

Growing with Purpose: How to Improve Your Software Company's Valuation

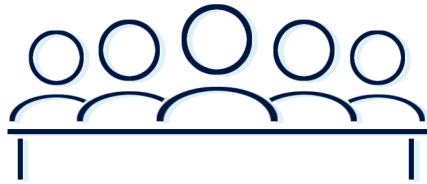


Entrepreneurs strive to build companies that are innovative, profitable and appealing for acquisition.

An assertive growth strategy should always maintain this perspective, with the ultimate goal of increasing the valuation of your company.

In this report, we outline the best practices that can most effectively help drive growth at your company and improve its valuation.





1 LOAD YOUR BOARD WITH TOP TALENT

Building an effective board of directors generates a serious multiplier effect for your organization. An effective board is typically built around powerful, action-oriented champions who understand that it is a privilege to serve and that it takes an enduring commitment to materialize a vision. Leverage their know-how and know-who to:

FIND CLIENTS.

An aggressive board member uses their honed business sense to help identify and secure additional market opportunities.

ENABLE PARTNERS AND TALENT.

An effective board member helps you select and approach the best partners and management talent, using their leverage to connect with the best and brightest and drive the firm's growth.

CULTIVATE THE LEADERSHIP TEAM.

The ultimate testimony of an effective board member is a willingness to cultivate and nurture the talent of the chief executive, founder and the leadership team.

Finding board members of this caliber takes time and effort. You must work hard, overcome difficult terrain and constantly prove that you merit their hard-earned wisdom.

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2 IMPROVE CASH FLOW AND EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)

Potential acquirers always want to examine your books, so make sure your statements show a positive growth trajectory with a decent cash flow.

While you aggressively target new markets, and new customers, conduct an honest SWOT (Strengths, Weaknesses, Opportunities and Threats) assessment to determine where your software company can leverage its position to lower costs. You may have a unique situation that warrants a lower price from suppliers, or your supply-chain may be incurring redundant expenses that could be replaced with a lower cost vendor. Analyze your internal structure and look for areas where operations can be centralized or more productive, and consider introducing new, long-term cost saving technologies for inventory, production and sales.



3 DEVELOP A GROWTH STORY

A "growth story" is a common vision that guides your software company's trajectory. It is the visionary narrative that serves to drive employees, customers, partners and potential buyers. Develop an effective growth story by:

BUILDING A COMMON LANGUAGE.

A common language creates alignment, credibility and consistency, and is a key enabler of innovation-driven growth. Every organization has its terminology to describe its growth path, its successes, milestones and the way forward.

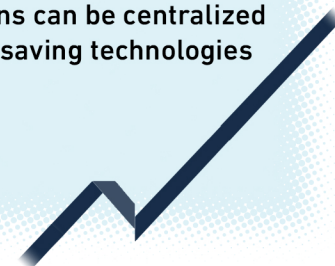
CONDUCTING A DETAILED ASSESSMENT.

Appoint a team to identify the greatest areas of potential for accelerated progress. The team should develop a first-cut blueprint and roadmap to guide the way.

IDENTIFYING PROJECTS THAT DEMONSTRATE THE VISION.

Survey your organization for expansive ideas. They can help you discover which of your capabilities are accelerating growth and which ones might be holding you back.

Analyze your internal structure and look for areas where operations can be centralized or more productive. and consider introducing new, long-term cost saving technologies for inventory, production and sales.





4 INVEST IN A QUALITY MANAGEMENT TEAM OF "A" PLAYERS

In today's rapidly changing marketplace, management talent is your competitive advantage. The importance of investing top-level talent cannot be overstated. Build an A-level management team that gives your organization a unique combination of:

BIG PICTURE THINKING.

Professionals with an informed understanding of the business, the industry, the competitive landscape and the economy.

MENTORING AND COACHING.

Experienced managers who can successfully groom teams to deliver an overall win for the entire company.

DISTANCE RUNNERS.

The road is long. Your senior people must possess heightened stamina to overcome the obstacles that stand in the way of your growth strategy.

PASSION AND DEDICATION.

Professionals with a proven record of embracing challenges and investing themselves in achieving the highest possible outcome.

FEARLESSNESS.

Your growth strategy takes your people into uncharted territory, and you management team should set the tone for ensuring everyone steps forward with confidence.

PERSONAL TOUCH.

Your growth strategy should help increase your valuation, but your acquisition deal ultimately hinges on human relationships. Your management team must have the personal touch to make potential buyers feel confident and comfortable about their decisions.



5 DIVERSIFY YOUR CUSTOMER BASE

Companies that rely heavily on a single customer or industry are at increased risk of having their businesses decline. Take action to diversify your client-base by:

DIVERSIFYING YOUR TALENT.

Diversify your talent pool by hiring people who understand the needs, wants and values of sectors you are targeting.

FOCUSING ON THE POWER OF PR.

Media coverage is free advertising making impressions on potential customers, and news outlets are always searching for content. Develop a targeted media outreach strategy and make your success stories relevant to current news topics.

USING SOCIAL MEDIA.

If you are not using social media already, then you are missing an opportunity to connect with a wider audience. Use social media tools to share your success stories with potential new clients.



6 DEVELOP RECURRING REVENUE STREAMS

A software company's valuation rises when the revenue streams are stable, predictable and likely to continue into the future. Safeguard your revenues by seeking opportunities for:

LONG-TERM SALES CONTRACTS.

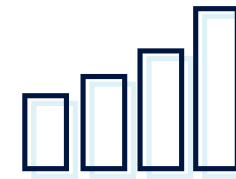
Offer customers incentives to sign multi-purchase or multi-year contracts. Consider the wireless communications industry - carriers offer customers a device at a reasonable price in return for long-term contracts.

SUBSCRIPTION-BASED OFFERS.

Seek opportunities where customers pay a monthly fee, such as a membership arrangement, for ongoing access to your resources such as customer support, online guides or instructional webinars.

PRODUCT TRAINING FEES.

If your customers could get more value out of your products through training, then you should offer a fee-based training program.



7 REFINE YOUR "PITCH"

Winning companies have compelling stories that make an emotional connection with their audiences. Refine your company's pitch by:

- Developing a story that is emotional and noteworthy. Consider what problems your customers face and how you will work to solve them.
- Declaring a grand purpose. Customers relate to companies that exist for reasons other than making money.
- Drilling down to what matters. Show how you make people's lives better.

- Giving your brand a human voice. Determine your core values and use them to humanize your business. Think about the type of person you want to project and make it happen.

- Demonstrating your unique value proposition and how you differentiate from your competitors. Carefully delineate what sets you apart and how your philosophy and products are superior, but act with class by avoiding tasteless criticism of your competition.

8 INCREASE INTEREST IN YOUR SOFTWARE COMPANY

Your valuation can rise as interest in your company and product rises.

Real, legitimate interest is the starting point and driving factor behind a successful acquisition, so focus on creating that positive momentum to increase your credibility within the industry.

The communications tactics in this best practices report - developing a solid growth story, refining pitch and building a social media presence - along with the business benefits that come from talented management, recurring revenues and product excellence - these best practices can increase interest in your company and ensure the right people invest in your future.

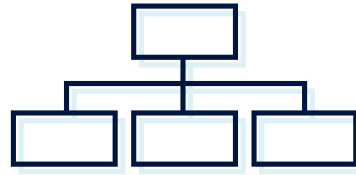


9 DO YOUR DUE DILIGENCE PREEMPTIVELY

Potential buyers conduct their due diligence on the financial, legal and operational aspects of a company, and unexpected surprises always impact the final agreement.

Do your own due diligence before an acquirer does and address any gaping holes early.

Reach out to your support systems - accountants, lawyers and suppliers - and ask them to help identify your company's vulnerabilities. Approach it as the business equivalent to a home inspection. These strategic insights can help determine your valuation.



10 SIMPLIFY YOUR OWNERSHIP STRUCTURE

Complicated ownership structures increase costs and place an extra set of hurdles in the way of an otherwise smooth acquisition.

Simplifying that structure reduces costs for administration, statutory audits and regulatory compliance.

While the direct benefits from savings may be substantial, the indirect benefits of becoming a more flexible and accountable organization make your software company even more attractive.



11 KNOW YOUR COMPETITION

To show that your software product is the best in class, you must understand your industry's trends, activities and solutions.

- Who are your competitors?
- What makes their product less effective?
- Why do customers choose their product over yours?



12 BE PREPARED

Selling your firm is the biggest financial agreement you can undertake, and that end-game should always be part of your strategic vision - innovating and growing with the objective of reaching the proper valuation that reflects the dedication and skill that grew your company.

Continue growing with purpose. Be prepared for that end goal.



