



## About ForteCEO

We consider each of our clients a partner. We bring industry knowledge, specific operating expertise, a grasp of tangible and intangible issues and a dedication to problem solving to your project.

Our ForteCEO executives work alongside our clients to implement permanent change. Each one of our executives has at least 20 years of progressive experience as an owner or leader of successful businesses.

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# Create Rapid and Measurable Value in Your Portfolio Companies.

Value is created through change.  
It is as simple as that.

by **John Kopeck,**  
**Manufacturing Practice Leader**

Adding rapid and sustainable value to a business is not for the faint of heart. Many investors only want to buy companies that already have the growth and profitability levers in place to create value quickly. But these firms will often command price premiums, as someone has already done the “heavy lifting” required to put the firm on the path towards value creation. So what happens when a company is not doing well? Or when the value of the business is not where you want it to be?

We have spent a significant part of our careers working with business owners to help them implement significant and lasting change in their companies. Our experience proves that by identifying and fixing impediments to value creation, you can add significant value to the business and turn around negative trends within 3-12 months. This is done by identifying and pulling key value-generating levers – hard. And you had better have the right people pulling them.

## Step One: Picture the Company's Financial Situation

It is critical for a first step to be to fully look under the hood and understand the company's capital and financial health. A financial expert will assess the business' cash flow, accounts payable, accounts receivable, lines of credit, and budgets and provide a clear report of the assets and liabilities of the company.

For businesses that are in a critical situation, or survival mode, it is essential to have an accurate financial picture in order to make the hard decisions about how the business succeeds in the future. Options for growth are limited in these critical situations, but immediate change is required in order to put the business on the right path.

Companies with adequate to good financial health have many more options for making the change required to create value in the business. And the perfect value creation strategy will fail if the firm runs out of cash in the next fiscal quarter.

The top-level drivers that control a company's ability to add value are revenue growth, profitability and improvements in capital efficiency.

**Step Two: Picture the Overall Situation and Drivers of Value**

Companies that have the financial ability to grow now need to assess which levers and in what order should be manipulated to create value in the company.

Which levers you pull, and when, are specific to the company and its situation.



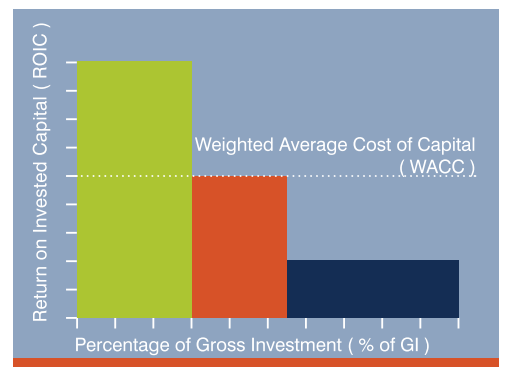
Below each top-level driver are subsequent layers of additional drivers which directly affect the top levers, but not all these drivers are equal in importance or in the degree to which they can be managed. An example from our experience is fuel cost for a trucking company. Fuel cost will have a dramatic impact on profitability, yet there is usually little management can do about the absolute price of a gallon of diesel. Fuel usage, on the other hand, can be managed through route optimization and truck maintenance procedures.

Typical drivers of revenue growth include sales force utilization and compensation structure, product or market expansions, customer segmentation, and product mix. Margin drivers often include supply chain efficiency, strategic sourcing, and adjustments to other variable costs. Drivers of capital efficiency may include working capital management, lease vs. buy decisions, and overhead financing.

Understanding the drivers of value for the

business, ranking them in terms of value impact and manageability, and focusing relentlessly on those that matter most will often drive the business toward value creation without the need for significant capital investment.

In order to get a clear picture of the company's current situation, you need to chart the position and profitability of the business by division, product or region or whatever sectioning makes sense for your particular business. One way to create this visual is to chart the Return on Invested Capital (ROIC) against the Percentage of Gross Investment (% of GI). Return on Gross Investment is defined as  $EBITDA / (Total Assets + Accumulated Depreciation)$ .



This exercise will give you a clearer picture of what areas of the company are strong versus weak relative to the cost of capital. Growing the portion of the firm that is earning significantly more than the cost of capital will, by definition, create value, while growing the portion earning significantly less than the cost of capital will destroy value. Growing the portion currently earning the cost of capital will make the firm larger, but not in itself create value for the owners.

Value is created through change. And it is true that either Poor or Strong performing areas have a similar ability to create value – the actual performance of the division or company just changes the levers that are pulled

Questioning assumptions often yields surprising results, and creates the opportunity to take a fresh look at how the firm approaches its customers and its operations.

and in what order. Poor performing divisions or regions may be able to add just as much – or more – value to the company as a high performer can add through growth, simply by reducing investment. And strong performers may not be able to add rapid value through growth if the product or offering has outstripped market demand.

### Step Three: Question Assumptions

We often encounter business owners and managements who have run their firms using a set of assumptions or rules of thumb that are not as relevant in a changed business model. The truisms from ten years ago about the business or customers' attitudes and preferences may not hold in today's world.

It can be difficult to step outside the day-to-day world and question the assumptions that a company has held true for many years, but it can sometimes yield unexpected results in added value. Some examples from our experience, include:

“Our customers appreciate that we keep spares on hand for every machine we've ever produced”.

Do they really? How do they show that appreciation, how many show it, and how often? What is the real cost of carrying that extra inventory, and what would be the cost/benefit of not doing so?

“People fear change!”

Nonsense, people love change. What they fear is the unknown. People vote for change in every national and regional election. Millions of dollars are spent on marketing campaigns touting new and improved formulas and companies “under new management”. Change is feared only when the change has not been openly and honestly explained prior to implementation.

“If we cut sales commissions by 10 percent, all our best sales people will walk”.

Really?

“It's cheaper and faster to out-source manufacturing and services than to build those capabilities ourselves”.

How was that determined, and under what conditions may that prove to have been a mistake?

Involving others in the process also may remove some barriers to change.

A note of caution: long-held assumptions and changes should not be considered in a bubble. The market, services and real-world implications of change should always be kept in mind when considering the next steps on the business. In our practice, we have seen the results of wholesale changes to a company's model and been hired to put the company “back where it was”. Change without the correct information and planning can destroy the business and customer base if not done correctly.

### Step Four: Assess the Company's Ability to Change

This step goes beyond assessing the firm's financial standing, operating capabilities and market positioning, and is perhaps the most important step of all. Do the key managers in the firm recognize the need for change? Do they see the personal benefit to them of making that change? And do they possess the skills necessary to operate effectively in the new environment? Simply put, are the right people in charge? If the answer to any of these questions is no, there may be a need for additional change, perhaps starting at the top of the organization.

We have worked with dozens of business owners who suffer from what we call the

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"Founder's Trap". Typically these people built the firm from the ground up and have a substantial investment of "sweat-equity" in the company. They've learned how to build a business, how to produce a good product or service wanted by their customers, how to build a loyal customer base, and how to hire and train key people to assist them.

What they may not have learned along the way is how to move quickly into an exploding market opportunity, or how to effectively delegate decision-making authority, how to organize the firm for rapid growth, or how to prepare the firm for continued success without them at the helm.

In such cases we often find it beneficial to pair the founder with an executive mentor, someone who has "been there, done that" at least once in his or her own career, and someone who can guide the founder through the hurdles necessary to prepare

them personally for significant change. In some cases, replacing key executives has been deemed necessary to affect meaningful levels of change.

Creating value requires change. Sometimes it can be as small as realigning salesperson compensation schemes. Other times, it may require a complete re-vamping of a business model, significant acquisitions or divestment. But in all cases, change is driven by thorough understanding of company baseline performance and financial health and drivers of value for the firm, realistic goals and tools to measure progress and an assessment of management's readiness and ability to affect that change. Then it's a matter of having the right people pull the right value-driving levers at the right time and in the right order.

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To learn more about ForteCEO's experience in creating value through positive change, please contact us at 847-291-9944 or at [forteceo.com](http://forteceo.com).