How Marketing Builds Future Exit Value

What makes a business worth buying? How marketing improves your multiple.

the marketing centre

Supercharged Fractional CMOs

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1 Introduction: What's marketing got to do with selling a business?

What's marketing got to do with selling a business? In short, everything. In this guide, we demonstrate how marketing can show buyers that your business is worth more than the competition's, and is therefore worth paying more to acquire.

Founding or buying a business, building value and selling it on is the ultimate goal for many of the business leaders we work with: not just growth for growth's sake.

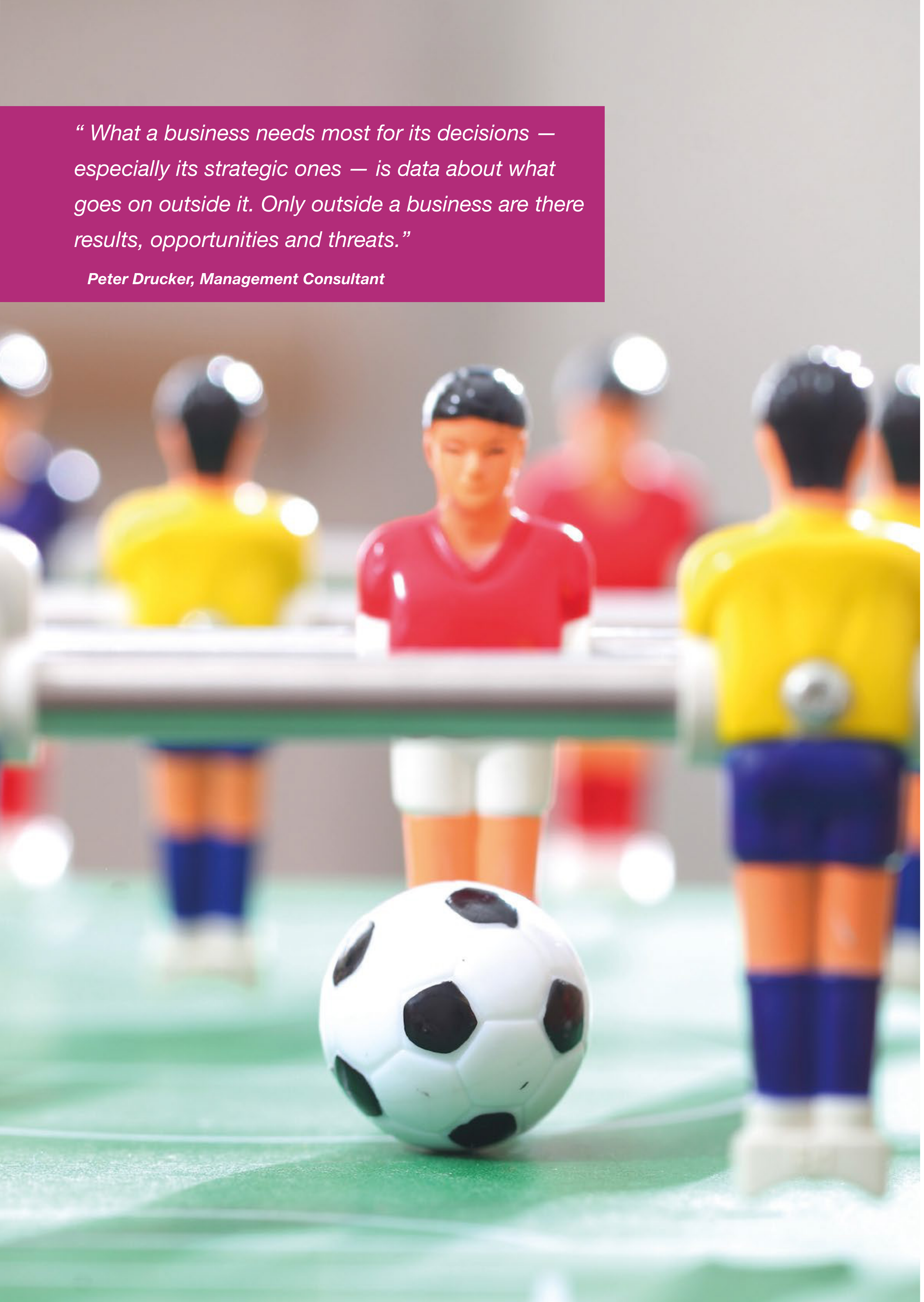
Marketing plays an important part in this process, and should be integrated into every aspect or step of your business' growth story, from when you first craft your brand vision to when you exit the company. Doing so is the key to **building business value.**

The simple, classic formula for valuing a business is **profit x multiple**[1]. The sale price of a business is a number of years' profit, paid up front. The multiple is the key to how many years' profit you can ask for and realistically receive.

Businesses that are simply ticking along and hitting industry standard benchmarks can only realistically sell for an industry standard amount. A business which has used talent, innovation and scalability to go above the average – showing that it's more than a going concern and has serious potential – can push its multiple beyond the usual figure, and its owner can realistically ask for more years' profitability in the selling price.

This guide examines how marketing can help your business rise above the competition and show potential buyers that your business' brand, employer brand, products, services and future routes to market can be scaled up to drive future revenue. Let's get started.

> *" What a business needs most for its decisions — especially its strategic ones — is data about what goes on outside it. Only outside a business are there results, opportunities and threats."*
>
> ***Peter Drucker, Management Consultant***



2 Finding your asking price

In 2017, Paris Saint-Germain signed Brazilian football superstar Neymar[2] for a record sum of €222 million (about £197 million). Meanwhile, Bristol City sold Bobby Reid to Cardiff for £10 million. Compare the two strikers on their scoring record alone, however, and Reid looks like the better player, with 19 goals at Bristol City compared to Neymar's 13 at Barcelona in the season before their respective moves.

There is, of course, a lot more to it than that. The value of a player is influenced by age, skill, experience, potential, the sheer value of their name. CIES Football Observatory has identified 21 key variables in the pricing calculation.

Similarly, a business' value is about more than just profit. If you want to sell your business, you must build value and show potential beyond the current financial year. This value and potential is summed up by the **multiple**. Short for 'multiple of earnings for the sector', this figure expresses how many years of net profit you can realistically demand for your business when you sell.

Net profit of business times **Multiple of earnings for the sector = Value of business.**

This is your asking price.

It seems simple, but the process is more art than science.[3] Here's how it works.

What does 'multiple of earnings' mean?

Most industries have a standard multiplier, but whether your business will sell for that much is up for debate.[4] Small companies often sell for less than larger ones – they can struggle to achieve three years' profit as their asking price, even when the standard multiple is closer to five.

Some businesses are unique, creating categories in which there isn't an established multiple. If your business puts people in positions within other firms, isn't an agency, a recruiter, or a consultancy, it can't be valued in the same terms.

Net profit isn't always the best place to start. Sometimes, that figure includes items and adjustments that won't be relevant to new owners: directors' costs, fees paid to non-executives, exceptional bad debts or one-off expenses can all prevent this year's profit from reflecting the business' real value.

Management style also has an impact.[5] SMEs behave differently to large corporate buyers. Business owner-operators often underpay themselves compared to people in similar leadership roles in a corporate firm. Owner-operators also tend to create unusual costs – like overseas research trips – which a corporate-owned business may avoid. The industry multiple is influenced by all those corporate businesses, which are run in a completely different way.

Finally, there's the question of whether the multiple itself is accurate.[6] Ultimately, the price is set by what the buyer is willing to pay. If an industry has recently seen big-money takeovers, the multiple for the sector will skew upwards, while conservative buyers can force the industry multiple down.

This means that every business has to be valued on its own terms. That's why proving your business' value begins at home: showing your worth to the industry, rather than letting the industry dictate the terms of sale. And that's where marketing comes in.

2 Finding your asking price continued

Benchmarking – finding and improving the value of your business

Benchmarking your business against others in your industry helps you understand how your business compares in terms of value. There are hundreds of factors which influence business value, but there are some where marketing can provide a particular, significant boost:

- **Market share:** the number of customers you're reaching and selling to on a regular basis
- **Market influence:** you may not be selling the most, but are you setting sector trends?
- **Brand positioning:** how customers and competitors perceive your brand will influence both profitability and the room you have to innovate in
- **Profitability:** potential and future income, compared to the industry standard for similar-sized businesses

Marketing won't add value to your business or sway a buyer all by itself. Buyers want to see hard figures: the provable return on investment (ROI) that shows how much value your marketing spend delivers. But if £1 spent on marketing generates £5 in profit, marketing directly increases the overall value of your business – and that's why it's an integral part of building company value.

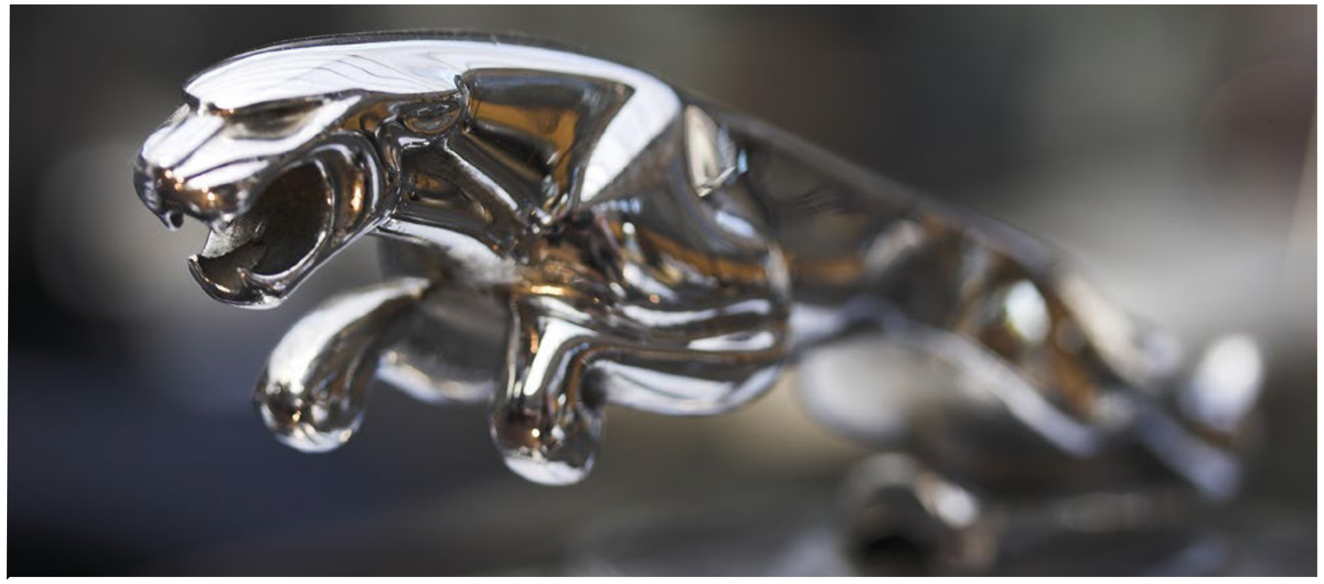
To show it, you need to measure and track two key metrics of marketing ROI[7] – **marketing spend as a percentage of sales**, and **cost per acquisition**. If you make those investments, do that work, and see an impact on your bottom line, you'll have something significant to show your buyers. That's why your process for selling a business must start with making and implementing a growth plan.

The best basis for a growth plan is a SWOT analysis: describing the Strengths, Weaknesses, Opportunities and Threats of your business as it stands. Breaking down elements of your business into these categories will show you where to direct your efforts to ensure maximum value. For example, you'll know to make the most of a high-value disruptive product, or deal with a lack of brand equity.

Net profit of business x Multiple of earnings for the sector = Value of business

The formula for determining the asking price for your business

3 Your business' brand



A business is more than just its tangible assets. When someone buys your firm, they're not just buying premises and product. They're buying an identity – a name, and a vision, and a reputation. They're buying a brand.

Consciously building your brand is best practice anyway, but it's especially important in the run-up to selling. Strong brand values mean a more focused, directional and valuable business – one, in short, that's worth buying.

All businesses have a brand[8], even if they've made no effort to build or manage it. Your brand is the way customers (and competitors) see you. It takes in the things most of us understand as "branded" – the look and the logo – but also includes everything from your marketing collateral to the customer experience you provide, and beyond.

Everything a business does builds brand equity – the significance that customers attach to your business' name. This equity may be positive or negative – the more positive equity your brand has built up, the more value it will add to your business.

How does a business' brand improve a business' sale value?

Brand values[9] – the core concepts which resonate through your business' operations, messaging and customer relationships – are key to your business' value. They affect the brand's positioning in the marketplace – where it stands in relation to its competitors, and how well customers recognise that. They're evident in the coverage the brand receives, especially value-added editorials and reviews that position the brand favourably against competitors or in response to customer needs.

A positive and valuable brand is an enormously powerful negotiation tool.[10] When Tesco and Unilever fell out over recommended retail pricing in 2016, undermining share practices and infuriating the public, it was the brand equity attached to Unilever's products – especially Marmite – that broke the deadlock. Tesco had too much

" A brand for a company is like a reputation for a person. You earn reputation by trying to do hard things well."
Jeff Bezos, CEO, Amazon

to lose by not having Marmite on the shelves: they, and their customers, ended up eating the price hike.

How to build a more valuable brand

Brand-building has to start at the top.[11] You, as the owner of the business, must know what you stand for. With this understanding in place, you'll be able to outline the key qualities and benefits your brand offers. These unique selling points are the cornerstones of your brand[12], and you need to know them in detail and with clarity before moving on to set brand elements like tone of voice, visual identity and vocabulary.

There will always be brands with bigger budgets and more resources to hand – but your products, services and benefits belong solely to you. By spending time on honing your value proposition (a simple statement of the value you offer customers, communicating why they should buy your products or services), and your marketing plan (who you'll target and how) and putting effort into quality content and networking, you can make a limited brand budget go a long way.[13] Pair that with a clear, coherent measurement of the results of your brand marketing[14] and you'll present the most attractive possible package to potential buyers. There's no sense in spending more than you have to – instead, focus on proving that every pound you spend pays off in marketing terms.

Most importantly, though, brand values need to be part of how you recruit. Do potential new hires – from admin staff to the C-suite – understand how your brand does business and why? If they don't, don't hire them.

If your people don't believe in your brand, they'll never be able to sell it. That's why your business brand walks hand in hand with your employer brand: our next stop on the road to the business sale.

Everything a business does builds equity – significance and impact that attaches to the business' name.

4 Your employer brand

Potential customers aren't the only people whose opinion of your business matters. Potential hires will find out who you are, what you stand for, what your current and former employees are saying about you, and what it's like to work for you.

As Richard Branson once said, "Clients do not come first. Employees come first. If you take care of your employees, they will take care of the clients."[16] And it's true. Employees determine the success of a business day to day. They also contribute hugely to the value of a business when it comes to selling it.

This is your employer brand: the external appearance of a business from the employees' perspective. It comprises how the business portrays itself, what it says on its website, what people are saying about the company online, and its recruitment activities, including how it markets vacancies.

The typical business value calculation only looks at revenue and profit, but buyers want to see a company with a viable, dynamic culture with great potential. They're not just buying a place of work: they're buying the people who work there. Having a strong employer brand will help attract and retain the right talent, and attract buyers and help seal the deal.

How does an employer brand improve a business' sale value?

Employer brand has a substantial indirect impact on selling a business. The business is valued on its turnover or profit, but its operations and potential seal the deal. If a company is shedding talent because it's poorly led, it's not worth investing in, no matter how great its turnover.

Employer branding is especially important for small and mid-sized businesses, where most employees have met, worked with and have a personal relationship with the owner, but it has an impact across all levels of all types of organisation.

The business owner or leadership team sets the tone for the business as a whole. If they live the business' values and stay visible to employees and prospects by getting involved in operations, this will have a hugely beneficial impact on the company culture. If they don't, there's no authenticity to the brand's claims. Employees

" Clients do not come first. Employees come first. If you take care of your employees, they will take care of the clients"
Richard Branson

are disengaged and disinterested, turning up and doing the bare minimum because they've seen through the fakery. Potential buyers aren't interested in fakes, either.

While this starts with strong leadership, brand values still need to be clearly communicated to the business at large. This is internal marketing, and it demands the same skills in PR, social media and engagement that your marketing team bring to their customer-facing activities.

How to build a valuable employer brand

Employer branding comes down to two things: creating great marketing collateral and taking great care of your people.

Many businesses are great at marketing their product or service, but not so hot on marketing the business itself. Your brand's value is reflected less by what you sell and more by who sells it – by your existing employees, who show that the business is working well day to day.

To work on marketing collateral, start by looking at what's there already. What does your marketing material – especially your website, the starting point for most potential employees – say about you as a company?

Consider a careers page to showcase your team: real people, telling real stories about what it's really like to work for you. Video content can also show your company culture – not sculpted and scripted promotional material, but something authentic that shows off the kind of personalities that work well at your business.

To do this, you need to take care of your people. Offer personal development opportunities beyond mandatory health and safety training and updated certifications. Show that you invest in people and that they invest in you.

You'll need to bring HR and marketing together on this. Start with a workshop with both teams and lay out all the collateral you'd typically use for an external, customer-facing event, but without the business owner in the room. The goal of the workshop is to warm up your employees exactly as you would a customer, getting them out of the "it's just my job" mindset and turning them into advocates for your employer brand.

Many SMEs skip this element when they're scaling up: they focus on product and profits, losing sight of people. All three need attention in the build-up to a sale: and once the people are engaged and ambitious, it's time to look at where that ambition is directed.

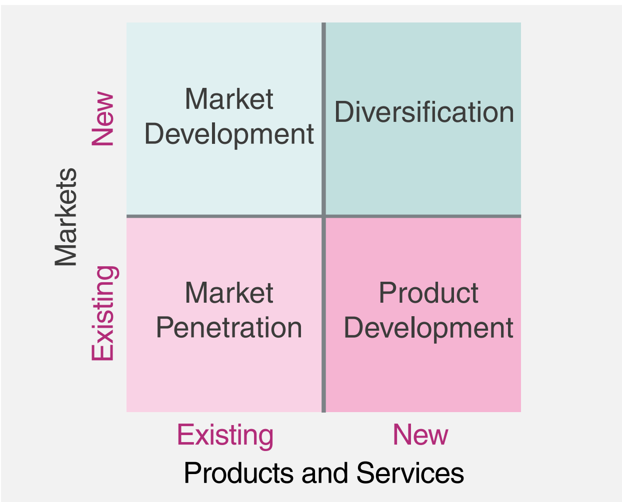
Many businesses are great at marketing their product or service, but not so hot on marketing the business itself.

5 New product development

Businesses deliver product or services to market. That's their essential function, even when the owner's planning to exit – which means you've got to spend the pre-sale period showing there's something new in the pipeline and that the business is continuing to move forward.

New product development is the process by which a new product or service is brought to the marketplace – but "new" doesn't mean starting from scratch. It means you start by looking at where you are, and find new places to go from there with minimum risk.

The Ansoff Matrix[18] places business development activities on a scale from least to most risky. Selling new products to new customers, for example, is an



uncharted territory that carries the most risk. But developing your existing products in new markets, or selling new products to existing customers, keeps at least one foot firmly planted on trusted ground.

The difference between effective innovation and vanity projects is simple – the customer. Proper innovation offers things your customers genuinely want. If you get that right, it can significantly change your fortunes and increase the value of a business.

How does new product development improve a business' sale value?

New products aren't necessarily of interest to future owners, but the mechanism of innovation certainly is. New product development illustrates the business' ability to react to market changes.

Think about how much has changed in the last ten years. Who could have predicted a time where Alexa can organise our lives, where plant-based burgers 'bleed' like real meat and where we'd pay for goods and services by waving our mobile phones over a card machine?

" You don't find customers for your products. You find products for your customers."

Seth Godin, entrepreneur[19]

Business strategists do their best to predict future trends, but there's no guarantee these predictions will come to fruition. The ability to innovate successfully isn't about getting it right – it's about trying to get it right. Innovation shows potential buyers that you're listening to the market, that you're alert to industry trends, and that you're firmly focused on the future. It proves that you're passionate about putting customers first and reinforcing the strength of your brand, which can give you the edge in a competitive marketplace.

New product development demonstrates to potential buyers that your business is not stagnating. You've built a talented team to keep day-to-day operations ticking along, and confident management who understand their customers' needs and the market they are operating in.

How to build value through new product development

This is where your marketing strategy comes in. Perform a SWOT analysis on your products and those of your competitors, and see if this identifies new avenues for your business to follow. Talk to your customers and find out what they want, and tailor your NPD strategy accordingly.

You could start with upgrades, replacements and new models. The closer the new product is to the old, the less risk there is. But moving with the times is essential – as demonstrated by the quick demise of Woolworths and Blockbusters.

Developing new products or new ways to package existing products will allow you to find the sweet spot between too safe and too risky – so that your business stays fresh and relevant, and your customers and prospects stay interested.

Of course, once you've created your new product or service for the customers, you need to get it to them. New product development and routes to market go hand in hand.

New product development demonstrates to potential buyers that your business is not stagnating.

6 Routes to market

What makes a business worth buying? Benchmarks and brands all count for a lot, but so does the simplest element of all: the way you put a product or service in front of people who want to buy it.

Routes to market are a crucial part of marketing. To sell something, you've got to go where your potential buyers are: market research will tell you where that is. Once you're aware of the available routes to market, identify the ones you're using and the ones in most demand by your customers, and shift your efforts toward that demand. The same logic applies whether you're selling a product, a service, or the business itself.

How do routes to market improve a business' sale value?

If you're not selling where your target customers are looking in a way that they want to be sold to, your business' value is being limited.

> *" Say no to the things that keep you on a certain level and say yes to the things that will help you keep moving on."*
>
> ***Brian Honigman, CEO, Honigman Media[20]***

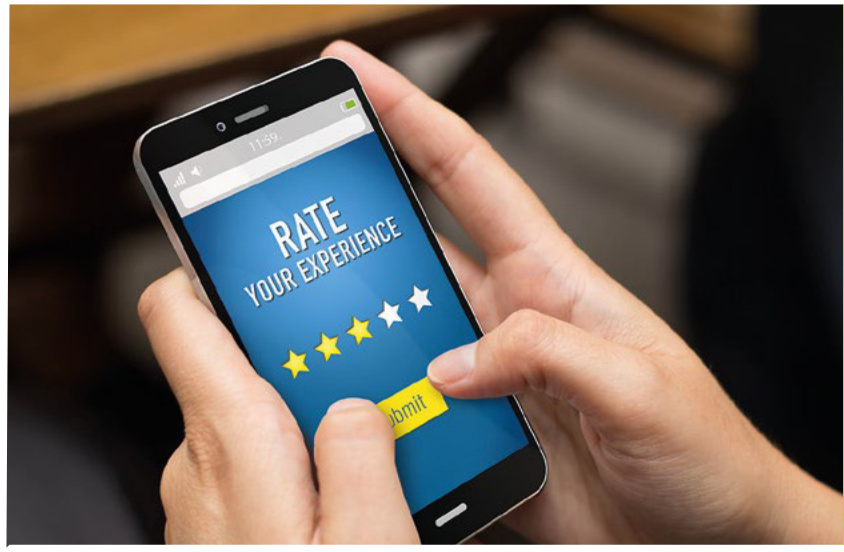
It might be that your current routes are fine (for now), but that's not enough in the build-up to sale. Buyers want to see that a business isn't complacently waiting for the market to change or for new competitors to emerge. They want to see you optimising revenue by developing your business: by testing new routes, tracking customer behaviour and encouraging feedback, monitoring what competitors are doing, and segmenting your customer data.

Remember, customers' changing needs and habits mean that what worked for your business yesterday may not work tomorrow.

How to choose the most valuable routes to market

By tracking customer behaviour, tracking the market and monitoring industry innovations and disruptions (such as new technologies for distribution), you can consider and select appropriate routes to pursue and expand into.

Your choice should, of course, be based on customer habits – where they look for products or services and how they like to buy – but also on business operations. Budget, distribution capacity and logistics must factor in your choice of route to market.



> *" Make your product easier to buy than your competition, or you will find customers buying from them, not you."*
>
> ***Mark Cuban, investor and entrepreneur [21]***

Selling direct to the customer – whether via your website, a retail store or face to face – works well for complex offerings that require personal contact with customers. This method can be expensive, however.

Instead, you might sell indirectly, doing business via a third party – either selling them a product which they sell on at a markup or selling your services through an agency. Indirect sales can shift high volumes or secure larger contracts than a small business can handle alone, but doing so can be a slow process – and it means your company is dependent on another business. Your distributors or agents will look after their own interests, optimising for their needs rather than yours, and you'll give up some brand control to them. Your brand will depend on their marketing.

Some businesses cut their costs by relying on online routes to market – PPC advertising, email marketing, and e-commerce platforms. This might mean selling directly – via your own company's website, for example – or indirectly, via Amazon or Upwork, for example.

Most businesses multiple different routes to market. If you're selling a diverse range of products or services – such as different services for small and large customers – it may pay to pursue direct sales through physical premises for your corporate clients, and an online platform for smaller to medium businesses, for example.

The important thing to remember is to focus on the needs of your customer at every stage of their journey with you[22] to maximise your sales and diversify your reach.

If your capacity to sell can grow, so can your customer base, so can your revenue – and so can the future value of your business. Optimising your routes to market affects both net profit and the more nebulous potentials that set your multiplier. You therefore stand to gain on two fronts if your business can scale up.

> *Optimising your routes to market affects both net profit and the more nebulous potentials that set your multiplier – you therefore stand to gain on two fronts if your business can scale up.*

7 Scalability

This is where everything we've discussed so far comes together.

Colin Mills — founder of the Liberti Group association of businesses — didn't coin the term "scaling up", but his book presents the clearest framework for understanding how this process works.[23]

When it's founded, a business only has so much capacity and capital, and it's focused on establishing and perfecting its product or service in the marketplace. No matter how great their product or service may be, many businesses hit a growth ceiling because, to grow, they must change *how* they do business. That's scaling up. The potential to scale is the single most important thing buyers are looking for in a business.

If a potential buyer can see the opportunity for growth in a business, they're more likely to buy. More than that – if you can show potential for growth beyond your current revenue, you're pushing at the elusive multiplier, and able to demand a higher price. This is a matter of marketing – planning your business' growth and how you're going to present it to buyers.

To show how your business can scale up with the best of them, you need to work on four key elements: leadership, people, process and forecasting.

Leadership

The first reason businesses fail to scale is leadership: not bad leadership, as such – just not business leadership. In startups, the leader is often the chief innovator, who may be technically gifted in the company's core discipline, but when it comes to business leadership or strategic development, they're learning as they go. In the early stages of a business, there's usually a small team and the emphasis is on getting the offering out there, so this approach is OK. As the business grows, leadership becomes far more important.

So where does marketing fit in, here? Simple: brand.[24]

A business' brand is led from the top. The leadership team must establish the brand – the mission, vision and values that guide the business – and exemplify it in everything they do. Marketing can help determine the brand's values, making sure they're communicated effectively within the business and beyond. Internal communications, team events and brand management become more important as a team grows and builds a culture: marketing is key to all of this.

People

You must hire the right people to grow. You'll need expertise you didn't have at the start, and you'll often need to expand capacity in multiple areas at once. If you're growing your investment in marketing, you're trying to grow your customer base, which means you're likely to need more salespeople, more admin people, and perhaps an upgraded CRM to handle the greater volume, which in turn will require new IT skills to operate.

To attract and retain the right talent, you'll need a good employer brand, as we discussed earlier. Your recruitment messaging and activities, as well as the website and what people are saying about the company online must show that your workplace is somewhere people want to work.

Process

A profitable business with efficient processes is an appealing purchase that will attract a higher buying price. Businesses' processes often happen organically in the early days – people do what works, rather than working to any great strategic plan. A focus on operations becomes imperative as the business gets bigger, but even then it can be surprising how many of these early processes go unquestioned.

This goes for finance as much as it goes for sales and marketing, but as we're solely interested in the latter here, it's hard to overstate the importance of an effective marketing function within the business when you come to sell up.

7 Scalability continued

To demonstrate scalability, you need a good idea of what marketing activities work for your business.[25] Understanding how your marketing spend is paying off in real terms — Return On Investment (ROI) — means you can optimise your marketing plans, and show potential buyers how increased investment in particular activities will deliver a predictable, scalable increase in results. Value comes from how well your business is performing now, and how well you can predict it will perform in the future.

Forecasting

Forecasting is crucial for a business that has to demonstrate its ability to scale. Why? Because managing cash flow is a more serious concern when you're looking to grow rapidly. You have to spend money to make money, and know what's paying off and what isn't.

Forecasting is also crucial for businesses looking to command a higher sale price. Why? Because growth is what pushes against the multiplier, and breaks through the threshold many small to medium enterprises meet when they come to sell. If you can show how this year's profits are predicted to grow next year, and the year after that, you can set an asking price that goes beyond *this year's performance times 'X'*.

There are four key elements to scalability:

Leadership
A business' brand is guided from the top.

People
You need to hire and retain the right people to grow.

Process
Efficiency is needed as a business expands.

Forecasting
A clear roadmap for scale will appeal to buyers.

Where is future growth coming from? Innovation, business development, talent and, of course, sales and marketing. On the marketing front, you need a watertight grasp of the important metrics: average lead time, conversion rates, average sales value and cost per acquisition, and what marketing budget to set to hit these targets.[26]

A business with a great set of year-on-year results will certainly be appealing to buyers, but one with a clear roadmap for scale is a far more appealing prospect. Buyers are looking for businesses with clear potential to grow. By focusing on these four areas, and quantifying exactly how your marketing is preparing your business to scale up, you can present them with a job half done – all they have to do is buy-in, follow your plan and reap the rewards. That's an attractive offer for anyone.

" The UK continues to be an attractive place to start a new company... we also have the talent and basic foundations to become the best place in the world to scale up a company."

Sherry Coutu, Chair, ScaleUp Institute[30]

8 Conclusion

In the lead up to a successful exit, you'll be working harder than ever. Your business has to be running at peak performance and actively addressing its weaknesses. It must be the best it can be and demonstrate that quality to the marketplace.

You'll need to step up your efforts in sales and recruitment. You'll need to set your business against industry benchmarks and show buyers that your business can scale beyond those benchmarks. And you'll need to demonstrate that you've done your research when it comes to your route(s) to market, and are prepared to change tack quickly if the right route changes in future.

Marketing helps make your business more valuable than the traditional rule of thumb – net profit times industry standard number of years – suggests. Marketing presents your business not as a going concern, but a growing one. The more future value a business can demonstrate, the more it will be worth when you go to sale.

There are six key areas where marketing can demonstrate a business' value when the owner is looking to sell:

1. **Benchmarking against the competition**
2. **A clearly defined business brand**
3. **An clearly defined employer brand**
4. **Demonstrating ability to react to market changes through NPD**
5. **Optimised routes to market**
6. **Demonstrating the ability to scale**

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