

BETTER, NOT BIGGER

Introducing the Value Building Industry



Presented by: **The ValueBuilder System™**

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THE BIRTH OF THE VALUE BUILDING INDUSTRY

The accounting industry was born out of the rise of the corporation as a legal structure in the 1800s. Being asked to invest in companies whose owners they didn't know, investors needed outside verification of a company's financial results.

The wealth management industry emerged in the 1930s as the captains of industry that survived the Great Depression wanted a different kind of banker.

The business coaching industry emerged on the heels of technology innovation. In the early 1990s, the rise of the personal computer made it possible for individuals to start businesses for a fraction of the cost traditionally required to create a company. The PC enabled the entrepreneurial revolution, where young people began dreaming of a career in entrepreneurship rather than mounting the corporate ladder. The business coaching industry emerged to serve the needs of these aspiring new entrepreneurs.

From accounting to coaching, professional practices were born out of serving the emerging needs of clients.

Today, a new industry is developing to serve a different kind of business owner. The defining characteristic of these business clients is an aspiration to grow enterprise value rather than revenue. There was a time when size was the ultimate measure of a company's success, but increasingly, these entrepreneurs – called Value Builders – are aspiring to maximize value, often at the expense of their size.

These owners need help to achieve their vision, and a sector of professionals is emerging to serve them. These “Value Builder Advisors” are creating lucrative professional practices helping entrepreneurs like Stephanie Breedlove, whose story illustrates how differently these clients think.

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STEPHANIE BREEDLOVE WAS ON HOLD.

AGAIN.

IT WAS THE THIRD TIME HER CALL HAD BEEN
TRANSFERRED, AND SHE WAS GETTING FED UP.

Cradling her infant son in one arm, she lodged the phone between her ear and shoulder as she fumbled to find yet another document that was required.

An associate on the fast track to become a partner at Anderson Consulting, the predecessor to Accenture, Breedlove thought her task was simple enough. She wanted to pay the nanny she had just hired to care for her son. She had called one of the giant payroll providers, who showed little interest in setting up a new account to pay just one employee in an industry that makes a tiny margin on each paycheck it issues.

At dinner that night, Breedlove recounted the story to her husband, a rising star at Ernst & Young. As she described the frustration of having her call transferred to multiple agents, each one less interested than the last in helping her, she had an idea. What if she set up a payroll company just for parents to pay their nannies?

The concept was simple enough. By focusing on parents with nannies to pay, Breedlove could master the process of setting up a new account. Paying a caregiver requires a parent to complete a batch of confusing government forms. If Breedlove could simplify the process, she figured she could make a reasonable profit from busy parents who didn't have the time to navigate a labyrinth of state and federal government departments.

STEPHANIE BREEDLOVE,
FOUNDER, BREEDLOVE & ASSOCIATES



BREEDLOVE & ASSOCIATES WAS BORN.

After 20 years in business, Breedlove & Associates was profitably generating \$9 million in revenue¹ from a customer base of 10,000 parents. Breedlove's two sons were all grown up, and she was beginning to consider what was next for her and her husband, who had also left a corporate career to join his wife's business.

Breedlove considered the landscape of companies that could benefit from the business she had built. One immediately stood out. Care.com was creating an online marketplace of local care providers and had amassed 7 million subscribers — mostly people with a need to hire a nanny or elder care worker. Parents looking to find a nanny could visit Care.com, type in their address, and immediately receive a list of local nannies rated by the parents who had entrusted the site to help them find a caregiver for their child. Similar to an Angie's List for care providers, Care.com had recently raised a significant round of venture capital and was looking to expand quickly.

Breedlove & Associates began the relationship by establishing a simple marketing partnership to provide content for their 7 million subscribers. Following a few months of delivering content and developing relationships with the Care.com team, Sheila Marcelo, Founder and CEO of Care.com, connected with Breedlove to initiate a discovery process to vet potential synergies between the two companies. Breedlove took the opportunity to open a discussion around acquisition. Marcelo immediately saw the potential of acquiring the payroll company and a few weeks later presented Breedlove with an offer to acquire her business for \$39 million. To put that number into perspective, a typical service business in the United States may hope to garner one times its annual revenue. Here was Breedlove being offered more than four times that amount.

Breedlove's goal was not to build a big company; it was to build a valuable one.

Most owners would have jumped at Marcelo's offer but Breedlove demurred, believing Marcelo would pay more given the synergies between the two companies. Breedlove showed Marcelo how she had built a profitable, \$9 million company with 10,000 customers. She reasoned that if just 1% of Care.com's 7 million subscribers were to buy Breedlove's payroll service, it would create a company seven times the size of Breedlove & Associates almost overnight.

Just six weeks later, Marcelo upped her bid to \$55 million in cash and Care.com stock. Breedlove, having negotiated a price equivalent to six times her annual revenue, agreed to the acquisition.

¹<https://www.builttosell.com/podcast/stephanie-breedlove-audacity-turn-40mm-9mm-company/>

WHY IS THE INDUSTRY EMERGING NOW?

SIZE VS. VALUE BUILDING

76%

**OF BUSINESS OWNERS
WILL EXIT THEIR
BUSINESS IN THE NEXT
TEN YEARS²**

The Exit Planning Institute estimates that fully 76%² of owners will exit their company in the next ten years, leading to an entire generation of owners needing to maximize their value leading to an exit.

There was a time when being big was paramount. The industrial companies of the last century relied on economies of scale and traded in a relatively narrow band of valuation multiples. To become more valuable, you had to grow bigger.

Therefore, revenue growth was the ultimate arbiter of success.

Inc. magazine, an American publication dedicated to the needs of small business owners, was founded in April 1979 and published the Inc. 100 in the same year. The idea was to recognize the fastest growing companies in the country. In 1983, Inc. expanded their list to the Inc. 500. Twenty-five years later, Inc. increased the list again to celebrate 5000 winners.

But as old-school CEOs and the popular business press have obsessed over size, a new, emerging generation of owners like Breedlove is focused on something else. Their goal is to grow more valuable companies—often at the expense of their size. Breedlove & Associates would not have made the Inc. 5000 list, yet she grew a company exponentially more valuable than most honorees while maintaining all of her equity—something most Inc. 5000 companies usually must give up in order to fund their growth.

² http://www.exit-planning-institute.org/wp-content/uploads/2017/03/CEPA_Brochure_2017_FINAL8.pdf

WHO ARE VALUE BUILDERS?



VALUE BUILDERS PLAY THE LONG GAME

Value Builders are on a long-term mission to maximize their value. Their goal is not necessarily to sell but rather know that they could.

Value Builders look for advisors who share their time horizon. Unlike drafting an estate plan or selling a business, value building consulting provides advisors with an enduring revenue stream rather than a one-off project.

The following table serves to illustrate the difference between a traditional business owner and this emerging cohort of Value Builders:



TYPICAL OWNERS

VS



VALUE BUILDERS

1. Prioritize growing revenue
2. Use proximity as their competitive advantage (e.g., "We're the local provider")
3. Sell lots of things to a few customers
4. Are Hub & Spoke managers
5. Strive for satisfied customers
6. Use a transactional business model
7. Treat their business like a piggy bank
8. Shares equity too liberally

1. Emphasize growing value
2. Offer a product or service with a durable competitive advantage
3. Sell a few things to lots of customers
4. Build companies that could thrive without them
5. Strive for customers who will refer and purchase again
6. Focus on creating recurring revenue streams
7. Obsess over how their company creates cash
8. Protects their equity

VALUE BUILDERS PROTECT THEIR EQUITY

Like Breedlove, David Hauser is growing through value.

Hauser graduated from Babson College in the 1990s—an era when big companies used a PBX system to route calls throughout a switchboard. Hauser and his friend Siamak Taghaddos imagined a “virtual PBX” that allowed small business owners to leverage the internet to create a phone system without having to buy any of the hardware. They built a crude version of the technology, named their new company GotVMail (later rebranded as Grasshopper), and launched in 2003.

By 2004, they had acquired their first few customers and could see that in order to scale, they would need to buy servers and a lot of advertising to drive demand. The venture capital markets were starting to thaw after the dot-com bust of 2001, but Hauser chose not to raise venture capital. Instead, they clung to their equity and bootstrapped their little business.

DAVID HAUSER,
FOUNDER, GRASSHOPPER



Instead of ordering servers from a brand name manufacturer, Hauser found a local computer company and sold it on his vision for the future. Hauser asked the owner to make a server for him below cost, arguing that if Grasshopper achieved its vision, Hauser would soon buy many more. When Howard Stern moved his show to satellite radio, Grasshopper offered to support Stern's new medium in return for major concessions on the price of a commercial.

Grasshopper also offered discounts if customers paid for a year's worth of service up front, effectively turning its customers into financiers of the business. Despite its growth from start-up to \$30 million in revenue in just 12 years, Hauser was able to retain the majority of the equity in his business, which he sold to Citrix in 2015 for \$165 million in cash and \$8.6 million in Citrix stock³.

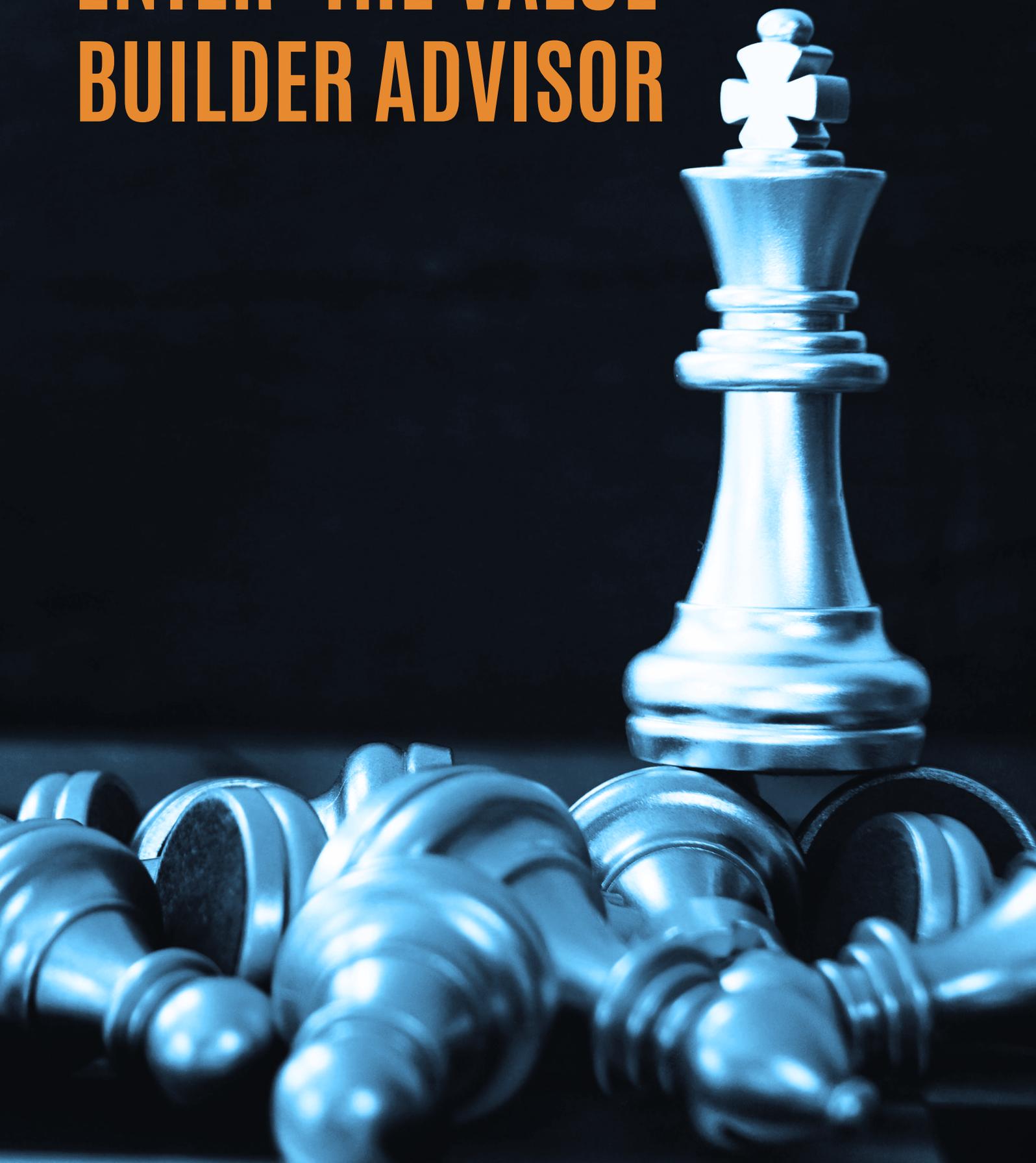
As the story of David Hauser illustrates, Value Builders guard their equity like a greedy child hoarding a bag of Halloween candy. Rather than selling their friends and family cheap shares or giving every new employee options, they use other forms of financing to start and grow their business.



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³ <https://www.builttosell.com/podcast/grasshopper-learned-well/>

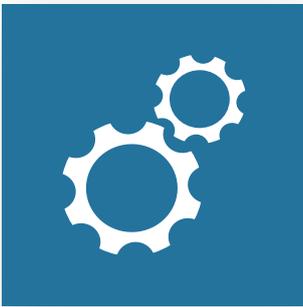
ENTER: THE VALUE BUILDER ADVISOR



WHO IS THE VALUE BUILDER ADVISOR?

Along with this growing cohort of value-builder entrepreneurs, a new category of consultants is emerging to serve them. The Value Builder Advisor is an advisor who specializes in helping companies build value rather than girth.

Business consulting has been around for almost as long as business itself. Traditionally, owners have relied on their accountant to help point out ways to increase their profit. In the 1990s, business coaching emerged as a new category of helpers. This new breed of coaches and consultants generally helped small business owners in one of three ways:



TECHNICAL CONSULTANTS

Technical consultants have a unique expertise where they are hired to solve a specific problem. A business might hire a technical consultant to deploy a new Customer Relationship Management (CRM) system or perform a personality assessment on a leadership team.



GROWTH COACHES

Growth coaches are hired to help a business owner scale their operations and become larger. They advise and counsel owners on developing strategies to build top line annual revenue.



LIFESTYLE COACHES

Lifestyle coaches emerged to help owners find balance and better control their time. They work in the intersection of where an entrepreneur's business and family life collide.

But there is a fast-growing segment of the business market looking for someone else: an advisor who can help them build a great company, not just a big one. A coach who can help them exit that company giving them even more freedom and peace of mind than a self-managing business would.

These owners are increasingly adding a Value Builder Advisor to their roster of advisors. The main goal of a Value Builder Advisor is to help an owner grow the value of their company. They always focus on growth over size.



The main goal of a Value Builder Advisor is to help an owner grow the value of their company. They always focus on growth over size.

A COMPELLING VALUE PROPOSITION

Investing in value building consulting provides a compelling value proposition for owners. Imagine a \$5 million company trading at three times its \$750,000 in Earnings Before Interest Taxes Depreciation and Amortization (EBITDA).¹

A traditional business consultant may be able to show the owner how to grow sales, but many of those tactics would come at the expense of short-term profitability. The owner would grow revenue, which may fuel his ego, but the added turnover will do little for the value of his company.

The same owner could invest in lifestyle coaching, which could enable the business to generate the same \$750,000 in profit while demanding less of the owner's time. A good result but perhaps harder for the owner to quantify and justify spending money on.

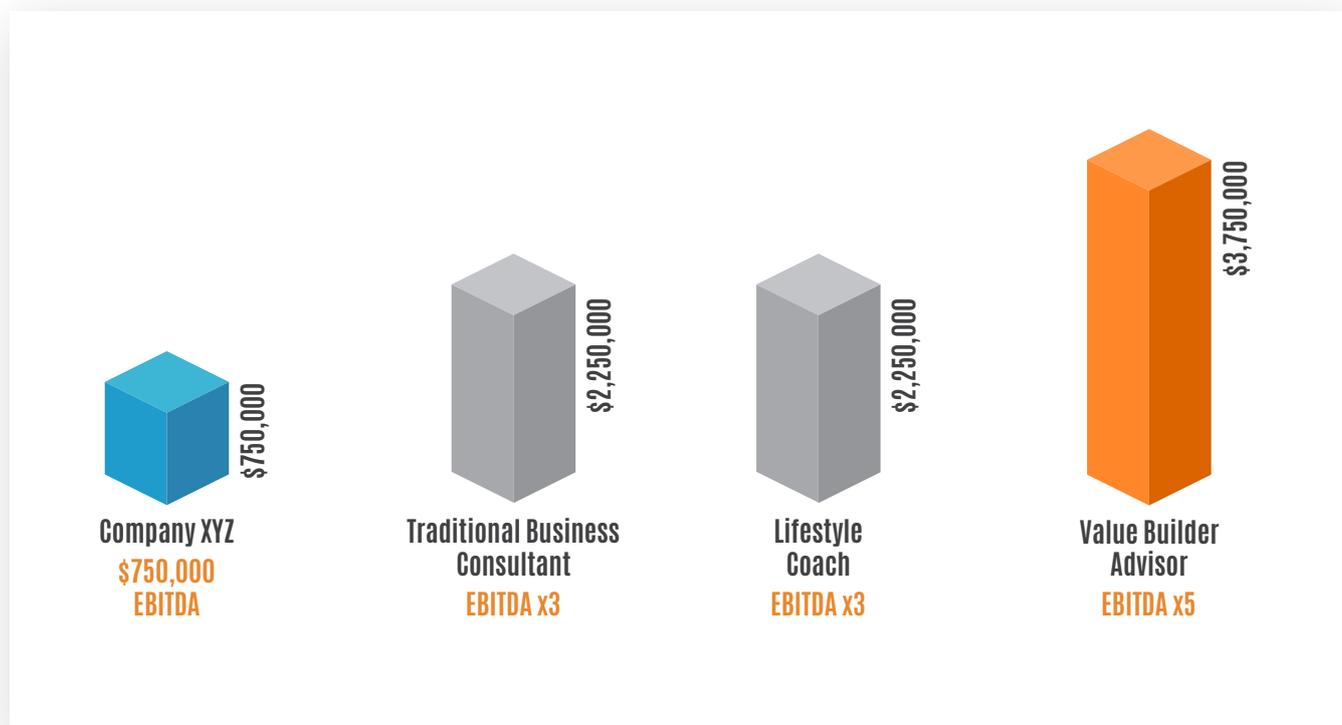
Both lifestyle and business coaching run the risk of being viewed as "costs" because the return on investment could be perceived as low given neither would make a material impact on his financial well-being.

By contrast, a Value Builder Advisor makes the case that by focusing on building value rather than just size, the owner can increase his trading multiple. Imagine, this same owner is able to fetch five times EBITDA instead of three. The Value Builder Advisor would have added \$1.5 million in value without growing sales at all.

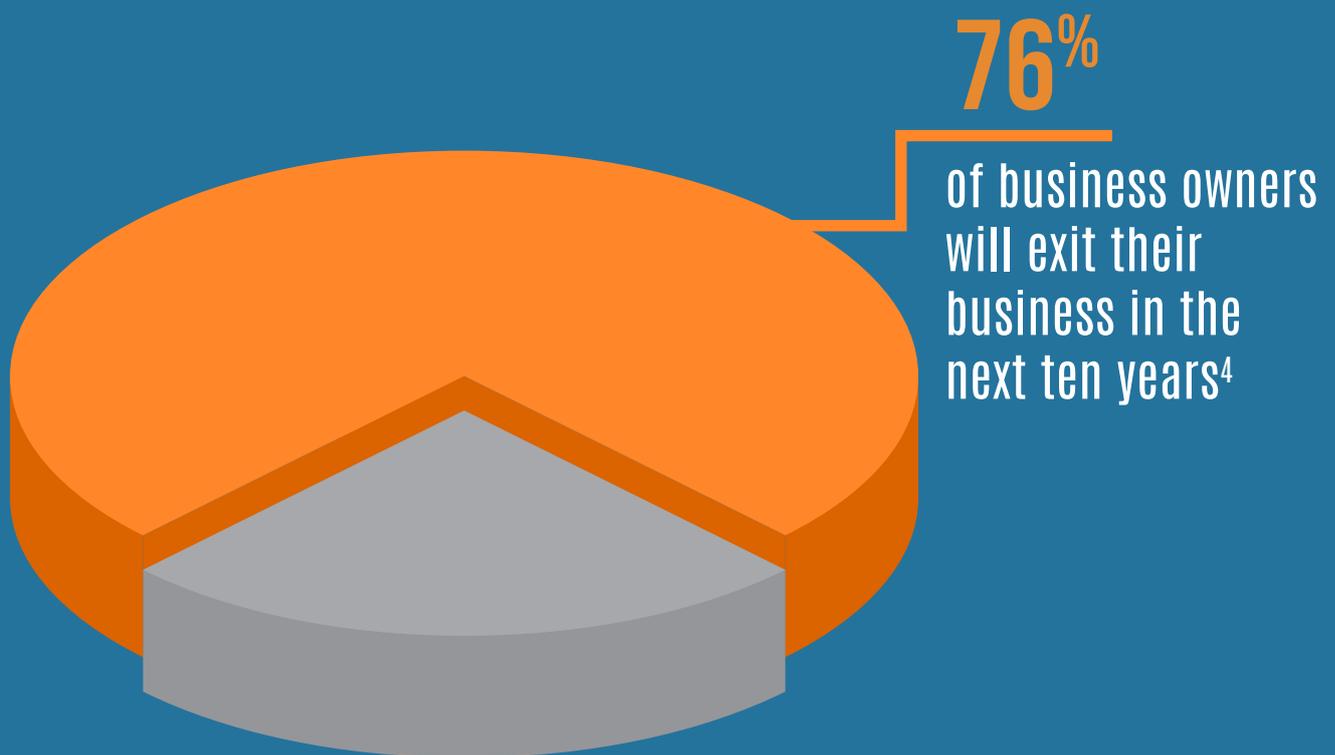
i.

EBITDA is a measure of a company's overall financial performance and is used as an alternative to simple earnings or net income in some circumstances.

IMPACT OF ESTIMATED VALUE BETWEEN DIFFERENT TYPES OF CONSULTANTS



The Value Builder Advisor can often show a return on investment of more than 1000:1 on every dollar invested in coaching, which makes for a compelling case for investing in value building consulting.



THE JET FUEL SPLASHING ON THE VALUE BUILDING INDUSTRY

In addition to a shift in business owners' attitudes, three macro-economic trends are also accelerating the influence of the Value Builder Advisor.

Firstly, the baby boomer population is starting to retire en masse. The population cohort of people born between 1946 and 1964 has reached retirement age, with 10,000 boomers estimated to retire every day.

The Exit Planning Institute estimates that fully 76%⁴ of owners will exit their company in the next ten years, leading to an entire generation of owners needing to maximize their value while leading to an exit.

⁴ <https://www.divestopedia.com/2/5545/pre-sale/preparation/podcast-interview-with-chris-snider-exit-planning-institute>

The second accelerant in the value building industry is the fear of an economic downturn similar to the Great Recession of 2007–2009. Many owners lived through the worst economic conditions in recent memory, and for those lucky and savvy enough to survive, the pain of those years still smarts. Many owners have no interest in weathering a similar fall and have moved up their exit plans as a result.

The third factor contributing to the expansion of the value building industry is volatility in the stock market combined with historically low interest rates. This has contributed to a willingness for private equity companies to acquire smaller businesses. The Dow Jones Industrial Average started tracking the market all the way back in 1896 yet the biggest all-time losses only occurred beyond 1998—with the largest drops seen in 2008 onward. Institutional investors looking for alpha outside the stock market have increasingly turned to private equity as a way to get it. This has bloated the coffers of private equity groups that are now competing to invest in smaller and smaller businesses, driving up valuations and providing a new exit option that has been traditionally unavailable to smaller companies.

Largest Daily Point Losses In The Dow Jones Industrial Average



Source: <https://us.spindices.com/indexology/djia-and-sp-500/sizzlers-and-fizzlers>

Three macro-economic trends accelerating the influence of the Value Builder Advisor:

- 1 The baby boomer population is starting to retire en masse (76% in the next ten years).
- 2 There's fear of an economic downturn similar to the Great Recession of 2007-2009.
- 3 Volatility in the stock market (combined with historically low interest rates) results in private equity companies acquiring smaller businesses.

BIG ENOUGH TO PAY, SMALL ENOUGH TO CARE

Value Builder Advisors have found a “sweet spot” among companies like Stephanie Breedlove’s, where they are big enough to invest in value building consulting yet also small enough to still need the help.

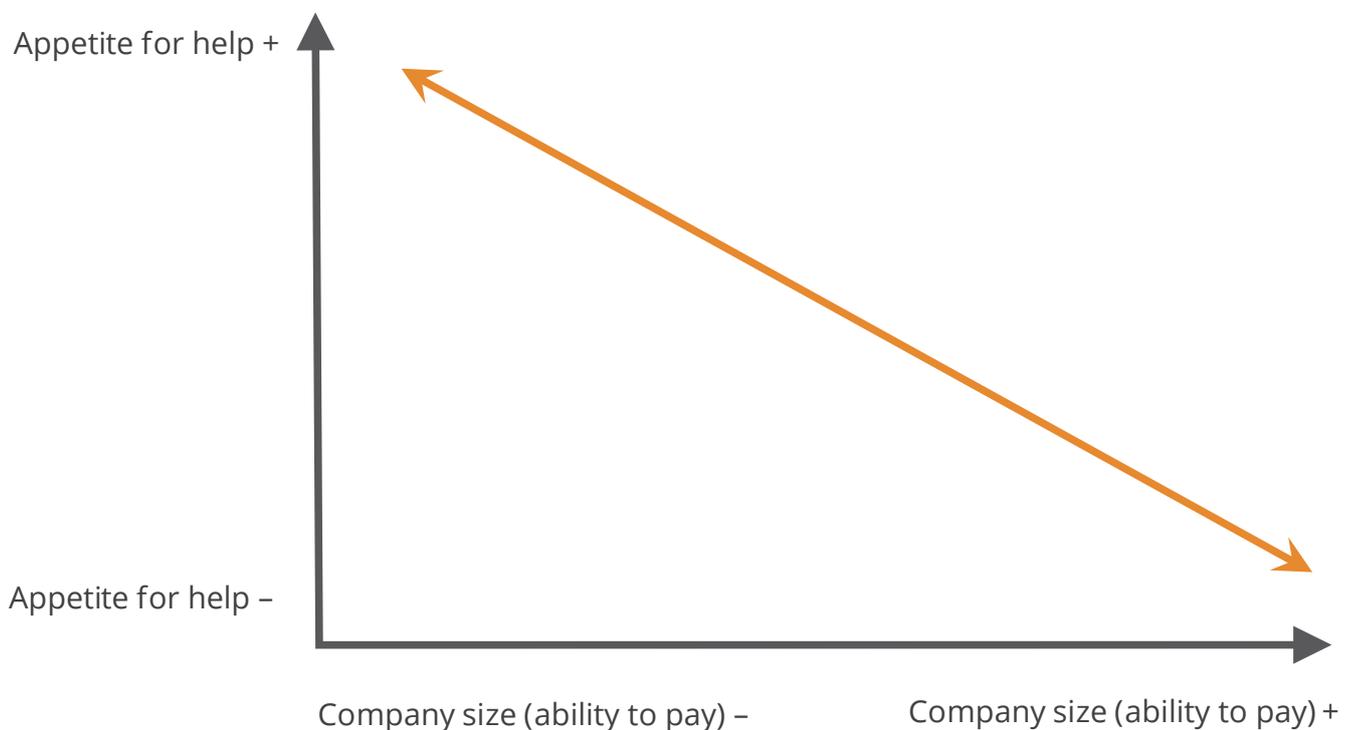
The ideal range for value building consulting is serving companies with between \$1–20 million in annual sales (roughly 10–100 employees).

Companies with at least \$1 million in sales can start to afford professional advice. A \$10,000 investment in value building consulting amounts to 1% of revenue, which, in most cases, is a reasonable investment.

Owners with more than \$20 million in annual sales often attract outside capital (e.g., private equity investors) that play the role of strategic advisor for a founder. Owners of larger companies also employ division heads and “C-level” executives with strategic skills, lessening the need for outside strategic help.

Therefore, the ideal size of companies that invest in value building consulting are large enough to pay but small enough to still need the help.

Appetite For Companies Seeking Outside Help Based On Company Size

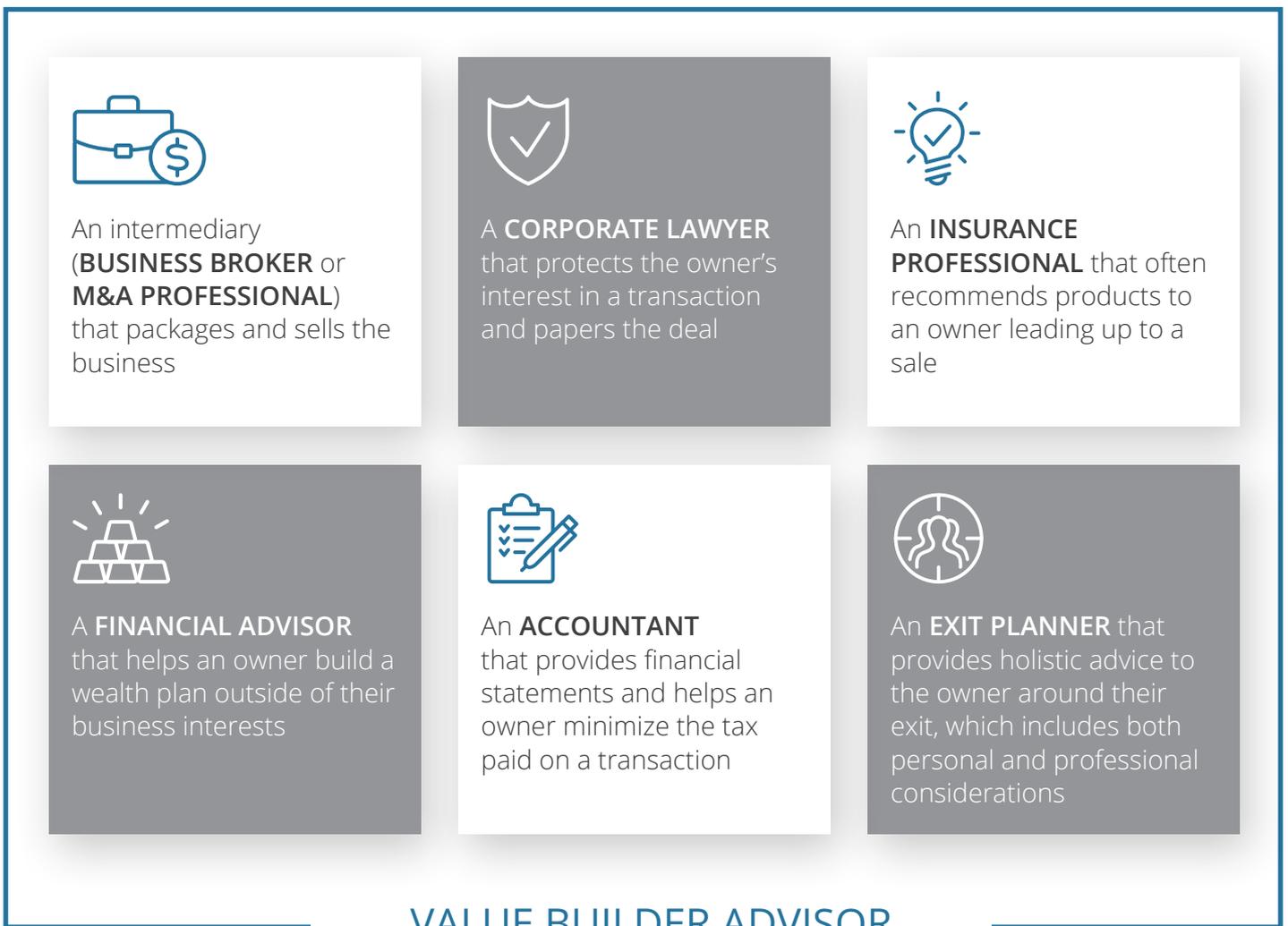


Source: Value Verified, 2018. The Value Builder System™

THE LEADER OF THE ORCHESTRA

The Value Builder Advisor is typically not a one-man or one-woman show. They are usually part of (and often come from) a larger ecosystem of technical experts that owners rely on for various services:

COMPARISON CHART



Every professional in this ecosystem is (or can evolve to be) a Value Builder Advisor.

Value Builder Advisors often act as a conductor, leading an orchestra of professionals to advise at the appropriate time.

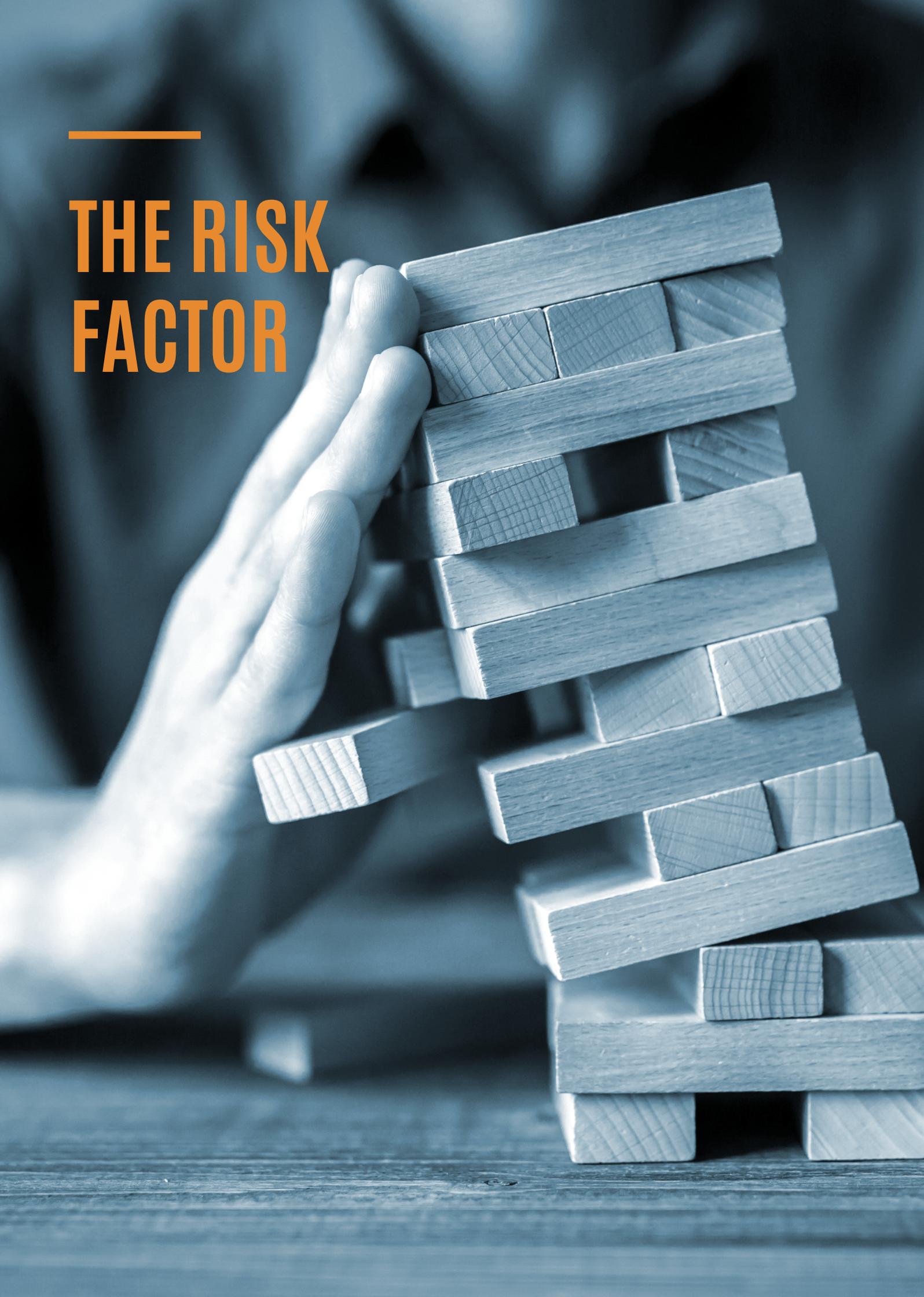
When professional bodies allow, Value Builder Advisors also receive referral fees or recognition from other members of the ecosystem as they introduce their clients to the appropriate professionals. These fees have the potential to further increase the profitability of a value growth consultancy.

Increasingly, this tribe of Value Builder Advisors is developing their own language and standardizing around a set of methodologies, definitions, and diagnostic scores, which is giving the ecosystem a common operating platform. This standardization is accelerating the value growth consult into a recognized professional discipline.



Value Builder Advisors often act as a conductor, leading an orchestra of professionals to advise at the appropriate time.

THE RISK FACTOR



THE DOWNSIDE OF GOING WITHOUT A VALUE BUILDER ADVISOR

Despite the increasing awareness of the Value Builder Advisor, there are still many examples of owners who go without one—but live to regret it.



DAVID CHANG
FOUNDER, CS DESIGN BUILDERS

David Chang returned home to his native Hawaii from his second tour of duty in Iraq and needed to figure out what to do with his life. Chang had a knack with numbers and learned a lot about process through his military training, so he decided to go into business with some friends. They started a home renovation company called CS Design Builders, which began by installing granite countertops and quickly expanded into a full-service home renovation company.

Along the way, Chang provided a personal guarantee to his lenders, which helped him grow his company's revenue.

Chang had built up CS Design Builders to a dozen employees and a little over \$1 million in annual revenue when he decided it was time to sell. Chang hired a broker who found a buyer willing to offer a million dollars cash for CS Design Builders. Chang was thrilled, but as the transaction marched toward a close, the buyer asked to restructure the deal.

The acquirer proposed to raise his acquisition offer to \$1.2 million—with a catch. Under the terms of the new deal, Chang would now get just 20% of his sale proceeds up front and the rest would be paid in monthly installments over a few years. The agreement included a provision that if the buyer ever missed a payment, Chang would get his business back.

Chang preferred the sound of the all-cash deal, but since that was no longer on offer and he was keen to move on with his life, Chang agreed to finance the new owner.

It didn't take long before Chang realized he had made a mistake.

The new owners missed their first payment. Then their second. In the meantime, Chang heard that his former employees had started to resign. He also began fielding calls from his former suppliers, who wanted to get paid.

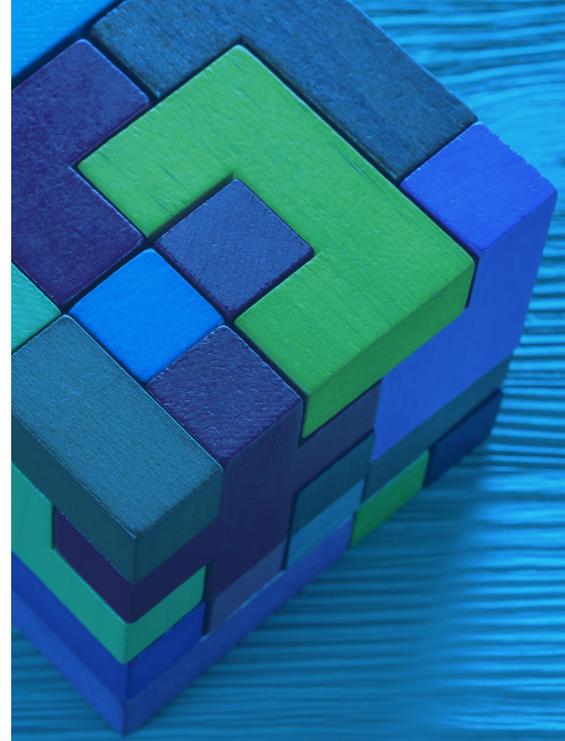
Chang hadn't realized it at the time, but when he agreed to sell CS Design Builders, he had sold the assets of his business, not the shares. He was therefore still personally liable for the outstanding debt he had incurred while operating it.

Chang ended up taking his business back, but it was not much more than a shell of its former self. Most of the employees had left, business had dried up, and suppliers were hounding Chang for their money. Defeated, Chang shut the business down and worked out a payment plan with his suppliers to settle his many debts.

Had Chang been working with a Value Builder Advisor, he may have focused more on building value instead of top-line revenue. Perhaps he would have avoided signing a personal guarantee and been better represented when it came time to sell.

TOOLS OF THE VALUE BUILDER ADVISOR





TOOLS OF THE VALUE BUILDER ADVISOR

Any profession has a standard set of tools, and value building consulting is no different.

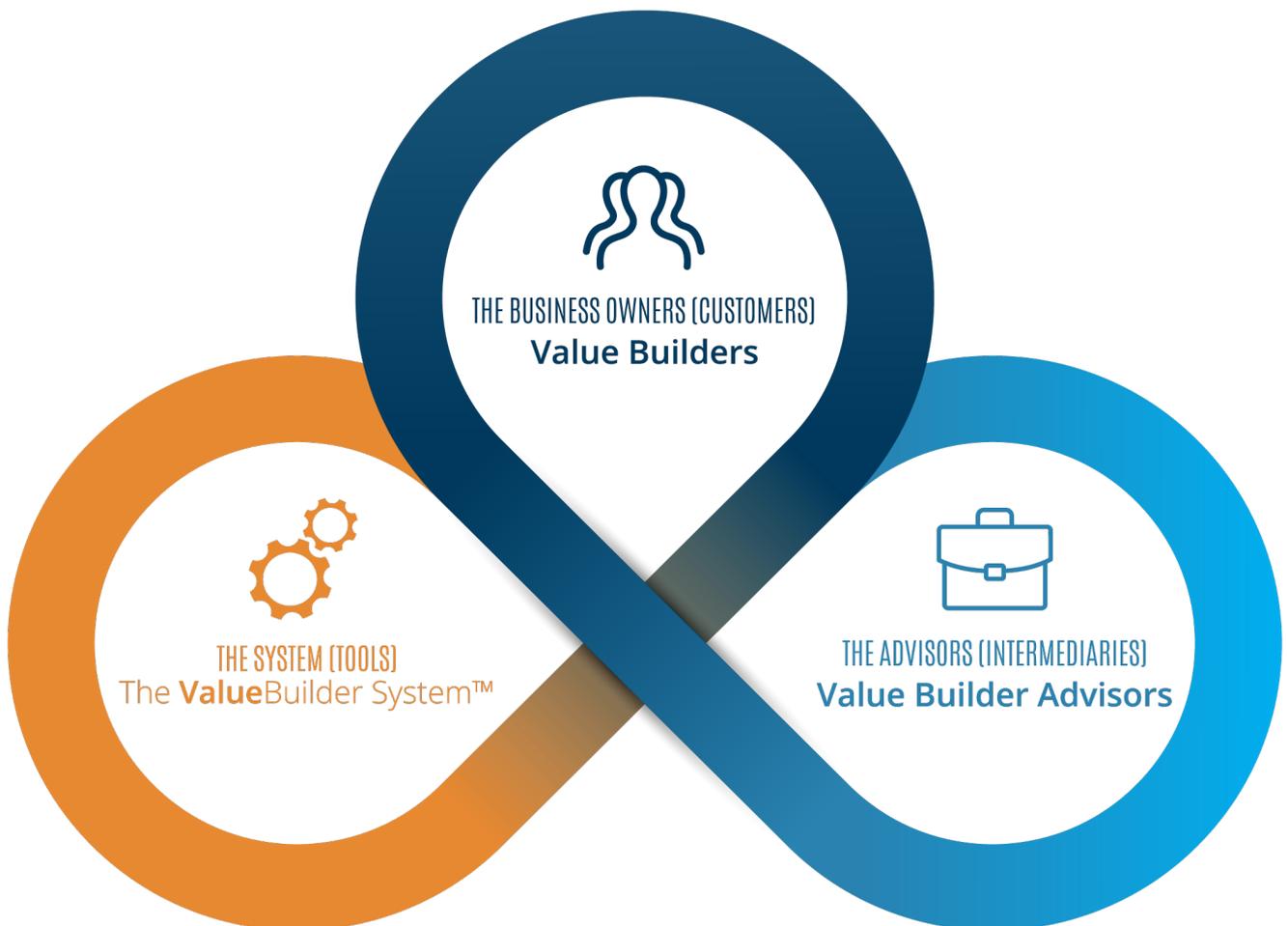
- 1** Value Builder Advisors need a benchmarking device to establish how a client's business is valued at the start of a relationship. This allows both the Value Builder Advisor and his or her client to establish a starting point for their work together.
- 2** In addition to this level setting, a Value Builder Advisor will also use an ROI calculator or scenario planning tool at the beginning of their work with a client to enable an owner to run a variety of experiments illustrating how a decision today may impact the value of their business down the road.
- 3** When it comes to delivering, Value Builder Advisors rely on a system or methodology. Rather than relying on their gut or a toolbox of disparate solutions, a Value Builder Advisor uses a consistent and proven methodology, following a prescribed set of steps in sequential order to maximize a client's value.
- 4** Given the need to educate owners about building value rather than revenue, Value Builder Advisors must have access to valuable and timely content that can be shared with business owners in the form of articles, videos, webinars, infographics, whitepapers, and more.
- 5** Finally, the Value Builder Advisor must have a plan in place to consistently distribute their thought leadership content to business owners in order to showcase their experience in the industry and stay top of mind. This level of education solidifies the Value Builder Advisor as the conductor of the orchestra while building rapport with the owner.



A Value Builder Advisor must be able to benchmark their value and illustrate their ROI through a system or methodology that can also help them educate business owners on the key drivers of company value.

THE VALUE BUILDING INDUSTRY ECOSYSTEM

Overall, the ecosystem of the value building industry requires three critical parts, which include: the Value Builders, who are business owners willing to invest in growing the value of their company; the Value Builder Advisors, who have a goal of helping business owners grow the value of their company; and a system or set of tools that will help both parties excel forward and ensure company growth is achieved.



ONE OF THE MOST EXCITING PROFESSIONAL OPPORTUNITIES IN DECADES



The value building consulting industry is emerging as one of the most compelling new sectors in the professional services category in decades. Increasingly, owners are focused on maximizing value, rather than vainly chasing revenue.

These Value Builders are looking for advisors, armed with proven tools, to help guide them. For the Value Builder Advisor who focuses on companies that are big enough to pay and small enough to need the advice, the value building industry is creating a lucrative stream of recurring revenue at their firm and making a profound difference for the clients they serve.

Curious to Learn More About the Value Building Industry?

Contact me here:

Learn how valuable your business is today by completing your free Value Builder questionnaire today:

The **Value**Builder System™

Double Your Value. Double Your Offers. **Control Your Future.**

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