

## IS YOUR BUSINESS AN ANNUAL OR PERENNIAL?

The world's uncertain landscape has created tremendous anxiety today in the minds of owner-managers, often obscuring the answers to even basic questions. Ask yourself this question: do owner-managers know whether they are operating their business in an industry that will give them a capital gain or not? If not, why be preoccupied with value? One of the most powerful drivers of wealth creation in an enterprise is answering that perennial question. Most managers (and owners) manage their business annually, and in between year ends, by the month according to a forecast or budget. Few consider whether the ultimate destination requires them to be harvesting the value each year (an annual), or accumulating value in planning for a capital gain.

There is extensive literature on value and risk in public markets, market by market, industry by industry, even in some cases, company by company. And public markets are largely speculative. In the private market, owners or investors lack any clear sense of objective evidence regarding values of private companies. Experience shows that values of private companies are often influenced more by subjective factors like "the story", presentation, competition for the industry opportunity, and even what is in fashion at the moment -- than by illuminating research or visions of free cash flow. There seems little consensus among even sophisticated investors in how wealth is created in private organizations.

Some industries today do not offer the likelihood of a capital gain for their owners. An example might be a small personal service business where the revenue producers go home every night. Often in these examples of people and talent-centric businesses there is no replicable product that can be consistently produced day in and day out. Investors in such situations are often rightly concerned and ask the question, what will happen to the business if I create a capital gain for the current owners/revenue producers and then they take their money and go fishing?

Will your industry attract outside investor interest? If so, you must identify such efforts which will lead to or enhance the value of a capital gain. They are identifiable, measurable, and in most cases, can be impacted by management. There are difficulties, complexities, even risks associated with identifying and acting on this information, but not acting has a predictably depressing result.

Knowing whether your enterprise is a perennial or annual is a very simple but powerful concept. You gain new insight to the "allocation of resources" question in your business if you understand whether you are one or the other. Either one can be a good business, but it is lunacy to allocate finite resources in the hope of a capital gain someday that will not come.

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