Don't go it alone

Why it's critical to establish transferable value in your business

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The largest asset on a business owner's personal financial statement is typically their company. At some point in time, however, they're going to want to monetize the value of that asset — in a sale, succession or private-equity driven liquidity event. To do that, the business must have transferable value.

"Transferable value is not what the value is to you, the business owner," says Vistage International Chair and Focus CFO Area President Jeff Semple. "It's what it's going to be worth to somebody else."

Smart Business spoke with Semple about how business owners can create transferable value in their company.

WHY SHOULD AN OWNER BE CONCERNED WITH TRANSFERABLE VALUE?

Business owners typically build a business based on what it can do for them. But at some point, they're going to want to be able to monetize all the hard work that they've done over the years. That requires transferable value, which is built through business processes that are repeatable and predictable. It requires a team capable of carrying on the company's critical functions — sales, operations, etc. — without the founder. If those aren't in place, few buyers are willing to write an owner a sizable check for what essentially is a job. A strategic buyer may be interested in acquiring a competitor's gross margin and customer base, but they may close the place down and roll the valuable assets into their own facility, which likely compromises the jobs of anyone working in the company.

HOW IS TRANSFERABLE VALUE BUILT?

Transferable value is built through systems and processes that enable someone else to make the decisions that the owner had made without directly tapping the owner's experience, knowledge and expertise. It means having proper reporting, cash flow improvements, weekly operating rhythms, management reports — a flow of information that's considered foundational to the business. That gives the new owner the ability to make proactive decisions based on where they want to take the business. On top that foundational reporting, there are elements that contribute to the health of the business such as gross margin, budgeting, forecasting, cash flow analysis, metrics and KPI's. Those combined are part of the equation that can provide a path to proactively increase company value.

Buyers are also looking for a team with the ability to make proactive decisions without relying on the business owner. The more dependent the business is on the owner-operator, the less value it has to the person buying it.

WHEN SHOULD THE PROCESS OF BUILDING TRANSFERABLE VALUE BEGIN?

In a perfect world, building transferable value starts from the day the business begins. However, owners commonly put off building transferable value because the day-to-day grind always seems stand in the way. But the day to day is never going to go away — owners will always have a fire to put out and there will never be a perfect time. Every business owner is busy dealing with challenges. By putting off the work of creating transferable value, business leaders introduce risk into the enterprise because the business is too dependent on them and they aren't able to predict how or when they'll exit the business. They could have a plan, but that plan could be disrupted by a disagreement with partners; a death, disability or an accident in the family; something that's going to essentially force the transfer or sale of the business well before anticipated. If the biggest asset on an owner's personal financial statement is unprotected because there's no certainty of when and how an exit could occur, it's a risk that should be mitigated. Further, not being deliberate about creating transferable value often means owners will likely stay where they are while others who make time for these activities achieve the success that everybody is trying to get to.

Business owners don't have to do it all by themselves. It's about leadership development and building a team with relentless execution because transferable value isn't an event, it is a journey. ●