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INVESTMENT BANKING

MAXIMIZING THE VALUE OF YOUR STAFFING COMPANY

This article is directed towards staffing company owners that plan on selling their companies as soon as today or much farther into the future. If you wish to sell now, there are buyers in the market that will pay fair prices for your company, even in this challenging business environment. The best prices are achieved when you are operating at or near your normative earnings levels and the buyer has a strategic interest in your company. Since the sale process generally takes a number of months, you can still implement many of the strategies described herein.

If you plan to sell, but not necessarily immediately, you will be able to take advantage of substantially all the strategies described in this article. Generally, the more time you have, the greater the increase in value you can achieve. However, it is never too late to start. Remember, it has been said that the two best times to plant a tree are: (1) 20 years ago and (2) NOW!

Develop a business plan

A solid business plan, including projections, provides a roadmap for future growth. It should address sales strategies and expansion opportunities. Should you enter new markets? Should you develop a new niche? Assign responsibilities to ensure that business plan initiatives are accomplished. Set goals and tie rewards to expected performance. Above all, make your business plan fluid and review it frequently – at least every quarter. Modify the plan as needed to respond to changes in your market and business environment.

Control expenses

Keep an eye on your expenses. Tough economic times have forced business owners to review expense levels closely. However, this practice needs to be followed during periods of growth as well. Expense controls result in higher profits and cash flow which reduces the need for funded debt. Although leverage can be a good thing when used to fund growth, many highly-leveraged companies have suffered in recent years as the economy tightened and growth and profitability slowed. Obviously, it costs money to grow a business, so investments have to be made to support continued growth. However, be prudent and consider expense increases and capital expenditures carefully.

Control risk, particularly workers' compensation costs

Workers' compensation insurance costs have skyrocketed. You can shop around for the best program and rates, but the area where you will see the largest impact on your costs is in the area of risk control and management. Make sure that you are doing everything possible to control your risk. Consult outside experts if necessary. Good risk management programs can yield dramatic results quickly. And when you are ready to sell, good loss experience will enhance value.

Diversify your customer base

Broaden your business so that you aren't too reliant on one client or a small group of clients or on one industry. Obviously, you don't want to turn away profitable business from a major customer, but consider how you spend your time and marketing resources developing relationships that can diversify your customer base. Too much customer concentration can not only lower the value of your business in a sale, it can impact the structure of a transaction. Buyers will often defer a portion of the purchase price if there is a concentration of business, and will tie receipt of that portion to future performance.

Establish good financial reporting

Although an audit is not always essential, good reporting and internal controls are imperative. Strong accounting controls inspire confidence in a business, whereas poor controls raise red flags. Establish good financial reporting and make sure it is effectively used by management. If the resources are available, consider investing in productivity-enhancing tools to improve financial controls.

Hire the right people

Do you have the right people to build value? Establish a strong management team that can run the business in your absence. Reduce customer reliance on yourself if you want to have the option of leaving the company fairly soon after a sale. Decisions regarding retention of employees can be difficult, but need to be made sooner rather than later in most cases.

Motivate your staff
As you build a strong employee base, consider ways to motivate them. You need to establish clear objectives and tangible, attainable rewards. Find ways to excite your key people who have the ability to increase your net worth.

Manage your assets
How fast are you collecting your receivables? If your accounts receivable turnover is more than 30 days, your pricing should reflect the cost of carrying this expensive asset. In addition to interest expense, every dollar tied up in receivables is unavailable to help you expand your business. Make sure you have the right person in charge of collecting receivables and incentivize them to collect those assets quickly. Poor working capital management is one of the most common reasons that businesses fail.

Optimize profitability
Set internal pricing guidelines for your salespeople to ensure that minimum gross profit margins are maintained. Consider the impact of low margin accounts on your earnings. Revenue growth alone doesn't necessarily enhance the value of your business. A history of favorable gross profit margins that a buyer believes are sustainable will have a positive impact on valuation.

Develop strong information systems
Given present economic conditions, it is a difficult time for many companies to allocate resources for investment in information systems. However, to the extent your budget will allow, invest in automating your business. There is talent available who can maximize your business capabilities within your available budget.

Elect the optimum tax status
Is your company structured as a C Corp? Although not for everyone, S Corp status or an LLC structure typically places an owner in the best tax position. In those instances, a sale generally results in a single tax whereas a sale of the assets of a C Corp results in double taxation. Consult your tax advisor now to determine what works best for you. If your company is a C Corp, find out how that status may impact your after-tax proceeds in a future sale.

Conduct an ongoing M&A market analysis
Keep abreast of the M&A market. What kinds of transactions are being done in the market? What prices are being paid? What are buyers looking for? Market intelligence will help you to understand the factors that impact valuation so that you can best position your business for a sale.

Demand the best
Actively seek advice from all sources – both free and paid. As the timing of a sale gets close, make sure that you have the right advisors in place. Make sure that you line up professionals with transaction experience such as accountants, tax experts, lawyers and an experienced investment banker to assist in a sale. Your advisors will assist you throughout the entire sales process to ensure the best possible outcome.

Despite the current economic and political situation, it is not always advisable for owners to defer a sale with the hope that valuation will increase in the future. While pricing has varied at different times in the past, it is impossible to look into a crystal ball to determine what buyers will pay in the future. If personal circumstances dictate that the timing is right for a sale, and if current market conditions indicate that personal financial objectives can be achieved, then it may make sense to proceed now. However, if you determine it is better to wait, then take steps now to enhance value tomorrow.