

3 Ways to Create Value in Your Company



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Three principal ways to create value within a company include organic revenue growth, growth through acquisition, and cost reduction.

1. Organic Revenue Growth

Organic revenue growth focuses on growing what the company already has. This may include expanding geographically, increasing prices, improving selling and marketing practices and changing up the product mix in order to attract a more diverse customer base. Price increases can be an effective way to grow revenue. However, before increasing prices, research and analysis should be done to determine the customer's tolerance for price increases. Based on the results of the analysis, the company can find out not only if this strategy will be effective, but can also gauge how large of a price increase will be most effective in growing revenue. For a retailer, one way to enhance revenue organically is to perform a review of stock-keeping units (sku) to ensure that those that are selling the best, and are the most profitable, are being stocked and displayed. In the same way, any old sku that is no longer in demand, and is not as profitable, should be removed from inventory. This may be particularly effective if space is very limited. Another way to achieve organic revenue growth is to increase the effectiveness of your sales force. This may be accomplished, for example, by changing the compensation structure to be at least partially based on sales commissions. Of course, due to the recession, in recent years, achieving organic growth is more challenging due to consumer caution and small annual gains in gross domestic product.

2. Growth Through Acquisition

Growth through acquisition is the strategic purchase of other businesses that complement the existing business by increasing efficiency, expanding the geographic footprint and customer base, or diversifying the product offering and/or increasing innovation. For a trucking company, for example, one way to increase efficiency through an acquisition is to acquire a competitor in the company's already existing area of service. In this way, the trucking company can service the new customers obtained through the acquisition, with very little additional costs. The incremental cost of fuel, labor and repairs and

maintenance costs will be minimal, and much of the additional revenue will fall almost straight to the bottom line. Of course, the other reason this strategy is effective is because the company is effectively "taking out" the competition, which has gained popularity due to the difficulty noted above in achieving organic growth and the low interest cost of financing acquisitions in the current market environment.

Generally some amount of due diligence should be performed prior to closing on an acquisition. The due diligence process should include obtaining and reviewing documents including articles of incorporation, bylaws, board minutes, shareholder records, audited financial statements, fixed asset schedules, leases, mortgages, a summary and description of intellectual property (patents, trademarks, copyrights, etc.), information on litigation and claims, an employee listing, licenses and permits, tax records, vendor and customer contracts, environmental information, and any other material contracts. Of course, throughout the due diligence process, the issue of company culture and integration should not be forgotten. Business combinations can live and die by how well the newly acquired culture and employees fit within the existing structure.

3. Cost Reduction

The third way to create value in a business is by reducing costs. This can be achieved through operational efficiency, improved procurement processes, decrease of overhead costs and/or adjusting the processes already in place to improve operational efficiencies. It may be worthwhile to do some research and determine if another manufacturing process produces a by-product that the company needs for its manufacturing process. If the company currently producing the by-product is incurring costs to dispose of this by-product, it is pretty certain that this company would be willing to sell it to you for your company's manufacturing process, at a discounted rate. Additionally for a manufacturer, another way to reduce costs is by reviewing the actual yield versus rated capacity for plant fixed assets as well as the efficiency of any equipment being run at capacity. For equipment being run at capacity, perhaps there is a way to make it more efficient. For equipment found to have a yield lower than its rated capacity, it may indicate a personnel issue. For example, perhaps employee

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turnover is high or perhaps more training is needed for factory employees. Once the underlying issue is identified, it can be addressed.

Ultimately the way to create the most value in a business is by having a predictable, sustainable and profitable growth strategy in place, most likely through a combination of the items discussed above.

For questions or more information on how you can create value in your company, contact Amy Menefee at amenefee@keitercpa.com or your Keiter engagement team.

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