



**About the Author:** Enrique C. Brito is a managing director of The McLean Group, a private investment bank providing merger and acquisition, valuation and private equity financing services. He has over 17 years of corporate finance and investment banking experience and lectures nationally on the subjects of business valuation and M&A. Contact: [ebrito@mcleanllc.com](mailto:ebrito@mcleanllc.com) or call 703-827-5093

# Creating a Marketable Business

Enrique C. Brito, CFA, AVA, CM&A

**M**ost business ventures get started by entrepreneurs who are capitalizing on their experience, skills and contacts. Typically, for the first few years the owner is the main engine behind the growth of the business with delegation being exercised grudgingly and sporadically. Consequently, as the business grows and succeeds in the marketplace, it becomes more and more difficult to separate the business from the owner.

The previous sequence of events is fairly common in service business. However, while the business may be very successful in its own right, it may not be worth much in terms of market value. This is because the knowledge, processes and skills are the owner's and as a result it is nearly impossible to transfer them without a management transition period that is likely to take several years.

Many people start consulting practices as solo practitioners, and while many remain that way, others bring in additional resources as the business grows. If the entrepreneur's objective is to create a personally satisfying job that makes use of his/her talents, experience and skills, then developing a solo practice

may enable them to fulfill that goal. If however, the objective is to build a marketable business that can be sold in a few years, a different strategy will be needed.

In essence, the value of a business for a prospective buyer resides on the potential for the business to generate enough cash flows (revenues less operating expenses) to enable the buyer to recuperate the original investment and realize (and probably exceed) a given rate of return. Of course, the business' past performance will provide the buyer with anecdotal evidence about the enterprise's potential to generate the earnings necessary to meet the buyer's objectives. However, the risk for the buyer resides on whether or not that past performance can be repeated and even surpassed in the future.

Having a business that is too dependent on its owner is certainly one of the main factors affecting its marketability. However, this is not the only factor as there are other issues that will also have an impact on the potential marketability of a business such as:

- An inexperienced management team
- High customer concentration

*Continued from page 1*

- Poorly maintained financial records
- Poorly maintained assets
- Contingent liabilities
- The threat of litigation

In the end, the acid test for an owner who wants to find out how marketable the business is, revolves around the answer to a simple question: Can I afford to leave the business for a couple of months without any significant deterioration in its performance? The answer to this question not only can be quite revealing, but also it can point out to the need for a change in his/her leadership strategy.

