Top 5 Value Drivers & Value Killers of a Business

A few years ago I went to a professional group meeting. The topic was “value drivers” and “value killers” of small companies. There was a very qualified panel of experts (I don’t remember who they were at this point - sorry about that panel members), but if memory serves, they included entrepreneurs, investors, business valuators, and other M&A experts.

I took notes on the key takeaways. I found them very thought provoking and helpful when evaluating the state of a business. Disclaimer - this is not the “be all, end all” reference for evaluating the state of a business and its future potential. But it does provide relevant criteria that can stimulate and contribute to any business assessment process. Agree, disagree, adopt, adapt, or revise the lists or items on the list, as long as it inspires thinking, discussion and action. I am eager share it with you along with my feedback and observations, all intended to help you improve your business.

Top 5 Value Drivers

1. **(Effective) Management.** Deep, diverse, capable, and effective management team.
2. **Differentiation** (other than price.) If there’s an unmet or under-met need, having a differentiated offer and value creates scarcity. High demand and scarce supply – a good situation.
3. **Opportunity to have positive impact.** This may overlap with “differentiation.” Have a “positive impact” for customers seems “need” or “want” based. Expanded, it could be applied to having a positive impact on all stakeholders, including employers, investors, vendors, creditors, service providers, as well as customers.
4. **Appropriate asset base.** I think pretty explanatory. Do you have the assets to consistently deliver on your differentiated value proposition?
5. **Steady-stable cash flow.** Can the operation generate consistent, sustainable positive cash flow? Again, obvious as a criteria. Perhaps it should be higher on the list. Unfortunately, it is not so common for a lot of small businesses.

Top 5 Value Killers

1. **(Ineffective) Management.** Too many owners and leaders of small businesses do not use meaningful behavioral, skills, and subject matter expertise criteria recruiting their management teams. Rather than focusing on capability, character, purpose, attitude, and values, owners often prefer those who they find personably likeable, those that seem similar to them, or those who were effective at performing a functional job and assume that indicates they will be an effective manager. Once hired and in place, owners or leadership often promptly and effectively deal with ineffective managers. They don't practice effective performance management, including termination, creating a significant long-term drag on the business.
2. **Exposure to fundamental risk that can't be addressed.** This seems self-explanatory and obvious. Applying this practically, this may be more relevant if “can’t” was changed to “won’t.” Most often, when a “right thing” is not done, it is by choice, and not lack of ability. “I won’t” almost always trumps “I can’t.”

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3. **Inability or unwillingness to develop or stick to plan.** Again, self-explanatory and obvious. Sometimes this is an owner-leadership issue, and often indicates the lack of value place on planning, or impatience with the "planning, implementation, execution and getting results" process. And sometimes it indicates the management teams ineffective planning and execution.
4. **Inability to answer the question "why?" when asked about what happened to the business. It is not enough for owner-leadership and management to know their financial results.** It is not enough to know what is done and how it is done. The relationship between performance and results is critically important. Seem obvious, but this "value killer" is unexpectedly common.
5. **Customer concentration.** Is this a "risk" that is included in Value Killer #2? I think the specific concentrations and factors vary between different industries and businesses, but customer mix and the balance between revenue per client, new client acquisition, client retention, lifetime value of a client, etc. and the impact on the success and sustainability of any business are critically important.

Not included in the top 5 lists, but the subject of a lot of discussion, was the impact of founders/owners on the presence of value "drivers" and "killers." Specifically, founders, owners, or leadership that do not:

1. Realize gaps in their business
2. Delegate at all or effectively
3. Recruit uniquely capable, qualified management

Perhaps this should be a top 5 "value killer?" Do these lists help you assess your business?

Does your list reconcile align with these lists? Again, my intention is for these lists to disrupt your status quo and inspire thinking, discussion, and action that lead to increasing the value of our business.

And please call upon me with questions, objections, other feedback, or to explore how we can work together to achieve your success.

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