KASPER & ASSOCIATES

6410 SOUTHWEST BLVD., SUITE 224
FORT WORTH, TEXAS 76109-3998

817/738-4220
FAX: 817/738-8932

Unique vs. Cheap

Owners of privately held manufacturing, service or distribution companies want and need to know what their company is worth. Often, they seek these informal valuations from trusted financial advisors who in turn review the company's recent financial reports and render their best opinion. Typically the result of this exercise finds the owner asking, "What can I do to make my company worth even more?" Predictably the response is, "Do more of the things that increase your bottom line profits." By that they mean increase sales, decrease costs, find more efficient ways to compete, etc.

Without question, increasing profitability is always a worthy objective; but it is only a part of the overall answer to adding solid equity value to an enterprise. Professionals in the mergers and acquisition arena wrestle with the nuances of this issue on a daily basis. Often, overall profitability takes its natural place among many other significant value drivers. One such driver seldom considered in the informal "book" business valuation process has to do with whether or not a company's products, services or company structure sets them apart or merely establishes them as one of several commodity offerings. In other words, as Tom Pryor, Director of the Small Business Development Center says, **"If your product isn't unique, it had better be cheap".**

By far, uniqueness adds much more value to a company's worth than being a low-cost provider ever will. Here is an example. Recently my firm facilitated the sale of a ceramic products company. The business made excellent coffee mugs, but as such they were not "unique". The special advantage the company had achieved in the marketplace was that they had worked for and been granted a difficult-to-obtain license from a national association. The license positioned them to sell products with exclusive designs, themes and artwork. This "unique" position resulted in the eventual acquirer paying more than double the price for the business over what the financial numbers would suggest.

Most everyone knows what it means to be a "cheap" supplier. But what contributes to being "unique"? The following is a short list of factors my firm considers valuable in determining the extent to which buyers will pay beyond what a company's profitability will warrant by itself:

- Proprietary products and brands (rather than manufacturing to customer specs)
- Exclusive franchise and/or territory
- Outstanding key management in place
- Strong R&D capabilities
- Difficulty of entry by new competitors
- Superb customer service
- Reputation for product reliability
- Desirable customer list (i.e. no reliance on one or two customers)
- Manufacturing "trade secrets"

Continually taking action steps to be "unique" at your company will pay off handsomely when you've made the decision to sell.

Ed Kasper.

Ed Kasper, Founding Partner