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Attracting premium buyers.

Being an attractive company to premium buyers depends on the company's value drivers. The highest performing businesses have effective systems in place that facilitate rapid growth, increase cash flow and the business' value. These M&A prospects are watched carefully by financial and strategic buyers.

Here are common value drivers that are appealing to optimal buyers:

Grow your revenue wisely. Revenue growth is an essential driver as long as it is profitable growth, yet not all revenue is equally valued by buyers.

For example, some customer segments are more profitable than others because of satisfied customers' word-of-mouth to like-minded, potential customers about a product or service. Recurring revenue due to strong brand value implies that the company has consistent, repeat customers and make the company more valuable to potential suitors. Contractual revenue, especially if it is recurring, is highly valued by financial and strategic buyers, as well. Also, revenue is more valuable from buyers when it has low concentration of 5% or less per customer.

Operating Margins vary in value. Wholesale and retail companies have different operating margins between each company type's respective customer segments. Wholesale customers demand a lower price which translates to lower operating profits; however, wholesale customers may require less administrative support to service resulting in a higher bottom line cash flow than retailers'. Wholesalers are able to buy inventory in bulk and provide products at a low cost per unit to customers who typically make more high volume purchases than retail customers. Retailers with high operating margins may be more attractive, because they have a diverse customer base compared to wholesalers'.

Asset efficiency is key driver of business value. Improving operating efficiency is critical to driving gross margins (revenue net of direct costs) and improving long term cash flow. Most buyers are impressed with positive, growing cash flow trends. Cash flow needs to keep pace with profit, or the company will experience cash flow shortage at some point. Fast growing companies are at risk of running out of cash. Most buyers are interested in positive trends in cash flow unless they are looking for a turnaround situation. Asset efficiency includes managing cash flow to ensure accounts receivable keep pace with accounts payable. It is advantageous to have little or no accounts receivables or receivable collections that arrive ahead of payables so that there is adequate cash to pay vendors consistently on time.

Customer expectations drive value. If the company's products or services do not meet customer expectations, the brand's reputation and cash flow will be at risk. Social media presents a unique challenge to online retailers in that positive word-of-mouth may quickly catapult revenue and brand value upward; however, viral negative word-of-mouth can severely damage the company's reputation and cause revenues to plummet. Customer expectations are an indicator of the company's differentiation from competition and a point of interest to sophisticated buyers.

Smart buyers review target companies in large market (customer) segments as these businesses have huge profit potential. Tyson Foods, Inc. ("Tyson")'s, acquisition of The Hillshire Brands Company ("Hillshire"), is an example of a strategic acquisition motivated by core strength growth potential in a large market segment. Tyson, a producer and distributor of chicken, beef, pork, and prepared foods, forecasted $300 million in synergies with its acquisition of Hillshire. Hillshire's packaged meat and frozen bakery products are in niche product lines that provide the potential for Tyson to enhance its prepared food products division and strengthen its market position as a leader in retail prepared foods. Tyson's expanded portfolio of established brands will provide a catalyst for operational efficiencies, purchasing power, raw materials upgrades, and substantial supply chain and distribution benefits. Tyson's pork operations expect to benefit from constant demand for its use in Hillshire's prepared food products. This acquisition promotes Tyson's focus on strengthening its prepared foods businesses following its recent acquisitions of Bosco's Pizza Co., a maker of partially baked frozen pizza products, and Don Julio Foods, a maker of tortillas and salty snacks. – Keep in mind the type of buyer you would like to attract and focus on driving up your business' value when positioning a company for sale. Company's value drivers will determine the terms and price expectations at time of exit.

Balancing short-term vs. long-term performance.

With small and medium-sized businesses, balancing longer term strategy compared to short-term plans is a major challenge. In many companies, long-term plans and actions (defined as three to five years in the future) are sacrificed for short-term needs such as cash flow monitoring. What are best practices to balance these divergent demands on your company? Here are a few ideas on ways to balance both objectives and provide a more secure and healthy financial future for your company.

Embrace two-directional thinking

Best Practices include two paths: Several years ago, a client of our office asked for a financial review of their operations. They were having significant cash flow instability, highs and lows. They first concern was to stabilize cash flow a soon as possible. In our analysis, we provided two main suggestions to improve their short-term needs: the first suggestion was to change their credit policy and suggest their key personnel be in charge of collection efforts for their customers who were falling behind on the terms of their accounts receivables. Within three months, cash flow stabilized with the changes. The second suggestion was to increase their gross margin (sales revenue less their direct costs - labor, materials and other direct costs to the sales) on all accounts. We suggested that their gross margin per customer be increased from 20% to 25%. Their customers had very few objections with the new contract terms and our client's profit and cash flow increased significantly within six months.

The long-term strategy that we suggested to them was to revise and undergo a more comprehensive strategic plan. The client upon completing the plan discovered their ideal customer profile. This profile included customers who were more loyal and who had long term needs that our client could better fill than other competitors.

Larger companies have similar issues in balancing short-term and long-term performance goals. As mentioned in an article in IMD, Real World, Real Learning, a CEO commented on balancing short-term and long-term goals. In 2012, Soren Skou took over as CEO of "The Maersk Group" when the company was losing millions of dollars a day and it had not delivered value to its shareholders for many years. Mr. Skou and his leadership team had to improve its immediate profitability in the short run as well as making plans for long-term changes that would stop the cycle of cash flow volatility. As Mr. Skou noted, "my leaderships' response was a three-stage agenda with overlapping phases: the first restored profitability within a year, the second is clarifying what the company needs to be successful in the future, and the third is considering the fundamental nature of the company and its place in the world."

Retrieved from http://www.imd.org/research/challenges/TC044-13-bridging-the-gap-thomas-malnight.cfm; Malnight, Thomas (2013, June). How can business leaders balance short- and long-term pressures. *IMD, Real World, Real Learning.*

Best plans for collecting payment on time.

Payment collection is critical for maintaining stable, financial health. If businesses don't get paid, they go out of business. With debtors delaying payment in tough times, it's critical to take action, collect money, and make it a top priority for small companies.

Few small businesses can afford to turn customers away, but being timid about stretched credit terms puts your own company in danger. If you're not being paid on time it's harder to find money to settle your own outstanding debts.

You didn't start your business to provide a free credit service to suppliers. But how can you collect money owed, and at the same time, avoid bad feelings developing from previously reliable customers who are falling behind? Try these simple in-house strategies:

1. Review payment terms

Re-assess your payment terms for the current market conditions. It could be time to offer additional payment options, such as PayPal, debit card, or to accept additional credit cards (with an appropriate added fee). Consider putting new clients on tighter payment terms on a trial basis with a review to follow, include a small discount for on-time payment if you can afford it.

2. Avoid firm tactics with regular customers

Your regular, normally reliable, clients deserve different treatment in debt recovery. Perhaps they came on board years ago with a handshake and now seem like 'family'? Try co-operation and communication, rather than a heavy hand. A phone call from the director will strengthen relationships between valued but dawdling customers and is a chance to personally explain the impact of late payments on your own cycle and survival. Be ready with options for part-payment or a suitable suspension of supply. Be concerned, but stay firm enough to get the account settled.

3. Credit-check all new clients

It's worth the fee to do a background check on new clients, despite the temptation to automatically take on anyone new when business is slow. The cost of your staff's time chasing money and the potential price of debt collection later is not worth the risk. Besides, a reference check should be accepted as 'company policy' by new customers.

4. Focus recovery 'power' in the right hands

Avoid the trap of turning your sales people or service staff into debt collectors. Mixing messages about employee roles will do more harm than good in the long term. Give the job of bad debt follow-up to one person, along with a set of clear guidelines for action and your full support.

5. Set terms at the sale

The best time to get the message through about payment terms is when you close the sale. Outlining credit expectations early sets the right tone and foundations for later accounts follow-up if necessary. Make it a prominent part of the contract when customers place orders.

6. Empower your invoice

Instead of a monthly run, consider sending invoices as soon as a service has been carried out or when a product is supplied. Print the actual due date on the invoice, rather than a "within 30 days" instruction. These simple changes will speed payment, improve cash flow and identify problem accounts sooner.

7. Calculate average debt age

You run regular reports to check debt 'age', but how do you use the results? To measure average payments against your target terms, divide your accounts receivable by annual sales on credit (not cash sales) and multiply by 365. This shows how efficiently you are managing debts overall, compared with your goal, of say a 30- day payment cycle. A result of '55' for example, will show you are averaging 25 days over your target.

8. Set a collection policy

The chance of recovering payment reduces the older a debt becomes. Establish firm rules for follow-up, such as: a phone call at 7 days overdue; a letter at 14; another call at 21 days; stop supply at 30; write a letter to your collection agency at 60 days. In line with this schedule, set suitable options at certain stages, depending on your relationship with the customer, like part-payment, an installment plan and whether further purchases are allowed (and their value) if accounts remain overdue.

9. Collect information

Securing thorough information about a new account avoids obstacles to debt recovery. Collect as many telephone numbers and alternative contact names as you can and ensure all forms are signed. If possible, visit the customer's premises. A personal visit gives a valuable impression of their circumstances that a phone call can't reveal.

10. Be fearless and survive

Remember, uncollected income is just the most obvious impact on your cash flow. Prevention measures will save you the hidden wasted costs of time spent chasing payment. Don't hesitate to ask firmly for due payment because you fear losing customers. Non-paying clients are not worth having.

Regular Pieces

How To Make The Most Of Your Newsletter

Be sure to read each article with the mindset 'How could this apply to our business.' Thinking of it that way will guarantee that you get value. Better yet, take notes as you read and commit to having the ideas implemented by the time the next edition arrives. Also, make copies for each team member. To really make sure something positive happens, work with your business development specialist to talk your team through the ideas and how to set a schedule for getting them implemented. We're here to help you get started.

An Important Message

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