

Value Driver #2: Operating Systems that Improve Cash Flow

If your objective is to eventually sell your company for the highest possible price, you need reliable systems in place that can sustain the growth of the business

Building Reliable Systems

Before we get started on discussing this important value driver, here are a few quick definitions:

- **Systems** refer to a group of related processes.
- **Processes** have purposes and functions of their own and are components of a system. Taken independently, a process alone cannot do the work of a system.
- **Procedures** are the approved way we do things and often include a sequence of steps.
- **Steps** are the actions we take to get something done.

The second of the six Value Drivers focuses on the development and documentation of business systems that either generate recurring revenue from an established and growing customer base or create financial efficiencies. For most businesses, this includes all of the core systems that generate revenue or control expenses. These systems may include processes related to production or service delivery, but also may include people-related processes such as a succession planning or a performance management approach.

Look at your business from a buyer's perspective. If you leave shortly after a sale, what remains? If the answer is top management and highly efficient business systems, you can be more confident that you will be able to get top dollar for your business.

The Importance of Documentation

In addition to the business systems related to revenue and expense, some systems are related to customers, such as tracking systems, and the delivery

of your products and services (distribution systems). The documentation of these systems and their related processes and procedures is important to ensuring that quality and consistency can be maintained after the sale. They also signal to the buyer that elements critical to the successful transition of a business are in place. Some examples of items worthy of documentation are:

- Financial control systems and accounting policies
- Policies to ensure compliance with legal and regulatory matters, especially those related to employer/employee relationships and safety
- Data management and information systems that tie the company together

Again, put yourself in the shoes of a would-be buyer. Buyers want assurance that the business will continue to move forward after new ownership and that operations will not break down if and when the former management leaves. You provide that assurance when there are documented systems in place.

Business Systems That Enhance Value

There are several business systems, which, once in place, enhance business value whether you plan to sell your business now or decide to keep it. They are:

- Human capital management including: recruitment, selection, hiring, and retention; performance management; training and development; and compensation and benefits
- Production, including product or service quality control and improvement
- Product or service research and development
- Inventory and fixed asset control
- Sales, marketing, and communications

- Procurement including the selection and maintenance of vendor relationships

Obviously, appropriate systems and procedures

vary depending on the nature of a business, but at a minimum, those resources and activities necessary for the effective operation of the business should be documented.

For more information or to learn how L. Harris Partners can help you grow your business:



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