

# The Owner's Metric

The One Number You Need to be Truly Free



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# Why did you start your company?

With the business skills you've demonstrated to get your company off the ground, you could have landed a great job. You could have worked your way up the ladder and earned a spot in a corner office with a car, benefits, and a pension. But you didn't. Why?

When we peel back the layers to understand what drives successful entrepreneurs, we see a common theme: They value personal freedom over conforming to someone else's rules.

Freedom means different things to different people, but usually it comes down to the freedom over how you spend your time, what you do, and who you do it with. Whether this drive for independence comes from childhood experiences or natural order goes beyond the scope of this eBook. Our focus here is to concentrate on how you can attain the feeling of true freedom.



## Timo Armoo

### Founder of the Influencer Marketing Agency Fanbytes

After reading the book *Built to Sell*, Timo wrote down the net worth he wanted to achieve before turning 30. He used that number to guide his decisions, turning down venture capital that would have diluted his equity. When Fanbytes hit eight figures in revenue, Timo sold the company for just over 3x revenue, surpassing his personal walk-away number at age 27. Instead of chasing a higher valuation, he stuck to his plan and walked away on his terms.

You can hear his full story [here](#).

The insights in the following pages are drawn from the Value Builder Analytics proprietary database of over 80,000 business owners who have completed the Value Builder questionnaire. Their answers are compiled into the Value Builder Score Report, which reveals how business owners think about wealth, how outside factors can reshape their definition of freedom, and what truly drives company value.

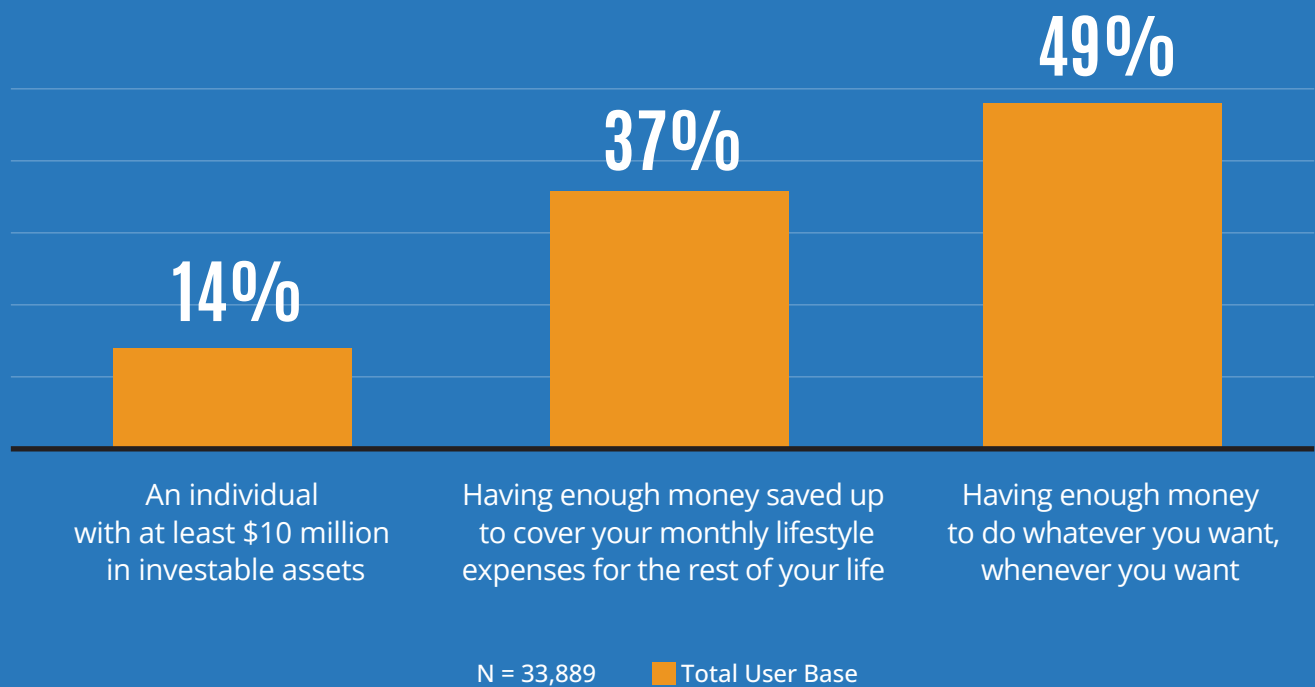
# How to Buy Freedom

While you can't buy happiness, you can buy personal freedom. It comes from having enough wealth set aside that your work becomes a choice, not an obligation.

When we asked business owners who completed the Value Builder questionnaire how they defined wealth, these owners overwhelmingly described the feeling as being one of freedom.

## Most owners define wealth as having enough money to do whatever they want, whenever they want

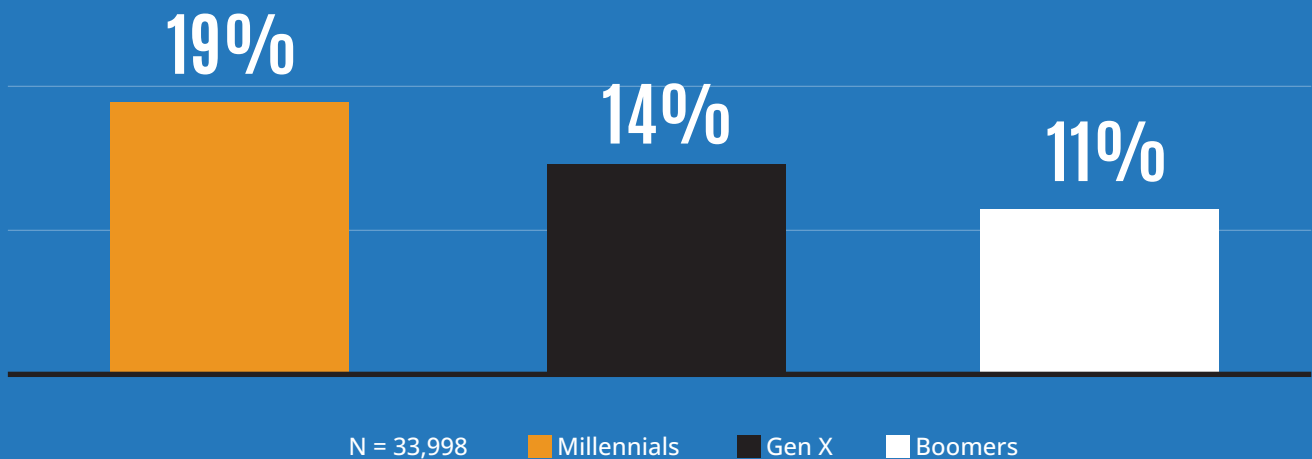
Which of the following best describes your definition of someone who is wealthy?



But that doesn't mean your definition of freedom remains static. It's impacted by any number of controllable and outside influences. Take age for example. While all owners tend to gravitate toward freedom as the ultimate goal—doing what they want when they want—younger owners are more likely to assign a specific financial target to that freedom. In fact, millennials are nearly **twice as likely** as baby boomers to define wealth as having **\$10 million in investable assets**.

## Millennials are more materialistic

Define wealth as an individual with at least \$10 million in investable assets



Age is just one example of how your motivations change over time. Working with a trusted advisor, you can most effectively pinpoint where you stand today and build a plan to address your current needs and anticipate changes in the future.

The data indicates that most owners aren't chasing an arbitrary net worth so someone else can declare them wealthy. They're after what that number represents: the ability to work only if they want to.

So how do you create that kind of freedom?

You could save diligently for decades, but most founders want (and need) freedom sooner.

The fastest path? Focus on increasing the value of your largest asset: **your company**.

# What Drives the Value of Your Company?

# When you think of the value of your business, what do you consider?

If you included the size of your company as a key determinant of its value, you would not be alone. In fact, our society is obsessed with size and growth. We award the fastest-growing companies and celebrate the businesses that employ the most people. We assume that revenue growth is the main goal of any business and offer all sorts of solutions to companies looking to “grow their top line.”

However, top-line revenue growth on its own is not enough to boost the value of your business very much. What’s more, it may be one of the least effective ways to get the freedom you crave.

Rather than enabling freedom, growth usually comes at the expense of your freedom. All that growth needs to be funded.

Most owners get the money they need to grow through a bank loan or an investment from an outsider. Either way, you now have people watching over you, which serves to undermine your sense of freedom.

Even if you’re able to self-fund your growth, it may not actually do much for the value of your business.

Let’s take a hypothetical business owner named Tim. His company has \$5 million in sales, employs 30 people, and generates \$800,000 in profit. Despite what he has achieved, Tim still feels somewhat inadequate. Nobody is impressed with his headcount, and the media seem to lavish attention on much larger, faster-growing businesses. Tim succumbs to the pressure of the prevailing narrative and decides he wants his business to grow.

Looking for the fastest way to grow revenue, Tim asks his existing customers to buy an adjacent product. The offering makes for an easy, if undifferentiated, add-on. Tim's biggest customers are the ones that see the most value in his new product, which means his largest customers now represent an even bigger proportion of his sales. Still, Tim quickly boosts his revenue by \$500,000 by adding the new offering.

While Tim is a hypothetical case, at The Value Builder System™ we've seen thousands of real-life Tims. In fact, after analyzing more than 80,000 business owners who completed the Value Builder questionnaire, we found the average business achieved a score of 59 out of 100 and is trading at 3.5 times pre-tax profit. At that rate, Tim's business would have been worth around \$2.8 million (3.5 x \$800,000) before he decided to focus on growing his sales.

By increasing his sales to \$5,500,000, assuming he could maintain his 16% profit margin, Tim would have grown his profit to around \$900,000, and if we apply a 3.5 multiple to that number, Tim gets a valuation increase to \$3.2 million—a modest bump.

However, if Tim had focused on the value of his business—the ultimate Owner's Metric—he would have realized that simply cross selling a new product to his existing customers would do little to increase the value of his business.

In fact, his value will be driven by the eight factors we measure through the Value Builder Score. They are called the **8 Key Drivers of Company Value** and represent levers that Tim can adjust to dial up the value of his business.



# The 8 Key Drivers of Company Value

# Here are the 8 Key Drivers of Company Value and a brief summary of what each represents



The history of producing revenue and profit combined with the professionalism of a company's record keeping.



The proportion and quality of automatic, annuity-based revenue a business collects each month.



The likelihood to grow a business in the future and at what rate.



How well differentiated a business is from competitors in its industry.



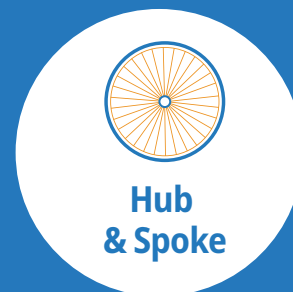
How dependent a business is on any one employee, customer or supplier.



The likelihood that customers will re-purchase and also refer a company.



Whether a business is a cash suck or a cash spigot.



How a business would perform if the owner is unexpectedly unable to work for a period of three months.

While financial performance (metrics like sales/revenue and profit) is certainly one driver Tim can focus on, by focusing on two or more of the other seven, Tim could have increased the value of his business much faster than choosing to focus exclusively on growth.

## Another Option for Tim

We know that owners that achieve a Value Builder Score of 90 or more are attracting offers of 7.1x pre-tax profit on average. These businesses typically sell differentiated offerings to a diversified group of customers that have a recurring need.

Had Tim also invested his energy in further differentiating his existing offerings (Monopoly Control), he may have boosted his score to a 90 and achieved a much larger impact on his company's value:

Tim's improvement focusing on increasing revenue:

$$\mathbf{\$900,000 \times 3.5 = \$3,150,000}$$

Tim's improvement focusing on his multiple:

$$\mathbf{\$800,000 \times 7.1 = \$5,680,000}$$

# Manager Metrics

**VS.**

# the Owner's Metric

Managers manage the things they get incentivized to improve. They oversee sales, gross margin, inventory turns, throughput, expenses, profit, and so on. Often a manager's compensation is tied to the improvement of one or more of these manager metrics.

A sales manager may be incentivized by new sales growth, a plant manager by productivity, and a president by EBITDA. These are the things that managers focus on because they are the ingredients of a successful business. The most successful owners obsess over the meal those ingredients make: a more valuable business. They see everything through the lens of what will increase or decrease the value of their business.

As we saw from the hypothetical case of Tim's business, metrics like revenue are important ingredients in the value of a business, but they are not the meal.



***Owners understand that while one metric may have a short-term impact on their profitability, their ultimate payday will come from the increase in the value of their business.***

# In Conclusion

You are an owner, not a manager.

If you own a successful business, chances are you could get a “regular” job. Some might even argue that a job would be safer and may even come with better benefits. But safety is unlikely to be your highest calling. Instead, you are likely motivated to achieve and maintain personal freedom.

While you can't buy happiness, you can buy personal freedom, and it comes from building enough wealth that work becomes a choice. While a job may enable a degree of personal freedom after many decades of toil, the fastest way to achieve the sense of pure freedom you want is to focus on building the value of your business.