

Business Development Performance and Your Company's Value

Assume you are a CEO trying to boost your company's overall value. First, you have to find out where you are, and ClientView has devised a method to help you. We pay particular attention to revenue growth and return-on-investment (ROI) from business development expenditures. Below is a simplified scoring system to help determine your value by understanding the relationship between revenue growth and business development ROI (expressed as win rate).

First we will look at your Revenue Growth and then at an extremely important indicator of your business development return on investment - Win Rate

Revenue Growth

What is your firm's average annual rate of revenue growth over the past four years?

	Average Annual Revenue Growth Rate	Score
A	0 Percent or less	- 10
B	0 to 5 Percent	-5
C	5 to 10 Percent	0
D	10 to 15 Percent	4
E	15 to 20 Percent	7
F	20 Percent or above	10

Clearly, revenue growth ratings A and B hurt your business, but what about C? The zero for C means that revenue growth barely stays ahead of inflation. Keep in mind that revenue growth varies for most firms, meaning that in some years it either matches or is less than the inflation rate. Look at your firm's performance and adjust the scoring numbers accordingly.

A revenue growth rate of 15 to 25 percent is optimum for many firms. If your rate is above 25 percent, you are likely to require significant debt or new investment given the tight profit margins in government contracts.

Win Rate

Your return on investment for business development activities is best described by your average win rate for competitive contracts. ClientView has found that businesses generally measure their win rates by comparing the maximum potential revenue value of all submitted proposals in a given time period to the value of the proposals they win. You can also measure win rate over a rolling two-year period by measuring the number of proposals won divided by number of proposals submitted, or by total contract value won (all options and potential modifications) divided by total contract value submitted.

(Two cautionary notes: If your firm does not track win rate, you should consider improving your approach to business development. Also, note that repeat business, while extremely important, is not likely to be a good indicator for increasing equity value.)

Now let's assess your Win Rate.



Business Development and Company Value

Consider three companies who all achieved \$100 M revenue last year:

Vague, Inc -- Revenue has been declining at an average rate of 15% annually for the past five years. Vague forecasts 30% revenue growth next year.

Equivocal LLC -- Revenue has been stable, plus or minus 10% over the past five years. Equivocal forecasts 30% revenue growth next year.

Determinate Enterprise Corporation - Revenue has increased every year over the past five years at an average annual rate of 28%. Determinate forecasts revenue growth of 22.5% next year.

Which of these three is most likely to have the lowest value in a merger or acquisition?

Which is likely to have the highest value?

	Win Rate	Score
A	0 to 10 Percent	-5
B	10 to 25 Percent	0
C	25 to 38 Percent	4
D	38 to 50 Percent	7
E	50 to 65 Percent	10
F	65 Percent or above	7

Is there a sweet spot?

A 50 to 65 percent win rate in the government market of multi-year contracts should easily produce consistent, long-term revenue annual growth of 20 to 25 percent. But the score may go down with win rates above 65 percent because they often reveal that you have defined your target market too narrowly and might want to look into diversification strategies.

Company Value - Interpreting your combined score

-15 to 0 Your revenue growth and business development performance are diminishing the value of your firm. You should consider postponing any sale or merger activities and ask how you can increase revenue. Think about immediate and comprehensive corrective actions to overhaul your business development capability.

1 to 10 Revenue growth and new contracts performance are unlikely to be major factors in the valuation of your firm. Unique intellectual property or patents may be the primary basis for determining your firm's value. But If you do not have such assets you should delay sale or merger for two or three years. Consider diagnostic and selected corrective actions to improve business development capability and performance.

11 to 17 Revenue growth and new contract captures will be positive factors in the valuation of your firm. However, you might consider delaying sale or merger for 18 months and improving performance. You should look at diagnostic and selected corrective actions to improve business development performance and revenue growth.

18 to 20 It's time to shop for the yacht! Business development ROI and revenue growth are likely to command a premium value for your firm. You have established optimum business development performance, and you do not need corrective action. But management should maintain coaching close oversight with effective improvement and performance enhancements.

Looking deeper

There are at least three explanations for an exceptional Revenue Growth rate and a high Win Rate:

- Dumb Luck
- Rain Maker
- Winning Machine

Dumb Luck - There is nothing wrong with a little luck except that it is very unlikely to significantly contribute to your company's equity value. If you are asked why your business is so good and you answer, "We are a uniquely qualified, world-class firm" that probably means that you have no idea why you are winning and growing. Don't confuse trite marketing phrases with sound business development management.

Rain Maker - Some companies grow because there is a single individual in the leadership, often the CEO, who is exceptionally good at developing new business. Obviously, if the Rain Maker departs, your company's ability to grow significantly diminishes. This situation can raise uncertainties regarding your equity value and is one reason M&A agreements often require the management team of the acquired firm to remain in place for a period of time.

Winning Machine - A key indicator of a well built and smoothly operating Winning Machine in a growth company is the accuracy of annual revenue forecasts combined with month-by-month business development performance metrics and data. A growth company with an effective Winning Machine should be able to present a history of Revenue Growth Forecasts demonstrating an accuracy of plus or minus 5%. Supporting that accuracy are procedures, systems and people that understand business development investment, make sound go/no go decisions, accurately predict win probability, and develop/implement effective market positioning and capture plans.

ClientView LLC is a business development firm that provides executive-level business development consulting to companies that sell products and services to the federal government and commercial customers. Our services include strategy development; marketing, positioning and proposal training; capture planning; and proposal creation and production.