Five ways smart companies maintain growth and profitability.

PART III

The economy is relatively healthy, but history has taught us that growth cycles don't last forever. Knowing that there's a cyclical pattern to many markets, savvy owners and executives figure out how to take advantage of business cycles to create a continuing growth trajectory and boost profitability. In the last two months' newsletters, we looked at the first four action items that are critical to middle-market companies for maximizing growth, profitability, and value in any economy, including:

1. Develop a strategic plan
2. Grow your customer base
3. Make better decisions through data analytics
4. Take a flexible approach to real estate

This month, we will be diving into action item 5. Let's take a look.

5. Maximize value when selling your business

If you're thinking about selling your business within the current cycle, we counsel clients to plan to transact within the next 12 to 18 months. But timing isn't everything. Relying solely on the strength of the market may not bring you an optimal outcome. "Readiness" for a liquidity event encompasses both personal readiness of the owner as well as the readiness of the business.

As an owner, what are your wealth objectives? What number do you need to maintain your lifestyle going forward? What future role do you envision for yourself within the business — do you want to continue being involved on a daily basis? Serve in an advisory role? Ride off into the sunset?

On the business front, readiness means several things. First and foremost, do you have demonstrable growth and a compelling growth story? Growth is the single most important factor in valuation and readiness to go to market.

Create a powerful growth narrative

We advised a particular client, in an out-of-favor industry — which therefore increased the business's risk profile from a buyer's perspective — to bucket forecasted revenue into several high-level categories: revenue that was booked; revenue that had been quoted but was not yet booked (with the company's historical win-rate average applied); and

additional revenue opportunities that had significant support and a track record of sales efforts. As investment bankers, that's how we assess robustness, and this company had a motivating growth story.

That said, growth isn't the only factor driving value:

- Do you have an exceptional management team?
- Do you have a living, breathing business plan with built-in accountability, and are you using KPIs?
- Does the company have a differentiated competitive position (perhaps including intellectual property)?

Know what other levers help drive value

Look to improve gross margins by changing customer selection, pricing, or market entry strategies. Leverage SG&A (selling, general and administrative expense) costs as the company grows. Manage debt load to boost equity value.

And don't forget your basic blocking and tackling: updated and accurate finance reporting and accounting records; non-compete agreements in place with your management team; and buttoned-up human resource-related compliance.

If you're not ready to transact now but want to be ready for the next window, develop strategies to make a series of improvements in specific categories over your time horizon. These kinds of bite-sized efforts become more tangible to digest and implement. Once complete, you'll have gone through an important process, made a number of positive changes, and be well positioned for the rebound.

In conclusion – leverage current conditions, whatever they may be

No matter how economic winds may swirl around them, smart companies consistently seek to maximize growth, profitability, and value. All of the considerations we've discussed comprise key pieces of your business strategy, regardless of economic conditions. Fortunately, those conditions are good right now, so leverage the current upcycle to make headway. Then, if (when) a downturn comes, you'll emerge in a stronger position, ready to move even farther and faster along your growth trajectory.