Accuracy is Essential in Small Business Valuations

Over the past several weeks, our SCORE Counselors have seen several cases that have asked for help in either buying or selling a business. Most often the bottom line question is How much is this business worth? This is an important consideration for both the buyer and the seller.

The potential seller looks back and remembers when he or she started the business and spent some time calculating how much your time was really worth as you determined how to price your products or services. Now, you may be wondering how much this business that you’ve built is worth. You may have knowingly taken less “wages” out of the business than you would have liked because you wanted to invest in your enterprise and build the business. Is it now possible to recovery some of that sacrifice?

At the same time, the potential buyer is looking at the business and wondering what is the right price to pay for this established venture. What is its potential for giving me a good return on my investment of capital and effort?

Every week in this paper we see businesses that are bought and sold. There are some that are going out of business and others that are new start-ups. As a business owner, there are many reasons for determining the value of your small business. I suggest that you now may be a good time for you to consider and put some effort into determining what your business is worth. Don’t wait till you are in a situation where you need to do it right now. Be proactive in this quest and spend some time to get a good handle on it now and maybe there are things that you can do to even enhance your business’s value for the future. We have seen many reasons for needing this information. You may be ready to raise capital by issuing stock or selling a portion of the business to a prospective partner. An appraisal may also be needed in order to spin off a portion of your business, settle a dispute or divorce, liquidate some assets, or sell the business entirely.

Scott Jones, one of our SCORE Counselors who handles many clients with these issues, cautions business owners that “accurately valuing a small business, can be complicated. Many entrepreneurs are capable of boosting the value of their businesses by 40 percent simply by paying attention to the things that make a business valuable. “

Too often, business owners brush aside valuations, believing them necessary only if they decide to sell. As a result, only about one in 20 small businesses have done a formal valuation, according to the National Association of Certified Valuation Analysts.

You can determine the value of a business in many different ways, from quick and inexpensive software-based calculations you do yourself, to full-scale, certified valuations by professionals. The price range is enormous, from as little as $15 for the simplest software, to thousands for a detailed
analysis performed by certified pros. Business brokers, hoping to sell your business, may even do them for free.

Try to match the person or method you use for a valuation with the reason you are doing it. If the valuation is for loan purposes, for example, look for someone who’s done small business valuations for that purpose.

The National Association of Certified Valuation Analysts (NACVA) offers a free service online to help you find a business valuation expert in your area. Look for the “Need Your Business Valued?” at Web site, www.nacva.com. You’ll also find links to other business valuation data resources and services.

To learn more about valuing your small business, contact a business mentor at SCORE, ”Counselors to America's Small Businesses.” These volunteer counselors provide free, confidential business counseling as well as training workshops to small business owners. For example, next Tuesday night SCORE Counselor Ben Chaney will join me in teaching a comprehensive course on How to Write a Business Plan”.

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For finding a business valuation specialist: www.nacva.com