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To Maximize Valuation, Look to Sustainable Top-Line Growth

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Business objectives of company owners vary as much as the individuals themselves. Some seek moderate growth for stability in a 'lifestyle' business, while others pursue breakneck growth for the "rush" and satisfaction.

As companies mature, and owners age, those objectives often evolve. For every company there's a moment when the theoretical and distant prospect of a transition suddenly becomes real and immediate. Some owners carefully plan and prepare themselves and their companies in advance – others react to circumstances. Regardless of the path by which they arrived, that moment focuses participants intently and exclusively on a company's bottom line.

This focus is both understandable and natural. Most companies habitually attend to the bottom line by rigorously managing operations and costs. They often implement lean initiatives for key business processes, and managers rely on "dashboards" of financial performance metrics to flash early warnings of trends. There's a strong and common culture in American business that focuses management attention on the bottom line.

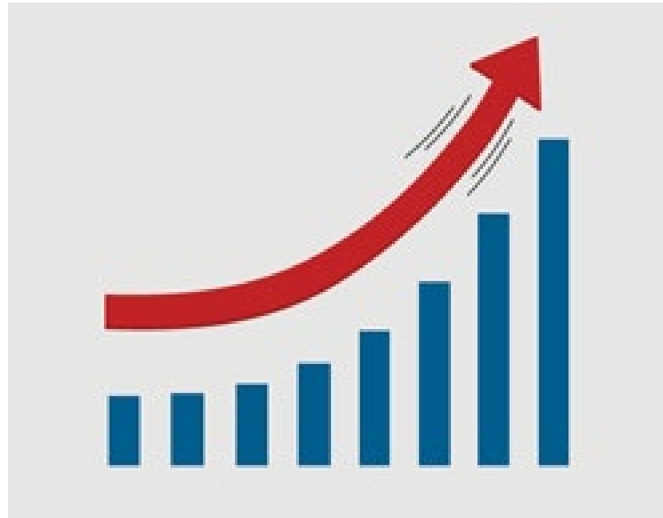
Companies grooming their financials for an impending transition have little choice – the only place to readily "move the needle" in the short term is to cut costs.

The bottom line is connected to the top line

The "bottom line" snapshot doesn't provide much texture, but it is the inexorable sum of the top line and the costs. As such, it's an indicator. But the science of business valuation recognizes the inherent limitations of a static indicator and therefore works with a projected profit stream. In other words, it's a video compared to a single snapshot. Cutting costs is equivalent to posing the snapshot while the ongoing storyline is primarily a reflection of the top line.

The challenge for companies, whether they are embarking on a 3-5 year program preparing for a managed transition or simply bolstering resilience and vitality to increase value for current owners, is to grow the top line consistently. Doing so requires a change in business mindset.

Managers must squarely confront the dissonance that exists in common approaches to managing top line revenue growth vs. operations and bottom line cost factors. Rigor and scientific management are commonly applied to the bottom line while top line growth is managed with stale methods. Just as companies might have added another inspection station at the end of a line before they embraced operational excellence, today companies add another marketing program (e.g. SEO or social media) or another sales resource (inside rep making cold calls) to fix inconsistency in the top line.



It's too easy to think of it just as revenue

The direct connection between a strong, growing top line and enterprise valuation is clear. But consistent top line growth, and the approaches that create it, have additional tangential implications to maximize valuation that are often overlooked.

1. Business owners can often substantially improve their valuation by accepting a higher "earn out" component. When that income stream is uncertain, business owners are naturally hesitant to take an earn out. But if the income stream is reasonably secure (and who knows this better than the current management) a larger earn out component shouldn't be unnerving. When revenue growth is a function of a broad, diverse and systemic effort, it's easier to "bank on."
2. Security of future revenue. Similarly, earn-out aside, a buyer will carefully consider the security of the revenue stream and the trend – not just the magnitude today. The same considerations that influence the seller will impact the buyer's comfort with future revenue.
3. The source of growth determines its profitability and repeatability. It's easy for companies to adopt tactics that will bump the top line in the short term but have consequences to sales and profitability in the longer term. Revenue growth needs to be built on strategies which create cumulative inertia and which can be clearly measured and managed for continuous improvement.
4. Diversity of revenue also impacts its value to an acquirer. Just as concentration risk incurs a discount, conversely broadly diverse top line revenue increases appeal. Diversity can be achieved across product lines, industries and geographic markets, including globally even for SMBs.
5. Global diversification not only vastly increases market opportunity size, but also provides a further layer of revenue security to the extent that markets are somewhat decoupled – economic cycles aren't directly correlated.

All growth isn't equal, as they say, and the source of revenue growth impacts its value.

Managing growth or running the business

Every manager faces the challenge of balancing competing priorities and resource constraints. Their first job is to run the business, and there's no easy answer to the question, "How do I grow in a way that strengthens my business and increases our resilience and viability?"

It's easiest to answer that first in the negative. Don't just add another rep, another trade show, another series of magazine ads, etc. Simply doing more of what isn't exceptionally effective won't make it so.

The real answer is to reengineer your revenue growth model, and there are two customer centric themes that guide successful initiatives:

- Enable buying
- Focus on the right prospects

These are deceptively complex – both in tactical execution and in the mind-shift that is required for most companies to succeed. We'll dive into each of these in future articles, but here's a quick overview.

Enable buying

Back in the last millennium, buyers needed sales reps since they were the link to the information buyers needed in a world of asymmetric information distribution. Sales cycles were generally linear and predictable. The periodic direct contact between buyer and rep created a tempo and a series of progressive 'yeses', afforded the rep the opportunity to keep tabs on the buy side process and status, and allowed capable reps to sell – to influence the process.

Today buyers no longer need reps for information (except in late-stage negotiations.) And buyers who have always disliked "sales reps" now use technology not only as a proxy for reps, but to avoid them (hide behind caller ID, etc.)

There is still a critical role for a talented, creative sales person – but sales, as most companies persist in practicing it, is dead. Today the 'secret' to revenue growth is to help people buy. That's tough enough if your product is a cup of coffee – it's downright challenging if your's is a complex sale.

The key is buyer empathy and an approach that leverages digital tools to establish thought leadership and authority. Companies can create a framework that builds relationships with buyers through a virtual sales process. It:

- Gets you found
- Establishes credibility and converts traffic to prospects
- Builds authority gradually and nurtures prospects into leads
- Supports buyer requirements, largely virtually, through their buying process to convert leads into customers
- Leverages the vast reach of digital tools to create a flow of "referrals" from leads & customers

Build a business with the right buyers

This sounds simplistic, but very few companies really execute it well. Typically companies define their targets reflexively based on historical success. That's a self-limiting approach for several reasons:

- Industries and markets evolve – traditionally strong verticals will likely slow, and future growth will come from different areas
- Ideal buyers at one stage in a company's growth are often less profitable during another phase
- Most companies identify target buyers and markets based on a product centric approach vs. an empathetic understanding customer business value drivers
- Traditional models tend to limit sales geographically (by region, country, continent, etc.) but today the digital reach of sales and marketing is without border, and global transactions are vastly simpler and safer

The value of growth

Not only does the old bromide that a 'business that isn't growing is therefore dying' apply, but for companies preparing for a transition (and every company should be!) growth must be sustainable, predictable, and secure. That's not attainable by pressing harder on the accelerator of traditional approaches. Rather it takes an enlightened and bold approach to business development analogous to the revolution on operations of the last two decades – and it takes time to build. Companies that forge ahead will thrive.

About Ed Marsh: Ed was going to be an architect because he loved the nexus of engineering and design. That was before was going to be an engineer; before he graduated from Johns Hopkins; before he was an Army Infantry Officer (Airborne Ranger); before he set B2B industrial sales records; before he was partners with a German capital equipment manufacturer; before he founded a distribution/rep company for industrial products in India; until he decided that managing a business and employees wasn't what he enjoyed. Now that Ed's got all of that out of his system he runs a consultancy that helps US manufacturing companies grow by applying process excellence to business development – completing the full circle back to an engineering & design combination. His practice is built on a unique methodology which combines powerful digital marketing methodologies (a HubSpot partner) with his extensive international biz dev experience. linkedin.com/in/edwardbmarsh

About Consilium Global Business Advisors: Consilium assists American manufacturers in applying process excellence to their revenue growth. In other words we help lean, well managed companies with rock solid bottom lines effectively and consistently grow their top lines to match. We work primarily with mid size industrial manufacturing companies, guiding them through a journey of designing and executing business grade B2B inbound marketing and focused, profitable global market expansion. www.ConsiliumGlobalBusinessAdvisors.com