

# Growing the Value of Your Business

The financial markets are very efficient. Money flows in and out of investments with incredible speed as investors constantly seek to place their money where it will earn the highest yield. All investors are not right all the time, but as James Surowiecki compellingly argued in *The Wisdom of Crowds*, the “crowd” is almost always right as a group.

What is it that investors value most? Predictability of earnings. Investors pay handsomely for investments that deliver predictable earnings. Add exceptional growth of those predictable profits to the equation and there's a feeding frenzy. Value skyrockets.

What relevance does this have to you, the owner of a private business far removed from the public markets? Nothing — unless you want to build the value of your business or your personal wealth.

The main differences between your company and a publicly traded one are size, public disclosure of financial performance, a mechanism for efficiently trading equity units, and separation of management and ownership. But just because the world isn't looking and the shares aren't trading doesn't mean that building business value doesn't matter. It just means that the only shareholder you have to please is yourself — and possibly a few others close to you.

So, here's the big question. What do you, the shareholder, demand of yourself, the manager? Anything at all?

Do you set standards for financial performance and demand they be met? Rationally allocate your capital to investments that will provide the highest return? Use your influence to push for changes in management in an effort to get a team in place that will deliver results? Prudently move your money out of investments that are underperforming and into investments that offer higher returns?

Neil Schaffer of Longview Consulting Group ([www.longview-cg.com](http://www.longview-cg.com)) has spent his career building value in private companies. He has diligently studied the art and science of private company value creation. He has worked seven days a week for as long as he can remember in various leadership roles for a varied string of small, medium and large private companies. His vantage points have been that of chief financial officer, president, chief executive officer, investor and owner. He has learned from trial and error, success and failure. He now consults full time on this very narrow subject — helping companies grow value rapidly, even radically.

From my experience, for every 1,000 people who say they consult on areas such as these, there's maybe one who really knows what he or she is talking about and can drive results. After all, building a company is not easy, as you know. That's why the wealthiest 1% of the population controls nearly 40% of all the wealth.

My point is, Schaffer is the real deal. I talked with Schaffer extensively. And here's what he says about radically growing the value of a private company:

*The most important thing is the people, and the most important of all is the business owner himself. We see many dozens of companies each year — from start-ups with a great idea seeking capital to mature companies preparing to charge up the next hill — and we always give great weight to the vision and commitment of the founder/entrepreneur/CEO and to the quality of the management team.*

*There are many obstacles to building a high-performance (and thus valuable) enterprise — technology risks, financial risks, regulatory risks, etc. But most business risk is what we call 'execution risk.' The successful teams are those that develop a first-class playbook and can run their plays against the tough and unpredictable defenses of global markets and competitors, and Murphy's Law.*

*Sure, a company needs good products or services that the marketplace values, but superior results and sustainable advantages are driven by what the competitors can't see and can't easily copy ... an excellent and committed senior team with vision and values that spark the entire organization to high performance.*

*The good news is, talent can be hired. But attracting and hiring top talent will only occur if the controlling equity holder rejects the status quo and has the vision and the commitment to really building something special.*

The light definitely shines on you, the business owner.

So whether your desire is to slowly enhance the value of your business while maintaining a healthy and balanced life, or to radically grow your business and create something significant, the first and most important step is for you to make up your mind. Establish a vision. Then, when you're ready to turn vision into reality, this issue of *The Business Owner* offers strategic and tactical suggestions you can use. □

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# Q&A: Neil Schaffer on Accelerating Company Growth

Neil Schaffer is CEO of Longview Consulting Group. He founded the firm in 2005 to bring senior executive and entrepreneurial experience, perspective and creativity to emerging and middle-market companies seeking to accelerate their growth.

Schaffer has served in executive management roles across a number of industries. He served as EVP & CFO of the MediaPort consortium

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(\*01 – 02) and AudioAudit (\*02 – \*05), both innovative technology companies in the advertising and media business. Along with several former senior executives from Citigroup and several Ivy League university professors, he founded iPrivacy, LLC, a software and services company focused on Internet privacy and security.

He previously served as CFO of several industrial, distribution and technology companies, including Horizon Paper Company, a leading paper brokerage firm; The Carson Group, Inc., an investor relations consulting and information services company (sold to Thomson Financial); and The Hain Celestial Group (NASDAQ: HAIN), the largest natural-products manufacturing company in the U.S.

Schaffer began his career as a certified public accountant with the middle-market practice group of Price Waterhouse in New York.

**Question:** Assuming that ownership is committed to growth and a skilled team is in place, what are the keys to driving company growth? In other words, what are the essential elements of an achievable growth plan?

**Answer:** Knowing your destination is absolutely crucial. Airplanes are off course 90% of the time, but through a large array of corrections they land safely at their destinations. There are so many elements to executing a strategic plan, and the devil is in the details. But your question was: “What are the essential elements?”

It is critical to have a clear and realistic vision and mission, starting with the CEO and shared by the entire organization. That means having a few very specific and quantifiable goals for the products or services at the center of the growth strategy. The CEO and senior management team must be fully committed and involved. Growth is hard and leadership commitment is essential, and the entire team must be able to set aside ulterior motives and personal agendas to cooperate in pursuit of goals.

Another essential element is rapid decision-making based on hard deadlines, and on feedback from customers and from all functions within the organization. This decision-making process should be facilitated in part by a free sharing of information. Whether by using a “war room” environment or a formal knowledge base such as an intranet, true collaboration is an essential element of the culture of successful growth.

**Question:** The word scalability is thrown around a lot. Could you define scalability in your own words?

**Answer:** The classical notion of economies of scale is that unit cost declines with increasing volume. Volume purchasing reduce the cost of material inputs, and machinery and mass production drive down labor costs. Today, technology offers productivity to all, but in exchange for shorter product life cycles and greater value ascribed to the services/service components that now accompany products. So scalability is more a function of building a foundation of repeatable methodologies and processes so that new product development occurs faster and margin expansion occurs earlier in the life cycle on relatively small volumes.

**Question:** What’s the biggest misstep that a company can make when trying to expand?

**Answer:** Loss of customer focus. Most companies begin with a zeal for serving the customer. It serves them well and the business gets on its feet, but as it grows it becomes more bureaucratic, and product development, production efficiency and financial performance take precedence. The company loses its intense focus on meeting customers’ needs and having meaningful two-way dialogue with them. Marketing devolves into a bunch of scattered and unfocused tactics designed solely to feed revenue growth.

**Question:** So what is the key to growth?

**Answer:** Assuming the business has the talent and the capital necessary to support growth, the key is an actionable, achievable and measurable plan. Building sustainable advantage is a long-term commitment, and small first steps and “quick wins” do wonders to build a team’s confidence to take larger steps and make bolder moves. Business plans must be developed from, and supported by, thorough and accurate customer and market research.

**Question:** Where can a business owner look to find avenues for growth?

**Answer:** Avenues of growth are found by better serving and further penetrating existing customer groups with established offerings, improving and also broadening the offerings to existing target markets, and identifying new markets and/or customer groups. In each case, success will be found only by a smart and savvy selection of the proper mix of marketing and communications tactics.

**Question:** Most businesses have real limits on the dollars they can spend on marketing. What are their options, if any?

**Answer:** Traditional advertising can be incredibly expensive and relatively useless. Identifying alternative means for cost-effectively reaching target markets may be the #1 challenge for a small business. The old “build it and they will come” just doesn’t happen in real life. Finding the right mix of cost-effective marketing tactics will require lots of thought, discussion, brainstorming, learning from others and a good bit of trial and error.

**Question:** Can you give us some real-life examples of companies that found a cost-effective means for reaching their target market and, by doing so, achieving rapid growth?

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**Answer:** We have found that public relations campaigns can be very cost-effective. Having industry thought leaders and editors focus on a problem, or on a problem and a company's solution, is a good way to gain credibility and awareness, especially when followed by a direct campaign to "push" the press material to the target customer base.

Demonstrations and free tastings — in stores or at trade shows — are good ways to showcase a new product or even a prototype. If one can couple the demo with press coverage, testimonials, focus-group-type feedback, coupons or, imagine, purchase orders, then killing more than one bird with one stone can make the "free sampling" activity very cost-effective.

**Question:** How can companies make sure they remain focused on the customer?

**Answer:** The short answer is that the business owner or CEO must remain committed to marketing as a strategic imperative. The corner office sets the tone for the entire organization. If the unifying theme is to put the customer first and **really** listen to them and serve them with integrity — and all the necessary carrots and sticks are properly installed — then the organization will get into and remain in alignment.

Far too often the top brass conjures up ideas, jots them down, recites it all in company meetings, and calls the exercise "marketing planning," but it's little more than a wish list. Specific, discrete individual activities and measurable objectives are neither considered nor implemented.

Instead, senior management must define, mandate and drive proactive marketing initiatives. This involves identifying specific target market segments, potential customers, potential channel partners, influential analysts, etc., and developing and positioning targeted messaging with clearly defined rationales and goals for each activity or investment. True marketing plans must deliver specific messages to specific audiences (i.e., developing unique talking points for all constituencies: employees, investors, customers, channel partners, analysts, press, competitors, etc.). The essential theme may be the same, but one size does not fit all. These are niche audiences, each needing specialized treatment.

It is also critical to develop, communicate and support clearly articulated sales and pricing strategies, and to assign team/department budgets, timelines and milestones, and hold managers accountable for effective execution.

**Question:** What are some of the negative repercussions of a poorly defined marketing plan, and how can companies ensure that their strategies are clearly mapped out?

**Answer:** Marketing tactics manifest themselves in public exhibitions and dialogues. The greatest negative effect is that poorly defined plans will expose the company publicly before all of its stakeholders, customers, prospects and competitors as unclear, uncertain, bumbling, selfish or weak.

**Question:** Every business owner starts out each year with a plan to grow. Why do so few achieve growth consistently?

**Answer:** Despite the best of management's intentions, in many cases, strategic plans become a victim of the "busyness" of doing business. Consumed by the daily pressures of running their companies, CEOs and management teams become distracted and make reactive or opportunistic decisions about disjointed ideas and concepts that "could result in good growth impact."

Some classic examples of misguided thinking include:

- Marketing plans and tactics that are formed wholly from the minds of the owner or managers. Unfortunately, company heads often do not accurately represent target audiences, and thus many marketing campaigns do not generate the required enthusiasm and response in the marketplace.
- Plans for products or for marketing that struggle to become actionable because they are based on ill-defined, nebulous goals such as becoming the "best of breed" or "most desired."
- "Dollar-oriented" plans driven by budgets rather than goals, where executives proclaim, "I spend money on ads and sales collateral, so I don't have the budget to do anything else." This approach is so prioritized at getting the best deal that it often foregoes achieving the best results.

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**Question:** What other relevant issues are involved in mapping out growth strategies?

**Answer:** Companies can work toward ensuring that their strategies are clearly mapped out by establishing and sticking to some basic concepts. They are simple, but they are not easy.

One basic concept is to create a meaningful brand identity. The brand is an embodiment of vision and mission. Everyone inside and outside the company should know that the company can be trusted to do a very specific thing. It is important to develop and maintain an evolving "singular company message" that will ensure harmony of the methods and tools the company uses to present itself to its customers, competitors, investors, the media, analysts and all other constituents.

Another concept is to create awareness of the company as the singular source for its unique products and services. Shine a bright light on what makes you special to get recognized and become known.

Management must enhance the company's image as being most responsive to clients' requirements through actions and results, not simply through chatter, ambiguous colorful brochures and vacant tag lines. One of the tough questions always worth asking about any planned action is: "To what end?"

And finally, it is critical to measure your marketing as you would any other business activity, and invest marketing dollars as efficiently as possible for maximum return on investment. □