Thinking of Selling?

Is your business really worth what you think?

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According to recent research, 49% of business owners nominate a "trade sale" of their business as their preferred and most likely succession planning exit option. With record numbers of businesses selling, business owners are often disappointed when the offer they receive, via a trade sale, is well below their expectations.

Valuing a business is usually the first step in developing an effective plan for sale. It is also usually the first stumbling block.

The HBA Encompass, Bank accredited business valuation technology now allows business owners to either themselves or in collaboration with their adviser determine and identify:

- **A relatively accurate and understood current business value;**
- **The value needed at the expected time of sale; and**
- **Areas for improvement to achieve the desired sale price**

The technology goes much further than just valuing a business; it allows business owners to change their business' key value drivers and instantaneously see how an improvement in these drivers affects the business' value. This type of scenario analysis can provide a high degree of comfort to business owners, as it identifies the areas in the business that can be improved, to bridge the usual gap between the current business value and the owner's sale price expectation.

Case Study

Andrea owns a successful retail healthcare business. She is thinking of selling her business and expects to receive $1,500,000. Her accountants used the Business Capitalisation Rate Calculator to value the business and determined a value of $1,050,000. Andrea's accountants then provided a valuation demonstration of the impact of improving stock turnover rates, expanding high value product lines and offering performance incentives to staff that would help Andrea achieve her sale price expectation well before her planned sale date. Andrea now has a clear plan on what she needs to do to achieve her desired sale price.

As a detailed understanding of the Case Study would highlight, a business' value is affected by both objective (directly quantifiable) and subjective (indirectly quantifiable) value drivers. Not only are the quantifiable profit and cash flow figures important but so also are the non-directly quantifiable or non-financial value drivers. The less easily quantifiable value drivers include industry risk, growth, benchmarks, business risks, competition, customer and market demand, staff and owner's level of involvement in the business and succession and estate planning matters. Some specific examples of non-financial value drivers include:

- **Is your business reliant on you?**
- **Degree of customer loyalty?**
- **How would does an increase in your prices affect the demand for your products/services?**
- **Staff performance and value to the business**
- **Supply disruption?**
- **Do competitors have barriers to entry to the industry?**
- **Succession/estate planning in your businesses?**

Talk to HBA Encompass about a valuation and improvement analysis of your business today!

Sources:

The ANZ Privately - Owned Business Barometer 2007