

# What a Business Valuation Will Never Tell You and Why You Should Still Get One

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There are many things a business valuation will tell you, but one item of critical importance to a business owner will be missing: the amount a buyer will actually pay for your business.

## **Why? There are many reasons.**

One reason is different types of buyers will pay different prices. For example, a strategic buyer believes they can take your product or service, deliver it through a much larger distribution channel, and increase your sales volume quickly and dramatically. Therefore, they will often pay more than a non-strategic buyer. In comparison, a competitor may look at the purchase of your business as eliminating competition and increasing market share; however, this buyer may not have the same increase in volume after the sale that a strategic buyer will experience. Therefore, they may not be willing to pay as much for your business. Internal buyers such as employees or family members will likely pay even less. Each type of buyer will extract different levels of value from your business, have different financial constraints on what they can pay, and experience different returns on their investment. This results in a different price for each type of buyer.

Even multiple buyers of the same type will each offer different prices. Motives for buying your business, expecting certain post-sale results and operating efficiencies will drive different prices from the same type of buyer. The process of preparing a business valuation will never dig in as deep into the quality of your business operations, and uncover as many risks and imperfections, as a buyer will unearth when preparing to buy your business. A buyer will send in an army of professionals that will spend weeks, or even months, examining the business' processes, procedures, contracts, etc. They will perform various analyses on your products, customers, employees, etc. to examine every corner of your business and determine the price they are willing to pay. A business valuation, by comparison, will not include as deep of a dive into your business as a buyer.

## **So why is a business valuation still valuable? Let us count the ways.**

Sometimes it is necessary. If you want to gift shares, buy out a partner or establish a value for a buy-sell agreement, a valuation may be required. However, there are other compelling reasons to get a business valuation. The best thing you can do with a business valuation is to use it to help create a Value Acceleration Plan. A Value Acceleration Plan begins with a valuation, and it includes a detailed assessment of the business factors a buyer would examine. For any area that might reduce the value in a buyer's eyes, a Value Acceleration Plan provides an action strategy for making a business more attractive to a buyer. This gets the organization ready for sale and can help increase its value, even at its current size. Certified Exit Planning Advisors create these plans based on the valuation of the business, the range of potential values of businesses in your industry and a detailed assessment of where your business sits in that range of values. A sale in the near future is not necessary to implement a Value Acceleration Plan. In fact, the farther in the future a potential sale may be, the greater the opportunity there is to build value. Keep in mind any plan to increase value requires rigorous attention and relentless effort. For business owners, that effort can easily become derailed, as daily challenges in the business steal a business owner's attention and consume all of their time. A Certified Exit Planning Advisor will keep the owner focused, engaged and on track with Value Acceleration Plan, which will increase the likelihood an owner stays focused and reaches their Value Acceleration goals.

## **Contact Us:**

Rich Gunn and Jasmine Menard-Lenczewski are the leaders of BPM's Value Acceleration Service Team, which helps with succession, transition and exit planning for business owners. Rich and Jasmine are both Certified Exit Planning Advisors and members of the Exit Planning Institute.

## ***The Business Owners' Special Series (BOSS):***

*The Business Owners' Special Series (B.O.S.S.) is made up of several informational articles for business owners who are proactively seeking guidance from experts on how to implement value acceleration in their business. Be sure to keep reading, if you desire to develop your business to its maximum potential value and gain an understanding of how and why beginning the process sooner results in building greater value.*