

PLAN NOW TO INCREASE THE VALUE OF YOUR BUSINESS

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If you have any inclination to sell your business anytime within the next five years, these are the steps you must take now in order to increase the “worth” of your business. Not only will these steps insure a higher sales price, they will also make your business more attractive to a greater number of perspective buyers and increase the likelihood of locating a compatible and capable buyer.



Focus on the income statement and tax returns.

All businesses are valued on basis of the health of their income statement. Specifically, as valuations are normally performed as a multiple of cash flow or EBITDA, you must begin to plan in advance to present the largest Net Operating Income you can for at least three years prior to beginning the sales process. Not only should your internal statements reflect the health of your business, you tax returns need to mirror that profitability. I realize that in the past you were concerned with using any legitimate means available to decrease your taxable income. It’s now time to change that focus from the “private” business goal of tax minimization to a focus more in accordance with that of publicly-traded businesses - bottom line maximization.



Assemble your team.

Begin discussions with the advisors already working for you – your attorney, your accountant, and your banker – to begin to plan the sale of your business assets. The more you

plan for the eventual disposition, the easier the process will be and the more money you will have remaining after the inevitable profit split with your invisible partner, Uncle Sam.

These advisors will help you cross the legal and financial hurdles of the sales process, but you need to invite one other into your circle of advisors – a business broker or M&A specialist. The broker will be able to drive the sales process to your advantage while maintaining the confidentiality you require. The broker will become the “point man” necessary to coordinate both your advisors and the other moving parts of the process. His input and guidance is vital to the eventual success of the sale.



Make yourself replaceable.

The last thing in the world you want is to have potential buyers think that you and your business are one-and-the-same. Begin in advance to assemble a management team that is capable of running the business after your departure. You need to present the image that the business will continue its profitable operation with – or without- your involvement.



Price the business realistically.

Pricing is always a sensitive issue with business owners – rightly so in that the business has, over the years, become an integral part business owner’s identity. All owners want to feel that the entity they’ve built is worth as much to everyone else as it is to them.

First and foremost, maintain objectivity. Remember, value has nothing to do with sentiment or emotion - it’s derived from multiples, cash flows, capitalization rates, cost of capital, market comparables and other mathematical, objective criteria. Again, consult with your advisors –

your business broker should be able to come up with a real-life estimate of the value of your business. Better yet, obtain an appraisal performed by a professional business valuation specialist. A valuation is not expensive (as low as \$500 up to about \$5,000 depending upon the complexity requested) and it will signal potential buyers that the business has been priced realistically and that the asking price has market justification.



Standardize your procedures.

Do everything possible to make the business appear as if the transition from seller to buyer would proceed without any hurdles or stumbling blocks. Update and document your operating policies and procedures; write a formal business plan; create written job descriptions; inventory and establish a fair market value for all furniture, fixtures and equipment of the business. In general, get things documented and in order!

The time you take to make your business more marketable will ultimately be beneficial to expedite the ownership transfer and increase the sales price. Additionally, any steps taken in advance of the sales process will make your business more valuable in comparison to other alternatives in the market.



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