

# Building value: increasing the value of your business

## Management issue paper

“How can I increase the value of my business?” This is a question that is critical to every business, large and small. The value of your business has an impact on such things as your ability to obtain financing, your income as the owner and, ultimately, the sale price of your business.

Value is a function of the earnings or cash flows of a business and the related risk. The underlying asset value of a business must also be considered in assessing the “downside” value of a business.

Sometimes the need for financing or the decision to sell a business may come up unexpectedly. Therefore, increasing the value of your business should be an ongoing process. While not impossible, it is usually very difficult to increase the value of your business in a short time frame.

### Factors affecting value

There are both internal and external factors that affect the value of your business.

External factors are usually beyond your control, however, you can influence the internal factors.

### Improving the value

In order to increase the value of your business, you should do an assessment of

its strengths and weaknesses. This will allow you to focus on the areas that require improvement. You should consider the following:

**Financial position**—What does your balance sheet look like? Is your debt-to-equity ratio appropriate for your business? Are there assets redundant to the business operations? Should they be removed from the business to improve your capital structure? Purchasers of an operating entity generally do not want to pay for any assets not related to the earnings of the business. Review key balance sheet ratios on an ongoing basis as an indicator of the performance of your business.

**Management depth and skills**—Ensure that a strong management team exists and can continue on in the business. A business that relies heavily on its owner’s personal contacts and skills for success may not be that valuable if sold because the owner may not be continuing on.

**Labour force**—Ensure the labour force is adequately trained and supervised. Review your hiring and training practices to obtain, train and retain the best people.

**Products and services**—Review customer demand for your products and services. Anticipate what these demands may be in the future. Be willing and able to react to changes in customer preferences. Establish a marketing plan. Differentiate your product. Consider surveying your customers to obtain their feedback.

**Facilities**—Conduct a complete and regular assessment of your plant and equipment. Review your maintenance program to ensure equipment does not become run-down or fall into disrepair.

**Customer dependence**—Try not to rely on one, or a small group, of customers. This may mean expanding your marketing efforts in order to increase your customer base.

**Flexibility**—Keep a flexible and open attitude. Be willing to react to changing market conditions. Keep abreast of trends or innovations in the marketplace. Be aware of what your competition is up to.

### Ongoing process

As the owner of your business, you want to maximize the value of your business for financing, income and/or eventual sale or transfer purposes. The decisions you make and actions you take on a daily, monthly and yearly basis can positively or negatively affect that value. Periodically review the above list of factors affecting value and, in consultation with your Grant Thornton adviser, continually make positive improvements in the value of your business.

Factors that affect the value of your business	
External	Internal
interest rates	financial position
general economic conditions	management depth
political and social environment	labour force
competitive environment	products and services
raw material and labour supply	facilities
foreign exchange rates	customer dependence
industry rationalization	flexibility

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