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## Creating Value in Privately Held Companies

"As shocking as it may sound, I believe that most owners of middle market private companies do not really know the value of their company and what it takes to create greater value in their company ... Oh sure, the owner tracks sales and earnings on a regular basis, but there is much more to creating company value than just sales and earnings"

*Russ Robb, Editor, M&A Today*

Creating value in the privately held company makes sense whether the owner is considering selling the business, plans on continuing to operate the business, or hopes to have the company remain in the family. (It is interesting to note that, of the businesses held within the family, only about 30 percent survive the second generation, 11 percent survive the third generation and only 3 percent survive the fourth generation and beyond).

Building value in a company should focus on the following six components:

- the industry
- the management
- products or services
- customers
- competitors
- comparative benchmarks

**The Industry** – It is difficult, if not impossible, to build value if the business is in a stagnating industry. One advantage of privately held firms is their ability to shift gears and go into a different direction. One firm, for example, that made high-volume, low-end canoes shifted to low-volume, high-end lightweight canoes and kayaks to meet new market demands. This saved the company.

**The Management** – Building depth in management and creating a succession plan also builds value. Key employees should have employment contracts and sign non-compete agreements. In situations where there are partners, "buy-sell" agreements should be executed. These arrangements contribute to value.

**Products or Services** – A single product or service does not build value. However, if additional or companion products or services can be created, especially if they are non-competitive in price with the primary product or service – then value can be created.

**Customers** – A broad customer base that is national or international is the key to increasing value. Localized distribution focused on one or two customers will subtract from value.

**Competitors** – Being a market leader adds significantly to value, as does a lack of competition.

**Comparative Benchmarks** – Benchmarks can be used to measure a company against its peers. The better the results, the greater the value of the company.

Three keys to adding value to a company are: building a top management team coupled with a loyal work force; strategies that are flexible and therefore can be changed in mid-stream; and surrounding the owner/CEO with top advisors and professionals.