

What is Evaluated to Establish a Sales Price?

Introduction

This article will cover the topic in 2 parts; first on Valuation and the second on Selling Alternatives. The purpose is to help owners make investments based on business valuation. The following represents methods Business Broker's use to determine a company's value.

What You Need to Know

- **Balance Sheet:** A statement of the net worth of the physical or tangible assets of a business. It shows the value you will receive should you liquidate rather than sell the business.
- **Going Concern Value:** The combined value of all physical assets of a business, as reflected on the balance sheet. Added to GCV is business worth as an ongoing entity, based on its recent past performance for attracting and retaining customers, and the subsequent financial success.
- **Goodwill:** The difference between the liquidation value and the going concern value of a business. It reflects the amount a buyer will pay for the intangible assets of your business. This includes your business name and reputation, clientele, operations and systems, and marketplace advantage.
- **Liquidation:** Ending a business by selling its physical or tangible assets to pay off creditors. The remaining proceeds are distributed to the owner(s), and with no compensation received for the value of intangible assets such as business goodwill.

What You Need To Do

Specific elements of a Business Valuation Process:

Sales and Profit History

- Revenue and Profit performance over the last 3 years

Financial Condition

- Assets relationship to liabilities – are assets greater than liabilities or assets less than liabilities?
- Do you cover costs and expenses from just sales revenue?

Products/Service

- What are your Products/Services market position and amount of market share?
- Are your Products/Services proprietary or generic, easy or hard to copy?
- Are your processes for producing Products or delivering Services scalable, is it under control or requires the owner to operate?
- Are processes under control and SOP's (Standard Operating Procedures) developed?

Impact of Location

- What are your sales reach - Local, Regional, National?
- Are your sales locations growing or contracting?
- Are your Locations sought after destinations or do you have to create traffic?
- Is there anything happening in your sales Locations that creates a serious threat?

Facilities/Equipment

- When was the latest upgrade (what is being depreciated?) to your core technology or products/services?
- If you are leasing major facilities and equipment – are the leases transferable?

Staffing

- The number of employees with close customer relationships besides the owner?
- Are Employees under an employment contract or at will; can they leave without a confidentiality constraint and non-compete requirement?
- Is there a Manual/SOP for Employees, including Employment Practices?

Clients

- What is the average lifetime of clients? Average lifetime value of clients?
- How many current clients do you have and what is their% of revenue?
- Do you have a CRM to manage marketing and sales?
- What is the core of sales success – your P/S offer or the sales relationship?

Brand/Reputation

- How much of your target market has been penetrated and what is your share?
- What Trademarks, Service Marks, Patents do you own?
- How professional is your Online presence; does it fit your brand?
- What are the results from the last 3 years of marketing campaigns?

The Plan

This section will cover all the non-financial issues necessary to improve valuation - Products & Services, Staffing, Clients, and Brand & Reputation.

Products & Services

- Market Impact Study
- Branding of Product & Service Lines
- Verified SOP's and PD's for all positions

Staffing

- Expand manager and supervisor relationships with customers
- All employees have Employment Contracts
- Updated Employee Handbook

Customers

- Determine lifetime value of accounts
- Determine most profitable accounts (includes products and services)
- Build a portfolio of testimonials

Brand & Reputation

- Market Impact Study
- Trademark Atlantic Landscape Management
- Servicemark Services?
- Upgrade online presence - website and social media

The approach will be to prioritize the final list starting with the Market Impact Study while completing SOP's and PD's and verifying.