

VALUE ENHANCEMENT STRATEGIES FOR FAMILY/SMALL BUSINESS OWNERS

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Abstract

The problem for most family owned businesses is how to realize the maximum potential from the business at the time of sale and prior to that time how to develop strategies to improve the efficiency of the operation and how to improve total revenue growth without stretching the capacity of the enterprise or going too far out of the owner's comfort zone. This article provides specific insight into what steps a small firm may take to enhance its valuation for the purposes of realizing a capital gain or for the purposes of realizing more profitability to fund retirement of the owners during transition to the next generation. This paper offers a model for implementing strategies to enhance the valuation of a small business for the purpose of realizing either higher profitability or a larger capital gain upon the sale or transfer of the enterprise.

Introduction

As small business owners get closer to retirement, they face a haunting question. What can they do to enhance the profitability of their business while still keeping the business within the size and scope of their personal comfort zone or what can they do to enhance the value of the business from the standpoint of a buyer? This article addresses those issues along with advancing a new approach to valuation of a small business.

Traditional Valuation Methods

For most small businesses, a major component of the value of the business lies in real estate assets. Small businesses that have been in the family for a generation generally have real estate that has been purchased long ago. While kept on the books at historical cost less depreciation, the firm's real estate is its major asset. Many small business owners become quite perplexed when they learn that the commercial value of their major asset has not enjoyed an expected appreciation.

Same business, same town, two different outcomes: a true case: A family that had been in the dry cleaning business in Colletown, Texas were nearing retirement. They decided to finance part of their retirement by leasing their building to their son and daughter in law for a modest rent. The son and daughter in law would run the dry cleaning business giving half of their profit as payment over 15 years as payment for stock in the family corporation. Unfortunately, two events shattered their retirement plans. First, several competing "discount" dry cleaning stores were opened by some families who had emigrated from India. They offered discount prices which put price pressure on the existing business. The young couple struggled to maintain any volume as they were slow to reduce their prices. The new dry cleaning stores were located in modern "strip" shopping areas with convenient parking and high visibility locations. Even the

modest rent was a strain for the young couple as one spouse had to seek a job with Wal-Mart to make ends meet. The young owners lacked the capital to renovate the front of their old building whose signage was faded and the cracked driveway projected a dilapidated appearance. The front counter area was poorly air conditioned and evidence of roof leakage was apparent. When their son gave up and took a job at a local prison, the family sought to sell their property. Located on a major road, they priced their property accordingly. However, the property sold 18 months later for one fourth of their asking price. The reason: environmental concerns. The property was so old that drainage pits were evident in the back of the facility where antiquated equipment stood. The family had not reinvested in new equipment in thirty years or more. It was clear that any renovation would result in serious environment rehabilitation.

In the same community, an entrepreneur operated a competing laundry. This building was well maintained, had fully air conditioned reception area, offered on site tailoring and handled tuxedo rentals. When the owner decided to sell, he was able to offer the buyer a financing package that permitted the owner to enjoy \$100,000 a year for 10 years plus a substantial down payment. The equipment was not only up-to-date, but there was experienced supervisory and fully trained hourly staff that remained with the business. All equipment and operations complied with current industry and environmental standards. While the laundry faced the same competition from two new discount cleaners, their quality standards and service to customers (who were all recognized by name by their staff) allowed them to continue to charge premium prices for their services. The final payment to the owner has been made and the new owner reports that his business is profitable.

Both businesses permitted each family to raise their children. But each business had a different fate and different valuation. In yet, these businesses were highly competitive and profitable for most of the time they were managed by their founders. However, one founder reaped over a million for his business, while the other reaped less than \$30,000. They operated the same business in the same community less than two miles apart.

This research presents a novel approach to enhancing the profitability and valuation of a business through the use of SSBOV – Stowe’s Small Business Organization Viability model and unique strategies that flow from the application of the model. With the current generation of entrepreneurs establishing businesses that have little or no real estate, the strategies advocated in this article have even more applicability to internet-based businesses.

From the Buyer’s Perspective

When small business owners contemplate putting their business up for sale or transferring ownership to the next generation, their perspective is based on their experience. More than likely, they started their business with little capital and worked extensive hours to create sufficient revenue that allowed them to meet payroll and eventually to provide for their families. They see the business as requiring hard work, a dedication to their customers and a willingness to assume risk. That is what they invested and that is why they feel the sale or transfer of their business should be sufficient to fund their retirement. The problem with that perspective is that it doesn’t quite meet the economic reality facing the buyer. In placing a value on a business, it is critical to understand the buyer’s perspective. Even in the case of a family member assuming the

liabilities of the business and some sort of payment schedule to acquire the assets, the new buyer is faced with the choice of acquiring an existing business or simply starting a new one. Non-family, sophisticated buyers are going to look at the price of real estate and the costs of “starting from scratch.” Take the example of the accountant selling his practice. While real estate has appreciated, the issue is whether the current offices are as modern and well-kept as newer space for rent and whether the current offices are located in an area that is enjoying economic growth. What was once a thriving downtown, for example, may now be a downtown with practically no commerce or retail businesses to support an accountant’s office as new banks and financial institutions have moved out to the suburbs or to new office complexes. While the appraised value of real estate may be high, the true economic value or best use of the property has changed to the disadvantage of the buyer. Unless the firm has recently acquired equipment, most manufacturing and office equipment depreciates dramatically regardless of its productivity. So, the valuation of the real estate may be valid for redevelopment of the property, its value to the business may have diminished as compared with newer sites.

Another issue facing the buyer is the sustainability of the business. Buying an existing business is supposed to provide the buyer with “goodwill” or the prospect that customers value the reputation of the business and will continue to patronize the establishment after new management assumes control. The issue becomes – how much is that worth and how certain can the buyer be that there will be repeat business from past customers? The truth is that the business’s customers may well be contemporaries of the owners who are not bound to require those goods or services for very long!

Ultimately, a sophisticated buyer is going to compare the cost of starting from scratch with the tangible and intangible value of the business to compute a return on investment. In so much as the founders had little or no initial investment, their return has been excellent. But agreeing to pay \$1,000,000 to acquire a laundry means that one should be able to contemplate earnings that would exceed what one would obtain from simply buying government bonds or investing in the stock market and living off the dividends and capital gains. The selling small business owner will argue that their income has been quite good and that the business has enjoyed relative stability. The sophisticated buyer understands that merely enjoying the income previously earned may not be enough to justify their investment given other alternatives.

The Small Business Organization Viability Matrix

The Small Business Organization Viability Matrix consists of four major components: marketing, operational internal controls, management, and financial harvest. The full matrix includes extensive instructions on weighting each component to arrive at a total calculation of a small business’s viability as an enterprise but this facet of the matrix is not essential for using the matrix as a strategic model for improving the valuation, profitability and growth of the firm. What is essential is to apply these features to small business reality to enhance either the potential for capital gain upon sale of the business or to enhance the performance of the business.

The first and most important component is marketing. In terms of selling a business, the real value of the business lies in its systems for creating profitable growth in sales. This means selling to customers who have the capacity and willingness to pay and have the capacity to

increase their future purchases of goods or services from the business. An embedded system that targets the right customers as opposed to passively servicing customers who arrive due to “word of mouth” is an extremely valuable asset that is not measured by financial statements. An example of this is when an eye surgeon decided that he was going to sell his practice. So, he reviewed his patient’s charts and decided to do as many surgeries during the year prior to offering his practice for sale. Without the use of the SSBOV, a buyer might look at his last income statement and conclude that he had a thriving practice. The reality is that those patients he served had all had major surgeries during the prior year and would unlikely require that extent of medical assistance in the future. What the eye surgeon’s practice did not have was a formal, documented system of identifying new patients or a formal method of communicating to that potential population. As a consequence of using the SSBOV, the buyer offered 1/10th the asking price which was taken after six months by the surgeon who was anxious to leave that community. Had the seller used the SSBOV instead of his strategy to pump up sales during the year prior to the sale, he would have made a better case for his desired asking price.

For each component, there are several specific areas worthy of investigation. Take for example the issue of business threats and environment. A business that has few technological threats has a higher likelihood of survival and profitability than one where technology may change the industry. A plumbing supply firm that is surviving even with competition from major warehouses is likely to remain viable so long as they maintain a tight inventory and do not stock too many supplies that are likely to become obsolete. There is somewhat less of a challenge for a plumbing wholesale business than for a computer wholesale business!

Another example of the impact of technology on a business involves a pager company that was for sale. Here again, the financials were quite impressive. A prospective buyer was delighted to compute that the paging company had 65% of the market share, had good visibility and location, reasonable rent and purchased the business. Unfortunately, he failed to use SSBOV and failed to consider that the pricing of cell phones would drop so far that the market for pagers was wiped out within six months of the purchase of the pager business. The premium or “goodwill” that he paid for the franchise for pagers in that area became worthless as his customers bought cell phones to replace pagers. For the seller, the timing was perfect – he sold out at the peak of his company’s financial performance.

Marketing is listed as the first component since there is no business viability without a system that produces sales. In addition, it is THE critical and most valuable corporate asset.

For each element of component, there are high, average and low ranges with descriptions of what conditions fall into those ranges. The statistical methodology is excluded from this discussion because it is less relevant to developing strategies to enhance the valuation of a small enterprise.

SSBOV Matrix™

Criteria	Potential Viability		
	High	Ave	Low
Marketing Component			
Sales growth for the company as compared with that of the industry.	Both industry growth rates and company sales growth rates exceed the population and inflation growth by more than 5%.	Industry and company growth rates meet population and inflation growth.	Industry and company growth rates are lower than either population or inflation growth.
Marketing system	Documented system to target and develop new customers, system that tracks sales, system to train employees as to 5 steps towards sales, system to seek additional sources of revenue and documented "lessons learned"	Some documentation of sales histories, data on customers (payment history and ordering history), some advertising plan or agency assistance, some personnel who are dedicated to sales	Owner solely responsible for sales based on personal relationships. Owner describes system as "word of mouth"
Gross Margin Stable or improving	Gross margin is above industry average and growing or stable	Gross margin is at either industry norm or at the norm for that size business	Gross margins under pressure and weakening
Business threats or business environment	There are either sufficient barriers to competition or there are few barriers but the business environment is stable. No major technological developments threaten the business or the business is quite well-connected with its vendors and keeps abreast of changes.	The environment is competitive, but the business is localized and well-regarded by customers. The owners participate in some trade associations to learn of new technologies available and no major companies have decided to attack their markets.	Major publicly held corporations with substantial purchasing, marketing and distribution power threaten to render the business model unprofitable (example would be Wal-Mart versus a Mom and Pop department store).
Operational Internals Component			
- Accounting system integrity	Either full time or part time professional is engaged or there are accounting professionals. Monthly statements and supporting spreadsheets used to manage the enterprise.	Annual financial statements, payroll handled by professional service or internally. On demand reports available (aging schedules, inventory, etc)	Relative who is not trained in accounting does books. Difficult to obtain reports on a timely basis. Personal expenses covered by company checks
Financial Reporting System			
	Routine generation and use of accounting data to manage cash flow, analysis of use of cash, controls over purchases	Annual report or even monthly financial reports to lenders	Owner watches sales and expenses but no routine financial reporting

- Budgeting System			
	Budget prepared annually and reviewed on a monthly basis. Analysis of local economy tied to industry and compared with competitors or with benchmark goals. Variances are used as "early warning indicators"	Annual budget only.	Maybe a budget for sales and overall expenses, but not detailed and not tied to any economic analysis or industry developments. Budget reports are not really used for specific management decisions.
- Operations and Technology Plan	Firm has employed up-to-date technology to assure quality and price competitive product or service. Owner routinely attends trade shows and has excellent vendor relations to learn of latest in technology. Employees are well trained in using and maintaining equipment and computer systems.	Mixture of old technology and new technology applied as owner can afford it. Owner is best at production or service with employees less capable.	Mostly standard technology used. Only owner uses newer equipment to service clients or produce products. No planned schedule of updating or training.
- Vendor relations	Vendors consider this firm to be the best in serving customers. Vendors frequently visit and share information on what is going on in the industry. Some vendors use firm for beta testing new products or technologies.	Firm pays on time and generally has a good reputation though business is subject to cyclical swings.	Problems with vendors due to slow pay. Little communication or exchange of information.
Management System Strategies			
- Innovation Systems	Documented reward – incentive system to recognize innovation. Appropriate training in improving individual creativity and organizational innovation. Frequent meetings of teams of employees sharing “gripes” and observations over inefficiencies/improvements of product, service, logistics, accounting, opportunities for new streams of revenue through new products, services, or marketing of data. Documentation system of “lessons learned” that is indexed and available to other technicians, sales, management personnel to avoid re-inventing the wheel.	Employee suggestion box, brainstorming sessions, documented employee involvement with strategic planning. System to track and report changes in the business environment. Annual development of strategic plan.	Owner occasionally attends trade shows, interacts with key vendors, occasionally reads news of the industry. No formal documentation of knowledge gained through years of experience in the industry.

- Depth	Several layers of individuals who have big picture of what business is about and empowered to make decisions for the owners (could easily be promoted to senior level). These individuals have full knowledge of the financials of the business.	One or two employees are trusted "seconds" who can step in when owners are away to run the shop for limited periods of time. They do not have full knowledge of financials of the business.	The only back up is a relative who either works in the business full time or may even be a part time worker. The relative has some understanding of the business but doesn't consider the company to be their career. Or, there are no back up individuals if the owner is sick or on vacation.
- Written job descriptions	Routinely update job descriptions and documentation of system for evaluation tied to profitability of firm or quality of service.	Some job descriptions used to set hiring criteria. Informal evaluations but not documented.	No job descriptions are provided as individuals are hired informally.
- Training	Documented training materials and certification system (either external or internal), schedule of retraining, safety training as appropriate. Firm uses local community college or trade association seminars or builds own web based training systems. Training is embedded within the culture of the organization and financial goals. Training received is documented. Training is developed by the company and not just obtained from third parties.	Some outside training provided to employees as needed. Perhaps some tuition reimbursement for outside education or financial support for membership in trade associations and for attending trade association seminars.	On the job training only.
- Succession plan	Complete succession plan for all positions. Everyone is trained for multiple responsibilities.	Senior owner has identified a number two person to give limited training to assume responsibility when sick or on vacation.	Other than "on the job training and supervision," no training and no plans if owner dies.
Financial Harvest			
- Personal Financial Planning	Owner(s) live below means and have: * health insurance * savings for retirement * cash to replace 6 months of no earnings * life insurance	Owners draw market salary properly reported to IRS, some savings.	Owners paid periodically as business can afford it. Little or no retirement savings, little or no health insurance.

- Employee benefits	Employees receive: cafeteria plan including disability (long and short term), life insurance, retirement, health savings account, catastrophic health, education reimbursement, workers compensation insurance, etc. Recognized firms used for benefits. Employees receive training on personal financial planning. ERISA compliant disclosures.	Employees receive some health insurance, but no tuition reimbursement, no life or disability. Worker's compensation provided.	Employees have minimal required benefits, no compliance with ERISA
- Business Assets	Documented systems (marketing, production, quality control, hiring, training, MIS), professional management, strong contingency planning, multiple streams of revenue, cross trained employees, above norm profit levels. Intellectual property strategies in place.	Some good employees capable of running business.	Octopus management all centered on owner(s). List of customers, "reputation" based on owners relationships.
Business Insurance	Business interruption insurance, life insurance on key personnel, business interruption insurance, vehicular insurance at max, use of strong firm to annually review risk management issues.	Use of local insurance agent for average coverage.	Minimal or no insurance.

Marketing System for Value Enhancement

The SSBOV was developed for the purpose of giving prospective vendors, customers, employees, lenders and investors a tool for valuing the relative viability of different small businesses. The SSBOV was prompted by Melicher and Fisher's Venture Opportunity Screen™ which they developed to give venture capitalists a method of comparing different business opportunities for investment purposes (Melicher and Fisher).

As related to a small business owner contemplating strategies for enhancing the value of a business, SSBOV provides a useful framework. The SSBOV as illustrated above departs from traditional accounting methods of valuation (ongoing business, fair market value concepts, present value of future streams of income, capitalization of income, etc) to structural and operational considerations that have value to the buyer. What makes for real value is what an arm's length or truly independent buyer is willing to pay for the business.

An individual or competing business has two choices: buy an existing business, or invest in starting an entirely new business or operation. Understanding this reality is important for a prospective seller. A buyer's major incentive in deciding to buy an existing business is the level of sophistication of the marketing/sales system. The importance of a marketing system to a prospective buyer cannot be overstated. The fundamental reason for the popularity of franchises is that buyers feel some security in thinking that they are avoiding the risks and uncertainties of marketing. Generally, people buy franchises because they are convinced that the franchisor has

great insight into how to produce sales. While accountants talk of “goodwill” and the intangible value of copyrights, trademarks, and patents, the buyer is worried as to how to attract customers.

It would be interesting to test the hypothesis that the more sophisticated the expertise is to produce the product or service, the more likely the buyer is to be concerned about the marketing – although there is plenty of anecdotal evidence to suggest that the opposite is also true: the less sophisticated the product or service, the more concerned the buyer is over how to generate sales. Regardless of what the research might reveal, the importance of having a marketing-sales system should be of critical importance to a prospective buyer.

Developing a marketing system for an individual who has owned and run a small business for most of their life may require the services of an outside consultant or a very curious relative. In a 20 year survey of over 400 small businesses, this researcher found that the most common response to how do you obtain sales is “word of mouth.” Unfortunately, that answer indicates that the small business owner has no true system of targeting, messaging and developing new customers. The answer “word of mouth” means that the owner has developed friends in the community and has long since forgotten how the individual developed their “network.” The second most common answer was that “advertising” promotes sales and some of the respondents actually claim to have an advertising plan (which was developed by their local advertising agency or even by their local newspaper). The advertising plan rarely has a feedback mechanism to document its results. Some businesses will respond that they have a list of customers who buy from their business. However, the list usually consists of the names, phone numbers and addresses of their customers. The list rarely contains details of how much market share their customers have (if the customers are businesses), buying patterns, history of payments, business cycles and their impact on specific customers, records of customer concerns or feedback, insights on the goals and strategies of their business customers, factors that influence their buying decisions, changes in ownership and personnel, etc.

The best return of investment of time and money to enhance the value of a business (and to increase its revenue) is to develop a marketing system. A marketing system is much more than a marketing plan which is usually a schedule for advertising expenditures. A marketing system is the documentation that would enable an owner to transform every employee into a sales agent. A marketing system is the documentation that allows an individual who has no particular sales finesse or experience to become a selling engine by directing their activities and making them report or document the outcome of each activity into more information about prospective clients or customers in a manner that invites continued communication between existing and even between prospective clients or customers.

A well developed and well documented marketing system has the potential to shift the valuation away from debating the asset valuations of old equipment or real estate values into a multiple of current earnings (which increases the value of the firm substantially). The value of the McDonald’s franchise does not lie in the mystery of cooking a hamburger – the value of the McDonald’s franchise lies in the brilliance of the marketing system and public recognition of the brand and the almost addictive strategies of toys that McDonalds offers to secure the loyalty of young children. The McDonald’s marketing system resides at headquarters but some of the execution involves the local franchisee. For a small business to take the time to develop a thorough and documented marketing system provides a prospective buyer the justification to

offer more than book value of assets because the buyer's greatest concern is whether they will have sales. Generally, buyers of businesses have expertise in the business but not in marketing. That is why they are even considering buying an existing business. Their hope is that the momentum of the existing business will be enough to sustain them with customers until they can figure it out. A marketing system should include a sales training manual, a schedule of activities, the three key messages, examples of advertising and direct mail that worked (and didn't work), the procedures to identify by name and address specific desirable customers and scripts for each likely communication with prospects, along with two different marketing plans that are executed concurrently with feedback/evaluation and cost-benefit analysis built into each of at least five marketing activities per plan. Such a system means that the business does not rely on the skill sets of individuals who happen to work for the business to create profits or on random chance of "word of mouth." What a marketing system does is provide a culture and operational system whereby anyone hired to work for the firm has the guidance and instruction to generate sales. That is really what makes Dell such a profitable enterprise. Dell has the ability to hire individuals and put them on telephones with scripts and information that allows them to convey competence to the mass market. Similarly, what makes Marriott such a profitable enterprise is not that they know how to change beds, but how to manage a hotel to maximize occupancy rates.

Operational Internal Control System for Value Enhancement

Second in importance to having a sophisticated marketing system is the need to have strong operational internal control systems. So many small businesses do not invest the time or money in acquiring and managing data which is the core of their "intellectual capital." To use an analogy, a ship without a navigation system is not worth much. While the ship might be seaworthy and while the current captain may know where he is going, the lack of a navigation system means the new owner can easily get lost in perilous seas.

The areas of operational internal control systems are more inclusive than just having a set of financial statements. The key is whether the small business has developed reports and data that are actually useful in managing the enterprise. A vivid example is an owner/operator of a small convenience store located next to a large mirror factory. The owner/operator was meticulous in documenting sales and maintaining his inventory. He had worked for 20 years for a large retail organization that had gone bankrupt because of a lack of inventory control. So, in running his small business, he kept a detailed daily record that not only showed what was sold that day, but he traced the sales to specific events on the calendar including weather, and community events such as the opening of deer hunting season (resulting in greater sales of ice, food containers, etc), major football games, and his own marketing/advertising initiatives (including when he changed his signage, radio and newspaper advertisements, the distribution of flyers, etc. He and his wife added a kitchen and provided lunch bags of homemade sandwiches for a flat fee. This turned out to be a revenue producer as many factory workers would pick up a sandwich to take to work. As a result of talking with his customers, he learned that there were financial problems at the plant and he decided to sell his convenience store. He was able to show a prospective buyer his detailed diary that was tied to his inventory order and control system. The buyer was so impressed that even after the closing of the plant was announced the buyer paid asking price for the opportunity to run that convenience store. Documented knowledge has value to buyers. Interesting that across the street, a convenience store was also for sale. That owner did not have

a strong operational internal control system and even though it's prior year financials were quite strong (due to the sale of pornographic magazines (which my client did not sell), no buyer was found and the store simply closed and sold for a discounted real estate value. Though admittedly anecdotal, the point is that information properly packaged can result in enhanced profitability and enhanced potential for capital gain.

Management System Strategies

At the top of management system strategies is the need for the small business to incorporate innovation in their culture and practice. While a relatively new concept in management literature, there is not much dispute that innovation is the key to survival in a highly competitive and increasingly globalized economy. Regardless of the size of the enterprise numerous academic studies conclude that “the key for enterprise success in the competitiveness sweepstakes in a globalized economy is developing an organization for sustained and successful innovativeness (Hamel, 2006; Khandwalla and Mehta, 2004; Ravasi and Lojacono, 2005; Voelpel, Leibold and Tekie, 2005).” (Khandwalla, p. 3). The challenge to the owner/manager of a small enterprise is to develop a system of incentives, training, activities and policies for learning creativity and innovation. Even if the business has few employees, the existence of a well documented system of self-analysis, creativity and continuous improvement is of great value to a prospective buyer. When competitors or large conglomerates purchase competing businesses, a major element in their decision to acquire the business lies in their perception of the structural intellectual capital resident in the business. A documented system that reveals the strategies used to improve product, service, logistics, or any other aspect of the business is extremely valuable. Such a system is more than a training plan or attending a trade show. An innovation system is a business commitment to resiliency, responsiveness, and aggression in seeking new streams of revenue, new ways to improve the product or service, or new ways to enhance productivity – and these must not be done at the expense of another but in concert.

Many academic research papers invoke 3M whenever discussing innovation, but innovation is not exclusive to large firms. Smaller organizations have been credited with producing over 20 times as many innovations as larger organizations per R&D dollar than large firms (Rastogi, 1987). In a study of 50 ‘breakthrough’ innovations of the 20th century, every advance came from a relatively small firm (Klein, 1977). Regardless of the size of the enterprise numerous academic studies conclude that “the key for enterprise success in the competitiveness sweepstakes in a globalized economy is developing an organization for sustained and successful innovativeness (Hamel, 2006; Khandwalla and Mehta, 2004; Ravasi and Lojacono, 2005; Voelpel, Leibold and Tekie, 2005).” (Khandwalla, p. 3). The less brick and mortar or tangible assets, the more important is a system that fosters and tracks innovation and creativity to the ultimate performance and value of the enterprise. The challenge for the small business owner is how to make the time and make the investment in activities and strategies that build the intellectual infrastructure of their business.

Financial Harvest Strategies

The financial harvest strategies revealed by the SSBOV is the final component to the matrix. Here again, the SSBOV brings a perspective to valuation of a small firm that is not revealed through an income statement. Take an example of a company that shows a profit of \$250,000 a year on sales of \$1,500,000 versus a company that shows a more modest profit of \$100,000 on sales of \$1,500,000. Traditional financial analysis would suggest that the more viable operation is the business with the greatest net profit. However, if the difference is based on a lack of insurance coverage, a lack of retirement plan for employees, a lack of health insurance for employees, a lack of liability insurance (both premises liability and product liability), which company would make the better acquisition?

Documentation of systems is an extremely valuable asset. If the difference between the two companies in the example above was due to a lack of such documentation, the value of the company from a sophisticated buyer's perspective might be influenced. If there is no documentation, serious problems for the new owner would be much more likely simply due to normal employee turnover, not to mention the turnover that sometimes occurs when ownership changes. Or, taken from a more positive perspective, a company that has detailed documentation, operations manuals, written training programs, formal marketing system (as previously described) suffers less when individuals decide to leave for other opportunities.

SSBOV as a Platform for Value Enhancement Strategies

This paper has introduces the SSBOV Matrix as a tool for developing strategies to increase the valuation of a small business. With the aging of the so-called baby boom generation of entrepreneurs and small business owners, the relevancy of this topic will become acute for aging business owners. The challenge for a small business owner is to put themselves in a position where the day-to-day operational concerns do not overwhelm their ability to find time to build systems, develop their business culture, better train, incentivize and empower employees to assume the ability to become problem solvers instead of mere tentacles directed by the ever present owner (a management technique best described as Octopus Management!).

The use of the SSBOV reveals that traditional approaches to valuation based solely on financial statements does not fully recognize the longer term viability of an enterprise. The components of the SSBOV are directed toward evaluating the ability of the enterprise to operate in the future rather than simply creating standards to measure past performance. What a buyer is seeking is that potential future revenue. The use of the SSBOV therefore represents a significant redirection and hopefully more innovative approach to valuation of a small firm.

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