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A Strong Management Team: The Top Driver of Business Value

One of the biggest misconceptions that business owners have is that the value of their business is directly tied to their personal involvement in managing all aspects of their operations. In fact, nothing could be further from the truth. The attractiveness of the business to a buyer is what is transferable to the buyer, not the ongoing management prowess of the seller. If the owner/seller has a management team that can't sustain the growth of the business without his personal involvement, the business has significant future risk and as a consequence, represents little value to a buyer. To some owners, this may seem counter intuitive and an assault on their ego, but it's a fact. If the business can't survive and grow without the owner's daily interaction, its value will be diminished dramatically no matter how much it has grown or generated profits in the past.

Peter Drucker, the world's foremost management consultant, held that a fundamental requirement for creating a successful enterprise is "building a top management team long before the new venture actually needs one and long before it can actually afford one."

A Top Value Driver

Most private equity groups and other professional buyers judge the value of the companies they evaluate as possible acquisitions by assessing the strength of a company's value drivers, the most important of which is its management. These savvy investors recognize the value of great management teams and don't always bring in star outside managers to run the companies they buy. In fact, many prefer to acquire a company with strong management in place. Creating, motivating and retaining great managers is key to capturing future business value. Without a strongly motivated and secure management team, the risk to a projected earnings stream is just too high.

Having "best-in-class", seasoned management is indispensable to any company's long-term future. The reason is simple: management is responsible for the creation, direction and rate of growth of all other value drivers. Things like customer diversification, a proven growth strategy, sustainable revenue, improving cash flow, competitive advantage and financial controls all depend on good management. More effectively than any other value driver, a top-notch management team creates transferable value.

A business owner cannot be the only person responsible for driving growth if a company is to evolve beyond its current abilities. To realize the potential a buyer will pay for, sellers must create transferable value beyond the limitations of the current owner. When it comes to selling a business, transferable value matters more than the competitive multiple applied to some measure of earnings.

Transferable Value

Transferable value is a company's ability to continue operating successfully, with minimal disruption to its cash flow, after the owner leaves. In the absence of transferable value, businesses can't be sold for enough money to bridge the gap between what owners realistically have today and the amount they need to live a financially independent future. Any qualified advisor helping owners transition out of their businesses must have a solid understanding of what can be done to increase transferable value. The strength of the management team is integral to the value enhancement process. Business risk identification, succession and contingency planning are all part of the first wave of business value enhancement and owner readiness conditions needed to formulate a successful transition. But all three must be in concert to achieve the best possible transfer value.

Succession Planning

Advisors skilled in succession planning as part of a business value enhancement process are constantly involved in helping owners create, develop, motivate/incent and retain excellent management teams. To accomplish this, owners should look to executive talent providers who have the skills and experience needed to develop superior management teams. These trusted advisors have helped owners recruit and secure outstanding talent. They possess excellent insight into the company's corporate culture and can provide the needed skills offered by exceptional performers.

Owners must keep in mind that management (not the owner) will be responsible for developing other value drivers like growth and operating efficiencies. Securing outstanding management is necessary to move beyond any limitations of the owner and current team.

Management team development is indispensable to business growth, risk reduction and transferable value. A good succession plan will help the owner evaluate existing management based on their current performance and ability to further develop the company. Additionally, for an owner's eventual exit to be successful, management must remain after the owner's exit. Third-party buyers will insist on it, and if insiders (key employees or children) assume the reins, they must be capable of managing the company if the owner is to get paid what the business should be worth. For this reason, part of every transition plan is the creation of a succession plan with incentives not only for managers to perform well but to also stay after the owner exits.

A Team of Experts

A good exit advisor understands the broad and diverse range of information and experts involved in the transition planning process. Like a General Contractor's role in a construction project, this advisor has a network of experts who can complete specifically assigned roles in the overall project. In transition planning, these include succession planning, strategic planning, personal financial planning, estate planning, tax planning, contingency planning, and transaction intermediaries to name a few. This is quite a group of professionals to identify and coordinate to complete the task of getting what the owner needs to fund the next stage of his/her life. All the while the owner still has a business to run and customers to keep happy.

Most professional advisors (CPAs, attorneys, financial advisors, transaction intermediaries, etc.) are not educated or experienced in finding, developing, motivating and retaining best-in-class management teams, despite this being a critical requirement of business value! The job of a good transition advisor is to initiate and manage a process that describes what owners need to do to exit their companies on their terms and help them close the sizable gap between current business value and the value they need to exit successfully. A strong management team is a solid first step.

About the Author

Gary W. Ampulski is Managing Partner of Midwest Genesis (www.midwestgenesis.com), a boutique advisory services firm focused on Business Value Enhancement, Operational Due Diligence, and Transition Planning/Execution. He is a former CEO of two public companies and business owner with experience in start-ups, joint ventures, internal growth, corporate development, turn-a-rounds, workout and M&A transactions. Over the last eight years, Ampulski has advised private equity groups, lenders and middle market business owners on strategic planning, operating improvement and business value enhancement. He has created multiple investment theses and partnered with both private equity and buy-side investment banking advisors to connect investors with target acquisition opportunities through market assessment, platform and add-on identification, business valuation and due diligence support. Mr. Ampulski holds a BS, MS and PhD in Physics from the University of Michigan. He has received certification credentials as a Mergers and Acquisition Advisor (CM&AA) from the Alliance of Mergers and Acquisition Advisors® and an Exit Planning Advisor (CEPA) from the Exit Planning Institute. He can be reached at (847) 573-9966 or email: gampulski@midwestgenesis.com