

Adding value to your business

A clearly articulated business strategy that has been implemented on in a proven and constant manner is very attractive to potential sellers. Sellers are ultimately buying the potential for future profits when they are buying your business. As an owner preparing your business for sale, you would like to project these future profits to your buyers and have them feel that these estimates are reliable. John Warrillow is the author of the book *Built to Sell*. In this book he highlights three key concepts that are important to focus on as you prepare your business for a future sale.

1. Scalability

An important question all entrepreneurs should ask themselves is are your customers loyal to you or loyal to the business. A potential buyer will pay significantly less for your business if you are the franchise. Another consideration of scalability is time. Without considering ways to scale your business there is not enough time in the day for you to run the day to day operations and execute on all the activities needed to grow the business. Is there part of your business that is “scalable”?

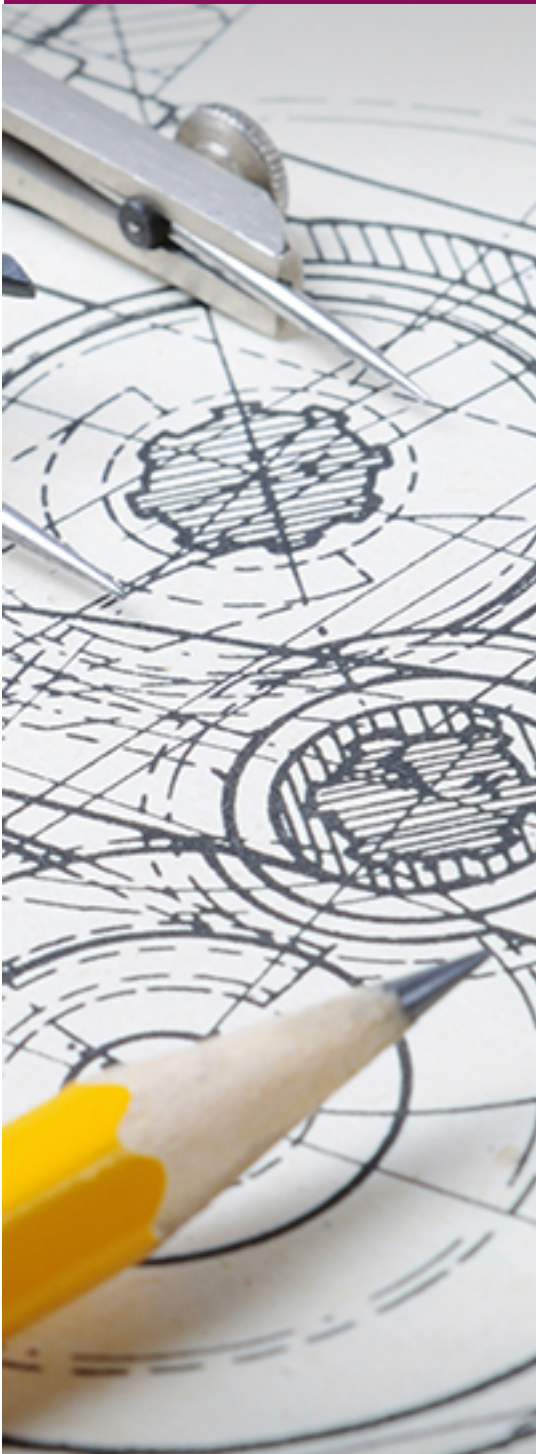
- a) Teachable to other employees.
- b) Repeatable – something customers want on a regular basis.
- c) Provides value to your customers.

Warrillow uses the example of Minute Lube as a very scalable business. This is a service most people are willing to pay for and need to have done on a regular basis. The procedures are also easy to learn and no specific education is required.

2. Reoccurring revenue

Buyers of your business will accept a lower discount rate and pay a higher price if there is more certainty of income. There is also a “Hierarchy of Reoccurring Revenue” as Warrillow puts it.

- a) Consumables – example toothpaste that develops a brand loyalty. Everyone uses it, but there is nothing really locking the customer in.
- b) Sunk Money – example toner for printers. You must continue to buy the toner for the life of your printer.
- c) Subscriptions – example magazines. With a magazine subscription you commit to future purchases.
- d) Sunk Money Subscriptions – example a Bloomberg quote machine. Financial firms commit to buy Bloomberg terminals and then must subscribe for the information.



- e) Auto Renew Subscriptions – example XM Radio
This sort of subscription has no formal renew period. The subscription stays in effect until you opt out.
- f) Long Term Contracts – example cell phone contracts.

If you accept long term contracts from your customers it is important that there is no contingency clause available in the contract. You don't want your customers breaking the contract because there are new owners.

Warrillow's process may challenge you to think about opportunities to add scale to your business and to explore opportunities to increase reoccurring revenue from the sale of your goods or services.

3. Customer satisfaction

The best salespeople for your business is a delighted customer base. These customers form not only a good source of reoccurring revenue, but make act as advocates and provide referrals that help you grow the business.

Net Promoter or Net Promoter Score (NPS) is a management tool that can be used to gauge the loyalty of your customers. The survey is based around one main question: How likely is it that you would recommend our company/product/service to a friend or colleague? The scoring for this answer is most often based on a 0 to 10 scale.

Promoters are those who respond with a score of 9 or 10 and are considered loyal enthusiasts. Detractors are those who respond with a score of 0 to 6 - unhappy customers. Scores of 7 and 8 are passives, and they will only count towards the total number of respondents, but not directly affect the formula. NPS is calculated by subtracting the percentage of customers who are Detractors from the percentage of customers who are Promoters. This process was developed by Fred Reichheld at Bain and Co. It measures to loyalty of your customers to the company, not to a product or a transaction. Undertaking a client survey early in the presales process may be a very good exercise to benchmark the strength of you current client loyalty. Devoted customers are another selling feature that can make your business more valuable.