

How to make your business worth more without you ?



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"My customers will be with me until the day I die"*.

"My business is my identity"*.

"My business is my superannuation"*.

What does reducing key person reliance mean to you?

A business that relies heavily on its owner is not as valuable as a business that is not reliant on its owner. Many business owners don't understand how reducing or minimising the risks of key person reliance can significantly improve the value of their business.

Compare the following valuation scenario of the same business when key person reliance is reduced or minimised.

	Business Key Person Reliant	Same Business not Key Person Reliant
Business Profit	\$200,000	\$200,000
Business Cap Rate**	3.05	3.5
Business Value**	\$610,000	\$700,000
Value Improvement		\$90,000
Improvement %		14.75%

Buyers will pay a higher price for a business that can be easily integrated into their current business or smoothly transitioned to a new principal. They will want some comfort that the business' key customers and staff will stay with the business once the current owner departs.

What can you do to reduce or minimise the risks of key person reliance?

There are many different business and risk management strategies business owners can implement to reduce or minimise key person reliance. The table below provides some suggested examples.

Strategies	Actions
Business	<ol style="list-style-type: none">Business Systems: introduce systems into your business. For example, a good quality stock management system will reduce reliance on the owner's product and services knowledge.Client Relationship Management: establish customer relationship management pr staff can manage key customer relationships.Management Succession: invest in the professional development of your key staff so they can eventually share in part ownership (succession planning) of the business.
Risk Management	<p>The very nature of some businesses means it is difficult if not impossible to reduce or remove key person reliance. A specialist surgeon is an example of an occupation that will always be key person reliant. In this case where key person reliance cannot be removed or reduced the purchase of business insurance is considered an effective risk management strategy.</p>

START assessing the impact of key person reliance on your business by completing an online business valuation. At HBA Encompass we are best positioned to provide advice on key person reliance, business valuation and business and risk management strategies to reduce, remove or minimise the risk from key person reliance.

For further information regarding the above topic, please contact us

* Quotes from proud small business owners.

** Business Value determined by Bstar's Bank Accredited online Business Capitalisation Rate Calculator.