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Grow The Value of Your Business

There are plenty of things we can't control: the economy, interest rates, what our competitors do and the behavior of our employees. But, as a business owner, your business's fate is in your hands. If you want to realize the future you envision for your business – if you want to live the retirement you've worked so hard for – you need to understand, take control of and grow the value of your business.

Most owners merely guess at the value of their business… and most guess incorrectly. Do you know the real value of your business? Would you bet your retirement on it?

Know your business's value – its real value – so you can strategically grow it and plan for its future.

Three broad strategies to grow the value of your business are:

- Increasing future cash flow
- Decreasing your business risk
- Increasing the growth rate of your business

It's All about the Benjamins
If increasing your cash flow is the name of your game, here's some good news: If you employ good, efficient management techniques, you can significantly increase cash flow without significant effort.

The best area of focus is your gross margin – arguably the most important part of your income statement. Growing that number is of utmost importance. Does one of your products or services provide a greater level of gross margin than others? Focus your efforts on more profitable offerings. You might even want to eliminate offerings that aren't as profitable, and be sure to compare yourselves to industry averages.

Your target gross margin number depends on your industry, so do your homework to find out what a healthy number is for your industry. Your accountant can help you identify a good target, and then develop strategies to work toward it.

Your inventory and accounts receivable should have a healthy turnover, too. If you're holding on to too much inventory for too long, you're killing your cash flow.

Risky Business

Business comes with risk. But in terms of growing your business's value, nothing is easier to control than certain risk factors. When you think about risk, ask yourself how likely it is that your future cash flow will decrease and what would be the cause of that decrease.

What are those little things that pose a threat – however big or small – to your business? Specifically, look at:

- **Customer concentration.** Do you have a diverse customer base, or does a small group of customers account for a majority of your revenue?
- **Depth of management team.** Do you rely too much on a handful of key individuals? What would happen to your business if someone left?
- **Supplier relationships.** Keep a diverse base of suppliers. If you rely on the same supplier for pretty much everything, you'd be in big trouble if something happened to that supplier's ability to produce.
- **Barrier to entry.** Is it easy to make what you make? Sell what you sell? You must protect your intellectual property and raise the barriers to entry for competitors. Provide a unique product or service. Make certain that you have the proper protections on your unique product or offering (such as patents, copyrights or trademarks). The iPhone® was the first of its kind. Apple® constantly innovates that product as new competitors pop up to keep delivering a unique phone that people want to buy. Take a page from Apple's book and make it hard – or better yet, impossible – for others to do what you do.

Growing Smarter

So, how do you increase the growth rate of your business? You could sell your existing offerings to more people. You could create new offerings to sell. And you could expand your geographic reach.

Before you move forward with any of those strategies, do your homework. And make sure you remember that growth itself could become a risk. Make sure you don't grow too fast. Make sure you grow in the right way – you're looking for profitable, sustainable growth.

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Do Not Pass Go

Now that you know the value of your business and have a plan to grow that value and control your destiny, it’s time to focus on your exit strategy.

Let’s say that you want to retire with $3 million in your pocket. If you know the value of your business and how far you have to go to reach your goal, you can develop strategies to try to grow that value before you hang up your hat.

Or maybe you have a different goal. Maybe you want to turn the business over to your kids in five or 10 years. In this case, you still want to grow the value. However, you will want to gift your stock before your value increases too much and make sure you have properly funded your retirement. In addition, you might want to set up a family business council and get your kids involved with the business early so they can thrive after you exit.

A family business council is a great way to involve your business’s future leaders. The purpose of this council is to discuss high-level issues surrounding the business. Not only does it get everyone involved in the future of the business while you still have control, but it gets issues out in the open to keep family harmony in place.