

The Professional Chairman Solution

The Problem

Thousands of private business owners today do not have a standardized quantifiable approach to measure, manage and enhance the value of their business. As a consequence, hundreds of billions of dollars will be lost by owners of private businesses. Ultimately, owners don't maximize the value of their business upon sale, or, as in the majority of cases, can't find buyers for their businesses. Studies show that over 70% of all private businesses never sell, and of those that do sell, most sell for less than what the owners were expecting.

The problem also impacts the business owner on a daily basis as they put out fires and work incredible hours in a seemingly endless quest to get the business to run better. It is one of the great business conundrums: how can smart, aggressive private business owners work so hard, for so long, and not create a high performance, high value business? We have access to the finest business education in the world, yet millions of business owners will work hard their entire lives and end up closing the doors. It makes no sense, but at the same time, it can be easily explained.

Both long-term value and near-term operational performance are impaired because owners do not make **value creation** the core success metric as part of their ongoing responsibilities. They forget that they are owners first; instead, they focus on their role as CEO, actively pursuing daily operational performance almost exclusively. In short, they focus on the bottom-line or profit, believing it is the core success metric. As managers, that is exactly what they should do, but as owners, they are driving the business forward by looking in the rearview mirror. The company becomes more of a job than an asset; the symptoms of the value problem slowly consume the business and ultimately the business asset. It does not have to be this way. There is an elegantly simple solution to this problem.

Market Challenge

Before we can talk about the solution, we need to understand what is happening in the market. Today there are over 6.0 million privately held businesses in the United States and Canada that make up the bulk of the nations' economy. When we look deep into these businesses three things become apparent:

- (1) The vast majority are owned by baby boomers and WWII generation.
- (2) These businesses make up on average 85% of the owners net worth.
- (3) Most of these private businesses have little transferable economic value.

The massive demographic shift with the retirement of the baby boom generation and the passing of the WWII generation is readily apparent. What receives little attention is that these two generations own 75% of the private businesses in North America, most of these businesses will need to change hands over the next 5-20 years otherwise the value built up over decades will be lost. Every owner must answer the question: can my business survive this seismic shift and create any future value?

Owner Options Today

Where do business owners turn to to make sure their business has real enterprise value as they make plans to retire, pass the company to the next generation, or sell it to employees or outsiders? They often turn to their firm's accountants and lawyers – individuals skilled in their particular area of expertise, but who are not operational experts and lack training or experience in the issues involved in building a sustainable and transferable business. Owners sometimes reach out to brokers and wealth advisors, and while these individuals often have excellent skills in their respective areas, they likewise lack expertise in building the all important internal elements of the owner's business.

Owners sometimes turn to general business consultants for assistance and advice; however skilled the individuals are in specific areas of the business, they usually lack the tools, methodologies and necessary operating background for advising on sustainable and transferable value creation. Many owners report relatively poor experiences with general business consultants, as most of these individuals were tactical in their mindset, and the owner's current situation is more strategic in nature.

Creating Value

For a business owner to obtain realizable value from the business, the business must be an independent, fully functioning asset, which generates a profit that is sustainable and transferable to a new owner. A business' true value is based on future expectations whereas profit is a record of past performance.

$$\text{Enterprise Value} = \text{Profit that is Sustainable and Transferable}$$
$$V=Pst$$

The everyday marketplace often simplistically assumes Value = Profit. However, the true formula is Value = Profit that is Sustainable and Transferable (V=Pst). Owners must understand that value is based both on the quantity of profit the business can deliver, and the ability of the business to deliver that profit into the future. Thus, the quality of the business as a profit generating machine. This is the core understanding under which Professional Chairman and successful owners operate.

Driving Performance

When an owner changes to a value focus, the business becomes a better business. The owner/CEO has learned how to stop fighting fires, how to deal with the problem and not just the symptoms. And over time, the business becomes what they have always dreamed it could be. It is quite amazing how a change of view can begin a cascading effect that leads to positive outcomes.

Professional Chairmen operate at a different level and bring a full set of tools, education and information that allow them to help from day one. They know process and systems which allows them to work efficiently and effectively as they use their hard fought experience to help the owner create value and the CEO drive performance.