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a newsletter on practical strategic planning and action
issue #2: building value in your company

editor's message

This month we take a look at corporate value and the private company. Most private companies are happy to avoid the quarterly reporting pressures and other requirements of public ownership. But, this leaves the private company owner or manager without external feedback on the company's performance. Private companies can use corporate value as a management goal, and as a way to define success for their business. Corporate value takes into account future possibilities and investments, not just past economic success. In this month's issue, we take a look at value from the perspectives of strategic planning and action, examine value in the commercial printing industry, and review a book on innovation – the ultimate value driver.

As always, we welcome your comments and questions. And, if you know a business owner or shareholder in a private business who might be interested in this topic, feel free to forward this newsletter to them by using the appropriate link to the left.

strategic planning

Corporate Value for the Private Company

Corporate or shareholder value is a concept closely identified with public companies. Value of a public company is measured by stock price. The price of a stock reflects a public company's past earnings but also takes into account the value seen by analysts and the market in general of the company's industry, competitive position, growth potential and management. While private companies are happily free of the pressures of the public markets, they should not ignore the lessons that they can learn by looking at their own companies from a value perspective. There are two good reasons for this.

First of all, value is an important metric for success. Everyone accepts financial results as "a" or even "the" critical measure of a company's success. But, as every businessperson knows, financial results are a measure of past performance and tell only part of the story. Future performance and value are dependent on the dynamics of a company's market, the strength of its competition, the changing needs of its customers, its strengths as well as its weaknesses. Seen this way, corporate value is really just a way of measuring and focusing your efforts to maximize your future success. [Michael's column this month gives you an exercise on how to identify and improve your company's value drivers.]

Secondly, value is critical to your exit strategy. Every private business owner or shareholder must eventually make an exit of one kind or another. For most owners,

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the anticipated exit value of their investment in their company represents a significant portion of their personal net worth. The value that you will receive for that asset will be based, in large part, on how well you have built value that is attractive to potential buyers, investors or successors. Planning is the best way to preserve and maximize the value of this investment. Even a family succession exit strategy should focus on value—the factors that influence value are tied to long-term success, which is clearly the goal for the next generation’s ownership.

A more detailed discussion of our ideas on building value is in an article I recently wrote for Mergers & Acquisitions magazine, “Exit Payoffs for the Entrepreneur.” (www.trekconsulting.com/Publications/Articles/M&A-ExitOpportunities.pdf)

-Mary Adams (adams@trekconsulting.com)

strategic action

How to Build Value in Your Company

Value is vitally important if you are planning to sell your company. Even if you plan to own and operate the business for many more years, increasing your company’s value will ensure that you have a strong base for expansion and improved profitability over time.

If you have ever had a valuation done of your company, you know that many factors influence the value at the moment a valuation or deal is done. The trick is to identify the value factors that you can control or influence and come up with a plan to improve them. This may sound like a daunting task, but it is not as hard as it sounds. A great exercise for creating value is to build a table with the following columns:

- Critical Value Factors
- Industry Ideal for the Value Factor
- Your Company’s Present Status
- Action Steps to Improve

Spending time to identify the right list of value factors is the key to the success of this exercise. This list should include all the basic categories of value from the perspective of an acquirer: client parameters, products/services, industry dynamics, competition, personnel, marketing, sales, operations, and administrative. Under each of these categories, you should identify more detailed drivers of success.

You need to be painfully honest about what the ideal is in your industry for this value factor and where you measure up against that. The final step always has to

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be action. You will not build value unless you come up with specific action plans to move your company closer to the ideal.

This is a relatively simple but incredibly powerful tool to get you on the road to increased corporate value. To see an example of how this can work, view this sample corporate value action planning table.

- *Michael Oleksak (oleksak@trekconsulting.com)*

industry snapshot

Commercial Printers

The commercial printing industry has been thinking a lot about corporate value in recent years. This is an industry caught smack in the middle of a multitude of economic and industry forces. Technology changes, including the Internet, desktop publishing, and outsourcing to offshore facilities, have forever replaced some of the work traditionally done by U.S. printers. Add in the reduction in corporate spending of the past few years, and you have an industry in turmoil. However, given that the amount of information produced and consumed in our society is increasing at an exponential rate, it is interesting to note that the printing industry still has good growth prospects, despite its loss of market share to electronic media.

From a corporate value perspective, a traditional value driver for a printer resided in its equipment. While this remains a critical part of value, economic and technical forces have created overcapacity, which translates into "fire sale" values of equipment. So the real corporate value enhancer for printers today comes from a printing company's ability to expound and execute new strategies that meet the evolving needs of the consumers of printed media. There will be plenty of room for future success in this industry, but not without some fresh thinking.

An interesting overview of the future of this industry is "Printing in the Age of the Web and Beyond," a research report by the Electronic Document Systems Foundation. The full report is available for purchase, but there is a free 14-page Executive Summary that is also valuable at www.edsf.org/printing_web.cfm.

reading list

One elusive but powerful value builder is innovation. The Innovator's Solution by Clayton M. Christensen and Michael Raynor is a thought-provoking book that examines the creation of "disruptive innovation," that is, creation of breakthrough products or services. Examples of past disruptive innovations span from Henry Ford's Model T to steel mini-mills all the way to Amazon.com. The authors believe

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that “creating disruptive businesses is the only way in the long term to continue creating shareholder value.”

The “solution” suggested by the title includes some great thoughts on marshaling strategy processes to create and nurture disruptive innovations. The authors suggest that managers have to switch between two different strategy processes, depending on the nature of their opportunity:

- Deliberate strategy, which is “conscious and analytical,” is based on hard data and numbers.
- Emergent strategy, which is experienced-based and experimental, is based on pattern recognition and learning what works.

The authors also suggest that managers of emergent businesses should be impatient for profits and patient for growth, which should provoke more than one discussion in the VC world.

This book is a great contribution to the field of innovation. It is especially valuable for those of us who struggle to balance the art and science of management in our drive to grow our businesses.

For more information, visit the book website: www.theinnovatorssolution.com.

announcements

Mary Adams has been invited to join the Board of the New England Chapter of the Institute of Management Consultants.

Michael Oleksak has been published in Executive Excellence magazine with his article titled, “Financing Growth”.

about trek consulting

Since 1999, Trek Consulting has helped CEO’s of early stage and middle market companies to face challenges of growth, change and succession. Our hallmarks are fresh information, disciplined analysis and practicality. We help you create specific action plans with metrics tied to revenues, costs or corporate value. Then we follow up to help you keep on track and/or adjust your plans as circumstances change.

Our clients report improved market focus, increased revenues, better margins and lowered costs. To learn more about Trek Consulting and how we can help you improve your company’s results, visit us on the web at www.trekconsulting.com or call us at 781-729-1008.



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