

What's your company worth?

Why you should consider a professional valuation of your business

You're not even thinking about selling your business right now, especially given the generally unfavorable business climate we remain mired in. Yet going through a formal business valuation might be both prudent and beneficial for an owner whatever his or her short- or long-term goals are.

"Knowing the value of your business can help you understand not only where you are today but what path you should consider going forward," says Adam S. Minow, manager and certified valuation analyst for Glenn M. Gelman & Associates, CPAs and Business Consultants.

Smart Business spoke with Minow about why determining the current value of your business is important.

If a company is not for sale, what's the purpose of a business valuation?

Taking the time and effort to value your business is really a sophisticated planning tool. Done properly, the analysis puts all the aspects of your company under a microscope not only internally but also in comparison to competitors and other more generic companies in the broader economy.

Moreover, this self-examination done by a valuation expert can help you formulate and fine-tune a strategic plan to guide you toward an acceptable value in the future.

How can such an exercise actually help your current operations?

Companies must continually balance several, often conflicting, concerns. You must manage the day-to-day tasks of your operation, paying careful attention to the details of your industry and customers, as well as products, sales prices, cost structure, operations, supply chain, competitors, cash flow, access to capital and even the regulatory environment. But equally important, if not more so, is the responsibility of taking a broader view. A sound valuation analysis will entail a detailed understanding of your company within its operating environment as well as document your company's current business strategy. One common approach to understanding both your existing business strategy as well as what modifications might be beneficial to that strategy is to conduct a SWOT analysis of strengths, weaknesses, opportunities and threats. The first two items focus internally on your company while the latter two reflect the environment in which



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your company operates.

An in-depth SWOT analysis, properly done, is not an easy task, and can entail hours of research and critical thinking. But the results can yield significant benefits. An independent observer, properly trained, might see competitive advantages of your company that can be further leveraged for gain as well as hidden problems, which, if not corrected or avoided, could pose serious challenges in the future. The SWOT analysis provides a tool that can be used to validate or revise internal cash flow projections, develop an understanding of the financial benchmarks implicit in the pricing of mergers and acquisitions of comparable companies in the marketplace, and justify the premiums or discounts paid for these companies compared to your company. Having a certified valuation analyst take a fresh and objective look at your company may reveal underlying opportunities, which, if acted upon, could accelerate your company's growth and profitability as an economic recovery begins.

What factors, both internal and external, influence the conclusion?

The internal aspect of a valuation exercise concentrates on your employees, your systems and procedures, and on the products and services you sell. How do they compare

with your competitors both in your own industry as well as in other similar industries? If your people, products, systems and procedures are not 'best of breed,' what can you do to change them? You may need to determine how trends and developments in governmental regulation, both on a national as well as a local level, affect your operations. Often in a recession, it is possible for well-positioned companies to make dramatic increases in their market share as weaker rivals falter. Finally, a valuation analysis may result in you making necessary modifications to your internal cost structure.

Looking at your company from an external perspective takes a different approach. A potential buyer of your business would probably examine it using three main methods, commonly known as the income approach, the market approach and the asset approach.

The income approach estimates current and future net cash flows over a time period extending into the future and then applies an appropriate discount rate to arrive at a present worth given the risks, uncertainties and competing demands for capital. A market approach looks for actual sales of comparable companies, then makes adjustments for the unique aspects of your company in relation to them. An asset approach takes a detailed and hard look at your company's balance sheet and adjusts individual assets and liabilities to their fair market values.

Once a value has been established, then what?

Once you've completed this analysis, you should have a more targeted picture of the necessary adjustments your company should make to improve its performance. You'll still have to execute those strategies in the marketplace every day, but at least you'll have been diligent and thorough in seeing both the trees and the forest as they exist in harmony. You will have a greater understanding of the value you might ultimately receive for your company. You'll also have a starting point and a roadmap to pursue in order to achieve your long-term objectives and attain the growth and value you want to realize for your company in the future. In order to stay on course, you may want to consider implementing an employee bonus structure to empower your human capital with appropriate incentives to help them achieve your company's targets in the business plan. <<

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