HOW INTANGIBLE CAPITALS MAKE OR BREAK A BUSINESS

The Impact of the Four Intangible Capitals on Business Value

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LETTER FROM EPI PRESIDENT, SCOTT SNIDER

Recently I was asked which intangible capital I believe is the most important in a business. To me, it is kind of a loaded question. I don't quite know if there is a most important. What I can tell you is that likely 80% of your company's value lies within these four intangible capitals. I will give you my take on the four intangible capitals as managing them is essential to my role at EPI today.

People are everything. I don't care how good your product or processes are, if you don't have the right people – you're screwed. So for me, I may argue that the people component or "human capital" is one the most difficult to navigate and one of the most important. Yet these folks need to exist inside of a culture or "social capital".

This culture embraces the people, how they communicate, what they believe in, and how they operate internally and externally. It's the heartbeat of the organization and is what pulls people together and draws them to the organization as an employee or a customer. I also think it is the hardest to transition. For example, if you have a "Google-like" culture of slides in the lobby, sleeping stations, stand-up desks, whiteboard walls, and cafes – it wouldn't necessarily transition well into what I would consider the traditional bank culture of suits and ties, cubicles, formalities, and restrictions. Though your culture may fit your business, does it fit the business of the organization acquiring you?

Without customers, you have no business, for obvious reasons. As small to lower middle market companies, we face the dreaded customer concentration factor. But I think the biggest challenge here is moving our customers from engaged to entangled. What I mean by that is, we do what we do so well with our customers that they couldn't possibly think about doing business without us. We are indispensable to them. That is entanglement.

Finally, the most robust of all the capitals is structural capital. It encompasses all the things that make your company work efficiently. The process, documentation, training programs, technology, tools, equipment, and real estate. Bottom line is, I don't think there is a most important intangible capital than the processes that make your business.

The most important thing an advisor can do for an owner and their teams is to actively evaluate and manage these four intangible capitals daily, quarterly, and annually. As we strengthen these four intangible capitals, not only are we going to drive happier people, but more profits and higher valuation.

Scott Snider
President, Exit Planning Institute

HOW DO YOU DETERMINE YOUR BUSINESS VALUE?

HOW DO YOU DETERMINE YOUR BUSINESS VALUE?

Do you understand what makes your business valuable and how to unlock that value when you sell?

Small businesses employ over 61.2 million employees, accounting for roughly 46.8% of all employees in the United States of America. Additionally, small businesses make up 99.9% of all private establishments in the United States. However, 50% of small businesses fail after five years. What causes these businesses to fail? More importantly, how can understanding business value help turn them into significant companies? The success of small businesses not only benefits the owner, but the communities they support, the people they employ, and the consumers they serve.

The Importance of a Business Valuation

Conducting an annual business valuation will help determine what factors to focus on in the interest of accelerating the value of your business. A valuation highlights areas of risk, shows what improvements have been made to the business, and most importantly, helps ensure the business owner's goals are being met.

Even if a business owner is not planning on exiting their business anytime soon, a business valuation to identify key risks in their company is still a crucial step to take. Without first identifying your baseline business value, you have no understanding of what metrics need improving, the strength of your intangible capitals, or if your business is as valuable as you might think it is.

Hugh Blane, President and Founder of Claris Consulting, shares, "When leaders and owners are scaling or preparing the business for a sale, the human, customer, and cultural capital significantly impact exit value and require a quantifiable and measurable corresponding focus on and measurement of each to maximize exit value."

HOW DO YOU DETERMINE YOUR BUSINESS VALUE?

Attractiveness and Readiness Assessments

Business owners are extremely tied to their businesses and can be too close to the situation to see the negatives. For example, some only see the positives in their business. To a business owner, complications are simply a part of the business and not an area for improvement that their customers need. This is where Readiness and Attractiveness Scores come into play. According to Walking To Destiny by Exit Planning CEO, Christopher Snider, business owners must complete personal, financial, and business assessments to produce two scores: Business Attractiveness and Exit Readiness.

Business Attractiveness

Business Attractiveness asks the question, "How attractive is your business in the eyes of a buyer?" A buyer could be a family member, another employee, or a third-party buyer. The Attractiveness Index has 25 questions in four categories. Each category provides a score that is averaged to come up with the overall Attractiveness Score. A score of 50% or lower indicates that your company is "discounted" and serves as a red flag for owners. A business with a score between 58%-72% is of above-average attractiveness, and over 72% is considered a best-in-class business.

Business and Owner Readiness

Exit Readiness asks the question, "How ready are you and the business to transition?" This index has over 120 questions in 22 personal, business, and financial categories. Again, the results from each category are averaged to get the overall score for the index. Those businesses that score above 72% are considered best-in-class.

Attractiveness and Readiness are not the same things. Just because your business scored highly on the Attractiveness Index, does not mean you are personally ready to exit your business. Similarly, if you are personally ready to exit your business, it does not automatically mean your business is attractive to buyers. Chris Snider writes in Walking to Destiny, "Readiness is just as important as attractiveness. I could argue that it is even more important because it also includes personal and financial readiness."

By improving business value today, owners prepare their businesses for success when they ultimately decide to exit.

HOW DO YOU DETERMINE YOUR BUSINESS VALUE?

HUMAN CAPITAL

People are everything. Scott Snider says, “I don’t care how good your product or processes are, if you don’t have the right people – you’re screwed.”

What is Human Capital?

Human capital is the value of the talent that you have in your company. The more talented your team, the better they will perform, especially in a crisis. All things being equal, the stronger your human capital, the more value the market is going to place your company. The Human Capital in your business is one of the most difficult to navigate and one of the most important. Human Capital is the measure of talent on your team.

According to Walking to Destiny by EPI CEO, Christopher Snider, “62% of owners indicated that finding and retaining top talent is the biggest challenge they face.” When working on your employee development plans, follow a series of steps that encourage growth in your employees and your business.

Chloe Quigley, CEPA and Exit Planning Advisor at Barrington Wealth Management, shares, “Human Capital is key to developing a documented succession plan for your business. If a key person in the organization died or retired, what would happen the following month? Is there a written plan that would be implemented to protect loved ones, key employees, and the value of the company? Would the company become a burden or would the plan provide peace of mind and direction to family and key employees as to what’s next?”

The Impact of Weak Human Capital

Without taking care of the stars in your business, your organization will fail to reach its full potential. In addition to providing a path for professional growth, you should consider providing retention incentives to key employees. They provide the opportunity for your superstars to benefit from value creation. This incentivizes key performers to stay with the company and encourages growth.

Dan Paxton, Principal at ExitSmarts, Inc., states, “Human Capital is the most important of the Four Capitals, while at the same time it is usually the most overlooked. Potential purchasers are interested in all the financial metrics of a business, but the astute purchaser knows that these metrics can evaporate overnight if the Human Capital is weak.”

Laura Queen, Founder and CEO of 29Bison, shares some of the main reasons she has seen employees leave organizations. She explains, “One of the biggest indicators of poor employee retention is crappy managers. Learn from your people what matters most to them and use that as your managerial guide.”

HUMAN CAPITAL

How to Build a Strong Team

The team that makes up a business is critical for its success or failure. To effectively recruit top talent to an organization, the owner and hiring managers must have a structured hiring and onboarding process in place. Dr. Gary Russell, Founder of Winning Profile, shares that only one out of every five business owners hires correctly. Dr. Russell states that typically, hiring managers only look at a third of a potential candidate's traits during an interview and fail to account for mental stamina and emotional intelligence.

When building a team, an owner must take into account what they are looking for in an employee in broader terms than just talent. The most effective team member not only has the acumen to accomplish their tasks but the emotional intelligence and belief in the company's core values. Dr. Russell stresses the importance of forming teams comprised of employees with differences. He says, "The strength of the business is its team and the strength of the team is their differences and how they use those differences to create something powerful."

Hugh Blane shares, "In my work as a leadership and team performance coach, I suggest leaders put their fingers on the pulse of the employee experience. To do so, I use a three-dimensional approach called The Employee Experience Audit. It has four steps which are as follows:

1	As the company's CEO, write down four words that best describe the experience employees have working for your company from your perspective. This step is understanding your Default Employee Experience from a leadership perspective.
2	Next, identify ten employees and ask them to describe in four words or phrases their experience working for your company. I call this Default Employee Experience from an employee perspective. Review all the words you heard from employees and chunk them into themes and patterns. Compare the leadership words to the employee words and see if there are any gaps.
3	With this insight, write your Desired Employee Experience. Develop a list of four or five desired experiences you want every employee to experience. They can be aspirational as well as operational.
4	Next, write your Designed Employee Experience. Have the leadership team identify 3 to 5 behaviors they commit to exhibiting daily to foster the desired experience.

Hugh expresses, "The exercise might sound overly simplistic, but this simple act of asking and responding positively creates significant goodwill with employees and enhances your Human Capital."

HUMAN CAPITAL

The Benefits of Strong Human Capital

A component of strong Human Capital is for key employees to want to stay in place after the exit of an owner. Buyers are looking for incentives to be in place to increase the likelihood that key employees will stay at least through a critical transition period. There are many tools the business owner can use to “lock in” key employees.

Chloe Quigley stresses the importance of providing employees with a clear path to advancement within the company. She shares, “Each of our team members has a clear path for growth based on their personal goals and skill sets. We revisit their roles and job descriptions annually. Each team member has their own KPIs and a number that they report on. We find this helps hold people accountable and have ownership over the success of our firm. We also allow team members to take initiative. In this way, each person has control and the opportunity to grow within the organization.”

When every member of an organization feels like a valued and essential component of the overall company’s success, human capital is strengthened.

Joe Slatter, Founder and Principal at Better Practice, believes businesses should do everything they can to set their employees up for success. He continues, “Be willing to help them achieve what they really want even if it means going somewhere else. I know that sounds like a paradox. Be loyal to them and they will reciprocate. This reminds me of something I remember hearing many years ago: ‘If you love someone, set them free. If they come back, they are yours forever. If they don’t, they never were.’”

Strengthening Human Capital

Chloe Quigley says you cannot build the right team without a defined, written, and agreed-upon vision and core values. She shares, “Improving your Human Capital starts with a leadership team that is confident and comfortable with the company’s vision. Once this is established, employees can be evaluated and celebrated based on their achievements within this set framework. Employees are happy because they feel like, and they truly do, belong in the organization!”

Strengthening Human Capital does not have to be a complete overhaul of your team and your business. Even small business improvements can provide owners with exceptional growth in

Human Capital. By focusing on smaller tasks and initiatives instead of massive changes, the process of enhancing Human Capital is less overwhelming and daunting.

Laura Queen shares, “Start small, get curious, and focus on materiality. A great way to start is to look at one data set to begin with – often employee turnover is a good way to begin. What does history look like? Are there patterns in the data? If I break the data down by location, division, department, or manager/supervisor does it paint a different picture?”

To improve Human Capital in a business, business owners and their advisory teams must address several issues and operational processes.

1. Do you have an incentive program in place to motivate top-performing employees?
2. How well do you retain top talent in your organization?
3. Why do employees leave your organization?
4. Do you offer opportunities for employees to share their ideas for business growth?
5. How is this business going to operate after the departure of the existing ownership?
6. Are the right people in place to continue the business’s future growth?
7. What is the likelihood of both key management and rank-and-file employees staying with the company after the exit of existing ownership?
8. What is the status of employee turnover, morale, and productivity?

HOW DO YOU DETERMINE YOUR BUSINESS VALUE?

CUSTOMER CAPITAL

Without a strong customer base businesses would crumble. They could have one of the best products, the strongest teams, and incredible leadership, but without meeting customer needs, they have no value. Customers are everything to a business.

What is Customer Capital?

Customer capital is the measure of the strength of relationships with your customers. Deep, integrated, tenured relationships, recurring revenue, contractual relationships, and diversified customer bases all contribute to strong customer capital.

Business owners should conduct detailed demographic and psychographic research on their potential customers. How do they ensure that your message is being delivered to the right target market? Do they even know who that "right" target market is and what their pain points include? No business's service is for everyone, so their marketing techniques should not try to reach everyone either. Owners should create buyer persona guidelines to ensure all content created will be valuable to their target audience.

Even with a target customer in mind, businesses should not solely depend on any single customer.

How to Assess Customer Capital

One simple step towards improving the customer capital in a business is to have a baseline understanding of value. By auditing a business customer list based on their product types, industry, service, and demographic indicators, advisors and owners gain an understanding of key customer types and gaps in their customer base.

Chloe Quigley shares, "Growing your customer base is easier said than done. I recommend looking back to see where you've gotten your best clients in the past. Do they come mostly from referrals from current customers, meeting in social settings, and introductions from other professionals? What has been successful is likely a good place to start. By starting with what you know has worked, you can iterate off it to identify more ways to connect with new groups."

The Impact of Weak Customer Capital

It is important to view a business from the eyes of its customer. This allows owners to see where their business excels and their organization's areas for growth. What are three things a customer would say the business does well and what would they say the business should stop doing as an organization? By seeing a business through its customer's eyes, owners can address pain points and meet the customer's needs.

Andrew Martin, Regional Director of the Strategic Specialists Group in New Zealand, shares that it is important for business owners to, "understand your customer journey, develop repeatable processes along the way that match the needs of those customers, and get continuously better at providing to customer needs."

Business owners should research the best tools to use and share content. A lack of research will result in failure to reach their customers in the right way. It does not matter how amazing the message is if it does not reach the right people. Without understanding their target audience, owners will not be able to communicate with them in the correct way, meet their needs, or accept feedback effectively.

CUSTOMER CAPITAL

Highly personalized interactions foster the most engagement between customers and brands. Engaging with customers through social media is one of the best ways to create organic connections.

Laura Queen adds, “If you don’t regularly connect with your customers about their needs, desires, and experience with your organization, you’re missing huge opportunities. You will get great insights from these interactions. Use these insights to continuously improve your business. This may mean changing your measures of success or offering or sunsetting products or services. It is critical to determine what skills, behaviors, values, etc. are critical for your team to meet client and customer expectations.”

How Owner Dependence Negatively Impacts Customer Capital

Dan Paxton shares, “Two of the important parts of Customer Capital are a diverse customer base and key customers not being tied to the owner or to any one key employee. A diverse customer base means that no one customer or small group of customers constitutes a large percentage of overall revenue.”

Businesses that are extremely owner-dependent often have negatively impacted intangible capitals. If the majority of a business's customers work entirely with the owner, when that owner ultimately exits the business, the buyer runs the risk of losing a large portion of their total client base.

The Benefits of Strong Customer Capital

A diverse customer base helps to strengthen Customer Capital. Dan Paxton states, “Some Advisors state that no one customer should be more than 10% of revenue, while others state that the top five customers should not be more than 50% of revenue. While there is no bright line about these percentages, Customer Capital will be higher in the buyer’s eye when customer concentration does not exist.”

Dan continues, “Fixing a customer concentration problem is a long-term process that focuses upon growing smaller clients and adding new clients. An additional step that an Advisor can suggest is to explore the possibility of putting large client(s) on multi-year contracts which are beneficial to both parties, and which carry a penalty for early termination by the customer. This gives the purchaser time, after the sale, to get close to the large client(s) so that they stay with the business.”

A business with strong Customer Capital is indispensable to its customers. This organization treats its customers with personalized service and manages their professional relationships effectively. Strong Customer Capital is not only beneficial for the current owners but is also transferable to the potential future owners.

Creating an Entangled Customer Base

It is important to meet your customers where they are, especially early in the customer relationship. As a business owner, you want your customers to view their experiences with your brand as transformational instead of transactional.

Josh Wright, Managing Director of The Bedford Group powered by Ameriprise Financial, shares that his firm, “Works hard to establish as many points of contact as possible with our clients. We invite clients to join organizations with us, contribute to charities with us, socialize with us, etc. We also work hard to identify opportunities for our clients to network with one another, and then we create circumstances in which those networking connections can happen. Our goal is for our clients to feel deeply invested in our firm not just as a source of valuable advice but also as an integral part of their businesses and lives.”

CUSTOMER CAPITAL

By building a strong relationship with the customer instead of simply selling your services, you gain a deeper understanding of their business and personal goals. This allows you to make more informed decisions and suggestions for the customer.

Chloe Quigley explains how her firm, Barrington Wealth Management, creates a strong and entangled customer base. She says, “One way to improve your customer capital is to strengthen the relationships with your current customers and improve your level of service. This starts with understanding where you are currently. Maybe this looks like a feedback survey or a 30-minute call with some of your most valued customers to get feedback on their experience and how you can improve it in the future.”

Strengthening Customer Capital

Building Customer Capital is one way to improve the overall value of a business. Josh Wright shares, “Don’t just think of your customers as commodities or revenue-producing units. Think of them as valuable human beings who you can learn from and grow with.”

Business Owners and their teams need to shift their mindset from viewing customers as a number stored in their CRM to a relationship with an individual that needs to be developed over time. The stronger the customer relationships with a business are the more likely they are to remain a customer.

Hugh Blane expands on this thought, saying, “Make a shift to exchange one five-letter word, ‘money’, with another five-letter word, ‘value.’ This simple shift from looking at a customer in financial terms to creating and communicating superb value to a customer results in increased revenue, profit, customer loyalty, and greater business value. If you want to improve your customer capital, stop thinking of customers in monetary terms and create such high value that people see you as indispensable to their success and satisfaction. That's a game changer from a mindset and financial perspective.”

When determining how to improve the value of an owner’s Customer Capital, work through the following checklist.

- [ ] Incorporate client experience into your strategic plan
- [ ] Establish a steering committee focused on customer engagement
- [ ] Calibrate your client experience based on customer feedback and needs
- [ ] Encourage leaders on your team to take initiative in the customer journey
- [ ] Establish clear metrics to measure the success of your strategy
- [ ] How strong are your relationships with customers?
- [ ] Is your business integral to your customers’ success because the products/services you offer are unique?
- [ ] Are these relationships deep, long-term, and contractual?
- [ ] Are the relationships delivered in a consistent, reliable, and recurring fashion?
- [ ] Most of all, are these relationships transferable?

HOW DO YOU DETERMINE YOUR BUSINESS VALUE?

SOCIAL CAPITAL

Social capital represents a company's culture, brand, communication style, and purpose.

What is Social Capital?

Social Capital, or company culture, embraces the people. How they communicate, what they believe in, and how they operate internally and externally are key components of a company's culture. This is represented by the rhythm and culture of the company. It is also shown in how your company contributes to its community.

Laura Queen stresses the importance of strong company culture. "Culture drives job satisfaction, employee engagement, customer service, innovation and creativity, employee attraction and retention. It is your magic or secret sauce."

In a business, the strength of the social capital also begins with strong foundational elements; the organization's vision and purpose. Your purpose guides every aspect of your business. Christopher Snider writes in Walking to Destiny, "Purpose expresses personal values, inspires and unifies the team, focuses action, and disciplines you to think strategically."

The Social capital in your business incorporates this purpose, reflects your organization's vision, and is ever-present in the day-to-day operations of your business. Aaron Stine, CEPA and CEO of Maus, shares, "Knowing your 'Why' makes for strong social capital. That's why your company exists other than to make money. Once you understand that, it becomes straightforward to build a culture around this purpose. Employees in the organization know why their work matters and pull together towards this common purpose."

The Impact of Weak Social Capital

Dan Paxton exclaims, "Company culture, as a primary component of social capital, is closely related to human capital. The positive aspects of human capital are greatly diminished if the business does not have a positive culture. A negative culture yields in-fighting, politicking, gossip, inefficiency, lack of team play, unhealthy competition, and absenteeism."

Negative culture can always be traced back to the core values of the company. Accordingly, the Advisor must ascertain whether a set of core values are present and known by all employees. Once core values are identified, the company must hire, fire, reward, and discipline based on those core values.

Aaron Stine shares, "Poor culture or even toxic culture hurts the business in a myriad of ways. But perhaps the single most important is that companies with poor culture look inward. Employees focus on what's happening within the company rather than what's happening outside the company. If you're not servicing customers and partners, or addressing the competition, you're eventually going to fail."

It is difficult to develop a positive culture when employees do not see themselves as essential components of the business.

> When employees do not feel valued in the organization, they will be less likely to want to build value in the organization.

SOCIAL CAPITAL

The Benefits of Strong Social Capital

One of the main components of strong social capital in your business is having clearly defined and lived Core Values. These Core Values impact the way a team works together, determine the culture of the organization, and embody the purpose and vision of the company.

Your social capital represents your company culture and brand image. Culture is the "magic" of a business and what can set you apart from others. It is what makes your employees want to be there and what makes people want to partner with you. Customers place a high value on the experience of doing business with you, not just your products and services. The way you do business is a reflection of your culture. If your team is connected to your vision, they will be more passionate, more creative, and more committed.

The Importance of Core Values

Social capital represents your operations, your brand, the way your team works, and daily communications among employees and customers. EPI President, Scott Snider, shared, "For me, I thought we had great social capital, and then the pandemic hit and it was challenged. We had to change. For us, it was actually a pivotal positive change. EPI rewrote our purpose and core values, redefined work/life balance for our people, and began an unlimited vacation policy in 2021. We also focused on professional development programs and improved the way we communicate as a team."

Hugh Blane emphasizes the importance of the entire team understanding the company's core values. He asks his owner clients, "What are your non-negotiable values? If you go one or two levels down inside your company, can those employees article your values? If there is a gap between senior leaders' understanding and expression of values and the front-line employees, there is lost performance."

Social Capital's Impact on Company Branding

Josh Wright says, "Branding is very crucial, but the impression we make on our clients and our reputation in the communities we serve are much more crucial elements of our brand than our logos or slogans."

An owner's business is only as valuable as their ability to share their brand story and purpose with the correct audience. There is more to a brand than company colors and imagery. Branding is an organization's outward projection of its core values, passions, vision, and mission. By creating and sharing a strong brand presence, the company becomes synonymous with its branding and ultimately the culture they have fostered.

Aaron Stine expands on the importance of culture in a company's brand. He says, "Great brands start from within. When an organization lives its 'Why', the brand becomes the medium by which it communicates its mission and values. In its ideal form, branding is the outward reflection of the organization's inner self."

Strengthening Social Capital

When determining how to improve the value of an owner's Social Capital, work through the following checklist.

- [ ] Does your company have expressed and written Core Values that are lived out daily by every member of the organization?
- [ ] Do you foster a community feeling amongst the employees through collaboration and creativity?
- [ ] Does every aspect of your work have your unique "stamp" on it that your customers could easily identify as your business?
- [ ] Do you encourage communication between all levels of employees and is employee feedback considered and accepted?
- [ ] Does your organization have strong social capital that builds transferrable value for potential buyers?

STRUCTURAL CAPITAL

The documented processes, technology, intellectual property, and infrastructure make up the structural capital in a business. Without strong structural capital a business, even if successful, will not sell for the multiple desired by the owner.

What is Structural Capital?

Structural capital is the back-end infrastructure of the company such as your processes, your financials, your strategies, your information technology, your patents, and other intellectual property (IP). It is the documented know-how and know-what of the company that positions you to be fast and flexible.

The most robust of all intangible capitals is Structural Capital. It encompasses everything that makes your company work efficiently. The process, documentation, training programs, technology, tools, equipment, and real estate. Exit Planning Institute President, Scott Snider says, “Bottom line, I don’t think there is a more important intangible capital than the processes that make your business.”

Structural capital captures the knowledge assets within your company, converting that mental process into company property and, therefore making it transferable.

The Impact of Weak Structural Capital

The lack of documented processes and Standard Operating Procedures (SOPs) will negatively impact business value and the likelihood of the business selling when put on the market. Think of the ensuing chaos if your workers were not given detailed job descriptions, provided the correct materials, or defined job duties.

Dan Paxton says the owner’s professional advisor often exposes the weaknesses in an owner’s structural capital. He shares, “One of the traits required of the Advisor throughout this process is to expose lots of prior inefficiencies including those folks who cannot thrive in an atmosphere of accountability.”

How Owner Dependence Negatively Impacts Structural Capital

When an owner has control and responsibility for many of the business production activities, not only do they create risk in the business, but they likely stunt the growth of the business. By not trusting key team members with processes in the business, owners create a bottleneck in the flow of information, which can slow the day-to-day operations of their organization.

Chloe Quigley shares, “If the owner has sole responsibility over many tasks, they have a big impact on their business. While they are there, working, focused, and healthy, they can execute the tasks with complete control. However, as soon as one of those factors changes, they put their business at risk. Does anyone know how to fulfill the tasks? Are the processes documented? Are there clear goals and outcomes?”

Joe Slatter echoes this sentiment. He shares, “If the owner is required to make decisions, you’re back to dependence. Driving decision-making as close to the point of performance as possible is rocket fuel not just for transferability but for a high-performance organization that retains its best talent.”

STRUCTURAL CAPITAL

The Impact of Structural Capital During Onboarding

The people in your business, although mainly associated with your organization's Human Capital, represent a part of your structural capital as well. If only one person understands a specific process, the remaining members must look to them for support.

Imagine what impact it would have on the business if one member of the team were to leave. Would the remaining team members be able to complete that employee's tasks? How easy would it be to train that employee's replacement? Without properly documented standard operating procedures, the business not only struggles in the interim once an employee leaves but also during the onboarding process when a new employee takes their place.

Aaron Stine shares that at Maus, they make sure all onboarding procedures allow for a smooth transition for their new employees. He says, "We combine documentation of the role, training videos, and a templated onboarding process. Having redundant team members who conduct peer training can also be a benefit where possible."

The Benefits of Strong Structural Capital

When a business has strong structural capital, the success of the company does not depend on any individual person's ability to perform a specific task. Christopher Snider writes in Walking to Destiny, "Your knowledge needs to be documented and transferable, such that someone else can learn from you and apply it. Making this knowledge company property ensures that when your talent walks out the door at night, the knowledge doesn't walk out the door with them."

Properly documented processes and protocols are key to creating strong Structural Capital. Joe Slatter shares that in his business, Better Practice, "Everything has 'one source of truth' so there is no confusion or ambiguity about what the current process, procedure, policy, etc. is."

Having the proper tools, equipment, technical resources, and intellectual property in a business is paramount to its success. Without strong structural capital, your business will be unable to function in a repeatable and scalable way. The stronger your organization's structural capital, the more valuable your business is. Dan Paxton shares, "From the buyer's perspective, this type of operating system is extremely valuable because it signals a disciplined company culture that is accustomed to setting and achieving goals."

When the main processes, resources, and infrastructure are well documented and organized, the business value increases as a result. The physical components of your structural capital such as your real estate, equipment, and technology, are some of the most important factors for potential buyers looking to purchase your business.

STRUCTURAL CAPITAL

Strengthening Structural Capital

Dan Paxton states, "Business operational focus, discipline, and accountability come from having an operating system, not an IT solution." When working on strengthening an owner's structural capital, always begin with written plans that address the owner's objectives. The owner will then set benchmarks to meet those objectives. These include long-term, intermediate-term, next-year, 90-day sprints, and finally, weekly benchmarks.

The creation of an Organizational Chart complete with responsibilities clearly defined allows all employees to be held accountable for their roles. This should include a process and an atmosphere for addressing challenges, problems, concerns, and opportunities so all employees are not only empowered to state what is on their minds but have the responsibility to do so without fear or reprisal for speaking up.

Chloe Quigley recommends that owners and their leadership teams write down their most repeated processes as a starting point to improve their structural capital. She says, "Documenting these processes doesn't need to be an all-consuming task. You can do it in pieces, and you can divvy up the work. It is important the processes are clear and concise. They also need to be updated. In doing this, you may also discover some inefficiencies in how your team is running its processes. Maybe there is an overlap in who is doing what. Or some parts can be delegated elsewhere. By documenting your key processes, those that run them are taking ownership over their methodology and there is an opportunity to give feedback."

When determining how to improve the value of an owner's Structural Capital, work through the following checklist.

- ☐ Are your key company processes documented and transferable?
- ☐ Do you have standard operating procedures?
- ☐ Is your equipment current and functional?
- ☐ Are your facilities structurally sound and up to code?
- ☐ Is the technology utilized by your team secure and updated?

HOW TO IMPROVE THE INTANGIBLE CAPITALS IN YOUR BUSINESS

The following chart can be used to determine the strength of the four intangible capitals in your business or your client's businesses. Upon completing the checklist, you will have actionable next steps toward improving intangible capitals and ultimately building transferable business value.

HOW TO IMPROVE THE INTANGIBLE CAPITALS IN YOUR BUSINESS

Improving Human Capital

☐	Do you have an incentive program in place to motivate top-performing employees?	☐	How is this business going to operate after the departure of the existing ownership?
☐	How well do you retain top talent in your organization?	☐	Are the right people in place to continue the business's future growth?
☐	Why do employees leave your organization?	☐	What is the likelihood of both key management and rank-and-file employees staying with the company after the exit of existing ownership?
☐	Do you offer opportunities for employees to share their ideas for business growth?		

Improving Customer Capital

☐	Have you incorporated client experience into your strategic plan?	☐	How strong are your relationships with customers?
☐	Do you have an established steering committee focused on customer engagement?	☐	Is your business integral to your customers' success because the products or services you offer are unique?
☐	Is your client experience calibrated on customer feedback and needs?	☐	Are these relationships deep, long-term, and contractual?
☐	Do you encourage leaders on your team to take initiative in the customer journey?	☐	Are the relationships delivered in a consistent, reliable, and recurring fashion?
☐	Have you established clear metrics to measure the success of your strategy?	☐	Most of all, are these relationships transferable?

Improving Social Capital

☐	Does your company have expressed and written Core Values that are lived out daily by every member of the organization?	☐	Do you encourage communication between all levels of employees and is employee feedback considered and accepted?
☐	Do you foster a community feeling amongst the employees through collaboration and creativity?	☐	Does your organization have strong social capital that builds transferrable value for potential buyers?
☐	Does every aspect of your work have your unique "stamp" on it that your customers could easily identify as your business?		

Improving Structural Capital

☐	Are your key company processes documented and transferable?	☐	Is your equipment current and functional?
☐	Should a key employee or owner exit the company, will the remaining team members be able to complete their job functions successfully?	☐	Are your facilities structurally sound and up to code?
☐	Do you have standard operating procedures?	☐	Is the technology utilized by your team secure and updated?

THE VALUE ACCELERATION METHODOLOGY:

Meet the Creator

In 2016, Chris Snider, CEO of EPI, wrote the first book on the Value Acceleration Methodology called *Walking to Destiny: 11 Actions an Owner Must Take to Rapidly Grow Value & Unlock Wealth*. This book helped bridge the gap between owners and advisors. Walking to Destiny empowers business owners and provides them with the correct tools, knowledge, and path to effectively position their business and themselves for not only exit options down the road, but more importantly, rapid business growth today. Chris's book expands on the core concepts that are introduced in this whitepaper and highlights businesses that embody the methodology.

Change your outcome and read Chris's book at **WalkingToDestiny.com**

Meet the Community:

The advisors who incorporate the Value Acceleration Methodology into their practice are called Certified Exit Planning Advisors (CEPAs). EPI is powered by our elite and diverse community of top advisors focused on creating a valuable, transferable future for the business marketplace. CEPAs are able to have deeper and more holistic conversations with business owners as members of their advisory team and are often called the most trusted advisor. This whitepaper includes insights from just a few of the over 3,000 CEPAs in the exit planning community.

Meet the Trusted Advisors and explore the Exit Planning community at **BuildSignificantCompanies.com**

Understand the Owners:

Exit Planning Institute has spent over ten years researching business owner exit readiness and analyzing the mind of an owner. **Through this research, EPI has found that owners profoundly regret selling their business if they do not prepare for the personal side of the transition.** An owner with a profitable business might seem ready to transition their business. However, simply because a business is successful, does not necessarily make it significant to its customers, employees, or potential buyers. Highlighted in this whitepaper are some of the key findings from the 2021 New York City State of Owner Readiness Report that continue to support significance over success.

See how ready your business is for a transition and access all State of Owner Readiness Research at **OwnerReadiness.com**

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Colleen is responsible for creating engaging and unique content for Exit Planning Institute. She generates organic communication between EPI and the Exit Planning community and conducts targeted market research.

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