RICHES IN THE NICHES

How Narrowing Your Focus Boosts the Value of Your Business

The **Value**Builder System™

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Introduction

As a business owner, you might feel the urge to diversify your offerings, cross-selling a variety of products and services to your existing customers. While this strategy might seem smart, it can unintentionally undermine the long-term value of your company. Yes, it’s easier to sell a new product to a loyal customer than to find a brand-new one, but if those products lack differentiation, the benefits are short lived.

Acquirers value companies that excel in a specialized niche—those that deliver a product or service so distinct and superior that replicating it would be costly and time consuming. By focusing on one differentiated product, you can position yourself as a leader in your field, commanding a higher valuation.

Specialization allows you to hone your expertise, streamline operations, and build a brand synonymous with excellence. This focused approach not only enhances customer loyalty but also makes your company an attractive acquisition target. In a competitive marketplace, being the best at one thing is far more valuable than being average at many.

In this eBook, we will delve into the strategic advantages of focusing on a singular, differentiated offering. We will present data from an analysis of more than 20,000 businesses, showing how the riches are in fact in the niches.

THE MOST VALUABLE BUSINESSES HAVE A NICHE

Let's start by exploring the data that supports the idea that companies selling niche products are the most sought-after businesses in the market. To do this, we'll look at a subset of exclusive business owner data from the Value Builder Report.

The Value Builder Report has been used by more than 80,000 business owners in over seventy-five countries. It's a comprehensive measure of eight key factors that directly contribute to a company's value. One of those factors is called Monopoly Control and speaks directly to the importance of having a niche product versus a broad offering.

To identify business owners that have established a monopoly control in their businesses, the Value Builder Report asks the question, ***"Which of the following best describes the exclusivity of your business to your customers?"*** The range of options are:

1. **We sell a commodity. It's a product or service that our customers can get from lots of other people.**

2. **We sell a product or service that our customers can get from a few other suppliers.**

3. **We have a niche product or service that is unique in the marketplace, so our customers would have to work hard to find another supplier of what we sell.**

4. **We have a monopoly on the service or product that we sell.**

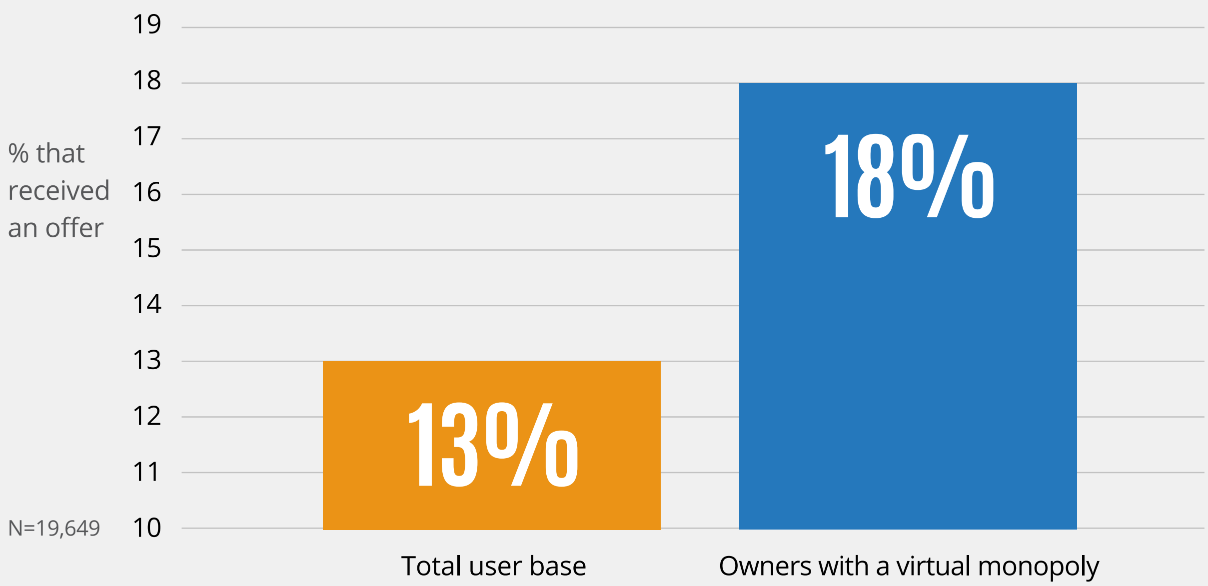
In the pages that follow, you'll see data reported from a 20,000-person sample of business owners who completed the Value Builder Report that demonstrates the power of having a niche. We compare those respondents who answered, "We have a monopoly on the service or product that we sell," with the rest of the respondent pool to understand how companies with a niche are different.

To begin, we compared business owners who claimed to have a monopoly on their product or service with the average business owner. We examined their likelihood of receiving an acquisition offer in the past twelve months. Receiving an unsolicited written offer for your business puts you in the driver's seat. You are in the ultimate negotiation position when you're being courted because it gives you negotiating leverage, which ultimately drives up the value of your business.

Here's what results from the sample show:

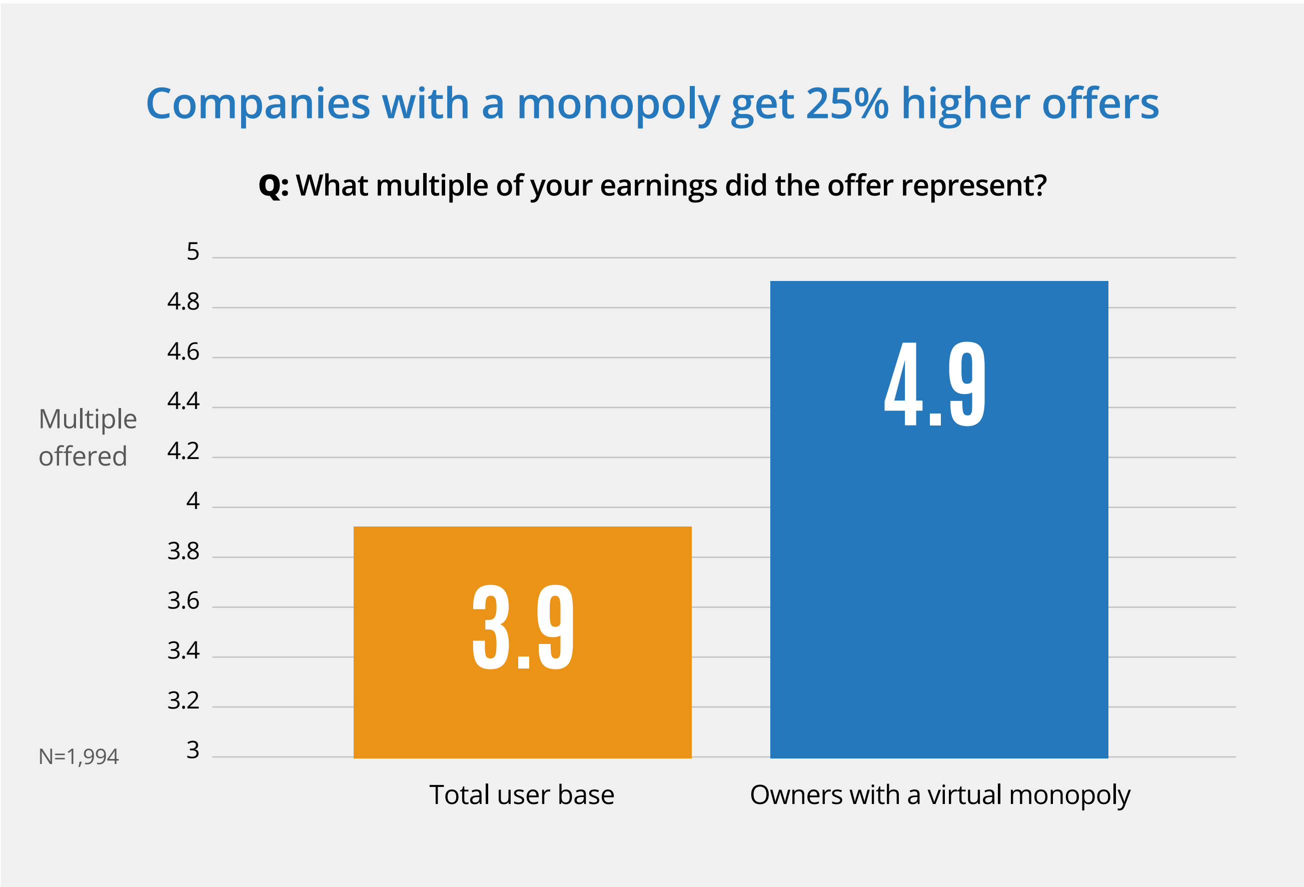
Companies with a monopoly are 40% more likely to receive an offer

Q: Have you received a written offer to buy your business in the last year?



Across the 20,000-person sample, 13% of business owners have received a written offer in the last year. When we focus on those owners who have a monopoly, that number jumps to 18%. Said another way, **business owners with a monopoly are approximately 40% more likely to have received a written offer**. That doesn't mean they could, would, or should sell their company. It means they've got ultimate negotiating leverage, which will drive up the value of their business whenever they decide to sell.

Possibly even more exciting is that those offers tend to be higher.



Again, when we look at the sample of business owners, we see that the average multiple offered is 3.9 times pre-tax profit. **Yet when we compare that to those who have a virtual monopoly on what they sell, they're getting offers that are 25% higher**. So again, the narrative here is, not only are business owners more likely to receive an offer but the offers themselves tend to be significantly higher.

WHY NICHE COMPANIES ARE MORE VALUABLE

Paying more for a niche product isn't just something strategic acquirers do; we all do it in our personal lives. We're willing to pay a premium for a single product that meets our needs rather than being forced to buy a bundle of products and services, most of which we don't want.

Consider cable television. A standard cable package might offer 500 channels, but you probably only watch a few. Despite this, the average cable bill is around $100 per month. That's twenty cents per channel, but most people hardly use the majority of their package. Compare this to a streaming service like Disney+, which costs about $12 a month for access to content you actually want.

One channel for $12 versus 500 channels for twenty cents each.

Niche businesses are more valuable because acquirers are willing to pay a premium for a company that is highly focused and perfectly aligned with their needs. They don't want to pay for parts of a business they won't use. Specialization makes your business more attractive to potential buyers, leading to higher valuations and more lucrative offers.

The story of Stephanie Breedlove is a perfect example of this.

CASE STUDY

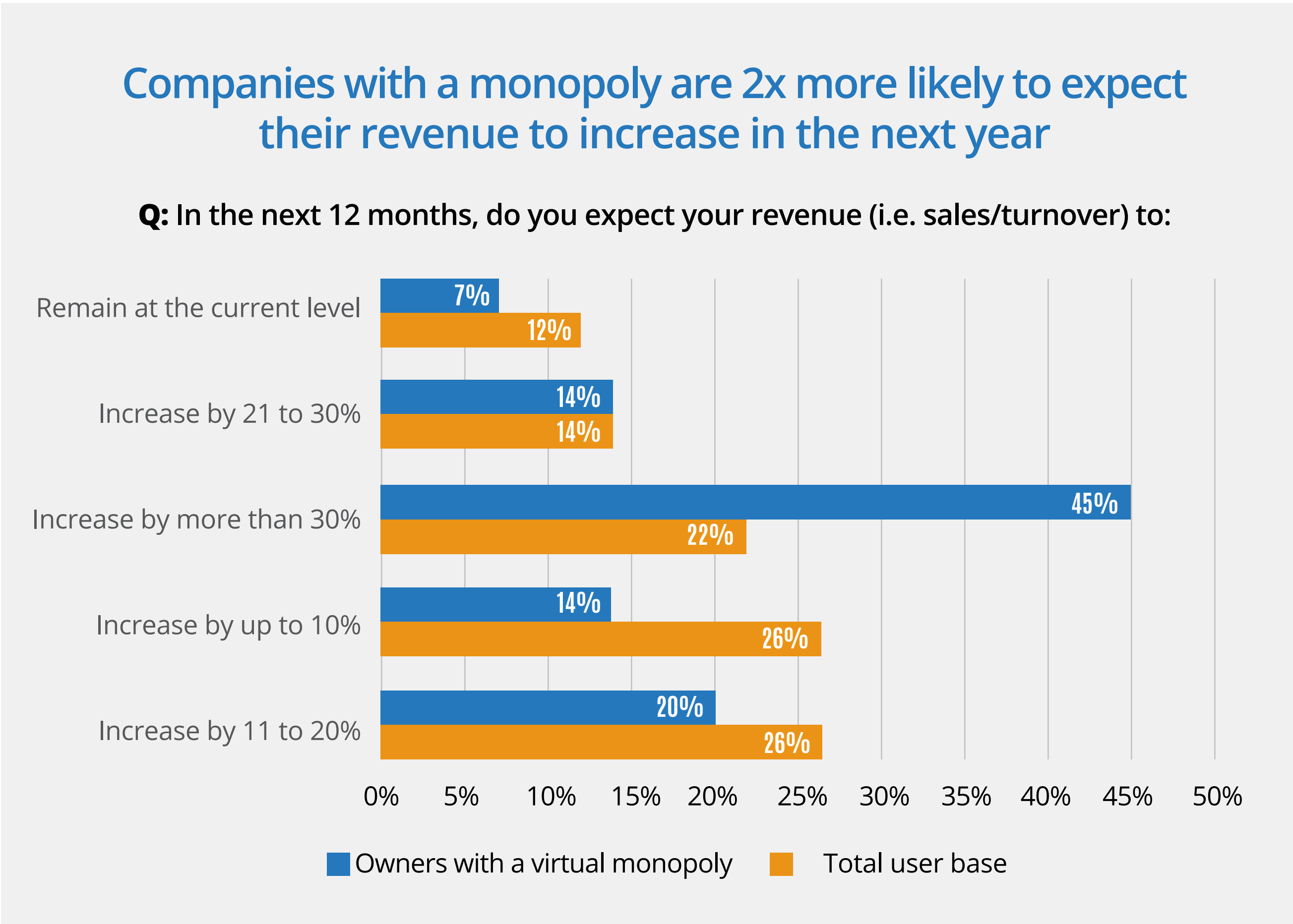
THE POWER OF FOCUS
How Specialization Turned Stephanie Breedlove's Business into a $55 Million Acquisition

In 1992 Stephanie Breedlove saw an opportunity and founded a payroll company designed to simplify the payment process for parents employing nannies. Over the next two decades, she self-funded her venture, achieving steady annual growth of 20%. By 2012 her company had reached $9 million in annual sales, a testament to her focus and dedication.

This success caught the eye of Sheila Marcelo, CEO of Care.com, a company that matched parents needing a caregiver with a marketplace of available nannies. Care.com knew they could cross sell their seven million subscribers with Breedlove's payroll service, and they didn't have to pay for parts of her business they wouldn't use. One hundred percent of what Breedlove offered (payroll for nannies) could be leveraged by Care.com. That's one reason Care.com paid $55 million for Breedlove's $9 million business—a staggering six times revenue.

Breedlove's discipline paid off. Despite the many services she could have offered to busy, double-income families—such as lawn care, tutoring, and pet care—she chose to focus on payroll for nannies. This singular focus made her business irresistible to Care.com, which valued the clarity and direct applicability of her service to their existing customer base.

Owners offering one niche product or service also tend to be more optimistic about their future growth. According to the Value Builder Report, when business owners were asked about their revenue expectations for the next twelve months, the responses varied significantly.



About 12% expected their revenue to remain flat, while others anticipated growth ranging from 10% to over 30%. Remarkably, **those who have a monopoly on their product or service are nearly twice as likely to predict a revenue increase of at least 30% in the coming year**. As illustrated in the graph, 45% of business owners with a virtual monopoly expect their revenue to grow by more than 30%, compared to just 22% of the broader sample.

Businesses with a focused, differentiated offering are more durable, more likely to attract valuable acquisition offers, and have a much brighter outlook for future growth. Niching down doesn't just strengthen your market position—it significantly enhances your business's potential and sets you up for long-term success.

THE BUY VS. BUILD QUESTION

Companies offering a world-beating niche product or service tend to attract higher acquisition offers because acquirers constantly face the “buy or build” question. When strategic acquirers see an attractive product or service, they ask themselves, “Could we build what they have built?” If it would take more money and time to build something of similar quality and reputation than to acquire your business, they will choose to acquire it.

Imagine yourself in a race to build the best product or service in your industry. You have a head start. If it would take an acquirer too long and too much effort to catch up, they’ll use their resources to catch up by acquiring your company. This approach is often more cost effective and time efficient for acquirers, making your business a prime target for acquisition.

Developing a monopoly on what you sell can be achieved in one of two ways. The first is to actually create a superior product or service. For example, Dyson developed and patented their “cyclone technology,” which uses centrifugal forces to separate dust and dirt from the air, making it fundamentally different from standard vacuum cleaners.

However, you don’t have to invent a better product to create a monopoly. The second—and more common—approach is to make customers believe your product or service is unique by developing a differentiated brand in their minds. This perceived uniqueness can be just as powerful as actual technological innovation in establishing a dominant market position.

Conclusion

It can be tempting to cross-sell more products and services to your existing customers, but this approach may offer short-term gains at the cost of long-term success. Acquirers are willing to pay a premium for companies that are difficult to compete with due to their unique and differentiated offerings. By focusing on creating and maintaining a distinct product or service, you increase the perceived value of your business. The more differentiated your product or service is, the more attractive and valuable your business will be to potential acquirers.

The riches are indeed in the niches.