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## Create Greater Value for Your Business in 2022

Advances in technology have turned the global economy into a local economy. While this has created opportunity for business owners, it has also paved the way for significant threats and challenges. Are you seeing new and/or stronger competitors appear in your market? Are innovative technologies emerging that will impact your customers preferences or buying habits? Have you considered the impact of shrinking markets, new regulations and/or raw material shortages on your business?

Resilience is a fantastic word to describe your ownership during the past 24 months. Congratulations on steering your firm over the rapids and now looking into the windshield as 2022 looms large.

Now is the time to edge yourself out further and utilize some of the lessons learned to position your firm for 2022.

Will this be the year that you seriously think about your life after ownership? Did you know that there are specific strategies you can execute immediately and in the coming months that will build value into your business, so that when you finally decide to exit you can earn the maximum value for it?

As you begin planning for 2022, taking a critical look at your business model and reshaping it if needed can position you to take advantage of new opportunities and protect your business from new threats that may be right around the corner.

Middle market business owners tend to spend more time working in their business rather than on their business, and often lose sight of the strategic priorities and direction necessary for success. Taking a proactive approach to assessing both threats and opportunities

today will help maximize your company's value in the future.

## Consider middle market business opportunities

To effect change, you need to consider opportunities you may not have considered in the past.

**Customers – Products – Services – Innovation:** Have the needs of your customers changed? Could you be delivering your product or service in a more meaningful way to generate increased customer loyalty or engagement? How can you innovate your business model to deliver a better customer experience?

Back in the good old days, if you delivered a quality product or service at a reasonable price, customers would always return. Not so today. Businesses require constant innovation to meet the changing demands of their customers.

**Your People:** The people in your organization are as critical to its success as you are.

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The stronger your internal team is, both at the management and staff level, the more value your business accrues.

The greatest value can be derived when the owner is viewed as replaceable. This may sound callous, but it is important that potential buyers see a strong management team that is not dependent on the owner. You must demonstrate that the flourishing organization you have worked to build will continue to operate successfully without the same level of your involvement.

To do this effectively could take some time. Your experienced staff have made a tremendous effort for you over the years. Now is the time to look closely at who you believe can continue your legacy and begin to groom them, perhaps starting with a promotion. A solid management team with clear functional roles and experience will go a long way in retention and reducing your daily activity over time.

In addition to having a solid management team, prospective buyers typically rely on the existing staff to continue operations as usual. Consider ways to keep your staff loyal and motivated. Loyalty should be rewarded with recognition, both monetarily in the form of a bonus and/or visual recognition with internal awards or notices such as "Employee of the Month" and similar accolades. Small gestures of recognition go a long way in letting the team know they are appreciated.

## Ensure financials are supportable and controlled

A good business practice is to review and validate your financials for accuracy and veracity on an annual basis, as well as to test your financial controls and procedures.

This review process will be critical at the time of a transaction and if it is not currently part of the culture it may take a few tries to get it right. We recommend starting it sooner rather than later, as potential buyers must have complete confidence in the financial picture presented to them. The quality of your financials will play a key role in solidifying the transaction.

Your financial statements must be reliable, accurate and available in a timely organized fashion. While it is common to present "recasting" adjustments that may more accurately reflect the operations of the business, make

sure these adjustments and projections are supportable and realistic.

Another key factor in building value in your company involves the processes and controls that you have set in place around the financials. A prospective buyer will have greater confidence in your information when you can demonstrate systematic procedures and controls used to ensure the data is accurate. A SOP (standard operating procedure) document will further ensure that you have given proper consideration to this process.

Depending on the size of your company, buyers often ask for three years of audited financials. If you do not have these types of systems in place, now is the time to start creating and documenting them.

Also ensure that your other internal technology systems are integrated. Companies that have streamlined technology to feed directly into an ERP (Enterprise Resource Planning) system are in the best position to provide valid information to prospective buyers. A one-time expense of enhancing systems such as adding the inventory and accounting modules to the ERP system will absolutely be a valuable asset at the time of sale. Without this integrated technology, buyers may reduce the purchase offer because they will have to incur the cost to upgrade the system.

## Address threats

Advances in technology have turned the global economy into a local economy. While this has created opportunity for business owners, it has also paved the way for significant threats and challenges. Are you seeing new and/or stronger competitors appear in your market? Are innovative technologies emerging that will impact your customers preferences or buying habits? Have you considered the impact of shrinking markets, new regulations and/or raw material shortages on your business?

While many of these threats may be outside of your control, their impact can be mitigated (or even deflected) with proper strategic planning.

## Determine your next step

The rapidly expanding middle market is becoming more complex and facing significant changes that will create

exciting opportunities but also bring about immense, often unpredictable, hurdles. Taking the time to craft a strategic plan to address those challenges and opportunities will benefit you this year and for many years to come.

Even with the pandemic, the 2022 economic forecast continues to be positive and favorable financing is still available. By incorporating some of these strategic steps into your 2022 plan, you will be enhancing the value of your business so when the time comes for you to exit, the foundation is in place to earn the maximum value for all your years of hard work.

*This is the fifth part in a series of articles on best practices for mergers and acquisitions in textile fiber-related industries. The next edition of this series will focus on year-end tax planning. To view all of the articles in this series, visit [fiberjournal.com/author/lenlaporta/](https://fiberjournal.com/author/lenlaporta/).*



### About

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Len LaPorta is a managing director of The DAK Group, an investment bank specializing in middle-market, privately held companies. Len advises business owners on sell-side and buy-side transactions, capital advisory and valuations. He is a veteran of the U.S. Navy and former owner operator of a contract manufacturing company. He can be reached at [llaporta@dakgroup.com](mailto:llaporta@dakgroup.com).