Business Valuations
The Checklist

Would you like to know how much your business is worth?

Would you like to know how to make your business worth more?

Most valuations are the product of multiplying the **"weighted average adjusted profit"** by the **appropriate multiple.**

Therefore, the owner's objective is to maximise these two numbers, especially in the last couple of years before sale.

Maximising the weighted average adjusted profit

1. Reduce or eliminate lifestyle and vanity costs; *for example, sponsorship of your family hobbies, the odd-job man on the payroll who paints your house, does your garden and cleans your cars etc*

2. Consider very carefully optional business expenditure of dubious benefit to the business*; for example, advertising which doesn't seem to work, development projects which never seem to take off, investment without a convincing business case – all these things may still be necessary for your business, advertising, R and D, investment are all crucial to medium and long term business success, but if you are selling up the threshold to approve the expenditure moves up and the threshold to axe the project moves down*

3. Now isn't the time to be trying new things, overwhelmingly the buyer wants to see sustainable profits year on year

4. Having considered 1 and 2 now look at the overheads are there any other costs or activities which seemed a good idea at the time, but in retrospect are just a drag on the business. Stop these costs. *Examples from my experience include; watercoolers, free deliveries, some HR consultancies, some copier contracts, some software subscriptions*

5. Now think about business costs systematically, all costs are made up of two elements, price per unit and quantity consumed. The second industrial revolution was about eliminating error, and thus reducing consumption of inputs of all kinds. Could you improve the efficiency of your organisation

6. And lastly consider the prices you are paying, do any of these need reviewing

Costs are one side of the equation, the easy side in many ways, but owners should also be looking at ways to maximise income, in the short term by obtaining more for the work that is done, and in the longer term by winning new business

7. Short term (see the Hornbeam Guide to Succeeding in Business*)*

    7.1. Phil's system for raising prices

    7.2. Add on's

    7.3. Upselling and maximising market differentiation.

8. Another thing you need to be doing is getting rid of the customers who are unprofitable, difficult, rude, and most likely to end up as bad debts. These people destroy the value of your business and need to be tackled

9. Are you doing all the obvious, easy, and cost effective things to win new business?

    9.1. Ask satisfied clients for leads, on your invoice or by postcard if you are shy to ask

    9.2. Make yourself the expert

    9.3. Make sure all your marketing, on and off line has a "call to action"

    9.4. Ask for the business, close the deal

    9.5. Don't be afraid to give something away, but don't get carried away

    9.6. Target the clients you want

    9.7. Learn to write good script on line and on paper (Catchy header, short exposition, key points, call to action, contact details)

    9.8. Have you culled the marketing expenditure which isn't working!

Having set up a profitable growing business, now we need to look at how to get the best multiple of income from the buyer.

There are two things which might increase the multiple and thus the value of your business

10. Firstly, if your business is growing, it will have a higher multiple. We all know about IT firms that have multiples off the scale – because their profits are expected to grow exponentially.

    So, you need to get your business growing (see 9)

11. Secondly, you need to have plenty of well-funded buyers. Buyers come from 5 places and you need to be cultivating all of these

    11.1. In House. The MBO (Management Buy Out) has become part of the language. *You should be cultivating the potential members of tomorrows MBO*

    11.2. Customers. Sometimes customers wish to secure key suppliers. Could this be relevant to you?

    11.3. Suppliers. Sometimes suppliers wish to secure key customers / routes to market

    11.4. Competitors. This is your most likely source of outside buyers, keep your ear to the ground for competitors looking to expand, suppliers' reps will know

    11.5. New entrants to the market. You may well get enquiries to buy your business over the years. Keep these enquiries carefully. *You can approach these people when you come to sell the business.*

On the other hand, there are quite a lot of things which can reduce the multiple and thus undermine the value of your company. Here are some of them and things you can do to lessen their impact.

12. A classic thing which buyers do not like, is overdependence upon one individual, probably you. *So you must work on building up a competent team. The most competent buyers will also look at your systems; it is systems above all else that build in competitive advantage and sustainable profits*

13. Buyers also look hard at the customer base, and a wide spread of quality customers, is the ideal scenario. But overdependence on a financial stretched or troublesome main customer, or a group of poor customers might well reduce the value attributed to your business

14. In a similar scenario whilst buyers love growing profits, they abhor falling profits. *You need to be building up the business that you are about to sell not running it down*

15. Whilst some industries will never be as much in demand as others, there may be much that you can do to make your company more palatable. *If you are in an industry losing market share to internet based competitors, what is your internet offering like? If you are winning customers and making sales over the internet, your company will be much more attractive to potential buyers.*