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## Business

July 27, 2007

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### What increases business value?

By Randy Wheeler Special to the Acorn

When I talk about "business value drivers," I am referring to those things that increase or decrease the value of a business.

Managing your value drivers will improve the income you get from your business. It will also increase the value of your business, which will be important when you exit your business. Let's face it- you are going to exit your business someday. You will want to realize the maximum value when it is time to transition the ownership of your business.

Every business manages six "value drivers" that affect the value of the business: growing sales, increasing margins as a percentage of sales, controlling overhead (growing overhead more slowly than sales), maximizing cash flow, capital structure and investor/banking relations.

Most business owners understand the first four on the list. It's the last two that often trip them up. The first four have to do with making a profit. The last two have to do with having the financial strength and resources to weather financial difficulties should they arise.

Capital structure represents how the assets of the business were acquired. They were either acquired by borrowing from vendors, banks, friends, family or others (debt), or they were acquired by investing your own money (equity). Banks become increasingly hesitant to lend money when there is too much debt and not enough equity. The less there is of debt and the more there is of equity, the better prepared the business will be to handle unforeseen circumstances or take advantage of business opportunities.

Unforeseen circumstances are what trip up businesses most often. These can include uninsured losses, a major customer going belly up, loss of a key employee and myriad other potential problems. When they happen and more cash is needed than the owner has available, then the cash will have to come from other investors or a bank.

As the business owner, your relationship with financing sources can be the difference between survival and bankruptcy. It will depend heavily on a number of factors, including your reputation as the leader of your business, the perception of your business competence, your personal credit score, the perception of your integrity and the track record you have established for following through on your commitments.

I've helped numerous businesses obtain financing from banks, venture

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capital investors and other financial institutions. Bankers do not generally look for ways to say yes to loan applications- they are looking for red flags that tell them that they need to say no. They will ask for a lot of information from the business owner. Much of the information that is requested is information that the management team of the business needs in order to effectively manage the business.

One factor that makes an impression on a banker is how readily available the information is. If you don't have your information available, then how can you be managing your business effectively since you are apparently not looking at it? More importantly, however, is the condition the information is in when you do turn it over. Never submit information without first personally confirming that the information is accurate. You need to understand what the information tells the banker and anticipate the questions that they will ask. If the information they ask for is readily available, accurate and explainable, then the likelihood of being declined for a loan will be significantly reduced.

Ensuring that your business survives and thrives means managing your value drivers. Develop the discipline to manage each of them, and don't be surprised when your business starts to exceed your expectations.

*Wheeler is the president/CEO of Pathfinder Metrics, a certified management accounting firm based in Moorpark. For more information, go to [www. PathfinderMetrics.com](http://www.PathfinderMetrics.com).*

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