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Three Traits of Valuable Businesses



Having a valuable business could position you to do the things you want in both your personal and professional life, from taking advantage of the perks of owning a successful business now to planning for your eventual retirement and cementing your legacy. But how can you begin to make your business more valuable than it currently is?

Many valuable small and mid-sized businesses include three common traits, regardless of their industry, geography, or unique elements. Let's look at what makes a business valuable in the first place, the three common traits valuable businesses have, and some suggestions for how you can install or enhance them in your own business.

What Makes a Business Valuable?

A business' value boils down very simply to the amount someone else is willing to pay for ownership.

It's important to state this up front because it can get overwhelming for you to think about everything that goes into building business value. Grounding yourself in the simple fact that your business is only as valuable as someone else says it is can help you take a clear-eyed approach to:

- What's important to you
- How your business can help you achieve financial security
- How to leverage your business to benefit you both now and when you eventually retire

Building business value is much like preparing a house for sale. Some buyers might be looking for French doors and bay windows while others may want a sleeker, more modern design. Despite these different preferences, both buyers will want a house with a strong foundation, sturdy walls, and an impenetrable roof.

Building your business' value begins by making sure your business has the strong foundation, sturdy walls, and impenetrable roof all buyers want, even if you don't plan to sell for years or decades down the line. From there, you can then focus on the details to find the right buyer who will pay you the right price.

Here are the three traits many buyers look for when determining business value.

1. Next-Level Management

Next-level management is the foundation of a valuable business. These are the people who make it so you don't have to do it all, in addition to strengthening and developing the business in new ways.

Remember that if your business can only function when you are running it, then it may not have any value at all to a potential buyer if you leave after you sell it. In other words, if you are the foundation of your business, you are stuck in place supporting the business, even if you'd rather pick up roots and move on at some point.

A next-level management team takes on foundational responsibilities, which could give you more flexibility and time to do the things you actually want to do in your business.

Next-level managers can come from inside your organization or outside of it. No matter where they come from, identifying, training, and retaining next-level managers are crucial to growing the value of your business.

Your Advisor Team can help you identify, train, and retain next-level managers. Installing this trait in your business is the first step toward building long-term business value. It also comes with the added benefit of strengthening your business while you run it. This, in turn, could allow you to evolve your role from "doing what I have to do" to "getting to do more of what I want to do."

2. Scalable Systems: Operational & Financial

Scalable systems are the sturdy walls that hold your business together. Buyers who can offer top dollar for businesses generally like turnkey businesses. Knowing how things work, where the money comes from, and how to expand those two things beyond your current footprint are typically attractive elements to qualified buyers.

Creating scalable systems, both for operations and finances, within your company is a powerful way to position your company as a valuable business to potential buyers. After all, the less work a potential buyer has to do to install these systems, the more time and capital they'll have thanks to your foresight.

Just like with installing next-level management teams, creating scalable systems offers benefits while you're running the business as well. From increased efficiency to easier data accessibility, having a codified, written process for your systems could make it easier for you to run your business while you own it.

Even better, if you take the first step of installing a next-level management team, you may find that your next-level managers can install scalable systems for you. So, if the idea of codifying systems isn't something you're particularly interested in or you currently use systems that only you and a select few might understand, your next-level management team could be able to install scalable, understandable systems that improve company operations.

3. Diverse Customer Base

A diverse customer base is the impenetrable roof of your business that buyers look for. That's because a diverse customer base can insulate your company if it were ever to lose clients as a result of attrition.

Businesses that don't rely on one large customer for survival are often valuable to potential buyers. This is especially true if your company has loyal customers.

Customer loyalty is without a doubt a good thing. But if your business relies on one outsized loyal customer for its survival, a change in ownership could cause that loyal customer to leave if you were to ever sell the business. This could position you poorly for planning for your eventual exit because if your customer only works with your company because they like you personally, it makes it very difficult to ever leave your business without risking losing your biggest customer.

This does not mean that you need to avoid serving a niche customer base or become a generalist. All it means is that within any niche you choose, you should aim to diversify your customer base so that losing a few customers every so often won't destroy your business.

Additionally, this may require you to expand your offerings to new audiences. Doing so may require your business to evolve beyond its core offerings.

The good news is that you can position your business to successfully diversify its customer base with help from your next-level management team and your scalable systems.

Your next-level managers may bring relationships with them; they may develop new relationships with prospects; they may even develop new products and services for your company to offer to brand-new prospects.

Your scalable systems could increase internal efficiencies, giving you more time and money to pursue different customer bases as well.

Bonus: Marketing and Deal Team

Installing the above three traits in your business is a good way to begin building your business' value. Once you've taken these steps and begin to approach your eventual business exit in earnest, marketing your business and leveraging a strong deal team could help make all the work worthwhile.

Having a strong business may not be enough to attract buyers per se. You also need people to get the word out and close the eventual deal, whether you end up selling to an outside buyer or an insider.

As with the above three traits, your Advisor Team can help you find the right people to market your business and close the deal when you're ready.

One last note to consider: It's important to avoid putting your business on the market before you and the business are ready for a sale. Doing so can taint the marketplace, which can hurt your business value in the long term. Your Advisor Team could help guide you away from tainting the marketplace while properly strengthening your business both for now and for when you inevitably leave your business.

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