

# Six Key Elements to Help Maximize Your Business Value

By Paul Cronin, Sr. Business Advisor, Resultants For Business

Why do so many people get into business ownership in the first place? For many of us, it's to live life on our terms and it's for financial freedom. It's not about rules; it's about bringing our vision to life. However, something happens along that journey of opportunities—instead of running the business, the business starts to run us. With growth and opportunities, comes risk and threats; and balancing our dreams with the company's vision becomes difficult.

For many business owners and entrepreneurs, part of their successful dream is to build a company that is worth peak value. We call this transferable economic value. To build this kind of value, we must start with the end in mind. Whether you plan to sell or not, you must have value. But how can we know when or if we hit that valuable business stage?

Most owners think their company is valued by their profit and loss statement. They utilize industry benchmarks as a multiple of profit by which to assess the transferable economic value of their business. If this assumption were true, why then do we so often see one company (in the same industry) selling for as much as 2 to 3 times multiple differences?

The price an investor is willing to pay for a company relates to how risky he or she perceives the future stream of profits to be: the riskier the

investment, the higher the return an investor will demand. This translates to a lower multiple on earnings. If risk is mitigated then the multiples grow. Can you predict the future profitability of your company? Can you prove it? That "predictable" future is dependent on how well an owner has institutionalized their business. Think of this as the strong foundation.

In its simplest form, transferable economic value is a combination of two "buckets." The performance bucket, which is measured by a company's profit and loss statement and balance sheet, generates recurring returns. The risk management bucket minimizes the risk of achieving those returns.

Ninety percent of business owners focus on performance, working in their business. Only a few business owners understand the importance of mitigating risk and what areas of their business they need to work on to improve the overall structure of their business.

## So what is the key?

Successful business owners understand that value is driven by the salability of the overall structure of the business. As such, they institutionalized their business with the framework, discipline and tools historically known to make companies great.

The Entrepreneurial Operating System® (EOS®), introduced by Gino Wickman in his book *Traction*, is one such tool. The ultimate goal of EOS is to help entrepreneurial leadership teams get what they want out of their business, by offering simple and practical concepts. As Wickman puts it, “There’s no theory here or flavor of the month, no magic pills—just timeless, field-tested tools that really work.”

What the EOS helps you do is run a better business and get more out of your business from both a performance and risk standpoint. By working from one operating platform, with everyone in the company understanding the shared language and using the tools and framework together, this simple system helps to reduce risk from the inside.

## The EOS Model

The operating model is based on six key components—all of which must be developed and strengthened over time.

- 1. Vision.** Through eight key questions, the long-term vision is developed with everyone on the same page from start to finish. The result becomes a simple, focused vision-traction organizer that is communicated out to everyone in the organization.
- 2. People.** The success of any business is determined by your culture, your people—not only the right people, but the right people in the right place within the company. Building a healthy leadership team is critical. This has a lot to do with core values, behavior, and organizational health.
- 3. Data.** A company directed by hard, quality data allows us to have a pulse at any given time on our organization. This is done by creating a high-level scorecard that identifies metrics that are leading indicators (vs. trailing) giving the leadership team better prediction capability for the future. The ability to predict and prove that your numbers are sound, can positively affect the profitability of your business and decreases risk in the eyes of a buyer.
- 4. Issues.** Did you know that the same issues tend to come up with just about every business? Achieving your vision and building value is in direct proportion to how effective your team is at problem-solving and keeping those issues settled. This is a learned skill that can be developed using a simple process of identifying, discussing, and solving.
- 5. Process.** Every business is made up of 6-10 core processes—ones that are critical to improving efficiencies. Do you know what yours are? The degree to which processes are documented and followed determines how scalable your business can become. Reduced risk and increased value comes from developing a scalable model.
- 6. Traction.** The most important component in making your vision a reality—including building a more valuable business—is your

team's ability to execute. This includes discipline and accountability measures. It takes practice; it takes team health; and it takes fearless leadership. Each previous step in this model will guide you to this point of consistent execution.

By implementing EOS® you can get to the point where your entire organization shares the same vision and has the discipline and accountability to execute successfully.

When you can harmoniously orchestrate all the moving parts through a single operating system you have increased and strengthened the value of your business. In turn, your business will be more functional and healthier—meaning you can stay focused on what matters as you grow.

### About the Author



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Paul Cronin has worked closely with entrepreneurs for 25+ years. His roles have included President, CEO, Executive Coach, and Business Advisor. Paul has helped owners through various challenging transitions including: succession, owner exit, next generation transfer or sell, and returning from retirement. Today, Paul is a Sr. Business Advisor with Resultants For Business; a leader in strategic execution, value acceleration, business transition and succession planning. Finally, business systems—such as RFB's "Strategic Execution"—are available to help owners and their leadership team implement the Framework, Discipline and Tools to become great companies.