



# Enterprise Value is Built in the Back Office



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For many founder-led businesses, the back office is treated as overhead. Necessary functions – Finance, HR, IT, procurement, legal, compliance – are rarely strategic priorities. Yet these functions typically represent 15-30% of operating expenses in many lower- and middle-market companies. Despite this meaningful cost footprint, these functions often remain underdeveloped, overly manual, and strategically overlooked.

That may work when a business is small. However, it rarely works when the business is preparing to scale – or, for that matter, preparing for a transaction. The back office isn't administrative infrastructure. It's enterprise value.

## When “Good Enough” Becomes Expensive

Many companies operate with processes that technically function – but inefficiently. Spreadsheets reconcile revenue. Manual journal entries plug reporting gaps. Financial insights arrive too late to optimize decisions. Sound familiar?

Internally, this feels manageable. Externally, it signals risk.

Buyers and lenders evaluate far beyond revenue growth. They assess:

- » Revenue recognition integrity
- » Quality and timeliness of financial reporting
- » Internal control strength
- » Key individual dependency
- » Working capital stability
- » Infrastructure scalability

Weaknesses in these areas increase perceived risk. In transactions, perceived risk directly impacts valuation – lower multiples, earn-outs, increased escrow holdbacks, or aggressive working capital targets. Operational disorder translates directly into enterprise value leakage.

## EBITDA Is Built in the Back Office

Revenue growth captures attention. Operational efficiency builds value. Back-office modernization directly influences Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA) through reduced Selling, General & Administrative (SG&A) expenses; elimination of duplicative roles; automation of repetitive or highly manual processes; improved procurement discipline; and faster billing and collections.

Even modest operational improvements can create disproportionate enterprise value gains. Consider a \$3 million EBITDA business trading at 7x multiple. A 10% margin improvement adds \$300,000 in EBITDA. That translates to \$2.1 million in incremental enterprise value. Small efficiency gains compound quickly when valuation multiples are applied.

## Why Sophisticated Buyers Pay More

Experienced buyers, whether financial or strategic, increasingly reward effective infrastructures. Companies that command premium valuations tend to demonstrate:

- » Institutional-grade reporting
- » Reliable documentation and scalable processes
- » Short, consistent close cycles
- » Strong internal controls
- » Integrated systems
- » Limited founder dependency

These qualities reduce perceived risk, increase buyer confidence, and help sellers present their companies as scalable platforms that can grow via acquisitions, resulting in higher enterprise value and market multiples. The difference between a 6x and 8x multiple on a \$5 million EBITDA is \$10 million in valuation. In many transactions, operational maturity often determines that spread. Operational maturity signals durability. Durability commands premium pricing.

## The Scalability Problem Most Companies Miss

One of the largest hidden costs of an immature back-office is administrative headcount creep. When systems and processes are fragmented, growth requires more administrative labor. As operating expenses expand alongside revenue, margins become compressed. Modernized systems change the equation. Automation absorbs incremental volume, allowing centralized reporting to scale across business units. Scalability becomes structural rather than labor-driven.

## Risk Reduction Is a Valuation Lever

Buyers and lenders price risk. Weak internal controls, undocumented processes, and inconsistent reporting increase that risk premium. A disciplined back office improves:

- » Segregation of duties
- » Audit readiness
- » Revenue recognition propriety and consistency
- » Month- and year-end cutoff accuracy
- » Compliance documentation
- » Data security oversight

This reduces diligence friction, minimizes potential Quality of Earnings (QoE) adjustments, and limits post-close surprises. It also lays the foundation that is necessary to provide a buyer with timely financial data throughout the sale process. Risk reduction isn't just about compliance. It is about protecting valuation.

## From Historian to Strategic Operator

In many small and mid-sized businesses, finance operates as historian — reporting what happened last month or last year. Optimized organizations shift finance toward forward-looking insight:

- » Rolling forecasts
- » Margin analytics by product or customer
- » Scenario modeling
- » Cash flow projections
- » Key Performance Indicator (KPI) dashboards aligned to strategy and industry

For investors, this enhances board-level visibility and improves capital allocation decisions. For founder-led businesses, it transforms intuition into data-driven strategy. The back office becomes an engine for decision quality — not simply a recorder of transactions.

## How to Improve Without Overspending

Back-office modernization doesn't require enterprise-level software immediately. In fact, the biggest mistake many companies make is buying technology before fixing processes.

The most effective improvements follow a pragmatic and staged approach:

1. **Fix workflows first:** Standardize processes and define accountability before introducing new systems.
2. **Automate friction points:** Focus on high-volume processes such as collections, billing, or reporting.
3. **Integrate core systems gradually:** Prioritize visibility between accounting, Customer Relationship Management (CRM), and operational tools.
4. **Build scalable reporting early:** Reliable dashboards and forecasting tools often deliver oversized value quickly.

The objective isn't technological sophistication. It's operational clarity, scalability, and investor confidence.

## Timing Determines Value

Operational improvements take time to show up in financial performance. Ideally, the work should begin 12-24 months before a transaction. Attempting to “clean up” during diligence is expensive, disruptive, and rarely effective. Flaws will become highly apparent to a buyer – which for a buyer is an opportunity, and for a seller a valuation killer. Enterprise value is built gradually – and discounted quickly.

## The Real Role of the Back Office

Ultimately, valuation reflects four things:

1. Earnings power
2. Risk profile
3. Scalability
4. Future value

Back-office optimization helps influence these. It increases earnings through efficiency. It reduces risk through governance and controls. It enhances scalability through integrated systems and standardized processes. All of which helps drive future value.

Revenue growth may be market dependent. Valuation multiples may be market sensitive. But operational maturity is internally controllable. In today's environment – where buyers are more discerning and capital is more selective – operational architecture increasingly separates premium valuations from discounted ones. The back office is no longer overhead. It is infrastructure for enterprise value.

## About SD Capital

SD Capital is a premier, full-service, value advisory and investment banking practice that assists middle-market companies in creating and maximizing business value. We provide strategic evaluation and execution of various downstream sales and monetization pathways. With decades of combined executive experience running, owning and advising private companies our team is uniquely positioned to guide owners through the complex process of growing and selling their companies. Learn more at [www.sdcapital.com](http://www.sdcapital.com).

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