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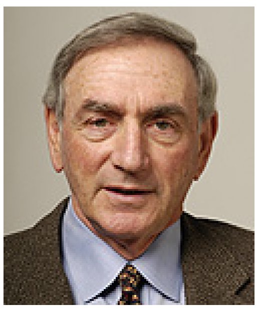
Strategic Value Creation

Achieve a successful transition by planning in advance and staying flexible.



Don Matso

"Cashing in doesn't have to mean selling out," says Don Matso, founder of The Valēre Group. The Manhattan Beach, Calif.-based consultancy helps business owners prepare for transitions by developing a plan that maximizes the market value of their companies — a process Matso calls "*strategic value creation*."

Case in point: Wally, a 56-year-old owner of a manufacturing business, felt pressured to sell his company after an industry competitor approached him with an offer at a trade show. Wally had joined the family business in his 20s and increased revenue from $5 million to more than $50 million after taking over from his father-in-law. Yet instead of socking away money for himself, Wally had reinvested in the business.

Wally's attorney referred him to Matso when Wally decided he needed help to sell the business. "Though he did not say it, I realized that Wally didn't really want to sell," Matso explained at a TEI Presidents' Forum: "He was worried about retirement security, and he was burned out due to some organizational issues that prevented him from doing the things he excelled at and enjoyed."

Instead of selling to the competitor, Wally worked with Matso on a strategy that would allow Wally the flexibility of multiple transition options. In a short time, market value increased significantly, and by negotiating a bank loan, Wally was able to pay himself a dividend that bolstered his retirement account. After fixing the company's shortcomings, Wally was able to work part-time — and focus on the business activities he loved most.

"One day Wally will sell," says Matso, "but his business will be worth far more than it was then — and he'll have several options. That is why I prefer not to refer to this process as developing an *exit strategy;* I prefer to call it a **transition strategy.**"

Plan ahead. When it comes to selling or passing on their companies, most owners aren't aware of all their options. "That's because owners either don't plan or they start the process too late when their options are already limited," says Matso. Consequently, the majority of owners of private companies are unsuccessful in achieving their objectives when making a transition, he adds, referring to a study by PricewaterhouseCoopers.

Planning ahead, however, doesn't mean fixating on one strategy.

Matso refers to three owners of a floral company who wanted to sell the company as soon as possible for $50 million–$60 million. They had even targeted two publicly owned companies as prospective buyers. Instead, Matso recommended investigating some alternatives to take advantage of existing market opportunities the owners had not considered. Sometime later, the trio had sold 40% of their business to a private investment group for $42 million — far exceeding their original objective. What's more, the investment group provided resources to make acquisitions to further enhance the company's value.

Be flexible. It's hard to predict what life-changing events might happen. An owner may plan to retire at age 65 and pass on the business to his or her children, but what if the next generation isn't capable of assuming control? Or suppose an opportunity presents itself before then — something that would have been perfect if only the business had been properly positioned.

“Opportunities come and go based on external dynamics that can't be controlled or predicted. The macro financial environment affects merger and acquisition trends and, therefore, market values, Matso said. “The dynamics influence the timing of a transaction and affect an owner’s ability to maximize value”.

That's why transition plans must comprise a broad range of options — and be dynamic enough to adapt to unforeseen changes that may occur. Owners should create a matrix of pros and cons for each option, along with what attributes their business will need to qualify.

Think beyond financials. Selling isn't always about price. For owners, there are also non-financial concerns, such as wanting to protect employees and ensuring that the business continues to thrive.

For buyers, the true value of a company goes beyond a formal financial analysis. Depth of management, proprietary processes and knowledge capital can accelerate a company's value to a buyer.

Customize the plan. A good transition plan should be unique to a company and conform to owners' available resources and values. "It can't be a strategy that comes off the shelf or one that worked for your golfing partner," says Matso.

Once created, don't stick the plan in a drawer. "**Strategic value creation** should be part of the owner's day-to-day management responsibility," Matso stresses.

"It takes planning to be in control and maximize the full value of your business," adds Matso. "And it takes a plan in place to realize the difference between an opportunity and the right opportunity for you."