

## ROI Improvements Prior to Sale

When it comes to maximizing return on investment (ROI) for a middle-market business prior to a sale, there are several strategies that can be implemented to improve the value of the company.

Here are ten impactful ROI improvements that a middle-market seller can make:

### 1. **Improve Financial Performance**

One of the most important (and perhaps obvious) factors that buyers consider when evaluating a business is financial performance. This includes revenue growth, profit margins, and overall financial stability. By improving these metrics, a middle-market seller can increase the value of their company and make it more attractive to buyers.

A change that can be affected quickly is to offer “unlimited vacation” allowing the company to remove accrued vacation from their balance sheet and immediately increase the enterprise value of the company. Of course, employees still need to complete their work, but we’ve found that once offered, employees rarely take the amount of vacation they were offered prior to the change, and it eliminates hours of HR and employee time tracking and accounting for used and unused PTO.

### 2. **Increase EBITDA**

EBITDA (earnings before interest, taxes, depreciation, and amortization) is a commonly used metric for evaluating the financial performance of a business. By increasing EBITDA, a middle-market seller can demonstrate that the business is generating strong profits and is financially healthy, which can make it more attractive to buyers.

### 3. **Streamline Operations**

Another key area to focus on is operations. By streamlining processes and reducing costs, a seller can increase efficiency and profitability. This might involve implementing new technology or automation to improve productivity or consolidating facilities to reduce overhead expenses. This means there’s less for a buyer to “fix” after purchase, which can improve value at the time of sale.

It's a rare organization that is right-sized. Consideration should be given to reducing headcount early in the sales preparation process. Operational efficiencies emerge quickly as employees work to creatively fill gaps.

### 4. **Build a Strong Management Team**

A strong management team is of course critical to the success of any business. It’s especially important for middle-market companies looking to sell. Buyers will want to see that the company has a capable and stable leadership team in place to guide the business through the transition and beyond.

## 5. **Diversify Revenue Streams**

Diversifying revenue streams can help to insulate a business from market fluctuations and make it more attractive to buyers. By developing multiple revenue streams, a middle-market seller can demonstrate a strong, resilient business model that is less reliant on a single product or service. High customer concentration can affect price negatively and diversification should be a primary focus of the sales team.

Note: there are instances when customer concentration can be viewed positively. Examples include businesses with government contracts, or businesses where the company produces a unique product under contract for a blue-chip customer.

## 6. **Improve Scalability**

Scalability is another important consideration. Buyers want to see that a business has the potential to grow and expand in the future. By making improvements that increase scalability, such as implementing new technology or expanding into new markets, a middle-market seller can demonstrate the growth potential of the business and make it more valuable.

## 7. **Establish a Strong Brand**

A strong brand can be a powerful asset for a business and help increase the value of a company prior to a sale. By building a strong brand, a middle-market seller can demonstrate that the business has a loyal customer base, strong industry reputation, and a clear competitive advantage.

## 8. **Address Legal and Regulatory Compliance**

Legal and regulatory compliance is an important consideration for buyers. By addressing any legal or regulatory issues before a sale, a middle-market seller can ensure that the transaction goes smoothly and minimize the risk of any complications.

## 9. **Build a Solid Customer Base**

A solid customer base is another key factor that buyers look for when evaluating a business. By building a loyal customer base, a middle-market seller can demonstrate that the business has a strong, recurring revenue stream that can handle a transition of ownership.

## 10. **Invest in Marketing and Sales**

Marketing and sales are critical to the success of any business, and especially important for middle-market companies looking to sell. By investing in marketing and sales, a seller can increase brand awareness and generate new leads, which can help to improve the value of the company. Having annuity or recurring revenue products or services is prized by buyers and a great way to create a revenue floor and income stability.

These are just several of the many strategies that middle-market sellers can implement to improve the ROI of their business prior to a sale. A great way to start is brainstorming ideas and mapping them on a 2 X 2 grid. The x-axis is time to implement (long to short) and the y-axis is return (low to high). Ideas in the upper-right quadrant will be the most attractive (short time to

implement, high return). Further, identifying areas that can grow, given focus or money, can make the business more attractive to a buyer.

### **Blue Pasture Advisors**

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The information shared in this article is not all-encompassing, and the views and opinions expressed represent common case scenarios. Every seller, and buyer, situation is unique and requires a professional assessment to make full use of the above recommendations.

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