

Increasing the Value of Your Business: Creating a Turnkey Operation

It's a scenario we've all seen played out dozens of times: a business owner sells his business and dreams of lazy days of golf, gardening or boating. Then, 6 months after the sale (or 9 or 12 – pick a date!), the previous owner must reluctantly step back into the business to salvage the business and his investment in the seller-financed note. There are many things that could have been done to prevent this type of scenario, as common as it is. However, the most vital catalyst toward preventing this would have been if the business were turnkey to begin with.

What is a Turnkey Business?

When a business is up for sale, add to the list of questions to the owner these important ones: How often do you take vacations? When was the last vacation you took?

If the answer to those questions is that the owner has not taken a vacation in four years, the business is probably not turnkey. Any business that requires the owner to be there for all operations and procedures is too dependent upon that owner. When that owner is no longer there, customer service, supply chain, billing, collections, and all other elements vital to an operation will suffer, bringing the business down with it.

Webster's defines "turnkey" as "supplied, installed, or purchased in a condition ready for immediate use, occupation, or operation". A turnkey operation is one where a new owner or employee can walk into the business and immediately pick up where the former owner or employee left off. Operations are organized and logical, systems are in place to operate as efficiently as possible, and manuals are left to document all procedures and requirements. The result of having a turnkey business will be the successful sale and transition of a business, while allowing maximum selling price of the business to the seller.

How do you create a Turnkey Business?

As a business broker, you want to know whether or not your client's business is turnkey. (How do you know? Ask the questions above!). If it is not, then you want to assist your client in making it as turnkey as possible prior to listing it for sale. The client may object to the administrative type of work required to make an operation turnkey, but when you explain the positive benefit of a higher valuation, and the negative side effects of having to take a business back within a year, he should come around and go through the necessary steps.

Procedures Manuals

The most vital step is having current Procedures Manuals. Every single position at the company (whether filled or not!) should have its own manual. For example, if the person that does Accounts Payable also does Payroll, these should still be two separate manuals as the tasks are different. The number of manuals required will depend upon the size of the company and the industry. The manuals should have step-by-step instructions of how to do each aspect of the job. Also note that these steps should be to document how the job should be done, not necessarily how the job is currently run! The purpose of the manual is so that at anytime, another person could step into the position and perform the tasks of the position.

Organized Work Areas

All paperwork should be filed appropriately (either hard copy, electronically, or both) and clearly labeled. If someone else were to come into the business and need to find out the top customers of the last 6 months, for example, the information should be easy to find and clearly marked.

Flexible Work Staff

Have the employees rotated among duties in the past? If so, this is a great indicator of a turnkey operation that will enhance the value of the business. If employees are willing and able to pick up tasks performed at other positions, then not only are you providing your employees with a workplace that challenges them and allows to grow professionally, you are also creating a turnkey operation that increases the value of the business and enables a new owner to have a smooth transition.

In the end, your client needs to understand the importance of having a turnkey operation. It benefits the seller financially, it benefits the customers and suppliers operationally, and it benefits the employees transitionally. If your client does not want to create a turnkey operation, then it's possible that he is still so emotionally tied to the business that he doesn't want to sell after all.

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