Alamo Corporate Group Inc.

Independent Services for Business Buyers & Sellers

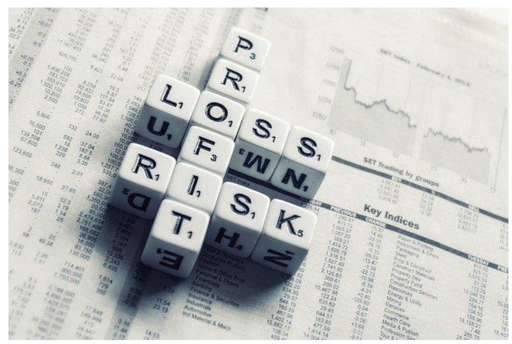
THE TOP 7 FACTORS THAT CAN WEAKEN A COMPANY'S VALUE

A company's worth is not only determined by its financial history and revenue. In fact, two companies can be nearly identical in terms of net worth, but additional factors could greatly impact a dramatic cost difference in consideration of acquiring one over the other. A company worth $10 million could strive to make some internal adjustments and ultimately sell for millions more.

Let's take a look at some potentially damaging weaknesses that some companies suffer from:

1. Are Customers Too Concentrated?

An analysis of the company's customer base can help define the amount of risk involved in the company's potential acquisition.



While it may seem impressive on the surface to have just a few major clients, such as the U.S. government or General Motors, everyone knows that buying circumstances and purchasing agents can change. As a result, customer concentration can dramatically reduce the value of a company.

Take a look at an interesting case study of a major office tools manufacturer. With over $20 million in total sales, their biggest client was Staples, which represented over 75% of all deals.

The manufacturer was ultimately faced with a decision to either continue with all of their eggs in the Staples basket, acquire direct buys from another—yet different— company, or sell out to a competitor of their own. They opted for the latter. However, the acquirer was unable to establish the same business relationship with Staples. The office store came to represent just 10% of the newly formed company's customer concentration.

However, there is much less concern in acquiring a company now worth $125 million, with Staples making up just 10% of their buys, versus acquiring the original $20 million company, which nearly completely relied on the office superstore's purchases.

2. Are there Too Few Products?

For every company, there is a product or service and for nearly every product or service, there is a competitor. To reference, yet again, the eggs-in-one-basket concept, there is significant risk in investing the majority of your company's time, money, and focus into just one product.

A famous example of this weakness was when Henry Ford nearly lost his company by believing in society's universal ability to purchase Ford's "Model A" vehicle. In opposition, General Motors' long-time chairman and CEO, Alfred Sloan, opted to create and sell multiple models of cars that appealed to varying income thresholds, seeing much more success.

3. Is the Focus Too Limited?

There is limited ability to grow companies that found comfort selling locally and only within their own domain. Organizations that perform national and global deals have significantly more opportunity to flourish. Further, companies that have a large consumer base on the Internet have a nearly unlimited opportunity to grow.

4. Is the Workforce Too Old?
Unfortunately, today's youth are more likely to advance their education academically, not trade-specifically. As a result, as skilled workers age and leave the workforce, these employees are often not being replaced by equally experienced workers. Over time, this issue contributes to the deterioration of the quality of the organization.

5. Is the Industry in Decline?
Fortunately, some companies are able to adapt to advances in society and continue to flourish. For example, Walmart was able to compete with the convenience of shopping for everyday products on websites, such as Amazon, by providing their own online shopping experience with competitive shipping promotions and prices. On the other hand, unfortunately, other organizations are left with no choice but to falter, such as what book stores endured in the wake of digital reading alternatives.

6. Are Costs Rising?
Companies that have faced rising costs in efforts to continuously produce their own commodities are often unable to pass these increases on to consumers. This is the exact situation that the steel industry encountered prior to greater demand from China and a colossal industry merging. In the end, these new factors aided the circumstances, enabling the steel industry to thrive.

7. Is that Company Too Reliant on the CEO?
Many companies depend on the CEO that founded and paved its success path, and rightfully so. For years, companies effectively rely upon this "one-man-band" without preparing a succession plan to sustain the business beyond his or her tenure.

As Kenneth Freeman tried to remind CEOs in "The CEO's Real Legacy" (Harvard Business Review, November 2004), "Succession planning is one of the best ways for you to ensure the long-term health of your company."

The alternate to submitting to a company's weaknesses is to evaluate all of these aspects of the organization and actively work to increase its value. The CEO and his or her Board of Directors would be the foundation for this positive movement. However, the current CEO may struggle to envision the company's existence beyond his or her length of employment.

Freeman summarizes this priority: "Your true legacy as a CEO is what happens to the company after you leave the corner office. Begin early. Look first inside your company for exceptional talent. See that candidates gain experience in all aspects of the business; help them develop the skills they'll need in the top job."

Keeping reality top of mind, he adds, "During good times, most boards simply don't want to talk about CEO succession. During bad times, when the board is ready to fire the CEO, it's too late to talk about a plan for smoothly passing the baton."

With a little motivation and, hopefully, with his or her assistance, a CEO succession plan can be executed as a major step in the right direction towards increasing the company's overall worth.

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Alamo Corporate Group and its advisors have specialized in ownership transfers of closely held companies since the late 1980's. We offer a range of intermediary services including mergers, acquisitions, divestitures, buyer identification, management buyouts, debt restructuring and in very limited instances, acquisition searches for high net worth individuals and private equity groups.

Alamo's primary purpose is to provide an extremely confidential national service that brings buyers and sellers together through our extensive contacts in the financial and intermediary communities.

Our process is very structured, as experience has shown us that while each buyer and seller is somewhat unique, there are enough similarities that specific steps must be followed in order for transactions to close. Confidentiality is guarded throughout each step of the process.

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