

# Building Enterprise Value with Standard Operating Procedures

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Most of the strategies we employ to help clients build enterprise value involve steps to mitigate a potential buyer's perception of risk. The lower the perceived risk, the higher the price a buyer is likely to pay. Minimizing risk factors takes deliberate attention, time and specific strategies. One of the most straightforward ways to improve operating efficiencies, increase short-term profitability and simultaneously enhance enterprise value, is to establish and document Standard Operating Procedures (SOPs).



Simply put, SOPs document the normal way you do things in your company. Usually, SOPs are developed for regular, repetitive, routine tasks. Examples of this include: processing payroll, taking inventory, handling customer complaints or warranty claims, onboarding new employees, vendors or customers, conducting annual reviews, handling disciplinary matters and so forth.

However, SOPs can also be developed to handle those rare, but critical things that occasionally happen, which, if not done well, can be very costly. For example, I had a manufacturing client who relied on a specialized and very expensive piece of equipment. Sometimes, the equipment would just stop working. The first time it happened, the diagnostic and repair process was lengthy and expensive. Meanwhile, production was stalled.

In the diagnostic process, my client discovered that a tiny, obscure sensor was the culprit. When this sensor burned out, everything shut down. Going forward, a packet containing a couple of the troublesome sensors along with a simple note was posted on the machine: "If this machine stops working, check the XYZ sensor first." That's an SOP. It does not matter who operates the machine or who owns the company, the solution is now memorialized. It's "baked-in" to the operation of the business.

Your business probably has many of these standard operating procedures... some routine and some rare. Unfortunately, in many businesses, these become "tribal knowledge," like: "Suzy used to take care of that, but I don't know how she did it." In other words, the knowledge was concentrated with Suzy, who does not work for the company anymore. This illustrates the problem of concentration of knowledge and the lack of documentation. Concentration of key operating knowledge, whether with the owner or an employee, dramatically increases a buyer's perception of risk, their concerns about transferability of the business and thus dramatically diminishes enterprise value.

To the extent you can document and point to a resource — think of it like an operator's manual for your business — that a new employee or a new owner

can turn to with operational questions, the more efficient your business will be. Buyers will feel safer, and the business will be more valuable. And you, as the owner, can go on vacation without having to field tons of basic questions that could have been documented in your SOPs.

Here are a few tips on how to document your SOPs:

**1. Keep it Simple.** You've likely heard terms like "Six Sigma" and "ISO 9000," which often serve to complicate the process of creating SOPs. While these programs have merit in larger businesses, they are often too complicated for small companies, which leads many owners and managers to go without SOPs.

Rather than spending days planning out a complicated workflow of interdependent steps, simply record a video of how you want the task completed. Whatever you do today works; it got you to where you are now. Simply shoot an instructional video of the way you want it done. It does not need to be perfect. Once you have a rough video, break it into short bite-sized chunks.

**2. Use Video.** Instead of writing up your SOPs, use video as your primary medium for explaining how you want things done. Videos engage the three most prevalent learning styles: With a video, a visual learner can see your directions on screen, an auditory learner can hear your instructions and a kinesthetic learner can learn by doing the task as you show them on screen. That's why employees are 75 percent more likely to watch a video than read a document, email, or other written source. Sixty-nine percent of employees say they would rather learn a new skill from a video than a written document.

This makes sense when you consider the context your employees grew up in. If you have people under 40 on your team, they grew up in an era where YouTube has been a far more dominant medium than the local newspaper. Younger people today spend more time watching videos than they do reading books. Video has become their dominant medium for consuming information, and by 2030, today's young people will make up 90 percent of the workforce.

It's not just millennials who prefer video. Most of us would rather watch a quick video than pour over a detailed set of written instructions, and viewers remember 95 percent of a video's message compared with just 10 percent when reading text. Even better, shooting a quick screen flow of you performing a task on your screen is infinitely faster than trying to create a written guide for employees to follow. Video is faster to create and easier for users to absorb, which leads to higher adoption rates.

**3. Keep It Short.** TikTok limits videos to three minutes. Twitter caps posts to 280 characters. We live in a time where less is more, and our attention spans have shrunk. Therefore, when creating SOPs, aim to make short videos of less than two minutes in length. Show your employees how you want them to perform a specific task, and if you need more than two minutes, break your instructions up into a few shorter video steps.

There are plenty of other SOP considerations, but the fundamental point is this: Take the time now to clearly document your key operating practices. Your company will operate better in the short term, it will be more attractive when it comes time to sell and the transition to new ownership will be smoother. It's an easy investment in your business that's worth making.

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