asset that could be sold at a premium;

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- Be further developed or expanded into a business that can provide long-term security; and
- Be developed into a long-term investment.

## Improving business value

Improving value in your business is achieved by focusing on four key items

1. Profitability;
2. Predictability;
3. Potential; and
4. Priorities.

### 1. Profitability

You make a profit by simply selling a product or service for more than it costs.

Very few people would be prepared to invest their money into a business or enterprise that wasn't profitable. Yet surprisingly, many business owners do just that, not intentionally, but because they have not spent the time to fully understand what costs or risks are present when operating a business. It is important for the business to be profitable if it is to pay you a decent salary or wage and provide a return.

At a very simple level, there are only two things that affect profit – sales and costs.

If your business is not operating at a profit level you expect or need, you can simply focus on one or the other, or both.

#### **Sales side**

This is by far the best way to improve the value of your business.

Following are some very simple but successful strategies you can adopt immediately in your business to improve your revenue:

1. Increase the amount of each sale to each customer. (Add additional services or products to the original purchase that improve the overall sale to the customer).
2. Increase the price of your products and services. In the minds of many people, price equals quality. It is important to remain competitive, but also to let customers know the additional services your business offers justifies you charging a higher price.

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3. Increase the number of times a customer purchases from you. For example, put your customers on a standing order for your goods or services or a long-term contract. Note: It is important to always keep in touch with your customers and let them know why they should be doing more business with you.
4. Remove or eliminate unprofitable products, services, and customers. While it is easy to offer goods or services, or carry unprofitable customers under the belief that they are attracting potential purchasers or will somehow improve, unless you can be absolutely positive that they will lead to additional sales you are better to focus your resources on the most profitable customers and parts of your business.
5. Introduce new products or services. While it is easy to offer a set range of goods or services, it is important to always be looking for future trends and opportunities to make sure your business remains competitive.
6. Increase the number of customers. It can be easy, especially for new businesses, to rely on one strong customer to provide all of the business. This can pose huge risks especially if this customer should decide to go elsewhere or suffer a financial setback. A larger client base helps minimise this risk.

## Costs side

Reducing costs is a complex area and each particular cost reduction must be managed with extreme care.

There are two types of costs to focus on:

1. Cost of sales; and
2. Overheads.

### Cost of sales

Lowering the costs of the goods or services you offer can be achieved by either:

- Buying lower quality or cheaper raw material and merchandise; or
- Negotiating a better deal with suppliers; or
- Finding another supplier offering a better price.

*Note: Unless you intend to compete solely on price, lower quality may have a negative impact on your ability to charge a higher price.*

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### **Overheads**

When lowering overhead costs, it is best to start with costs that do not have a direct impact on your ability to offer products and services.

Look for deals or, if possible, negotiate with suppliers of generic items such as electricity, mobile telephone, stationery, external service providers, etc. Remove rental costs by setting up your business to operate from your home.

With other overhead costs, lowering personnel costs is often seen as attractive way of achieving immediate cost savings but, depending on the type and scale of cut-backs, this might affect your ability to continue to offer goods and services.

## **2. Predictability**

Uncertainty exists in every aspect of business life. Risks are an inherent part of doing business, but eliminating or minimising those risks can improve the value of your business tremendously.

A business that is predictable offers security to others. Others are more likely to want to be involved in a business that is predictable, especially one that can provide regular consistent levels of profitability. For example, investors feel more comfortable making a loan to a business with a solid track record than one just starting out or one that experiences huge shifts in profitability from year to year.

Similarly, a new business selling unproven or new technology is seen as less secure than an established business selling proven products and services.

Given that for small or new business it is sometimes not possible for the business to predict with any certainty how they will perform, investors are typically willing to substitute this lack of certainty for a greater return or may insist that the owners make a capital injection to ensure the business has a strong asset base and that they have a stake in seeing the business succeed.

A strong asset base is a good indicator that the business is financially sound.

The types of assets that offers investors comfort are such tangible items as plant and equipment, buildings and motor vehicles, cash or intangible assets such as intellectual property which includes patents, trademark, technological designs, and people.

People are probably the most important asset in the company. Properly managed, motivated, and rewarded, they can hold the key to building a valuable long-term sustainable business.

*Note: You can improve your asset (cash) base through leasing or hiring equipment rather than purchasing it outright.*

Although this affects the businesses profitability by introducing an additional cost it also strengthens the business by freeing up cash (vital in the early stages of a business).

### **3. Potential**

Where a business operates in a market that is expanding, it has a greater chance of achieving growth. It is important to always look at the long-term prospects for your business and the potential your business has within the market it operates.

Markets that are declining or stagnant offer few opportunities to grow a business and thus to improve its overall value.

### **4. Prioritise**

Maximising the potential from these factors can considerably alter the value of your business, but it requires you to prioritise the things you can do that will add value to your business such as:

- Increasing sales revenue;
- Managing overhead and costs of sales;
- Selling only profitable products or services;
- Developing and retaining a strong loyal customer base;
- Reducing inventory levels;
- Managing cashflow; and
- Managing and retaining staff.

### **How to get started**

Talk to us. We can offer you advice and identify the profitable and unprofitable parts of your business. We can analyse your current sales and costs to demonstrate to you in clear plain language the impact minor changes in can have.

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Together we can prepare a straight-forward plan that will be easy to follow and provide you with means to add value to your business.

## See Us First

If you consider that any of the issues contained in this fact sheet may affect you.

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