TRANSITION TALK

10 Reasons to Professionally Value Your Business

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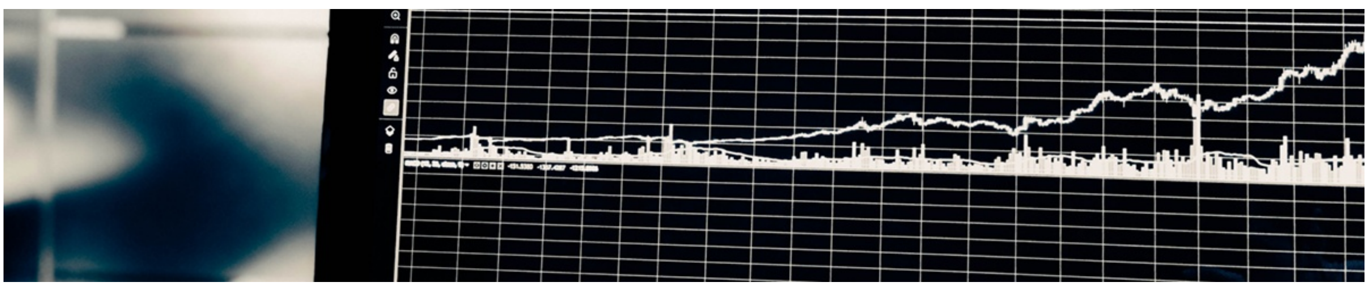

Experienced business owners recognize the importance of tracking and monitoring the value of their practice over time. They know their practice is their most valuable asset, and by valuing it, they are empowered to grow, protect, and realize the value they have built.

Following are ten situations where it's essential to have a current value and accurate understanding of your business.

1. Increase Value

To cultivate growth and increase the value of your business, you need to have a starting point—a place to grow from. An accurate and comprehensive valuation will identify value drivers and growth opportunities, allowing you to create an informed growth strategy and make changes that will improve performance. The ability to track those changes and the value of the practice year after year enables you to see your progress and ensure your growth is on target

2. Benchmark Your Business

Tracking your value year after year allows for accurate benchmarking of the business. A thorough benchmarking report will look at your business and compare it to similar-sized businesses in the market, evaluating your company's standing against the competition. Benchmarking reports reveal how your business stacks up against your peers as well as against leaders in the industry.

The evaluation explores not only the market value, but other factors including client demographics, staff size, and revenue sources. A strong benchmarking report also reveals best practices of businesses who have achieved the type of growth you are striving for, offering guidance in the steps you can take to grow your own business. You can make plans and set goals based on these benchmarks, and use them to look back, evaluate success, and readjust accordingly.

3. Update Your Death & Disability Plan

Without knowing the value of your business, you will be hard-pressed to set up an effective continuity plan intended to protect your clients, cash flow, and value in the event of sudden death or disability. Without a valuation, you risk the worth of your business being underestimated, short-changing yourself and your estate if you have to suddenly and unexpectedly leave the practice. A current valuation ensures your continuity plan will effectively protect that value and include appropriate arrangements for receipt of value.

4. Develop a Long-Term Exit Plan

A valuation is essential in the development of a long-term exit plan, such as selling your company when you are ready to retire or preparing for key employees to gradually take over ownership. Evaluating your business and identifying the amount of value you'd like to realize when you step away from it is crucial for determining the steps you'll need to take to reach that goal. The ability to track the value and growth of your company will allow you to evaluate value drivers, set milestones, and make necessary adjustments to the plan as you move forward.

5. Acquisition

To make an informed purchase decision, you need to have an accurate value of not just the target acquisition, but of your own business as well. Knowing the value, along with the strengths and weaknesses of your own business, will enable you to find synergies between you and a seller to ensure a good fit. A good picture of your own business can prove to a seller that you are a good candidate and have the infrastructure and cash flow capable of absorbing their clients and providing them with quality service.

Additionally, your own value is a necessary part of the bank financing pre-qualification process which has become an increasingly popular tool in the industry. Even if you don't intend to use bank financing, pre-qualification lends credibility to your ability to purchase the business for sale.

6. External Sale of Business

Of course, when selling your business to a third party, you'll need to have an accurate and fair assessment of your market value in order to set a price for the sale. A comprehensive valuation will look at more than just revenue to provide an opinion of value for your unique business including location, revenue sources, infrastructure, and demographics—among others.

7. Expenses and Compensation

Performing annual valuations allows you to set goals and objectives to bring expenses in line, as well as for employee compensation, including next generation ownership and equity buy-in. Your valuation gives a clear picture of where your business stands in this area and offers insight for improvements. Track expenses and growth year over year, and determine appropriate compensation increases for your team.

8. Transferring Internal Ownership

It is dangerous to simply guess at a business value for the purpose of internal transfers to key employees within the practice. Without an accurate value determined for the purpose of internal transition, you could be drastically over- or under-valuing the worth of an ownership percentage, which could lead to disputes or plan failure. As you establish equity opportunities for top talent, a clear value of what they're buying into will help reduce anxiety in making the commitment and investment and ensure their retention in the business. Additionally, monitoring value over time will help your ownership team assess the success of your transition and help you make any decisions about plan adjustments or accelerations.

9. Mergers

Planning a merger with one (or more) other businesses requires a professional valuation to determine appropriate share allocation. The assessment will evaluate the size and value of each firm participating in the merger and what each entity and owner brings to the table in terms of client base, assets, and skill sets. Valuing each business separately and then as a new combined entity is important for determining the allocated ownership as well as the value assigned to each "membership unit" of the new business.

Establishing these numbers is then used to determine key operating factors of the new entity including incorporation of future owners, transition of exiting owners (for retirement, termination, or unexpected death or disability), and decision-making powers for various levels of ownership.

10. Litigation/Arbitration

A professional and comprehensive business valuation is required for credible and defensible use in a variety of litigious circumstances such as cases of litigation or arbitration for divorce, partnership dissolution, bankruptcy, or other legal matters. Since your advisory business is considered an asset, its value needs to be included in an assessment of your personal worth.

It is especially important in these situations to apply an opinion of determined value using methodology and details specific to your purpose, such as allocation of assets or personal wealth assessment. Applying a multiple of revenue or even a valuation performed for a different purpose is not sufficient for an informed legal ruling.

Valuation and benchmarking reports should be reassessed annually in order to track growth and progress toward your unique business goals. Assess, analyze, and adjust as necessary, and with the help of a professional enterprise consultant, you can ensure you are on the best possible path for maximum value.

An assessment of business value is only relevant if it has the proper context, methodology, and expertise standing behind it. Simply applying a multiple of revenue is not an accurate reflection of value. The FP Transitions Valuation Services Team evaluates your specific business on 60+ factors in the proper context of your unique circumstances to determine a professional and accurate value.

Topics: Succession Planning, Acquisition, Business Growth, Business Value, Benchmarking, Valuation & Appraisal

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Emily Allen

11/5/2019, 11:34:25 AM

Wow, this is fascinating reading. I am glad I found this and got to read it. Great job on this content. I liked it a lot. Thanks for the great and unique info. Salem Oregon Appraiser
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Reply to *Emily Allen*

11/5/2019, 11:35:03 AM

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