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A Good Business versus a Good Investment

When it comes time for a business owner to contemplate an exit from their business, it is important to consider the differences between a 'good business' and a 'good investment'. The next owner of your company will be looking for a 'good investment', not just a good business. Therefore, if you want to attract a qualified buyer for your business and get the highest value, then you'll need to create a 'good investment', not just a good business.

Hallmarks of a Good Business

Most privately-held businesses are lifestyle businesses. In other words, the business generates enough revenue and profitability for an owner to live comfortably. Often times owners focus on the personal benefits of business ownership over the potential for the future of the business. For example, business owners will often live with slow / no growth in the business as a trade-off to not having to work as hard, not having to borrow money and not dealing with excess complexity.

When a business owner has a 'good business', such as the lifestyle business describe above, there will often-times be a limited set of professional buyers for that business. In fact, the largest pool of potential buyers for that business may be individuals who want to enjoy the same lifestyle as the owner.

Professional buyers are not just looking for good businesses, they are also looking for good investments.

Hallmarks of a Good Investment

There are many hallmarks of a 'good business' that are also considered to be a 'good investment'. The list below is by no means a complete accounting of all attributes of a desireable company, but it will provide an overview of areas that professional investors consider important when purchasing a privately-held business.

A Business That Can Run Without the Owner

Owner dependency is a major issue with professional buyers. If your company is highly dependent upon you in order to run (and grow) into the future, then buyers may not consider your company a good investment. If you think about your investments in public securities or mutual funds, those companies run without you. In fact, it's likely that you do not know who runs those businesses because you are merely an investor. There is a separation of ownership and management. In most small businesses the owner is intricately involved with many facets of the business. While some management may be in place, this can often-times not be enough to reduce the high levels of owner dependency. Therefore, in order to make your company a better investment, you may want to reduce the company's dependency upon you.

A Business that Has Management in Place, Successfully Pursuing a Strategy for Growth

The next attribute that will help define your business as a good investment is how empowered and successful your management team is in pursuing growth through a defined strategy. If you have managers who take initiative, make good decisions, measure and report their own performance and can be entrusted to direct themselves towards achieving strategic goals, then your company begins to look more like an investment.

A Business that Is In an Industry that Has Attracted Capital and Has Growth Potential

If your business is in a slow / no growth industry but provides for a good income for you and your family, then it may not be perceived as a solid investment for a professional buyer. However, if you are in an area of growth and outside investment is finding its way into your industry, then it may be the case that an outside investor will value your business as one that has a growth story that can be realized.

A Business that is Out-performing its Peers in Terms of Profitability

It is not enough for a company to be independent of the owner, to have empowered management and to be in the right industry. For your company to be considered a good investment, it is also important that your company's performance is stronger than your peer group. A good investment is not just one that makes money, but one that is 'best in class' – a company that outdoes the competition. To the extent that you can articulate the reasons that your company outshines the competition, even better.

Concluding Thoughts

It is important to present a good investment to a future owner, not just a good business. There are a number of things that you can do today to determine the difference between the two. One of the first things that you may want to do is determine how dependent your company is on your individual efforts. Our Owner Dependence Index™ survey is available and on-demand and takes about 10 minutes to complete by visiting this link: http://odireport.com/Survey/Register/184EA824_30

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