Increasing Revenues During Tough Times

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Why should you worry about creating value when you've got more pressing fires to fight? Well, if you hope to sell or transfer your company when tough times end, your company must be valuable enough to attract a buyer and to finance a comfortable life after the sale.

We are not advising you to ignore the various fires that threaten your business today. We are suggesting that you fight those fires with your endgame in mind.

One way to create a valuable company is to create and adhere to a realistic growth strategy. (We'll talk more about growth at the end of this article.) Other means of increasing the value of a company (also known as Value Drivers) are more closely related to increasing the revenue (but ultimately the value) of your company. These include:

- A stable and motivated management team
- Operating systems that improve sustainability of cash flows
- Effective financial controls
- A solid, diversified customer base

Management Team

Without a doubt, the most valuable aspect of your company to any type of buyer is its management team. If your team is both successful and stable (willing to stay on after a sale), buyers will pay top dollar to acquire it. So, as you decide how to meet today's economic challenges, and specifically if you find it necessary to make layoffs, you should ask the following questions:

- Is your management team as strong as it can be? If not, today's economic climate has created a surplus of qualified employees of every type. Why not test the waters to see if stronger candidates are available at salaries you can afford?
- Do you have written agreements in place for all key employees to prevent them from taking customers/clients, trade secrets, employees or vendors/manufacturers with them after they leave? Owners are often tempted to think such agreements unnecessary because they pay their employees well – perhaps more than employees could earn elsewhere. Too often these owners discover that when employees do leave – for all kinds of reasons other than salary – chaos follows. Today, when

salaries aren't as lavish, it often makes sense to restructure compensation to reduce base salary amounts and increase bonuses for attainment of performance goals.
- If your company's cash flow expectations have changed, have you made corresponding adjustments to your incentive plans for employees? Incentives work only when the incentive standard is attainable. You may need to lower the threshold for such incentives.

Systems

Another Value Driver directly related to increasing company revenue is reviewing and realigning many of your company's operating systems. Difficult times not only elicit change, they also facilitate it. Take advantage of the recession, whether or not your cash flow has been affected, by reassessing how to best increase company margins. Your company's systems and procedures are ripe for this reassessment. Ask yourself if your company could benefit by changing:

- Policies to ensure compliance with legal and regulatory matters, especially those related to employer/employee relationships and safety.
- Systems to manage personnel including: recruitment, selection, hiring and retention; performance management; training and development; compensation and benefits.
- Product or service quality control standards and can it measure improvement or failure in these areas.
- Procedures to manage inventory and fixed assets.
- Policies controlling sales, marketing and other communications with customers.
- Systems to support and monitor product or service research and development.
- Protocols regarding procurement (including the selection and maintenance of vendor relationships).
- Data management and information systems that tie the company together.

Remember, there may never be a better time to institute substantial changes that might otherwise be resisted or reluctantly adopted by your employees, vendors, etc.

Effective Financial Controls

During tough times, owners can be tempted to cut in areas that just don't seem that important. Too often, one of these areas is the preparation of timely and accurate financial statements. We encourage owners not to overlook the importance of maintaining such financial statements because not only are they your most effective diagnostic tool when searching for the source of cash flow problems, they also are near the top of any buyer's "Must Have" list when purchasing a company.

If you can foresee the need to talk to your banker about adjusting your company's debt service, know that bankers will demand current, and often reviewed or audited, financial statements in return for any change in your debt service arrangements.

Customer Base

Buyers look for companies who are not dependent on, or can be significantly affected by, a small base of current customers. You likely know if your company is in this situation. If so, you might consider:

- Investing in additional capacity that will make developing a broader customer base possible.
- Acquiring the customer list of competitors who are going out of business.
- Acquiring customer diversification by buying smaller competitors – either in whole or in part.

In either of the last two situations, you may be able to structure payment using the revenue from the acquired assets rather than from cash or financing.

Growth Through Acquisition

Not only is acquiring the customer list of a competitor a great way to diversify your own customer base, so too is acquiring smaller companies to increase your company's revenues. Before you dismiss this strategy out of hand, keep in mind that prices are low and sellers are carrying back notes and accepting earn-outs.

If you'd like some advice about how to analyze the revenue-generating potential of an acquisition candidate, give us a call.
