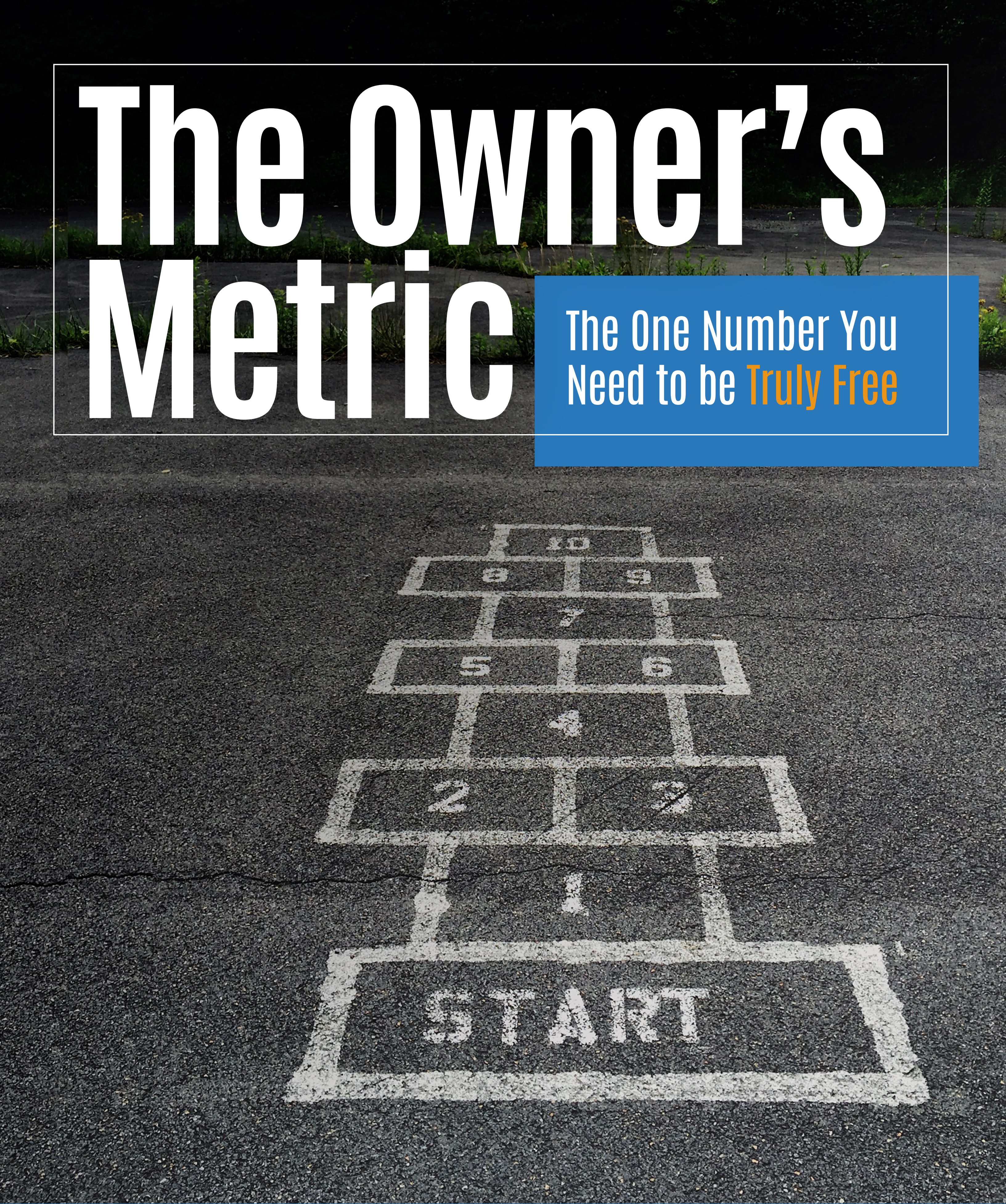
The Owner's Metric

The One Number You Need to be Truly Free



The ValueBuilder System™

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Why did you start your company?

With the business skills you've demonstrated to get your company off the ground, you could have landed a great job. You could have worked your way up the ladder and earned a spot in a corner office with a car, benefits, and a pension.

But you didn't.

Why?

When we peel back the layers to understand what drives successful entrepreneurs, we see a common theme.

They value personal freedom over conforming to someone else's rules.

Freedom means different things to different people, but usually it comes down to the freedom over how you spend your time, what you do, and who you do it with. Whether this drive for independence comes from childhood experience or natural order goes beyond the scope of this paper. Our focus here is to concentrate on how you can attain the feeling of true freedom.

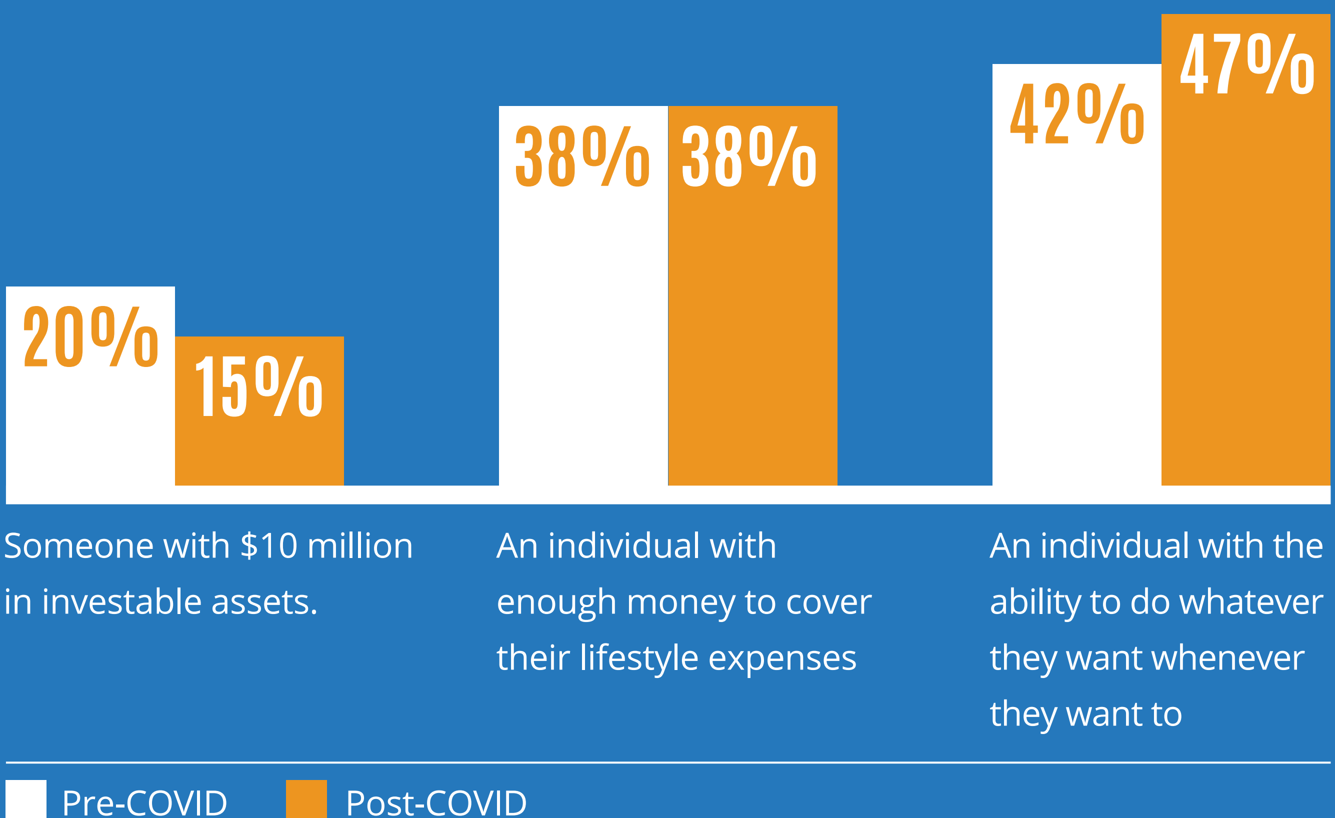
How to Buy Freedom

While you can't buy happiness, you can buy personal freedom. It comes from having enough wealth set aside that your work becomes a choice, not an obligation.

We recently surveyed business owners and asked them to define someone who is wealthy. We gave respondents 3 options to choose from.

1. Someone with $10 million in investable assets
2. An individual with enough money to cover their lifestyle expenses
3. An individual with the ability to do whatever they want whenever they want to

Most founders defined wealthy as the ability to do whatever you want whenever you want to.



This research serves to illustrate the central point of this paper:

Most owners are not chasing an arbitrary net worth so someone else can declare them wealthy. Instead, they are pursuing what that number represents to them: the feeling of freedom and control that comes from having enough wealth set aside that work becomes their choice.

How do you create that kind of freedom?

You can pinch pennies and save diligently for decades, but most founders want—perhaps even need—that sense of freedom sooner.

The fastest way to build the wealth you need to do "whatever you want whenever you want to" is to focus on what drives the value of your largest asset: Your Company

What Drives the Value of Your Company?

When you think of the value of your business, what do you consider?

If you included the size of your company as a key determinant of its value, you would not be alone. In fact, our society is obsessed with size and growth. We award the fastest-growing companies and celebrate the businesses that employ the most people. We assume that top line revenue growth is the main goal of any business and offer all sorts of solutions to companies looking to "grow their top line."

However, top line revenue growth on its own is not enough to boost the value of your business very much. What's more, it may be one of the least effective ways to get the freedom you crave.

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Rather than enabling freedom, growth usually comes at the expense of your freedom. All that growth needs to be funded.

Most owners get the money they need to grow through a bank loan or an investment from an outsider. Either way, you now have people watching over you, which serves to undermine your sense of freedom.

Even if you're able to self-fund your growth, it may not actually do much for the value of your business.

For example

Let's take a hypothetical business owner named Tim. His company has $5 million in sales, employs 30 people, and generates $800,000 in profit. Despite what he has achieved, Tim still feels somewhat inadequate. Nobody is impressed with his headcount, and the media seem to lavish attention on much larger, faster-growing businesses. Tim succumbs to the pressure of the prevailing narrative and decides he wants his business to grow.

Looking for the fastest way to grow revenue, Tim asks his existing customers to buy an adjacent product. The offering makes for an easy, if undifferentiated, add-on. Tim's biggest customers are the ones that see the most value in his new product, which means his largest customers now represent an even bigger proportion of his sales. Still, Tim quickly boosts his revenue by $500,000 by adding the new offering.

While Tim is a hypothetical case, at The Value Builder System™, we've seen thousands of real-life Tims.

In fact, after analyzing more than

50,000 business owners who completed the Value Builder questionnaire

(our intake survey for new users),

we found the average business achieved a score of 59 out of 100 and is trading at 3.5 times pre-tax profit. At that rate, Tim's business would have been worth around $2.8 million (3.5 x $800,000) before he decided to focus on growing his sales.

By increasing his sales to $5,500,000, assuming he could maintain his 16% profit margin, Tim would have grown his profit to around $900,000, and if we apply a 3.5 multiple to that number, Tim gets a valuation increase to $3.2 million **— a modest bump.**

However, if Tim had focused on the value of his business **— the ultimate Owner's Metric —** he would have realized that simply cross selling a new product to his existing customers would do little to increase the value of his business.

In fact, his value will be driven by the 8 factors we measure through the Value Builder Score.

While financial performance (metrics like revenue and profit) is one of those drivers, by focusing on the other seven, Tim could have increased the value of his business much faster than choosing to focus exclusively on growth.

For example

We know that owners who achieve a Value Builder Score of 90 or more are attracting offers of 7.1x pre-tax profit, on average. These businesses typically sell differentiated offerings to a diversified group of customers who have a recurring need. Had Tim invested his energy in further differentiating his existing offerings (we call it Monopoly Control) and on the other drivers of value, he may have boosted his score to a 90 and achieved a much larger impact on his company's value:

Tim's improvement focusing on increasing revenue

$900,000 x 3.5 = $3,150,000

Tim's improvement focusing on his multiple

$800,000 x 7.1 = $5,680,000

The 8 Key Drivers of Company Value

Financial Performance

The history of producing revenue and profit combined with the professionalism of a company's record keeping.

Growth Potential

The likelihood to grow a business in the future and at what rate.

Switzerland Structure

How dependent a business is on any one employee, customer or supplier.

Valuation Seesaw

Whether a business is a cash suck or a cash spigot.

Recurring Revenue

The proportion and quality of automatic, annuity-based revenue a business collects each month.

Monopoly Control

How well differentiated a business is from competitors in its industry.

Customer Score

The likelihood that customers will re-purchase and also refer a company.

Hub & Spoke

How a business would perform if the owner is unexpectedly unable to work for a period of three months.

Manager Metrics vs. the Owner's Metric

Managers manage the things they get incentivized to improve. They oversee sales, gross margin, inventory turns, throughput, expenses, profit, and so on.

Often a manager's compensation is tied to the improvement of one or more of these manager metrics.

For example

A sales manager may be incentivized by new sales growth, a plant manager by productivity, and a president by EBITDA. These are the things that managers focus on because they are the ingredients of a successful business.

The most successful owners obsess over the meal those ingredients make: a more valuable business. They see everything through the lens of what will increase or decrease the value of their business.

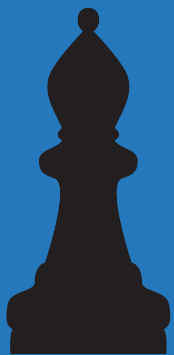
As we saw from the hypothetical case of Tim's business, metrics like revenue are important ingredients in the value of a business, but they are not the meal.

Owners understand that while one metric may have a short-term impact on their profitability, their ultimate payday will come from the increase in the value of their business.

In Conclusion

If you own a successful business, chances are you could get a "regular" job. Some might even argue that a job would be safer and may even come with better benefits.

But safety is unlikely your highest calling. Instead, you are likely motivated to achieve and maintain personal freedom.



You are an owner, not a manager.

While you can't buy happiness, you can buy personal freedom, and it comes from building enough wealth that work becomes a choice. While a job may enable a degree of personal freedom after many decades of toil, the fastest way to achieve the sense of pure freedom you want is to focus on building the value of your business.