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WHY YOUR COMPANY VALUE EQUALS YOUR PEOPLE VALUE

By Mark Bregman

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Why are the people of West Point, GA, looking forward to KIA's new plant, where wages will be \$14/hour, when the average UAW employee in Detroit makes double that? What is a dollar of EBITDA worth in value to your company? Let's see how these questions tie together.

Taking the second question first: historically, small private businesses can expect a value of 3 -10x EBITDA; larger public companies 10 - 20x. The stock market has tolerated 15 -20x for most of the past 15 years (although now around 12x). For every dollar you fail to earn in profit, you reduce your value by the multiple that applies to your company. In an up market, company shareholders don't care so much if you grow 8% or 10% - especially if the profitability is high. But in today's economy, size (of growth or decline) matters. Let's say a company did \$50 mil. in revenue in 2007, with \$3 mil. EBITDA. One could argue that if that company continued to grow steadily, it could be worth \$25 to \$30 mil., or much more if producing a technical product. But suppose that same company only does \$45 mil. next year, and profit drops to \$500K. And suppose it takes 3 years for that company to bounce back from this recession. What is the value then? Perhaps as little as \$10 mil, or even worse.

What is the single biggest factor in a down economy, that can impact, revenue, EBITDA and value? People. In a crisis management mode, some companies become short-sighted, worrying more about current income and expense, and much less about ultimate value. If you aren't worried, consider this quote from last week's New York Times: *"The combined equity valuations of Chrysler, Ford and G.M. total less than \$6 billion, which is not even a fifth the valuation of Honda and only about a twentieth that of Toyota."* Honda, Toyota and KIA now have 50,000 workers in the US (counting their sub-system vendors), all making half what US automakers pay, and they produce a better product! We've all heard of the Toyota Production System. But did you know that TPS is derived from Toyota's early studies of the US automakers!? Now, many US companies have copied TPS to great success. Time for the Big 3 to do the same. Employees that are part of this **understand their individual roles** and buy in to the process. The team atmosphere is palpable. Two of the main principles of the Toyota Way are:

1. Grow leaders who thoroughly understand the work, live the philosophy, and teach it to others.
2. Develop exceptional people and teams who follow your company's philosophy.

The people in West Point, GA anticipate success. They know that the new KIA factory will help their entire community. Over 40,000 people have applied for 2500 jobs there. If your team is not capable of protecting your value, there probably isn't a congressional committee (like what the Big 3 faced) waiting to rake them over the coals. You need to do it. Don't let the value of your company erode due to inadequate but overpaid managers who can't keep up, don't get it, aren't on your side, and can't generate enough EBITDA. Get some stars who can do the job, and provide them with solid leadership, and you'll be on your way to protecting and building your value. When your people value your company, your value will increase.

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