Planning for the End Game

Which end of the swing do you want to be on?

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There are all kinds of business plans.

There's the annual budget, not really a plan, but more of a spreadsheet. It shows the P&L from last year, some agreed upon growth projections, and the budgets the business should run against. It's not a plan. It doesn't have the actions, the prioritized initiatives, the offers, etc needed to be successful. For many, it is, however, the plan. Other companies have plans like "ideas." These are things the owners plan to accomplish over the long term. Some are even documented, and reviewed several times a year for progress. Others have initiatives – major strategic things the company is doing to move the needle forward.

You probably know that the "swing" in value for a sellable business can range ***from 3 to 10 times EBITDA***. Do you know all the factors that drive higher multiples? What gaps do you need to fill, and how can you get there without sacrificing your lifestyle and risking the current base?

In our view, businesses that are serious about long term value need a different kind of plan than the typical list or initiatives or P&L-based plan. You need a Strategic Growth Plan.

A Strategic Growth Plan reaches beyond normal year-over-year growth objectives and initiatives to:

- » Grow beyond market growth rates, taking share from weaker competitors
- » Build specific targeted enterprise value through increasing performance against the key levers that contribute to strong enterprise value.

Over the past 20 years in the software business, we have seen many companies acquired, participated in the sale of several and, through past leadership positions, participated in buying and integrating nearly a dozen businesses. Those experiences have highlighted that it is much more than EBITDA and a few financial ratios that maximize enterprise value. Let's look at the key levers to maximizing enterprise value.

Key Levers to Maximize Enterprise Value

- » Value-Focused IP, Offers and Messaging
- » Maximized customer opportunity
- » Predictable, proven revenue growth model
- » Right ratios, beyond EBITDA
- » Market influence

Planning for the End Game – Value Differentiation

Ideally, even services firms develop, codify, and where appropriate protect their intellectual property. In one instance, a Microsoft VAR created industry IP on top of Axapta, and, 7 years into their business, sold for 25 million dollars to a larger VAR looking to consolidate a position in select industries. Added value software, management dashboards, starter kits, and industry value-add are powerful ways of creating higher multiples. Methodology, especially that which delivers measurable value to customers, rapid delivery and/or low cost delivery also creates competitive advantage. You'll get a multiplier effect if you put both together.

Burn the Boats! One more issue to address in our first category – FOCUS. The biggest mistake you can make attempting to grow your business is to believe that any revenue growth is good growth. On the one hand, of course collectable revenue is good. But, if you grow randomly in too many verticals and too many offerings, you spread management time, investment dollars, training, marketing, sales and other critical resources around like butter on warm toast… and faster than you'd like the investment disappears and you have little to show for it.

Like the Spaniards led by Hernan Cortes in the 1500s, we have to Burn the Boats on all of the alternatives, focus our team on targets, and eliminate failure as an option. Then, well enabled, our teams will focus forward and create momentum, just as Cortes' 600 soldiers accomplished witout armor what no other army accomplished.

The foundation for the plan is differentiated offers into markets with sufficient health (or relative competitive weakness) to support growth

- They create value in the market
- Maximize return on marketing investments
- Quicken sales cycles
- Motivate customer purchase BEFORE the typical qualifiers
- Maximize purchase price, because they maximize measurable returns

Planning for the End Game – Customer Wallet Share

We believe that maximizing customer wallet share is the most critical first step of strategic growth. Sales cycles with existing customers can be 40% to 60% faster than net new customers. Even better, marketing costs per dollar of customer revenue are often 50% to 80% less expensive than equivalent deal volumes and sizes for new customers. Existing customers are also, obviously, the safest and fastest way to introduce new offers, develop IP, and gain references and referrals that optimize your net new label growth strategies.

So, what's next? Let's sign up lots of new customers to demonstrate growth, right? Not in our opinion. The trouble is, net new customers take the longest and require the maximum amount of up-front investment. This is where companies often got locked up on their growth strategies. Limited cash leads to slower investments and growth. Ultimately, many companies accept the slower drag of industry constrained growth rates… or worse.

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Signs that You Can Get More from Your Customers

- Infrequent purchases of large amounts
- Lack of quarterly relationship with top executives
- Recent surprise losses
- Lack of referral leads from customers
- Little to no involvement in annual budgeting cycles

Start with your customer base. Know their wallet share opportunities. Devise strategies to increase your wallet share opportunities, and align your business to focus on and capture that opportunity. You will fund your market share growth, increase earnings quickly, and build a solid set of loyal customers whose renewal rates are higher. High run rate businesses get higher multiples. Get going on your customers.

Upon a firm foundation of customer leadership, businesses should layer in a predictable, profitable bookings growth. Did you notice I didn't just say increasing bookings? In my experience, your sales pipeline will undergo significant scrutiny during the diligence process. Past growth will NOT convince anyone that the current or future years will continue the success. A predictable, proven, inspectable revenue model will prove that your business growth is sustainable, and not just the magic of a few producers and a connected owner who will soon depart after the acquisition.

Planning for the End Game – Predictable Revenue Model

A predictable revenue models gives you the confidence that dollars invested will produce both and adequate and consistent return on investment. This doesn't mean that every project generates the same returns, but that across your projects the highs and lows create consistent, quarter over quarter performance against targets. Specifically, it:

- **Accurately predicts bookings timing**
- **Accurately predicts deal size**
- **Ensures balance across the sales team**
- **Highlights gaps early enough to address the challenge**
- **Views revenue as a single process**
- **Leads to regular quarterly attainment of bookings targets**

When you view the characteristics in a predictable revenue model, you can understand how you will firstly achieve the targets you set more consistently. Secondly, you can imagine how outsiders would value your business at higher multiples. You set and achieve targets, and your business has processes that can outlast the owners. Strategic buyers may well see an asset that can improve their overall operation.

Your plan, at this point in the story, now should have initiatives to differentiate on value and IP, increase customer wallet share, and build a predictable revenue model. Perhaps you're already set in these three categories, if and when you are, the next thing to consider is timing the arrival of the right ratios to optimize your value.

One of the fastest way to lose value during the diligence process is to slip bookings in a quarter or two. In fact, buyers often drag the buying process out over a few quarters merely to create risk for the seller and set you up for the difficult discussion that your pipeline is weak and your sales team can't close.

It is also the fastest way to waste money on marketing and selling that doesn't pay off while you're running your business!

Planning for the End Game – Get All the Ratios Right

Why “time the arrival?” Well, unless you’re already running your business to optimal valuation ratios, pushing for the right EBITDA on day one can constrain growth, and distract the business from creating a foundation of customer loyalty and predictable growth. There are a set of ratios that drive optimal value. The key is to approach targets over time, showing increasing performance, and to not “tune the ratios” the year you sell. All that says to a buyer is your business really doesn’t run as well as your current year P&L.

Some ratios we suggest you tune right away. For example, we recently turned around the profitability of a consulting operation by giving them a different view of the core ratios required to hit profit targets on services. They moved from barely crossing break even to a model that delivered 30%+ margin on services. Quota attainment is another ratio to tune as fast as possible through some mix of training and optimizing the team.

The key to not overloading your agenda is to do a quick 80/20 analysis on the value of closing the gaps on the ratios. Target the highest impact changes first, as measured by net bottom line impact. As you improve on your first set of targets, re-analyze the next “80.”

Key Ratios to Maximize Value

- EBITDA ≥ 25% - 35%
- CAGR ≥ industry growth rates
- Renewal rates ≥ 90%
- Chargeability high as a percent of 2080 work hours
- Utilization ≥ chargeability
- Rate realization ≈ Rate card
- Proper quota assignment
- High average quota attainment
- Low turnover rates in sales and consulting
- DSO close to average contract terms
- Contract terms targeting net 30
- Very low percentage of contracts with fixed fees or implied commitments
- Consistent track record of OT/OB delivery, with no outstanding critical events
- Support reps ≥ 90 customers per support rep

Planning for the End Game – Accelerate Market Influence

So, establishing targeted awareness becomes the icing on the cake.   We argue specifically that in lieu of general branding, companies seeking to maximize enterprise value focus on:

Strategic Relationships

Leveraging PR tools commonly available, you can find the influencers that are moving markets with opinions and the publishers who attract the attention of your buyers. These are the relationships to target with your new/enhanced value story and some demonstration of your ratios of performance and recent successes. Icing on the cake… You've got better stories to tell that will generate referrals and provide a solid reference during diligence.

Vendor Prominence

Tap into all the relationships you have to work the vendor sales teams and channel executives with your new story. Success rates, lead to higher MDF, and improved close ratios mean you can better argue for a higher share of any vendor deal flow. Also, if you've begun to create IP, you're going to be a much more valuable asset… potentially for the vendor organization. In any case, being highly ranked and referenced within a key vendor will increase your enterprise value.

Analyst Relations

A special category of Strategic Relationships are key industry analysts.   But, don't be misled into thinking a meeting at any time in your lifecycle is a good idea.   It is NOT. Again, once your story is strong, and you've made progress on your plans, you'll have plenty of value to share with analysts that cause you to stand out, and even make targeted investments that cause them to mention your name.

It's a tall order, but the key is to do a gap analysis and find the highest impact steps first around focused strategies of value differentiation.   Wholesale change is too costly and disruptive. Second, shift management and leadership processes immediately – you get what you inspect, not what you expect. Third, get busy on some quick wins in the customer base to drive the funds to enable the growth. Last, get busy in the first set of highest impact changes.

Now, that's a plan… The spreadsheet follows from the plan. Let's get to work.