BCS SPECIAL REPORT

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Are You Kidding Me?

Your business may be worth more (or less) than you think.

By George Scott

Over the years many business owners have said, "If someone offered me _____ dollars for my business, I would walk out the door tomorrow."

The problem with that statement is the value stated by the business owner is almost always based on emotion – even though that business owner has made many sound and objective decisions.

Well, then. How does a business owner determine the current value of the business?

The first and most important step is to lose the emotions and accept that harsh reality that the business is worth only what someone is willing to pay for it. Once that acceptance is made, then, and only then, should a business owner move forward to determine a possible current market value of the business.

Next, there are five often used methods to calculate the possible values. However, some specifics need to be known before the calculations can be made.

The first specific is to determine the assets of your particular business.

A manufacturing firm will have a significant amount of hard assets (i.e., production machinery), whereas an administrative support firm will have comparatively few hard assets (i.e., office furniture, computers, and file cabinets).

Then, have a well-respected appraiser who is familiar with your industry complete an in-depth appraisal of your assets. Contacting three to five appraisal firms to find *the* appraiser with the best credentials and with whom you are the most comfortable.

DO NOT contact a real estate appraiser who does equipment appraisals "on the side." DO contact a well-respected real estate appraiser if one of your firm's assets is the property on which your company sits.

Be prepared that the hard asset appraisal has a 2/3 chance of being acceptable: the value is about what you expected, higher than you expected, or lower than you expected.

Next, gather your financial statements for the past five years. Chances are you have them in your filing cabinet, so retrieval will be quick and easy. If you never held onto them, your accountant should have copies. (If you don't have an accountant, get one.)

Then construct a five-year comparative spreadsheet for the balance sheets, the profit and loss statements, and the cash flow statements.

Now it is time to enter the hard asset appraisal value and the financial statement data into each of the following five methods (as applicable):

- Asset-based
- Capitalization of Earnings
- Excess earnings
- Multiple of discretionary earnings
- Discounted cash flow

As your numbers are inputted in the above formulas a value picture will start to come into focus. The five methods will generate a value that is very high and one that is very low. Throw them out.

The remaining three values will be the value corridor within which your company's market value lies – assuming you do not make any substantial operational changes.

Subsequent *BCS Special Reports* will provide detailed explanations of the valuation methods.

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George Scott is President of *Business Consulting Services* (BCS) which helps business owners decide between fixing or selling a business and then helps them implement their decisions. For more information go to www.businessconsultingsvcs.com or call 517-515-1701.