CK BUSINESS CONSULTANTS, INC.

Adding Value to Your Business

By Gary Papay, CBI, M&AMI

If you're looking to sell a business, it's critical to look at the value of the business. But a typical business really has two values. The "academic" value is the one determined by a professional business valuation. The other is the "true market" value. The academic value is arrived at with a formula based on the firms' hard assets, cash flow, industry averages and multiples. The fair market value also takes those items into consideration, but then considers what buyers are really willing to pay.

For many small and mid-sized businesses hard assets like equipment, vehicles, land, buildings, and inventory may be limited. For some small businesses there may be no hard assets at all. Instead, their value is based on intangibles like employees, business processes, customer lists, location and business relationships.

To maximize the fair market value of your business, it's vital that you capitalize on those intangible assets.

- **Develop key employees.** Buyers generally aren't interested in paying a premium if the business relies on you for its success. Remember to delegate responsibility to key employees and involve your key staff members in the decision making process. Demonstrating that your company's success is reliant on your capable, well-trained employees – not just you – will pay off at the time of sale.

- **Document what you do.** Be sure that job descriptions, operation processes, and strategic plans are documented. Documented records and plans give a buyer greater comfort that he or she will be able to emulate your successful growth and will help your buyer obtain financing. Also, be sure to keep business records like sales and expense reports, internal profit and loss statements/balance sheet, and tax returns clean and well-organized.

- **Build relationships.** Name recognition, customer awareness and your reputation are all part of your business value. Even if your company doesn't have many hard assets, your relationships are key. Consider diversifying both supplier and customer accounts.

- **Improve cash flows.** A potential buyer wants to see the "true cash flow." And, of course, in the business world cash is king. Be sure you are driving all income to the bottom line.

- **Review your assets.** Sell off or dispose of unproductive assets or unsalable inventory. Remove or buy off any assets that are primarily for your personal use.

114 S Railroad St, Hughesville, PA 17737 • Ph: (570) 584-6488 • Fax: (570) 584-0199
gpapay@ckbc.net • www.ckbc.net

- **Find and build your niche.** You don't have to be everything to everyone. Buyers will pay a premium for a niche that has barriers to competitive entry.

- **Remodel, clean, and organize.** What's the first thing anyone does when they put their home on the market? They spruce things up and make sure everything is in its right place. Yet, in business, that's rarely considered. A well-maintained facility will get the best price. Even businesses that lease space can benefit from a thorough cleaning and organization to convey a feeling of quality and efficiency.

Keep these important intangible assets in mind if you're looking to sell your business. They convey a value that financial statements alone do not. If you are looking to sell, make a plan. Start working on the intangibles well in advance of putting your business on the market. For many business owners, they reach a point where they burn out and psychologically retire early, before a sale is made. It's important to work to keep your focus right until the sale is complete.

Finally, when the time to put your business on the market arrives, consider lining up key specialists who will help you make the most of the sale – an attorney, an accountant, and a business intermediary to name a few. Remember, you only have one chance to sell your business, so you want to do it right.

Gary Papay, CBI, M&AMI, President of CK Business Consultants, Inc. is a professional intermediary and business appraiser with more than 34 years of experience in the sale and transfer of privately held mid-market companies. Gary has attained the designation of Merger and Acquisition Master Intermediary with the International Business Brokers Association and M&A Source. Gary can be reached at www.ckbc.net.

*The **International Business Brokers Association** is the largest international, non-profit association operating exclusively for the benefit of people and firms engaged in the various aspects of a business brokerage and mergers and acquisitions. IBBA has 1,950 members worldwide, with corporate headquarters in Chicago, Illinois.*