<u>THE SMALL BUSINESS CFO REPORT</u>

Helping you create equity in your business

I. Building a Business

If you had to sell your business today, what would its value be? Who would want to buy it? Would you feel good about displaying your business to others - confident in the systems you have created, the employees and clients you have, your relationships with vendors? Would your financials give a good picture of your business? Would they present it in the best light? If you had to put your business up for sale now, would it be more of a "fixer upper" or a "jewel"?

We often make decisions on home improvements based on how they will impact the future market value of our house. How often do we make business decisions based on how they will effect the future value of our business? Let's face it, when it comes to business, we often let our business run us. We react rather than anticipate. We solve crises rather than plan to minimize them. We run a business rather than build a business. We live in our homes, but we also count on them increasing in value over time - building equity. Our businesses provide us a living and they can, and should, be increasing in value over time - building equity.

Even if you never plan on selling your business, you should be concerned with growing the equity in your business. If you make your house more attractive to potential buyers, it will also become a nicer place for you to live. If your business becomes more attractive to others, it will become a better place for you to be, too. The things you do to create equity in your business will improve the way your business runs and improve its profitability.

II. Working on the Business

There are many things you can do to help build equity in your business and we will deal with some of them in detail in future reports. The most important thing you can do to build equity in your business, however, is to begin working on your business rather than just working in your business. How attractive is a house where things are strewn all over the place, paint is peeling from the walls, appliances don't work right and rooms have been added here and there without thought to how the design might best function for the occupants? How valuable is a business where systems aren't in order, financials are a mess, and there is no discernable business plan? To create value in your business, your business must be more organized and efficient. A small business must be especially well organized and efficient, and it must be clearly differentiated and identifiable just to compete with larger businesses that are better capitalized and have more resources.

To start creating equity in your business you need:

1. A clear identity and vision

2. A good plan

3. Reliable systems

We live in a democratic society, so we are conditioned to think that decisions can and should be a group process. A business needs a leader, however, someone to set the tone and take the ultimate responsibility. Integrating a business from the top down helps create equity. The best way to start working on your business is to focus on creating a solid identity and vision, to craft a workable plan and to see that reliable systems are developed. If these are not tasks you do well, then see that someone else in the organization does them, but you need to take the ultimate responsibility for seeing that they are done and that they are followed. That is what the head of a company does. If you want to be serious about building a business, about building equity, then these tasks need to be done.

III. The Process

There is a difference between having a plan and planning. Life is dynamic, not static. Once you have a plan, you need to keep planning; you need a planning process. Part of that planning process should be to measure your business equity. Part of that process should also be to factor creating equity in your decision making. To help in running this process, you need some benchmarks to measure things by. In larger corporate circles, this process is referred to as Value Based Management.

Once again, look at your business through the eyes of a potential buyer. What things could you do to increase the value of your business to that buyer? Would increasing gross sales create value, or would increasing net profits be more important to a buyer? Does your operation need to be bigger or smaller, does it need to be in new markets or out of some existing ones? Does it need better systems? Does it need more reliable financial information?

Write down the most critical items to your company's value in order of their importance. Then, develop ways of monitoring each of these items. For example, you could track gross sales and gross profits to monitor revenue growth, or develop checklists to monitor how well your systems or financials are doing, or look at sales by market to measure market penetration. Keep the measures as simple and easy to accumulate and monitor as possible.

Then you should set up a process by which these measures are reviewed in a timely fashion (say monthly) and where you set a list of action items to improve your success in these areas. You should also periodically (quarterly, semi annually, annually) review the critical items and overall plan for changes (a new critical item may need to be added, an old one dropped). Finally, you should do an internal valuation annually, and from time to time you might want to have an external evaluation done, too.

IV. Summary

Creating equity in a business requires planning and organization. Most of all, it requires the commitment of the business owner to pay attention to building the business rather than merely running the business. There are many ways of increasing the value of a business, but the first step in the process is a shift of the owner's priorities from working in the business to working on the business. The owner must be willing to take responsibility to make sure the things that need to get done to create equity actually get done. The owner must see that an identity and vision are created for the company, develop a workable plan and effective systems. Then, the owner must assure that a process is put in place to identify and measure items critical to equity creation and to follow up with action items for equity creation. Finally, this process should include periodic reviews of the vision, the plan and the critical items for changes that need to be made, and periodic internal and external valuations of the business.